Care & attention

ANNUAL REPORT 2018

OCEANIA
HEALTHCARE

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Today & tomorrow

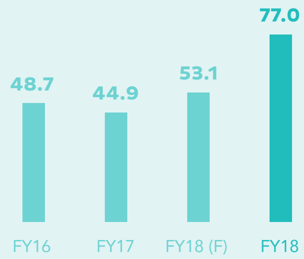
Our focus and expertise in care, along with the attention we give to developing superior services and facilities, is delivering outstanding results.

Highlights & results

Financial

REPORTED NET PROFIT AFTER TAX

$77.0M



+45.0%
Ahead of IPO forecast of $53.1m

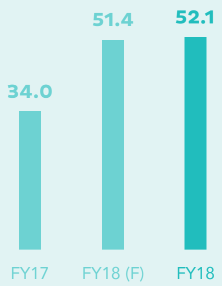
+71.5%
Ahead of 2017 reported net profit after tax of $44.9m

UNDERLYING NET PROFIT AFTER TAX

$52.1M

+1.3%
Ahead of IPO forecast of $51.4m

+53.1%
Ahead of 2017 underlying net profit after tax of $34.0m

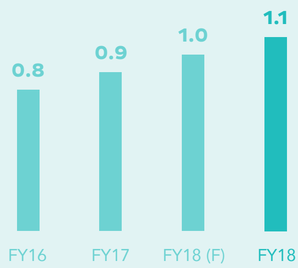


TOTAL ASSETS

$1.15B

+11.3%
Ahead of IPO forecast of $1.03b

+24.9%
Ahead of 2017 total assets of $918.2m



The $34.0m represents pro forma underlying net profit after tax which is a non GAAP measure. It includes certain pro forma adjustments to the $13.4m figure presented in the audited financial statements; including the change in capital structure after the Initial Public Offering. These pro forma adjustments are in addition to the underlying adjustments outlined in section 2.1 of the enclosed financial statements. Please refer to the Product Disclosure Statement dated 31 March 2017 for the pro forma adjustments made to the audited financial statements. No pro forma underlying net profit after tax was calculated for FY2016 in the Product Disclosure Statement.

Operational

CARE BEDS

2,880

UNITS

1,102

UNIT SALES

NEW UNITS 73

RESALE UNITS 101

NEW CARE SUITES 27

RESALE CARE SUITES 79

= TOTAL SALES 280

+3.3%
Ahead of IPO forecast of 271

+37.9%
Ahead of 2017 total sales

Developments

UNITS AND CARE SUITES 131

COMPLETED

Including 62 apartments & 30 care suites at Meadowbank (Auckland) in February 2018.

UNITS AND CARE SUITES 457

SECURED

Resource consents at Lady Allum in Auckland (137 apartments, 142 care suites), Gracelands in Hastings (50 villas), Windermere in Christchurch (68 apartments, 60 care suites).

UNITS AND CARE SUITES ~300

ACQUIRED

Increase in development pipeline of ~300 units and care suites from land acquired at Waimarie Street (Auckland), land adjacent to Eden Village (Auckland), land adjacent to Elmwood Village (Auckland).

UNITS AND CARE SUITES 451

UNDER CONSTRUCTION

451 units and care suites under construction at Meadowbank and The Sands (Auckland), The BayView (Tauranga), Trevellyn (Hamilton) and Green Gables (Nelson).

In our second annual report since Oceania Healthcare became a listed company, I am pleased to report that your company has completed a successful year exceeding forecast profit and made great progress with the execution of our strategy to create long-term value.

In this ever-growing aged care sector, our strategy is to be a leading provider of aged care rooms and suites while also developing our portfolio of retirement village units. This year we have completed construction of 92 units and care suites at Meadowbank, 25 villas at Elmwood, Auckland, and 10 villas at Stoke, Nelson with all these projects being delivered on time and on budget. Construction of 81 care suites at The BayView (previously Melrose, Tauranga) is on track for completion in October this year, and progress is steady at The Sands (Auckland), Trevellyn (Hamilton) and Green Gables (Nelson). These development projects will deliver a significant boost to our care suite offering.

With the acquisition this year of four properties in Auckland and the advancement of plans at our other premium Auckland sites, we announced in May 2018, our total development pipeline has increased 34% since our Initial Public Offering from 1,674 to over 2,100 units and care suites. We will be enhancing our build rate from 200 units and care suites as declared at the time of the IPO, to 300 units and care suites in the medium term.

Financial results

Net Profit after Tax increased by 71.5% to $77.0 million compared with $44.9 million for the prior financial year and exceeded IPO forecast by 45.0%.

Underlying Net Profit after Tax also increased by 53.1% to $52.1 million compared with $34.0 million for the prior financial year and also exceeded IPO forecast.

We have substantially increased our total assets due to our significant capital development program, greenfield acquisitions and revaluations with total assets valued at $1,147.2 million as at 31 May 2018.

Our net debt was $150.8 million as at 31 May 2018 and our gearing ratio remains prudent with net debt to net debt plus equity of 22%.

We increased and extended our debt facilities in July 2018 to provide us with sufficient headroom and flexibility to execute our development pipeline as and when directors consider we are ready to proceed.

Directors have declared a final dividend of 2.6 cents per share, taking full year dividends (non imputed) to 4.7 cents per share which represents 55 % of underlying Net Profit after Tax.

Our people

We welcomed two new Directors this year, Sally Evans and Greg Tomlinson, to broaden the skillset of our Board and further assist us to create long term sustainable value for our shareholders.

Once again we asked a great deal of our people this year and they certainly delivered. I would like to thank my fellow Directors, our Chief Executive, and the management team and staff for their contribution to the Company.

The Board and management of Oceania are focused on building quality products and delivering exceptional services that exceed the expectations of our residents. We remain determined to provide a consistent and reliable return on your investment and thank you for putting your trust in us.

Yours sincerely,

Liz Coutts

Elizabeth Coutts
Chair, Oceania Healthcare Limited

Improvement & performance

It has been an exhilarating year at Oceania Healthcare and we are thrilled to have outperformed our financial forecasts provided to investors at the time of our IPO.

We have delivered you 54% growth in underlying earnings, distributing dividends of 4.7 cents per share at a yield of 4.2%* and driven substantial improvements in the business over the past year.

Most importantly, we have proven our capability to design, build, sell and operate premium aged care and retirement village facilities that deliver industry-leading returns. In particular, we are demonstrating our point of difference through the weighting of our portfolio in care and higher returns generated from our care suite product. We know that the journey has really just begun, and with the current brownfields pipeline of approximately seven years of development ahead of us at an increased build rate of 250-300 care suites and retirement village units (61% of which already have resource consents in place), we have a very tangible, profitable and high growth future ahead.

There were many highlights over the year and I would like to share just a few of them with you to show how much has been going on at Oceania Healthcare.

Developments

At the time of our IPO we said that we would complete 97 retirement village units and 30 care suites in the year to 31 May 2018 and we did that with Meadowbank Stage 3, and the Elmwood villas in Auckland as well as the Stoke villa development in Nelson, delivered on time and on budget – an outstanding achievement given the tight construction sector. Our ability to deliver these projects according to forecast is testimony to the highly skilled and experienced internal development team at Oceania, which has 153 years construction and project management experience between them. We believe our model of "total ownership" of the development provides the right balance between managing costs and mitigating risk given the current market conditions. Mark Stockton, our General Manager of Property, explains this concept later on in this report.

It is also pleasing to receive the excellent feedback from both residents, their families and investors as they visit Meadowbank and recognise the significant emphasis on design and construction quality of this Village, which is notably higher than other surrounding offerings. Oceania will be a brownfield developer for much of the medium-term future, and our designs reflect the local communities in which we operate. While we are increasingly standardising our layouts and internal configurations to extract construction efficiencies, our designs are certainly not "cookie-cutter", as evidenced by the quite stunning look of The Sands which is well advanced on the foreshore of Browns Bay on the North Shore of Auckland.

In addition to the completion of Meadowbank Stage 3, and Elmwood and Stoke villa developments during the year, our development team commenced construction of Stage 1 at The BayView in Tauranga (formerly Melrose), Trevellyn in Hamilton and Green Gables in Nelson. These substantial new aged care buildings are being constructed adjacent to existing (operating) facilities. Stage 4 at Meadowbank also commenced comprising a further 49 premium retirement village apartments and 34 care suites. With these four projects now well underway and The Sands progressing well, we have 451 units and care suites under construction with 272 of these expected to be completed within the next financial year. This is a significant increase to the IPO forecast.

We announced in early May 2018 that our total development pipeline had increased by 34% since the IPO (from 1,674 to over 2,100 units and care suites) because of new land acquisitions in Auckland over the past year and advancing plans to redevelop our other premium Auckland sites. The acquisition of Waimarie

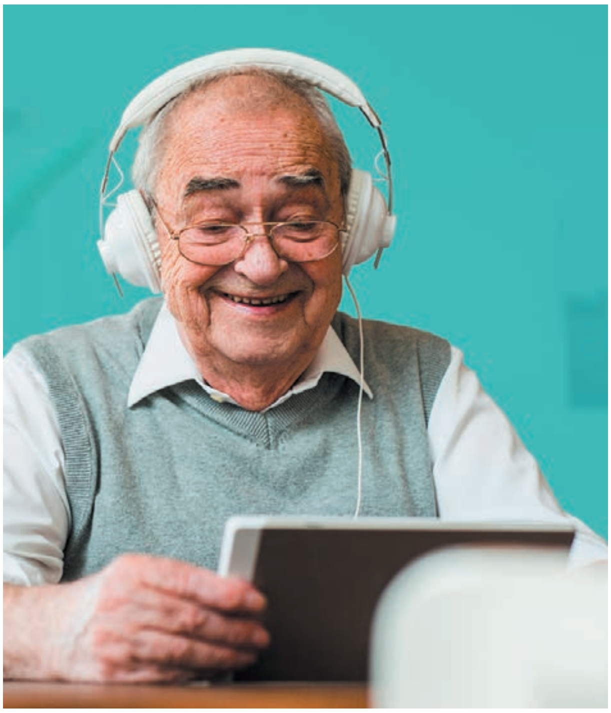
* Dividend yield of 4.2% based on a share price of $1.12 as at 13 July 2018.

Street was a highlight as this site is located in the suburb of St Heliers in Eastern Auckland, with panoramic views of the Waitemata Harbour and the city skyline. We have subsequently secured ownership of several neighbouring properties which has increased the total site size from 8,945m^2 to 13,464m^2, and our plan to develop a premium, integrated aged care and retirement village development on this site is progressing well.

As well as proving our internal capability to deliver new developments, we already have resource consents in place for 1,303 units and care suites (61%) of our total 2,129 pipeline. This substantially de-risks future build volume and enables us to effectively arrange resources and stage projects to manage development debt. Resource consents were obtained across three facilities comprising 457 units and care suites over the year and the team are working on consent applications for a further five sites in the balance of the pipeline.

Care

Aged care is our core competency; our roots are steeped in this business and we are market leaders in the delivery of excellent clinical care. We have a comparatively higher mix of hospital level care beds in our portfolio compared to other operators and are continuously innovating in both service delivery and product offering. This was proven once again during the past year with Oceania Healthcare winning the Overall Excellence in Aged Care Award at the New Zealand Aged Care Association Conference for the third year in the row. Our "I love Music" programme, delivering personalised music playlists to residents according to their individual preferences, was judged the most innovative in our category. The resident testimonies from this programme are both moving and heart-warming and you can watch some of these on our website.



Care suites are at the core of our growth strategy in aged care, with these premium, certified beds capable of delivering both rest home and hospital level care to our residents. This enables residents to remain in the same room throughout all care levels, with care being subsidised if the resident's assets are below the Government threshold. This full-service capability sets care suites apart from serviced apartments in the sector, which are generally independent living units only capable of delivering low level care services and many are non-certified.

As we recycle our capital by selling care suites under occupation right agreements, we realise a deferred management fee at the end of the tenure whilst also generating aged care earnings during the tenure by delivering care services into the room. This innovative product provides the returns required to justify an investment in aged care and meet the significant increase in demand that will be coming as the population ages.

This wave of new generation residents is growing and they are demanding so much more than traditional rest homes have provided. Oceania Healthcare's aged care growth strategy will deliver the superior product and services demanded by these customers. In addition to the premium rooms and common areas at our new Meadowbank care centre that opened in February, we began rolling out our new service delivery model. Residents are experiencing never seen before choices– food to order by our executive chef, Chris Eickhoff, a guest services coordinator and a concierge services team. This is just the beginning of the transformation of our aged care business as we build over 800 new care suites over approximately seven years in Auckland (The Sands, Meadowbank, Lady Allum, Waimarie Street, and Elmwood), Tauranga (The BayView), Hamilton (Trevellyn), Nelson (Green Gables), and Christchurch (Windermere) and many other sites making up the current development pipeline.

We undertook a thorough review of our aged care portfolio during the past year and assessed the opportunity to enhance returns at each facility. We are proud to be a substantial nationwide provider of aged care services and deliver care in metropolitan locations as well as in the regions. Having a diversified national spread of sites has considerable benefits both in terms of scale of operations and diversifying geographical risk.

As well as new aged care redevelopments across the brownfields pipeline, our aged care portfolio review identified an opportunity to strategically reposition several sites by reconfiguring internal layouts to bring the product up to a superior standard and then selling these rooms as care suites, recovering our capital invested in the process. These sites are operating in locations with strong market fundamentals and future growth prospects, and by undertaking the refurbishments we improve earnings through both higher occupancy and deferred management fees accrued following the sale of the ORA. We have proven the success of this process at several

sites throughout the country over the past five years with approximately 70% of our current care suites being conversions from older room configurations.

Upon completion of our current brownfield development pipeline and site upgrades, approximately 62% of our aged care offering will be in premium rooms (sold as care suites or with a premium accommodation charge), with the balance operated as standard rooms under the traditional Government-funding model.

The portfolio review also identified a small number of facilities that were not suitable for upgrade or redevelopment, and hence do not fit within our future aged care plans. These sites are currently in the process of being divested.

Delivering our new aged care redevelopments and repositioning the portfolio demonstrates a clear growth strategy in aged care, and as we embark on further executing this plan over the coming year we will be able to generate greater returns from this core competency.

Our people

We are a large employer across multiple locations, and we are determined that we not lose sight of the personal significance of the work that we do with our residents on a 24~7 basis. As I meet with our staff they tell me "I was born to do this job", "our work is incredibly special, you need to have a heart for it", and "this is far more than a job, it's a calling". With this level of commitment and sheer passion for doing a good job, I know our staff will continue to deliver great service to our residents.

Our healthcare assistants received a well-deserved wage increase last year through the Government's Equal Pay settlement and a significant shift took place in the workforce as numbers of staff at the highest level of qualification for this category of workers increased dramatically. We are providing career pathways to a higher number of staff than ever before with upskilling happening both through industry qualifications and our own Oceania learning and development programmes.

We have also invested significantly in leadership training for our facility managers, clinical leaders and we will be rolling out a similar programme for other emerging leaders in the Company. I am a strong believer that when our staff are led well, they become more aligned to our vision and values, work together better in teams and enjoy greater results.

We also enhanced our health and safety training and support programmes across the country last year and in doing so halved our injury rates. Our staff know that we place a strong emphasis on safety and it is very pleasing to have achieved such significant strides forward.

Outlook

It is extremely satisfying to have delivered on our forecasts and be well on our way to executing our growth strategy. Our team is focused on delivering consistent year on year growth as we build, sell and operate great new facilities across the country. We currently have approximately seven years of development ahead of us on our brownfields pipeline, which represents a very tangible growth pathway, and a proven team to deliver results.

We are innovative and know our residents well. Our new care model will be transformational and our product world-class. I am excited for our future and look forward to continuing to produce outstanding results across all facets of our business next year.

Yours sincerely

Earl Gasparich
Chief Executive Officer

Planning & execution

With five sites currently under construction, 61% of our brownfields sites currently consented and the recent acquisition of four new sites, we are well on track to bring our care and expertise to over 5,400 residents.

At a glance

Oceania site locations

AS AT 31 MAY 2018

~2,750

STAFF

~3,500

RESIDENTS

26

EXISTING FACILITIES WITH MATURE OPERATIONS

22

EXISTING FACILITIES WITH BROWNFIELD DEVELOPMENTS (CURRENT AND PLANNED)

3

UNDEVELOPED SITES

51

TOTAL SITES

Locations

Land acquisitions

Waimarie Street
St Heliers Bay, Auckland
New Development

View Road
Mt Eden, Auckland
Village Expansion

Hill Road
The Gardens, Auckland
Village Expansion

At a glance

Meadowbank

Meadowbank, Auckland

Stage 3

30 CARE SUITES

62 APARTMENTS

Stage 4

34 CARE SUITES

62 APARTMENTS

STATUS

STAGE 3 COMPLETED FEBRUARY 2018

STAGE 4 UNDER CONSTRUCTION

The Sands

Browns Bay, Auckland

44
CARE SUITES

64
APARTMENTS

STATUS
UNDER CONSTRUCTION

At a glance

The BayView
Tauranga

81
CARE SUITES

STATUS
STAGE 1 UNDER CONSTRUCTION

Trevellyn
Hamilton

90
CARE SUITES

STATUS
STAGE 1 UNDER CONSTRUCTION

Green Gables
Nelson

61
CARE SUITES

28
APARTMENTS

STATUS
UNDER CONSTRUCTION

"The development team spends considerable effort refining the design to ensure previous experience and customer preferences are incorporated."

Experience & design

MARK STOCKTON, OCEANIA'S GENERAL MANAGER OF PROPERTY EXPLAINS HOW OUR DEVELOPMENTS ARE MANAGED FROM CONCEPTION THROUGH TO DELIVERY.

Our development approach is to take full ownership from conception through to after sales support. We have a multi disciplinary in-house development team who provide expert project management oversight of our developments.

During the initial feasibility assessment of a new or brownfield site, the development team work alongside both the sales and operations teams to identify the market opportunity and to determine the ideal mix of retirement village accommodation and care services required to meet customer demand.

Once financial feasibility of the proposed development is determined and our Board have approved the opportunity, our in-house development team commences the resource consent application process, with advice and support from external consultants as required. We have an excellent track record of obtaining consents for brownfield sites close to residential areas because of our total ownership of the consenting process.

Once resource consent has been obtained, the development team spend considerable effort refining the design with multiple stakeholders to ensure previous experience and the latest customer preferences are incorporated into the design. Input is sought from the sales and operations teams, in addition to existing residents, prospective residents and building contractors. This ensures that we "build it right first time".

The procurement of a building contractor is a key milestone and we are careful to select a main contractor who we are confident will build a quality product, on time. Naturally cost is an important consideration, especially in the current construction market, but a key driver is also the contractor's ability to always deliver on their commitment to us.

Once we have received final contractor pricing and quantity surveyor reports, our Board undertakes a rigorous assessment process before approving all projects.

Once the project is ready to go to site, the development team closely manage the contractor which includes their appointment and the administration of the contract. By controlling the contract and the specification we fully "own" each project. Again, we have a strong record of finishing projects on time and within budget with a significant amount of attention to all the detail, no matter how small.

Once the in-house development team is happy that a project is fully complete, snag free and of the highest quality, we work alongside the sales and operations team to ensure the incoming resident is completely happy with the finishes of their unit.

"Oceania's unique approach to care is making a real difference to the lives of its residents."

New & improved

LIZ BURRETT, DAUGHTER OF MEADOWBANK CARE RESIDENT, RIE, EXPLAINS HOW OCEANIA'S UNIQUE APPROACH TO CARE HAS MADE ALL THE DIFFERENCE TO HER MUM'S QUALITY OF LIFE.

"Mum loved her apartment at Meadowbank Village and the warm community feel of the place, but as time went on she needed more and more help," explains daughter Liz Burrett. "The staff in the village were so good and organised in-home help for her, but eventually she needed full-time support."

In February Rie moved into a luxury care suite at Meadowbank Village where she receives rest home level care. Her care suite has all the mod cons and is like a smaller version of her apartment with its own lounge, kitchenette and bedroom. "It's such a relief to know that Mum is getting the care she needs," says Liz, "and if she ever needs hospital level care, she can get it in her care suite. She never has to worry about moving again."

Liz says the move into Meadowbank care has made all the difference. "She's so well looked after and she can still entertain in her suite or pop down to the cafe to meet her friends from the village." Rie's family and friends often catch up with her over a meal in the dining room. Close friend and former work colleague, Ian, jokes that the meals are so good, he plans his visits around lunch time!

Most importantly, Rie now has the support she needs to keep doing the things she loves. "Mum is a music lover," says Liz. "Listening to her music really sparks her up." Soon after she moved in, the Concierge Services team introduced Rie to Oceania's "I Love Music", a programme that provides her with a personalised music playlist loaded on an mp3 player so she can listen to her favourite music anytime she wants.

More recently her Leisure Coordinator, May Ann, organised tickets, transport and assistance for Rie and her friends to watch the RNZ Navy Band perform, and then there's the fortnightly outings to the Celebration Choir at the Auckland University campus. "Rie loves singing along with the other people in audience," says May Ann.

Rie and her family couldn't be happier with the attentive and personalised care she receives. "It's a good place to live" says Rie. "I've been very lucky."


BAYLEYS
BAYLEYS
PHILIPS
PHILIPS
APL
bnz
CATEYE

"Each week the residents' self-confidence grew and the sense of freedom and control that cycling gave them was clear."

Connected & involved

RESIDENTS WANT TO STAY CONNECTED TO THE COMMUNITY THEY KNOW AND LOVE AND AS SHOWN HERE MANY AREN'T AFRAID TO GET OUT AND TRY SOMETHING NEW!

Helping our residents stay connected to their community is an important part of what we do at Oceania. Our staff recently spotted an opportunity to be involved with the Avantidrome "Wheels in Motion" community sessions in Cambridge.

Weekly visits to the Avantidrome became a highlight for a group of rest home residents who ranged in age from 80 to 99 years. With the support and encouragement of our staff and the biking instructor, all took to riding their specially designed trikes with enthusiasm and some impressive dexterity.

This was more than just an opportunity to get some exercise. Cycling as a group and with other members of the community was a wonderful way to meet new people and bond over a shared experience. Each week the residents' self-confidence grew and the sense of freedom and control that cycling gave them was clear.

Graeme, who has dementia, was a bit hesitant at the start, but with some gentle encouragement from his carer he pedalled as though he'd been doing it for years. "Graeme has led a very full life," says his wife Kate. "He's lost so much of himself to Alzheimers but he's still able to get enjoyment out of each day. I can't tell you how much that means to us as a family."

Board of Directors

Oceania has an experienced Board with a diverse range of skills, including industry and business knowledge, property development, financial management and corporate governance experience. With the introduction of two new Directors, the Board now comprises an independent Chair, three independent non-executive Directors and three non-executive Directors.

Elizabeth Coutts

Chair and Independent Director

ONZM, BMS, FCA

Alan Isaac

Independent Director

CNZM, BCA, FCCA, FICS

Kerry Prendergast

Independent Director

CNZM, MBA (VUW), NZRN, NZM

Hugh FitzSimons

Non-Executive Director

BEc LLB (Hons) (Syd)

Patrick McCawe

Non-Executive Director

BCA (Hons), MBA, CA

Welcoming two new Directors

Greg Tomlinson

Non-Executive Director

AME

Greg Tomlinson has been a Director of Oceania since 23 March 2018. Greg is a Christchurch domiciled businessman and investor with experience in a variety of New Zealand industries. One of the original pioneers of the aquaculture industry in Marlborough, he has also established construction and aged care businesses.

Greg established Qualcare before it was sold into the Oceania Group in early 2008 and he was a Director of Oceania Healthcare from 2008 until 2016. Greg holds directorships on the boards of a number of New Zealand based companies and is currently a director of Heartland Bank Limited.

Sally Evans

Independent Director

BHSc, MSc, FAICD, GAIST

Sally Evans has been a Director of Oceania since 23 March 2018. Sally has over 30 years' experience in the private, government and social enterprise sectors in Australia, New Zealand, the United Kingdom and Hong Kong.

Sally currently chairs the social enterprise LifeCircle and is a Non-Executive Director of ASX-listed Gateway Lifestyle Operations Limited.

She has previously held directorships on the boards of Opal Specialist Aged Care and Blue Cross Aged Care, was an inaugural member of the Australian Federal Government's Aged Care Financing Authority and held executive roles as Healthcare Director at the FTSE Compass Group plc and Head of Aged Care at AMP Capital.

Sally is the chair of the Remuneration Committee and is a member of the Clinical and Health and Safety Committee.

Consolidated Financial Statements

For the year ended 31 May 2018

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Directors' Report

31 May 2018

The Board has pleasure in presenting the audited consolidated financial statements of Oceania Healthcare Limited ("the Company") and its subsidiaries, incorporating the consolidated financial statements and the independent auditor's report, for the year ended 31 May 2018.

The Board of Directors of the Company authorised these consolidated financial statements for issue on 26 July 2018.

For and on behalf of the Board

Elizabeth Coutts	**Hugh William FitzSimons**
Chairman	Director

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2018

$'000	Notes	May 2018	May 2017
Operating revenue	2.2	180,047	171,883
Change in fair value of investment property	3.1	68,320	57,161
Other income	2.3	3,995	2,963
Total income		**252,362**	**232,007**
Employee benefits		113,306	103,274
Depreciation and amortisation		8,835	7,911
Finance costs		2,944	20,146
(Reversal of impairment) / impairment of property, plant and equipment	3.3	(1,142)	4,328
Other expenses		52,543	48,941
Total expenses	2.4	**176,486**	**184,600**
Profit before income tax		75,876	47,407
Income tax benefit / (expense)	5.1	1,096	(2,525)
Profit for the year		**76,972**	**44,882**
Other comprehensive income			
Items that will not be subsequently reclassified to profit and loss			
Gain on revaluation for the year, net of tax	3.3	4,676	16,204
Items that may be subsequently reclassified to profit and loss			
Movement in interest rate swaps, net of tax	5.6	79	(182)
Other comprehensive income for the year, net of tax		**4,755**	**16,022**
Total comprehensive income for the year attributable to shareholders of the parent		**81,727**	**60,904**
Basic earnings per share (cents per share)	4.2	12.7	12.4
Diluted earnings per share (cents per share)	4.2	12.7	12.4

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

Consolidated Balance Sheet

As at 31 May 2018

$'000	Notes	May 2018	May 2017
Assets			
Cash and cash equivalents		18,288	10,861
Trade and other receivables	5.3	32,693	11,302
Assets held for sale	3.3	19,653	-
Property, plant and equipment	3.3	303,561	267,972
Investment property	3.1	755,561	611,016
Intangible assets	5.2	17,398	17,053
Total assets		**1,147,154**	**918,204**
Liabilities			
Trade and other payables	5.4	37,592	27,480
Derivative financial instruments	5.6	283	283
Deferred management fee	3.2	21,923	19,534
Refundable occupation right agreements	3.2	358,213	282,904
Borrowings	4.4	168,711	95,242
Deferred tax liabilities	5.1	23,335	24,808
Total liabilities		**610,057**	**450,251**
Net assets		**537,097**	**467,953**
Equity			
Contributed equity	4.1	579,498	579,498
Retained deficit		(127,899)	(195,966)
Reserves		85,498	84,421
Total equity		**537,097**	**467,953**

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

Consolidated Statement of Changes in Equity

For the year ended 31 May 2018

$'000	Notes	Contributed Equity	Retained Deficit	Asset Revaluation Reserve	Interest Rate Swap Reserve	Total Equity
Balance at 31 May 2016		**372,633**	**(240,988)**	**68,399**	**-**	**200,044**
Profit for the year		-	44,882	-	-	44,882
Other comprehensive income						
Revaluation of interest rate swaps	5.6	-	-	-	(182)	(182)
Revaluation of assets net of tax	3.3	-	-	16,204	-	16,204
Total comprehensive income		**-**	**44,882**	**16,204**	**(182)**	**60,904**
Transactions with owners						
Share capital issued	4.1	214,398	-	-	-	214,398
Costs capitalised to equity	4.1	(7,533)	-	-	-	(7,533)
Employee share scheme	4.3	-	140	-	-	140
Total transactions with owners		**206,865**	**140**	**-**	**-**	**207,005**
Balance as at 31 May 2017		**579,498**	**(195,966)**	**84,603**	**(182)**	**467,953**
Profit for the year		-	76,972	-	-	76,972
Other comprehensive income						
Revaluation of interest rate swaps net of tax	5.6	-	-	-	79	79
Revaluation of assets net of tax	3.3	-	-	4,676	-	4,676
Total comprehensive income		**-**	**76,972**	**4,676**	**79**	**81,727**
Transfer of revaluation reserve for assets held for sale	3.3	-	3,678	(3,678)	-	-
Transactions with owners						
Dividends paid		-	(12,732)	-	-	(12,732)
Employee share scheme	4.3	-	149	-	-	149
Total transactions with owners		**-**	**(12,583)**	**-**	**-**	**(12,583)**
Balance as at 31 May 2018		**579,498**	**(127,899)**	**85,601**	**(103)**	**537,097**

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

Consolidated Cash Flow Statement

For the year ended 31 May 2018

$'000	May 2018	May 2017
Cash flows from operating activities		
Receipts from residents for membership fees, village and care fees	161,786	159,289
Payments to suppliers and employees	(155,229)	(141,062)
Receipts from new occupation right agreements	113,517	68,763
Payments for outgoing occupation right agreements	(35,421)	(30,894)
Interest received	165	133
Interest paid	(2,588)	(17,306)
Net cash inflow from operating activities	**82,230**	**38,923**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and investment property	170	7
Payments for property, plant and equipment and intangible assets	(33,389)	(33,503)
Payments for investment property and investment property under development	(98,172)	(47,560)
Net cash outflow from investing activities	**(131,391)**	**(81,056)**
Cash flows from financing activities		
Proceeds from borrowings	119,788	144,994
Repayment of borrowings	(50,468)	(285,424)
Transaction costs	-	(10,680)
Dividends paid	(12,732)	-
Proceeds from share issue	-	200,000
Net cash inflow from financing activities	**56,588**	**48,890**
Net increase in cash and cash equivalents	7,427	6,757
Cash and cash equivalents at the beginning of the year	10,861	4,104
Cash and cash equivalents at end of year	**18,288**	**10,861**

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

Consolidated Cash Flow Statement (Continued)

For the year ended 31 May 2018

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

$'000	Notes	May 2018	May 2017
Profit after income tax for the year		**76,972**	**44,882**
Non cash items			
Deferred management fee accrued but not settled	2.2	(18,748)	(16,330)
Depreciation and amortisation	2.4	8,835	7,911
Impairment of goodwill	2.4	-	478
Net loss on disposal of property, plant and equipment		13	563
Fair value adjustment to investment property	3.1	(68,320)	(57,161)
(Reversal of impairment) / impairment of property, plant and equipment	3.3	(1,142)	4,328
Bad and doubtful debt (benefit) / expense	2.4	(156)	125
Interest charged but not paid		356	2,840
Fair value movement on residents' share of resale gains	2.3	(26)	2,207
Fair value gain on derivatives	5.6	-	(4)
Movement in deferred tax	5.1	(1,096)	2,525
Other non cash items		127	330
		(80,157)	**(52,188)**
Cash items			
Receipts from new occupation right agreements		113,517	68,763
Payments for outgoing occupation right agreements		(35,421)	(30,894)
Transaction costs expensed and held in financing activities		-	3,147
		78,096	**41,016**
Increase in operating assets and liabilities			
(Increase) / decrease in trade and other receivables		(3,222)	718
Increase in trade and other payables		10,541	4,495
Net cash inflow from operating activities		**82,230**	**38,923**

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

Notes to the Consolidated Financial Statements

For the year ended 31 May 2018

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Notes to the Consolidated Financial Statements

For the year ended 31 May 2018

1. General Information

1.1. Basis of Preparation

(i) Entities Reporting

The consolidated financial statements of the "Group" entity are for the economic entity comprising Oceania Healthcare Limited (the "Company") and its subsidiaries, together "the Group". Refer to note 5.5 for details of Group structure.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Oceania Healthcare Limited as at 31 May 2018 and the results of all subsidiaries for the year then ended.

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

(ii) Statutory Base

Oceania Healthcare Limited is a limited liability company which is domiciled and incorporated in New Zealand. It is registered under the Companies Act 1993 and is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013. The Company is also listed on the NZX Main Board ("NZX") and the Australian Securities Exchange ("ASX") as a foreign exempt listing. The consolidated 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 and the Companies Act 1993.

The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), International Financial Reporting Standards ("IFRS") and other applicable New Zealand Financial Reporting Standards, as appropriate for for-profit entities. The Group is a Tier 1 for profit entity in accordance with XRB A1.

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

(iii) Measurement Basis

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities, including investment properties, property, plant and equipment and interest rate swaps.

(iv) Going Concern Assumption

These consolidated financial statements have been prepared on a going concern basis.

(v) Key Estimates and Judgements

The preparation of consolidated financial statements in conformity with NZ IFRS 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.

1.1. Basis of Preparation (Continued)

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

– Fair value of investment property and investment property under development (note 3.1)

– Classification of accommodation with a care or service offering (notes 3.1 and 3.3)

– Fair value of freehold land and buildings (note 3.3)

– Revenue recognition of deferred management fees (note 3.2)

– Costs associated with the long term incentive plans (note 4.3)

– Recognition of deferred tax (note 5.1)

1.2. Accounting Policies

Accounting policies that summarise the measurement basis used and which are relevant to understanding the consolidated financial statements are provided throughout the notes to these consolidated financial statements.

Other relevant policies are provided as follows:

(i) Principles of Consolidation

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

Intercompany transactions and balances between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(ii) Functional and Presentation Currency

These consolidated financial statements are presented in New Zealand Dollars which is the Company's functional and the Group's presentation currency. The consolidated financial statements are presented in round thousands.

(iii) Goods and Services Tax ("GST")

The Consolidated Statement of Comprehensive Income and Consolidated Cash Flow Statement have been prepared so that all components are stated exclusive of GST. All items in the Consolidated Balance Sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(iv) Comparative Information

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

(v) Measurement of Fair Value

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

Level 1: Quoted prices (unadjusted) in active markets for the identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

2. Operating Performance

2.1. Operating Segments

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

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

Reporting Segment	Description
Care Operations	Includes all revenue and facility-level expenses associated with the provision of care and related services to Oceania's aged care and retirement village residents, including the deferred management fee ("DMF") and operating expenses associated with care suites. The Group derives care fee revenue in respect of eligible Government subsidised aged care residents as well as private contributions from residents. Aged care subsidies received from the Ministry of Health, included in rest home, hospital and dementia fee revenue, amounted to $101.0m (2017: $96.9m).
Village Operations	Includes the DMF on the Group's retirement village units, weekly service fees, retirement village operating expenses, and, in respect of underlying measures, the realised gains on resales and the development margins from the sale of both units and care suites.
Other	Includes Support Office and corporate expenses and operating lease costs relating to the Group's three leasehold sites. In addition, income and expenditure relating to the Wesley Training Institute is recognised in this segment.

There is a degree of integration between the care and village operations. This includes the provision of services such as meals and care packages by care operations to village residents.

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

2.1. Operating Segments (Continued)

Additional Segmental Reporting Information

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

Goodwill: Goodwill is allocated to care cash generating units. Refer to note 5.2 for further details.

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

Oceania calculates underlying profit by making the following adjustments to reported Net Profit After Tax:

- Removing the change in fair value of investment properties (including right to use investment property assets) and any impairment or reversal of impairment of property, plant and equipment;
- Removing any impairment of goodwill;
- Removing any loss on disposal of chattels from the decommissioning of development sites;
- Removing any DMF income and rental expenditure in relation to right to use investment property assets;
- Adding back the Directors' estimate of realised gains on resale of occupation right agreement ("ORA") units and care suites[1];
- Adding back the Directors' estimate of realised development margin on first sale of new ORA units or care suites following the development, or conversion of an existing care bed to a care suite or conversion of a rental unit to an ORA unit; and
- Adding back the deferred taxation component of taxation expense so that only current tax expense is reflected.

Resale Gain

The Directors' estimate of realised gains on resales of ORA units and care suites (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" or where the resident is in occupation at balance date.

In the 2017 financial year there were resale gains of $1.4m that related to units and care suites that had cooled off or were in occupation but had not completed cash settlement. In the 2017 financial year only resale gains for ORAs for which settlement in cash had occurred were recognised. In 2018, following a review of the Group's revenue recognition criteria, ORA contracts that are unconditional and have either cooled off or were occupied have been included as this more accurately reflects the transfer of legal and economic benefits associated with these transactions.

[1] Units and care suites sold under an occupation right agreement.

2.1. Operating Segments (Continued)

Development Margin

The Directors' estimate of realised development margin is calculated as the cash 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. In the 2017 financial year there was realised development margin of $0.9m that related to units and care suites that had cooled off or were in occupation but had not completed cash settlement. In the 2017 financial year only realised development margin for ORAs for which settlement in cash had occurred were recognised. In 2018, following a review of the Group's revenue recognition criteria, ORA contracts that are unconditional and have either cooled off or were occupied have been included as this more accurately reflects the transfer of legal and economic benefits associated with these transactions.

The development costs include:

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

Development costs do not include:

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

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

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

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

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

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

$'000	Care Operations	Village Operations	Other	Total
2018				
Operating revenue	158,491	21,556	-	180,047
Other income	1,104	1,561	1,165	3,830
Revaluation of investment property	-	68,320	-	68,320
Total income	**159,595**	**91,437**	**1,165**	**252,197**
Operating expenses	(130,658)	(19,095)	(16,096)	(165,849)
Impairment of goodwill	-	-	-	-
Reversal of impairment of property, plant and equipment	1,142	-	-	1,142
Segment EBITDA	**30,079**	**72,342**	**(14,931)**	**87,490**
Interest income	-	21	144	165
Finance costs	-	-	(2,944)	(2,944)
Depreciation and amortisation	(8,307)	-	(528)	(8,835)
Profit before income tax	**21,772**	**72,363**	**(18,259)**	**75,876**
Taxation benefit / (expense)	1,250	1,982	(2,136)	1,096
Profit for the year attributable to shareholders	**23,022**	**74,345**	**(20,395)**	**76,972**
Adjusted for underlying profit items				
(Less): Change in fair value of investment property[1] and reversal of impairment of property, plant and equipment	(1,142)	(68,320)	-	(69,462)
Add: Impairment of goodwill	-	-	-	-
Less: DMF in relation to right to use asset	-	(123)	-	(123)
Add: Rental expenses in relation to right to use asset	-	7,790	-	7,790
Add: Loss on disposal of chattels at decommissioned sites	-	-	-	-
Add: Realised gain on resale	-	16,930	-	16,930
Add: Realised development margin	-	21,052	-	21,052
Underlying net profit before tax	**21,880**	**51,674**	**(20,395)**	**53,159**
(Less) / add: Deferred tax	(1,250)	(1,982)	2,136	(1,096)
Underlying net profit after tax	**20,630**	**49,692**	**(18,259)**	**52,063**
Less: Interest income	-	(21)	(144)	(165)
Add: Finance costs	-	-	2,944	2,944
Add: Depreciation and amortisation	8,307	-	528	8,835
Underlying EBITDA	**28,937**	**49,671**	**(14,931)**	**63,677**

[1] Includes change in fair value of right to use asset.

2.1. Operating Segments (Continued)

$'000	Care Operations	Village Operations	Other	Total
2017				
Operating revenue	152,127	19,756	-	171,883
Other income	668	895	1,267	2,830
Revaluation of investment property	-	57,161	-	57,161
Total income	**152,795**	**77,812**	**1,267**	**231,874**
Operating expenses	(121,384)	(11,709)	(18,644)	(151,737)
Impairment of goodwill	(478)	-	-	(478)
Impairment of property, plant and equipment	(4,328)	-	-	(4,328)
Segment EBITDA	**26,605**	**66,103**	**(17,377)**	**75,331**
Interest income	-	11	122	133
Finance costs	-	-	(20,146)	(20,146)
Depreciation and amortisation	(7,362)	-	(549)	(7,911)
Profit before income tax	**19,243**	**66,114**	**(37,950)**	**47,407**
Taxation expense	-	-	(2,525)	(2,525)
Profit for the year attributable to shareholders	**19,243**	**66,114**	**(40,475)**	**44,882**
Adjusted for underlying profit items				
Add / (less): Change in fair value of investment property and impairment of property, plant and equipment	4,328	(57,161)	-	(52,833)
Add: Impairment of goodwill	478	-	-	478
Add: Loss on disposal of chattels at decommissioned sites	495	-	-	495
Add: Realised gain on resale	-	12,653	-	12,653
Add: Realised development margin	-	5,222	-	5,222
Underlying net profit before tax	**24,544**	**26,828**	**(40,475)**	**10,897**
Add: Deferred tax	-	-	2,525	2,525
Underlying net profit after tax	**24,544**	**26,828**	**(37,950)**	**13,422**
Less: Interest income	-	(11)	(122)	(133)
Add: Finance costs	-	-	20,146	20,146
Add: Depreciation and amortisation	7,362	-	549	7,911
Underlying EBITDA	**31,906**	**26,817**	**(17,377)**	**41,346**

2.2. Operating Revenue

Accounting Policy

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Group and the amount can be measured reliably.

Deferred Management Fees

Deferred management fees are payable by residents of the Group's units, apartments and care suites under the terms of their ORA or unit title rights.

Management fees are typically payable up to a maximum percentage of a resident's occupation licence or unit title rights deposit for the right to share in the use and enjoyment of common facilities.

The timing of the recognition of deferred management fees is a critical accounting estimate and judgement. The deferred management fee is recognised on a straight-line basis over the greater of the term specified in a resident's ORA or the average expected occupancy for the relevant accommodation. This has been assessed as 7 years for units, 5 years for apartments and 3 years for care suites from the date of occupation. Estimates applied for deferred management fee tenure are reviewed periodically. Where a change in estimate is required, it is the Group's policy to recognise the aggregate impact of this change in the period in which the change in estimate occurs.

Deferred management fees are recognised with respect to the leased site as per note 3.1.

Rest Home and Hospital Service Fees

Rest home and hospital service fees are recognised in the accounting period in which the services are rendered. Where applicable these are recognised net of any associated rebates to residents.

Village Service Fees

Village service fees are charged to residents to recover village operating costs. These fees are recognised as revenue when the associated services are provided to residents.

Rental Income

Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

$'000	**May 2018**	May 2017
Deferred management fees	18,625	16,330
Deferred management fees – leased site	123	-
Rest home, hospital, dementia fees	154,865	149,092
Village service fees	5,341	5,260
Rental income	1,093	1,201
	180,047	**171,883**

2.3. Other Income

Interest Income

Interest income is recognised on an accruals basis using the effective interest method.

Other Income

Other income includes income derived from additional services provided to residents such as meals and laundry.

$'000	**May 2018**	May 2017
Interest income	165	133
Net gain on disposal of property, plant and equipment	95	-
Change in fair value of interest rate swaps	-	4
Movement of residents' share of resale gains	26	-
Training income	1,193	1,158
Other income	2,516	1,668
	3,995	**2,963**

2.4. Expenses

Accounting Policy

All operating expenses are recognised on an accrual basis.

$'000	Notes	May 2018	May 2017
Profit before income tax includes the following expenses:			
Employee benefits			
Wages and salaries[1]		112,951	102,733
Termination benefits		206	401
Share based payment expense	4.3	149	140
		113,306	**103,274**
Depreciation and amortisation			
Depreciation of property, plant and equipment	3.3	8,694	7,706
Amortisation of software	5.2	141	205
		8,835	**7,911**
Finance costs			
Interest on senior debt facilities		3,490	13,135
Payments on interest rate swaps		1,673	243
Agency, commitment and line fees		411	1,514
Capitalised interest		(3,341)	(517)
Interest on shareholder loans		-	990
Amortisation of bank fees		214	1,491
Interest on other loans		-	2,853
Interest on finance lease		497	437
		2,944	**20,146**
(Reversal of impairment) / impairment of property, plant and equipment	3.3	**(1,142)**	**4,328**
Auditor's remuneration			
Audit and review of consolidated financial statements		428	346
Other assurance services			
Trustee reporting and compliance with debt covenants		14	13
Other services			
Taxation compliance services		-	125
Transaction costs[2]	4.1	-	525
Total fees paid to auditor		442	1,009
Transaction costs paid to auditor capitalised[2]	4.1	-	(193)
Fees to auditor expensed		442	816

[1] Wages and salaries include staff related costs such as staff training, uniforms and recruitment.

[2] Transaction costs paid to auditors in the year to 31 May 2017 relate to due diligence work in relation to the initial public offering of Oceania Healthcare Limited. Refer to note 4.1.

$'000	Notes	May 2018	May 2017
Transaction costs	4.1	-	4,042
Impairment of goodwill	5.2	-	478
Repairs and maintenance of property, plant and equipment		2,966	2,846
Repairs and maintenance of investment property		933	712
Loss on disposal of property, plant and equipment		-	563
Donations		6	3
Bad and doubtful debts (release) / expense	5.3	(156)	125
Rental expense relating to operating leases		1,266	1,339
Rental expense relating to leased investment property	3.1	7,790	-
Resident consumables		15,394	15,230
Residents' share of resale gains		-	2,207
Insurance		1,710	1,212
Legal and professional services		2,343	1,238
Other expenses (no items of individual significance)		19,849	18,130
		52,543	**48,941**
Total expenses		**176,486**	**184,600**

3. Property Assets

3.1. Investment Property

Accounting Policy

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

The fair value of investment property, including the right to use asset under a lease (Everil Orr), is determined by a qualified independent external valuer using a discounted cash flow model. As required by NZ IAS 40 *Investment Property*, the fair value as determined by the independent valuer is adjusted for assets and liabilities already recognised in the Consolidated Balance Sheet which are also reflected in the discounted cash flow model. The movement in the carrying value of investment property, net of additions, transfers and disposals is recognised as a fair value movement in the Consolidated Statement of Comprehensive Income.

Fair value measurement on property under development is only applied if the fair value is considered to be reliably measurable. Where the fair value of a property under development can be determined, it is carried at fair value. Where the fair value of investment property under development cannot be reliably determined, the value is considered to be the fair value of the land plus the cost of work undertaken.

$'000	Notes	**May 2018**	May 2017
Investment property under development at fair value			
Opening balance		79,486	48,311
Transfer (to) / from property, plant and equipment	3.3	(2,801)	12,944
Capitalised expenditure		83,259	29,131
Capitalised interest and line fees		1,070	230
Transfer within investment property		(56,970)	(14,915)
Disposals		(57)	-
Change in fair value during the year		4,217	3,785
Closing balance		**108,204**	**79,486**
Completed investment property at fair value			
Opening balance		531,530	447,560
Transfer within investment property		56,970	14,915
Transfer to property, plant and equipment	3.3	(18,686)	(2,981)
Transfer to held for sale		(2,338)	-
Capitalised expenditure		14,132	18,429
Capitalised interest and line fees		1,646	232
Disposals		-	(1)
Change in fair value during the year		64,103	53,376
Closing balance		**647,357**	**531,530**
Total investment property		**755,561**	**611,016**

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

$'000	May 2018	May 2017
Increase in fair value of investment property	144,545	115,145
Add / (less): Transfers during the year	23,825	(9,964)
Less: Capitalised expenditure including capitalised interest	(100,107)	(48,021)
Plus: Disposals	57	1
Change in fair value recognised in Consolidated Statement of Comprehensive Income	**68,320**	**57,161**

Valuation Process and Key Inputs

Completed Investment Property

The fair value of completed investment property is calculated every six months by CBRE Limited. CBRE Limited is an independent registered valuer and associate of the New Zealand Institute of Valuers and is appropriately qualified with experience of valuing retirement village properties in New Zealand. The fair value of completed investment property is based on an industry accepted valuation model applied to the expected future cash flows to derive a net present value. The valuation calculates the expected cash flows for a projected sequence of sales based on recycle profiling using a Monte Carlo simulation and a stabilised occupancy term for residents. The analysis includes significant unobservable inputs used to determine the fair value, as disclosed below.

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

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

The Group's interest in all investment property was valued on 30 April 2018 by CBRE Limited (2017: 31 May 2017 by CBRE Limited), at a total of $332.1m (2017: $252.7m).

The CBRE Limited valuation has been adjusted by management for the impact of any sale, resale and repurchase of ORAs between 1 May 2018 and 31 May 2018 to arrive at the fair value of completed investment properties at 31 May 2018. The CBRE Limited valuation has been adjusted downward by management by $20.0m to reflect, amongst other things, the sale of unsold stock during the month of May 2018 to arrive at a 31 May 2018 valuation (2017: nil adjustment). This is a change from prior periods where the independent valuation was undertaken as at 31 May.

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. Refer below for a reconciliation.

Investment Property under Development

All land classified as under development was valued on 30 April 2018 by CBRE Limited (2017: 31 May 2017 by CBRE Limited). Management does not envisage a material movement in the land value between 30 April 2018 and 31 May 2018 and therefore no adjustment has been made to this value. Any costs incurred to 31 May 2018 on the developments are included in arriving at the 31 May 2018 fair value.

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 CBRE Limited valuation plus the cost of any work in progress. An amount of $31.1m as at 31 May 2018 (2017: $32.2m) 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.

3.1. Investment Property (Continued)

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 as determined by CBRE Limited with an adjustment made for any estimated costs, in accordance with the project budget, to be incurred to complete the development, and is then transferred to completed investment property.

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. The May 2017 valuation incorporated the estimated costs to address weather tightness at certain sites based on estimates provided in building condition reports completed by CoveKinloch New Zealand Limited in February 2017. Based on further investigation and updated project budgets the estimated remediation costs have reduced by $1.1m since 31 May 2017. Further, remediation costs totalling $1.1m (2017: $0.6m) have been incurred in the 2018 financial year. The forecast cost, as at 31 May 2018, to complete the remediation is $0.2m.

Land Acquisitions
Acquisitions of land are recognised as investment property under development at the point that the sale and purchase agreement is unconditional and risks, rewards and control have effectively passed to the Group. As at 31 May 2018, $10.7m (2017: nil) has been recognised with respect to three parcels of land which the Group has under agreement that were unconditional as at 31 May 2018. Deposits of $3.7m have been paid as at 31 May 2018 and a payable of $7.0m with respect to these parcels of land has been included in trade and other payables (see note 5.4). Per note 5.9, the final payment was made in relation to these properties in June and July 2018.

Lease of Investment Property
The Group leases one site, Everil Orr, which meets the definition of investment property. The facility 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 as incurred (note 2.4). 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 30 April 2018. The valuation has been adjusted by management for the impact of any sale of ORAs between 1 May 2018 and 31 May 2018 to arrive at the fair value as at 31 May 2018 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 31 May 2018 in respect of this leased site is $7.7m (2017: nil) and is included as completed investment property above.

Key Accounting Estimates and Judgements

Introduction
All investment properties have been determined to be Level 3 (2017: Level 3) in the fair value hierarchy as the fair value is determined using inputs that are unobservable.

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

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

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

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

Sensitivity

The significant unobservable inputs used in the fair value measurement of the Group's portfolio of investment property are the discount rate and property price growth rate. The following assumptions have been used to determine fair value:

Significant Input	Description	2018	2017
Discount rate	The pre-tax discount rate	14.0% – 22.0% (median: 15.0%)	14.0% – 22.0% (median: 15.0%)
Property price growth rate	Anticipated annual property price growth over the cash flow period 0-4 years	0.0% – 3.0%	0.0% – 3.0%
Property price growth rate	Anticipated annual property price growth over the cash flow period 5+ years	2.5% – 3.5%	2.5% – 3.5%
Stabilised Occupancy Period		3.1yrs – 8.4yrs (median: 7.2yrs)	3.1yrs – 8.4yrs (median: 7.2yrs)

Completed Investment Property Sensitivity

$'000	Adopted Value	Discount Rate +0.5%	Discount Rate –0.5%	Property Growth Rate +50 bp	Property Growth Rate –50 bp
2018					
Valuation	312,109				
Difference $'000		(11,105)	11,888	15,605	(14,981)
Difference %		(3.6%)	3.8%	5.0%	(4.8%)

$'000	Adopted Value	Discount Rate +0.5%	Discount Rate –0.5%	Property Growth Rate +50 bp	Property Growth Rate –50 bp
2017					
Valuation	252,706				
Difference $'000		(8,720)	9,288	11,877	(13,393)
Difference %		(3.5%)	3.7%	4.7%	(5.3%)

The stabilised occupancy period is a key driver of the CBRE Limited valuation. A significant increase/(decrease) in the occupancy period would result in a significantly lower/(higher) fair value measurement.

Current ingoing price, for subsequent resales of ORAs, is a key driver of the CBRE Limited valuation. A significant increase/(decrease) in the ingoing price would result in a significantly higher/(lower) fair value measurement.

3.1. Investment Property (Continued)

Other Relevant Information

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

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

$'000	May 2018	May 2017
Completed investment property		
Valuation	312,109	252,706
Plus: Refundable occupation licence payments	383,323	315,425
Plus: Resident's share of resale gains	7,562	9,770
Less: Management fee receivable	(52,665)	(46,150)
Less: Resident obligations for units not included in valuation	(2,972)	(221)
	647,357	**531,530**
Investment property under development		
Valuation	108,204	79,486
	108,204	**79,486**
Total investment property at fair value	**755,561**	**611,016**

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 $3.0m (2017: $0.2m) is included in the above reconciliation to reflect this.

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. Refer note 3.3.

3.2. Refundable Occupation Right Agreements

Accounting Policy

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. The occupation licence payment becomes payable at such time as the ORA is unconditional and has either "cooled off" or where the resident is in occupation at balance date. On termination of the ORA the licence payment is repaid to the exiting resident. The Group has a legal right to set-off any amounts owing to the Group by a resident against that resident's licence payment. Such amounts include deferred management fees, recovery of village operating costs and recovery of outstanding obligations to the village.

An amount equal to a capped percentage of the 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.

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

The deferred management fee represents the difference between the management fees receivable under the ORA and the portion of the management fee accrued which is recognised on a straight-line basis over the greater of the term specified in a resident's ORA or the average expected occupancy for the relevant accommodation i.e. 7 years for units, 5 years for apartments and 3 years for care suites (2017: 7 years, 5 years, 3 years).

The management fee recognised in the Consolidated Statement of Comprehensive Income represents income earned in line with the average expected occupancy.

Included in the obligation to residents is an estimate of the amount expected to be paid to those residents whose occupation licence or unit title right allows them to participate in the resale gain of the unit or apartment they occupy.

As the refundable occupation licence payment is repayable to the resident upon termination (subject to a new ORA being issued to an incoming resident), the fair value is equal to the face value, being the amount that can be demanded.

$'000	**May 2018**	May 2017
Village		
Refundable occupation licence payments	383,323	315,425
Residents' share of resale gains	7,562	9,770
Less: Management fee receivable (per contract)	(72,269)	(64,856)
	318,616	**260,339**
Care Suites		
Refundable occupation licence payments	47,734	28,285
Accommodation rebate	825	575
Less: Management fee receivable (per contract)	(10,763)	(6,295)
	37,796	**22,565**
Held for Sale		
Refundable occupation licence payments	2,108	-
Residents' share of resale gains	20	-
Less: Management fee receivable (per contract)	(327)	-
	1,801	**-**
Total refundable occupation right agreements	**358,213**	**282,904**

Reconciliation of Management Fees recognised under NZ IFRS and per ORA

$'000	**May 2018**	May 2017
Village		
Management fee receivable (per contract)	(72,269)	(64,856)
Deferred management fee	19,604	18,706
Management fee receivable (per NZ IFRS)	**(52,665)**	**(46,150)**
Care Suites		
Management fee receivable (per contract)	(10,763)	(6,295)
Deferred management fee	2,222	828
Management fee receivable (per NZ IFRS)	**(8,541)**	**(5,467)**
Held for Sale		
Management fee receivable (per contract)	(327)	-
Deferred management fee	97	-
Management fee receivable (per NZ IFRS)	**(230)**	**-**

3.2. Refundable Occupation Right Agreements (Continued)

Expected Maturity

Although the occupation licence payments are refundable to the residents on vacating the unit / apartment / care suite or on termination of the licence to occupy / unit title right (subject to new licences or unit title rights being issued), average occupancy is estimated to be 7 years for units, 5 years for apartments and 3 years for care suites based on observed tenure at the Group's villages. It is therefore not expected that the full obligation to residents will fall due within one year.

Based on past experience the expected maturity of the net obligation to residents is as follows:

$'000	**May 2018**	May 2017
Within 12 months	34,030	26,876
Beyond 12 months from Balance Sheet date	324,183	256,028
Total refundable occupation right agreements	**358,213**	**282,904**

3.3. Property, Plant and Equipment

Accounting Policy

Property, plant and equipment comprises owner-occupied freehold land and buildings and plant and equipment operated by the Group for the provision of care services, certain care suites and land and buildings under development.

Following initial recognition at cost, completed owner occupied freehold land and buildings and land and buildings under development are carried at fair value. Independent valuations are performed with sufficient regularity (i.e. every two years) to ensure that the carrying amount does not differ materially from the assets fair value at the balance date. Any depreciation at the date of valuation is eliminated against the gross carrying value of the asset, and the net amount is restated to the revalued amount of the asset. In periods where no valuation is carried out, the asset is carried at its revalued amount plus any additions, less any impairment and less any depreciation incurred since the date of the last valuation.

All other plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

A property under construction is classified as land and buildings within property, plant and equipment where the completed development will be classified as such and as investment property where the completed development will be classified as an investment property. Fair value measurement on property under construction is only applied if the fair value is reliably measurable. Where the fair value of property under construction cannot be reliably determined the value is the fair value of the land plus the cost of work undertaken. Property under construction classified as land and buildings under development is revalued annually and is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed to the Consolidated Statement of Comprehensive Income during the financial year in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to asset revaluation reserves in shareholder's equity; increases that offset previous decreases taken through the Consolidated Statement of Comprehensive Income are recognised in the Consolidated Statement of Comprehensive Income. Decreases that offset previous increases of the same asset are charged against the asset revaluation reserve directly in equity; all other decreases are charged to the Consolidated Statement of Comprehensive Income. When revalued assets are sold, or held for sale, the amounts included in reserves are transferred to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Category	**Useful Life Range**	**Weighted Average Depreciation Rate**
Freehold buildings	10 - 50 years	3%
Chattels and leasehold improvements	2 - 50 years	20%
Motor vehicles	5 years	22%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. No depreciation is charged in the year of sale for all assets other than buildings in which case depreciation is charged to earlier of the date of classification to held for sale or the date of sale.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount of the asset. These are included in the Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 May 2018

3.3. Property, Plant and Equipment (Continued)

$'000	Freehold Land	Freehold Buildings	Freehold Land and Buildings under Development	Chattels and Leasehold Improvement	Total
At 31 May 2016					
Cost	-	-	-	45,072	45,072
Valuation	69,090	143,243	26,862	-	239,195
Accumulated depreciation	-	-	-	(31,128)	(31,128)
Net book amount	**69,090**	**143,243**	**26,862**	**13,944**	**253,139**
Year ended 31 May 2017					
Opening net book amount	69,090	143,243	26,862	13,944	253,139
Additions	360	7,364	7,841	4,397	19,962
Capitalised interest and line fees	-	-	56	-	56
Disposals	-	-	-	(570)	(570)
Depreciation	-	(4,588)	-	(3,118)	(7,706)
Transfer from / (to) investment property	-	2,081	(12,044)	-	(9,963)
Reclassification within property, plant and equipment	-	113	(113)	-	-
Net revaluation surplus	2,595	5,255	5,204	-	13,054
Closing net book amount	**72,045**	**153,468**	**27,806**	**14,653**	**267,972**
At 31 May 2017					
Cost	-	-	-	46,750	46,750
Valuation	72,045	153,468	27,806	-	253,319
Accumulated depreciation	-	-	-	(32,097)	(32,097)
Net book amount	**72,045**	**153,468**	**27,806**	**14,653**	**267,972**
Year ended 31 May 2018					
Opening net book amount	72,045	153,468	27,806	14,653	267,972
Additions	-	6,531	23,659	3,794	33,984
Capitalised interest and line fees	-	375	251	-	626
Disposals	-	(12)	-	(6)	(18)
Depreciation	-	(5,375)	-	(3,319)	(8,694)
Transfer to assets held for sale	(5,860)	(10,710)	-	(745)	(17,315)
Transfer (to) / from investment property	(350)	18,850	2,987	-	21,487
Reclassification within property, plant and equipment	1,612	10,475	(12,087)	-	-
Net revaluation surplus	(323)	4,095	1,747	-	5,519
Closing net book amount	**67,124**	**177,697**	**44,363**	**14,377**	**303,561**
At 31 May 2018					
Cost	-	-	-	46,526	46,526
Valuation	67,124	177,697	44,363	-	289,184
Accumulated depreciation	-	-	-	(32,149)	(32,149)
Net book amount	**67,124**	**177,697**	**44,363**	**14,377**	**303,561**

Key Accounting Estimates and Judgements

All land and buildings have been determined to be Level 3 (2017: Level 3) in the fair value hierarchy as the fair value is determined using inputs that are unobservable.

Valuation Process and Key Inputs

Land and Buildings

Land and buildings are held at fair value. Independent valuation reports are obtained every two years, unless there is sustained market evidence of a significant change in fair value. Based on information available, the Directors have determined that there has been no material valuation movement in the period from 31 May 2017 to 31 May 2018 with respect to freehold land and buildings with the exception of the newly completed care suites at the Meadowbank facility. No external valuation has been sought in relation to the 31 May 2018 balance date except as it relates to the construction of care suites at Meadowbank. CBRE Limited have valued the care suites at the Meadowbank facility as at 30 April 2018. This valuation has been adjusted by management for the impact of sales of ORAs between 1 May 2018 and 31 May 2018 to arrive at the fair value of the completed Meadowbank facility.

An independent valuation in respect of freehold land and buildings was undertaken in May 2017 by independent registered valuers CBRE Limited. CBRE Limited are appropriately qualified valuers with experience of valuing residential aged care and retirement village property in New Zealand. The 31 May 2017 valuation of the Group's care facilities was apportioned to land, improvements, chattels and goodwill. The fair value of land and buildings as determined by CBRE Limited is based on the level of rent able to be generated from the maintainable net cash flow of the facility subject to average efficient management. The fair value of the Group's land and buildings is based on these apportionments. However chattels are carried at historic cost less depreciation and goodwill is not recorded in the consolidated financial statements. The 31 May 2017 CBRE Limited valuation included $59.1m of goodwill. An additional $2.5m has arisen as at 30 April 2018 on valuation of the newly completed Meadowbank care suites that were transferred from land and buildings under development. This goodwill is not recognised in the consolidated financial statements. There is $16.8m (2017: $16.8m) of goodwill recognised on acquisition included in these consolidated financial statements as an intangible asset.

In arriving at fair value of freehold land and buildings as at 31 May 2018, the 31 May 2017 carrying amounts have been adjusted for the cost of any additions or work in progress incurred, less any disposals and depreciation recognised since 1 June 2017. An adjustment for reversal of previous impairment has been made as below.

The CBRE Limited valuation, and accordingly 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. The CBRE Limited valuation as at 31 May 2017 incorporated the estimated costs to address weather tightness at certain sites based on building condition reports completed by CoveKinloch New Zealand Limited in February 2017. Following further investigation and updated project budgets the 31 May 2017 valuation has been adjusted by management for the reduction in the estimated costs of $1.7m since 31 May 2017 in arriving at the 31 May 2018 valuation. Further remediation costs totalling $2.8m (2017: $1.0m) have been incurred in the 2018 financial year. The forecast cost, as at 31 May 2018, to complete the remediation is $0.6m.

Where a decrease in land and buildings is recognised below original cost, this is recognised directly within the Consolidated Statement of Comprehensive Income. Total net revaluation gains of $5.5m have been recognised in the current year in respect of land and buildings (2017: $13.0m gain). In the current year, a reversal of impairment of $1.1m (2017: impairment $4.3m) has been recognised in the Consolidated Statement of Comprehensive Income. The remaining gain of $4.4m (2017: $17.3m gain) has been recognised in the revaluation reserve together with deferred tax of $0.3m (2017: $1.2m decrease). Refer to note 5.1 for the tax effects of revaluation.

Land and Buildings Under Development

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

The Group's land under development was revalued on 30 April 2018 (2017: 31 May 2017) by independent registered valuers CBRE Limited. CBRE Limited are appropriately qualified valuers with experience of valuing residential aged care and retirement village properties in New Zealand. This has been adjusted for any costs incurred to 31 May 2018 on the developments in arriving at the 31 May 2018 fair value.

3.3. Property, Plant and Equipment (Continued)

Critical Judgements and Estimates in Applying Accounting Policies

(i) Classification of Care Suites

An area of significant judgement is determining the classification of those properties which are operated as care suites. Refer note 3.1 for further information.

(ii) Valuation of Freehold Land and Buildings

No external valuation has been obtained in respect of freehold land and buildings as at 31 May 2018. The valuation approach for the freehold land and buildings as at 31 May 2017 was an income capitalisation approach and/or discounted cash flow analysis supplemented by the direct comparison approach. The valuation is determined by the capitalisation of net cash flow profit/earnings before interest, tax, depreciation, amortisation and rent ("EBITDAR") under the assumption a positive cash flow will be generated into perpetuity. Capitalisation rates used for the 31 May 2017 valuation range from 10.0% to 18.5% with a median value of 13.5%. The valuation was apportioned between land, buildings, chattels / plant and equipment and goodwill to determine the fair value of the assets.

The significant unobservable input used in the fair value measurement of the Group's portfolio of land and buildings is the capitalisation rate applied to earnings. A significant decrease/(increase) in the capitalisation rate would result in significantly higher/(lower) fair value measurement.

Sensitivity

$'000	Adopted Value	Capitalisation Rate +50 bp	Capitalisation Rate –50 bp
31 May 2018			
Freehold land and buildings (excluding property under development)			
Valuation	244,821		
Difference $		(13,465)	14,689
Difference %		(5.5%)	6.0%

$'000	Adopted Value	Capitalisation Rate +50 bp	Capitalisation Rate –50 bp
31 May 2017			
Freehold land and buildings (excluding property under development)			
Valuation	225,513		
Difference $		(12,403)	13,531
Difference %		(5.5%)	6.0%

Assets Held for Sale

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 the lower of carrying amount and fair value less costs to sell, except for investment property assets held for sale which are carried at fair value.

As at 31 May 2018, five facilities met the definition of held for sale. These facilities and their respective land, buildings, investment property and plant and equipment have been reclassified for reporting purposes and are held on the Consolidated Balance Sheet at current valuation which is the lower of their fair value less costs to sell and their carrying amount. The revaluation reserve totalling $3.7m in respect of the properties held for sale has been reclassified to retained earnings on reclassification of the properties.

$'000	**May 2018**	May 2017
Opening balance	-	-
Reclassification from investment properties	2,338	-
Reclassification from property, plant and equipment	17,315	-
Closing Balance	**19,653**	**-**

A conditional sale and purchase agreement in respect of these five sites was entered into on 5 July 2018. Refer to note 5.9 for further details.

Finance Leases

The Group leases various equipment and motor vehicles under finance lease agreements. The lease terms are between 3 and 6 years and have a net book value as at 31 May 2018 of $6.6m (2017: $7.3m).

Carrying Value of Assets

The carrying amount at which both land and buildings would have been carried had the assets been measured under historical cost is as follows:

$'000	**Freehold Land**	**Freehold Buildings**	**Freehold Land and Buildings under Development**	**Total**
Carrying amount Historical cost 2018	39,843	152,605	4,231	196,679
Carrying amount Historical cost 2017	43,931	150,974	5,919	200,824

4. Shareholders' Equity and Funding

4.1. Shareholder Equity and Reserves

Accounting Policy

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.

	May 2018 Shares	May 2017 Shares	**May 2018 $'000**	May 2017 $'000
Share capital				
Authorised, issued and fully paid up capital	610,254,535	610,254,535	579,498	579,498
Total contributed equity	**610,254,535**	**610,254,535**	**579,498**	**579,498**
Movements				
Opening balance of ordinary shares issued	610,254,535	340,213,420	579,498	372,633
Subscription for shares (Oceania Healthcare Holdings Limited)	-	13,712,002	-	14,398
Subscription for shares (IPO)	-	253,164,557	-	200,000
Capitalised costs on IPO	-	-	-	(7,533)
Shares issued for long term incentive plan	-	3,164,556	-	-
Closing balance of ordinary shares issued	**610,254,535**	**610,254,535**	**579,498**	**579,498**

On 27 January 2017, 13,712,002 ordinary shares were issued to Oceania Healthcare Holdings Limited ("OHHL"), at $1.05 per share. This was to settle a loan from OHHL to Oceania Healthcare Limited of $13.4m, and its associated accrued interest, entered into by Oceania Healthcare Limited on 30 June 2016.

On 5 May 2017, Oceania Healthcare Limited issued 253,164,557 ordinary shares at $0.79 each by way of an Initial Public Offering ("IPO").

The Company incurred transaction costs of $11.9m, of which $10.7m was paid in the financial year to 31 May 2017, in relation to the IPO. Of this, $7.5m related to the issue of new shares and was netted against new equity with the remaining balance expensed through the Consolidated Statement of Comprehensive Income.

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

Recognition and Measurement

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

The shares issued for the LTIP are classified as Treasury Shares as the Company has a beneficial interest in the shares until the vesting conditions are met. Refer note 4.3.

Dividends

On 26 July 2018, a full year dividend of 2.6 cents per share (not imputed) was declared and will be paid on 20 August 2018. The record date for entitlement is 13 August 2018 (31 May 2017: nil).

On 25 January 2018 an interim dividend of 2.1 cents per share (not imputed) was declared and subsequently paid on 20 February 2018.

Asset Revaluation Reserve

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

Interest Rate Swap Reserve

The interest rate swap reserve is used to record gains or losses on instruments used as cash flow hedges. The amounts are recognised in the Consolidated Statement of Comprehensive Income when the hedged transaction affects profit and loss. Refer note 5.6.

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 year.

	May 2018	May 2017
Profit after tax ($'000)	**76,972**	**44,882**
Weighted average number of ordinary shares outstanding ('000s)	604,359	360,868
Basic earnings per share (cents per share)	**12.7**	**12.4**

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 31 May 2018 there were 2,730,772 shares with a dilutive effect (2017: 910,257).

	May 2018	May 2017
Profit after tax ($'000)	**76,972**	**44,882**
Diluted weighted average number of ordinary shares outstanding ('000s)	605,411	360,890
Diluted earnings per share (cents per share)	**12.7**	**12.4**

4.3. Employee Share Based Payments

(a) Long Term Incentive Plan

The Company operates two LTIPs for certain members of the Senior Management Team ("the Participants"). The vesting of shares depends upon the satisfaction of performance hurdles.

The Group has provided interest free limited recourse loans to fund the acquisition of shares by the Participants. In substance the arrangement has been determined as an employee share option. The shares are treated as treasury stock when issued due to the features of the scheme.

Combined, the two schemes consist of 5,895,329 fully allocated shares, which represents 0.97% of the total shares on issue. Of these 3,164,556 are held by OCA Employees Trustee Limited on behalf of the Participants with the balance held directly by employees.

The 2,730,772 shares in the 2015 share plan were all fully vested as at 31 May 2018.

The 3,164,556 shares in the 2017 share plan vest on the business day after the consolidated financial statements for the 31 May 2020 financial year are released. The vesting criteria is a non-market earnings per share based performance hurdle being the achievement of a minimum Compound Annual Growth Rate of 35.0% per annum in Underlying Earnings per Share over the three year period until 31 May 2020.

4.3. Employee Share Based Payments (Continued)

The Participants are required to be employed by the Group at the vesting dates for the shares to vest.

A valuation of the schemes as at the grant dates has been performed by a qualified independent party using a combination of the Black Scholes and Binomial Option Pricing models. The weighted average fair value of each option within the 2015 plan was determined at $0.089 at grant date and $0.143 for the 2017 plan. The expense is spread over the expected vesting period of the options and is recognised within retained earnings.

During the year to 31 May 2018, the remaining 1,820,515 shares (or 66.66%) of the 2015 plan have vested (2017: 910,257 shares vested) and are held directly by employees, a portion of which are subject to escrow requirements. These shares were originally issued at $0.52 per share during the 2016 financial year.

A reconciliation of the share rights on issue is provided below.

	May 2018 Shares	May 2017 Shares
Opening balance	4,985,071	2,730,772
Granted during the year	-	3,164,556
Vested during the year	(1,820,515)	(910,257)
Forfeited during the year	-	-
Closing balance	**3,164,556**	**4,985,071**

(b) Key Estimates and Assumptions

The key inputs used in the determination of the fair value of the equity instruments by the binomial option pricing are as follows:

	2015 Share Plan	**2017 Share Plan**
Grant date	15 August 2015	5 May 2017
Volatility	20%	30%
Risk free rate	2.64%	2.45%
Loan repayment date	31 May 2019	15 August 2020
Issue / exercise price	$0.52	$0.79

Expected volatility was determined by assessing the historical volatility of comparable companies in New Zealand and Australia.

As at 31 May 2018, it has been assumed that Participants will remain employed with the Group and that the earnings based performance hurdles will be met. Dividend assumptions are based on forecast dividend payments over the vesting period. Any dividend payments during the vesting period are applied to the outstanding balance of the loan.

The combined cost for the year is $0.1m (2017: $0.1m) giving a total cost to date of $0.3m (2017: $0.2m).

4.4. Borrowings

Accounting Policy

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

Specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use. Other borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the period in which they are incurred.

$'000	**May 2018**	May 2017
Secured		
Bank loans	163,283	89,430
Other loans	-	-
Capitalised loan costs	(413)	(627)
Finance leases	5,841	6,439
Total borrowings	**168,711**	**95,242**
Current	2,064	2,201
Non current	167,060	93,668
Total borrowings excluding capitalised loan costs	**169,124**	**95,869**

Recognition and Measurement

(i) Bank Loans

Under the Group's senior debt facilities prior to the IPO, interest on loans and advances was charged using the BKBM Bill rate plus a margin. Interest is now charged using the BKBM Bill rate plus a margin and line fees. Interest rates applicable in the year to 31 May 2018 ranged from 2.99% to 3.94% (2017: 3.61% to 5.97%).

Contemporaneous with the IPO, the Group's existing bank debt was refinanced. At this time new financing arrangements were entered into with a maturity date of 5 May 2020.

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 $60m); and

(ii) Development Facility limit increased to $215m (formerly $175m).

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

4.4. Borrowings (Continued)

Financing Arrangements

At 31 May 2018, the Group held committed bank facilities with drawings as follows:

$'000	May 2018 Committed	May 2018 Drawn	May 2017 Committed	May 2017 Drawn
General Corporate Facility	75,000	62,157	60,000	20,965
Development Facility	160,000	101,126	175,000	68,465
Total	**235,000**	**163,283**	**235,000**	**89,430**

The Group's revolving Development Facility is utilised to cover costs associated with current development projects. The revolving General Corporate Facility is used for general corporate purposes as well as development land for projects not currently funded by the Development Facility.

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

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 debt 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 year.

Assets Pledged as Security

The bank loans of the Group are secured by mortgages over the Group's care facility 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.

(ii) 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.

$'000	Minimum Future Lease Payments May 2018	Minimum Future Lease Payments May 2017
Not later than 1 year	2,426	2,201
Later than 1 year and not later than 5 years	4,172	5,084
Minimum lease payments	**6,598**	**7,285**
Less: Future finance charges	(757)	(846)
Present value of minimum lease payments	**5,841**	**6,439**
Included in the financial statements as:		
Finance leases – current portion	2,064	1,813
Finance leases – non current portion	3,777	4,626

Due to the variable payments with respect to the rental of the investment property site per note 3.1 no liability is included in the finance lease balance above in respect of this right to use asset. The total required lease payment in respect of Stage One is $25.5m. To date an amount of $7.8m (note 2.4) has been paid. The remaining $17.7m balance outstanding has been disclosed as a commitment per note 5.8.

(iii) Net Debt Reconciliation

Cash and cash equivalents include cash at hand. The following provides an analysis of net debt and the movements in net debt for the year.

$'000	May 2018
Cash and cash equivalents	18,288
Borrowings – repayable within one year	(2,064)
Borrowings – repayable after one year	(167,060)
	(150,836)
Cash and liquid investments	18,288
Gross debt – fixed interest rates	(105,841)
Gross debt – floating interest rates	(63,283)
	(150,836)

		Liabilities from Financing Activities				
$'000	**Cash**	**Finance Leases Due Within 1 year**	**Finance Leases Due After 1 year**	**Borrowings Due Within 1 year**	**Borrowings Due After 1 year**	**Total**
Net debt as at 31 May 2017	10,861	(1,813)	(4,626)	-	(89,430)	(85,008)
Cash flows	7,427	1,933	-	-	(71,253)	(61,893)
Acquisitions – finance leases	-	(217)	(992)	-	-	(1,209)
Other non-cash movements	-	(1,967)	1,841	-	(2,600)	(2,726)
Net debt as at 31 May 2018	**18,288**	**(2,064)**	**(3,777)**	-	**(163,283)**	**(150,836)**

5. Other Disclosures

5.1. Income Tax

Accounting Policy

The tax expense or benefit for the year comprises current and deferred tax. Tax is recognised in the calculation of profit for the year in the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised in Other Comprehensive Income. In this case the tax is also recognised in Other Comprehensive Income.

The current income tax charge is calculated on the basis of the tax laws enacted at the year end. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Balance Sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

5.1. Income Tax (Continued)

$'000	May 2018	May 2017
Income tax (benefit) / expense		
Current tax	-	-
Deferred tax	(1,096)	2,525
	(1,096)	**2,525**
Taxation expense is calculated as follows:		
Profit before income tax	75,876	47,407
Tax at the New Zealand tax rate of 28%	21,245	13,274
Adjusted by the tax effect of:		
Non-deductible impairment of goodwill	-	134
Non-deductible expenditure	102	1,425
Capitalised interest deductible for tax	(936)	(145)
Non-assessable revaluation of investment property	(19,129)	(16,005)
Taxable depreciation	(3,397)	(3,645)
Accounting depreciation	2,447	2,312
Non-assessable (reversal of impairment) / impairment of of fixed asset	(320)	1,212
Adjustment for timing difference of provisions	607	186
Other	-	(70)
Losses (utilised) / recognised	(619)	1,322
Current tax expense	-	**-**
Impact of change to held for use for investment property	-	9,844
Impact of movements in investment property	(2,602)	419
Impact of movements in property, plant and equipment	296	(3,547)
Other adjustments	(577)	(1,851)
Prior period adjustments	112	(631)
Losses utilised or derecognised / (recognised)	1,675	(1,709)
Deferred tax expense	(1,096)	2,525
Income tax (benefit) / expense	**(1,096)**	**2,525**

Movement in the Deferred Tax Balance

$'000	Balance 1 June 2017	Recognised in Consolidated Statement of Comprehensive Income	Recognised in Other Comprehensive Income	Balance 31 May 2018
Investment property	(12,179)	2,555	-	(9,624)
Property, plant and equipment	(19,126)	358	298	(18,470)
Provisions and other assets / liabilities	4,158	522	79	4,759
Tax losses	2,339	(2,339)	-	-
Deferred tax liabilities	**(24,808)**	**1,096**	**377**	**(23,335)**

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

Recognition and Measurement

No income tax was paid or payable during the period (2017: nil).

Key Accounting Judgements

(i) Deferred Tax on Investment Property

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

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

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

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.

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

5.1. Income Tax (Continued)

(ii) Recognition of Tax Losses

Up until 31 May 2015 the Company and its subsidiaries were members of a tax consolidated group together with the Company's parent company, OHHL. The issuance of shares to the executive members participating in the long term incentive scheme in November 2015 triggered the Company and its subsidiaries' exit from the tax consolidated group as the Company, and its subsidiaries, no longer met the tax consolidated group eligibility criteria of being in a wholly-owned group. The impact of this is that all tax losses incurred by the Company and its subsidiaries until 31 May 2015 remain within the tax consolidated group (of which OHHL is the sole member).

After completing the IPO in May 2017 and following consideration of the Group's capital structure and profitability forecasts, the Directors considered it appropriate to recognise a portion of the Group's available tax losses to the extent that these were expected to be utilised before any breach of shareholding continuity, from a change in shareholding or other means of restructure, in accordance with NZ IAS 12. As the shares held by OHHL are escrowed to the date of the market announcement of the 2018 financial year result, $2.3m (tax effect) of tax losses were recognised as at 31 May 2017 based on the Group's forecast taxable profit until 31 May 2018.

The Group entered into a tax loss offset agreement with its parent company, OHHL, to offset the taxable income generated by Oceania Village Company Limited ("OVCL"), a subsidiary of the Company, for the year ended 31 May 2017 for $28.7m. Following the loss offset of the OVCL taxable income with OHHL losses, and losses generated in the May 2018 year, the Group will have $64.6m (31 May 2017: $42.5m) of available tax losses at 31 May 2018.

As the timeframe for any breach of shareholder continuity beyond the aforementioned escrow period is uncertain no tax losses have been recognised as at 31 May 2018.

(iii) Recognition of Deferred Management Fee

The interpretation of NZ tax laws in relation to deferred management fees involves significant judgements and uncertainty. Deferred management fees are currently recognised for tax purposes consistent with the Group's revenue recognition policy. Consequently no deferred tax is recognised (refer note 2.2).

The Inland Revenue is currently disputing the tax treatment adopted by the Group in relation to deferred management fees and a Notice of Proposed Adjustment in respect of the 2016 income year was received on 13 March 2018.

The Group believes the tax treatment adopted is correct and is defending its position. Should the Inland Revenue be successful in its claim in relation to the 2016 income year this would initially result in the recognition of a tax liability of approximately $5.4m which would be fully met by the application of losses. A corresponding recognition of an equal and opposite deferred tax asset of approximately $5.4m would also be recognised at this time.

The dispute is currently limited to the 2016 income year however if the Commissioner is successful and requires application to the 31 May 2017 and 31 May 2018 periods, a corresponding deferred tax asset of $6.1m would be recognised. Further, $21.9m of the $64.6m of available tax losses would be utilised.

5.2. Intangible Assets

Accounting Policy

Goodwill

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or business at the date of acquisition. Goodwill is not amortised. Instead, goodwill is reviewed for indicators of impairment at 30 November and tested for impairment at 31 May, and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity or cash generating unit ("CGU") include the carrying amount of goodwill relating to the entity or CGU sold. Goodwill is allocated to CGUs and these CGUs are grouped where appropriate for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Computer Software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specified software. These costs are amortised on a straight line basis over their estimated useful lives (2.5 years).

$'000	**Goodwill**	**Software**	**Total**
Year ended 31 May 2017			
Opening net book amount	17,295	327	17,622
Additions	-	114	114
Amortisation and impairment charge	(478)	(205)	(683)
Closing net book amount	**16,817**	**236**	**17,053**
As at 31 May 2017			
At cost	216,203	3,194	219,397
Accumulated amortisation and impairment	(199,386)	(2,958)	(202,344)
Net book amount	**16,817**	**236**	**17,053**
Year ended 31 May 2018			
Opening net book amount	16,817	236	17,053
Additions	-	486	486
Amortisation and impairment charge	-	(141)	(141)
Closing net book amount	**16,817**	**581**	**17,398**
As at 31 May 2018			
At cost	216,203	3,680	219,883
Accumulated amortisation and impairment	(199,386)	(3,099)	(202,485)
Net book amount	**16,817**	**581**	**17,398**

5.2. Intangible Assets (Continued)

Impairment Test for Goodwill

The carrying value of goodwill has been assessed on a site by site basis taking into account the site's results as a whole for both the care and village CGUs.

The carrying amount of goodwill at each site is not significant in comparison to the total amount of goodwill. All goodwill is allocated to the care CGUs.

Key Judgements in Applying the Accounting Policies

Care CGUs Recoverable Amount

The recoverable amount of the individual care sites has been determined based on an external valuation of fair value less costs to sell by CBRE Limited as an external valuer. The fair value less costs to sell is considered level 3 in the fair value hierarchy. This has been used for comparison to current carrying value. The assumptions used in determining the fair value for care facilities are disclosed in note 3.3.

Reasonable possible movements in the capitalisation rates have been considered to have no material impact on the carrying value of goodwill.

5.3. Trade and Other Receivables

Accounting Policy

Trade receivables are amounts due from residents and various government agencies in the ordinary course of business. Trade receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost, less a provision for impairment.

Occupation licence payment receivables are recognised at the point in time that an ORA becomes unconditional and has either "cooled off" or where the resident is in occupation, and the resident has not yet made all of the contractual licence payment to the Group.

$'000	May 2018	May 2017
Net trade and other receivables		
Trade receivables	11,678	10,281
Less: Provision for impairment	(403)	(669)
	11,275	**9,612**
Occupation licence payment receivable	19,658	883
Prepayments	1,760	807
Trade and other receivables	**32,693**	**11,302**

Movement in the provision for impairment of trade receivables is as follows:

$'000	May 2018	May 2017
Opening provision for doubtful debts	669	649
Balances recovered	(459)	(352)
Increase in provision	276	537
Bad debts written off	(83)	(165)
Closing provision for doubtful debts	**403**	**669**

$'000	May 2018	May 2017
Past due and impaired receivables		
Impaired receivables (by resident departure date)		
0 to 3 months	299	467
over 3 months	104	202
	403	**669**
Past due but not impaired receivables (by resident departure date)		
1 to 3 months	590	765
Over 3 months	646	678
	1,236	**1,443**

Recognition, Measurement and Critical Judgements in Applying Accounting Policies

Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off to the Consolidated Statement of Comprehensive Income within other expenses. A provision for doubtful receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. In making this judgement, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

When a trade receivable is uncollectable it is written off against the provision for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expenses in the Consolidated Statement of Comprehensive Income.

There is no significant concentration of credit risk as trade receivables relate to individual residents and government agencies.

5.4. Trade and Other Payables

Accounting Policy

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Trade payables are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

Sundry payables include $0.1m (2017: $0.1m) relating to cash held on behalf of residents and $7.0m in relation to the purchase of land (2017: nil) per note 3.1.

Settlement payments in respect of unconditional land purchases were made post 31 May 2018 per notes 3.1 and 5.9.

5.4. Trade and Other Payables (Continued)

Wages and Salaries, Annual Leave and Long Service Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for employee entitlements is carried at the present value of the estimated future cash flow.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

$'000	May 2018	May 2017
Trade payables	3,770	3,518
Sundry payables and accruals	12,079	11,272
Payables in respect of unconditional land purchases	7,156	-
Accrued interest on external borrowings and derivatives	41	35
Employee entitlements	14,546	12,655
Trade and other payables	**37,592**	**27,480**

5.5. Related Party Transactions

Parent and Subsidiary Entities

The Group's parent entity is Oceania Healthcare Holdings Limited, owning 57.21% of the Group, and its ultimate owners are The Trust Company Limited (interest 98.8%) and Ngakuta Trust Company Limited (interest 1.2%). The below entities are subsidiaries of Oceania Healthcare Limited.

Name of Entity	Principal Activities	2018	2017	Class of Shares
Oceania Group (NZ) Limited	Support office functions	100%	100%	Ordinary
Oceania Care Company Limited	Operation of aged care facilities	100%	100%	Ordinary
Oceania Village Company Limited	Ownership and operation of retirement villages	100%	100%	Ordinary
OCA Employees Trustee Limited	Hold LTIP shares on behalf of employees	100%	100%	Ordinary

All subsidiaries are incorporated in New Zealand and have a balance date of 31 May. There are no significant restrictions on subsidiaries.

Key Management Personnel Compensation

Key management personnel are all executives with the authority for the strategic direction and management of the Group.

$'000	May 2018	May 2017
Directors' remuneration and expenses	622	370
Salaries and other short term employee benefits	2,022	3,282
Dividends	71	-
Termination benefits	-	-
	2,715	**3,652**

Transactions with Related Parties

The following transactions occurred with related parties:

$'000	Notes	May 2018	May 2017
Transactions with shareholders			
Shares issued to Oceania Healthcare Holdings Limited	4.1	-	14,398

During the comparative period the Directors of Oceania Healthcare Limited implemented the 2017 share plan (refer note 4.3).

There are no outstanding balances with related parties (2017: nil).

5.6. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risks (including cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swap contracts to hedge certain interest rate risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates to determine market risk and aging analysis for credit risk.

Risk management is carried out centrally by management under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

(a) Market Risk

Market risk is the risk that changes in market prices such as interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(b) Cash Flow Interest Rate Risk

The Group has no significant interest-bearing assets, as such the Group's income is substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The cash flow and interest rate risks are monitored by the Board on a monthly basis. The Board monitors the existing interest rate profile with reference to the Group's Treasury Policy and the Group's underlying interest rate exposure. Management present interest rate hedging analysis and strategies to the Board for consideration and seek Board approval prior to entering into any interest rate swaps.

5.6. Financial Risk Management (Continued)

The following table shows the sensitivity of the Group's Profit / (Loss) and equity to a movement in interest rates of +/-1%. This assumes all other variables remain constant.

	+1%		–1%	
$'000	**Profit / (Loss)**	**Equity**	**Profit / (Loss)**	**Equity**
2018				
Interest expense	(189)	(189)	189	189
Change in fair value of interest rate swaps	42	941	(43)	(952)
2017				
Interest expense	(520)	(520)	520	520
Change in fair value of interest rate swaps	9	1,966	(35)	(1,388)

Interest Rate Swaps

The Group's exposure to interest rate risk is managed by seeking to obtain the most competitive rate of interest at all times. It is the Group's policy to manage the cash flow interest rate risk through the use of interest rate swaps to reduce the impact of changes in interest rates on its floating rate long term debt. The objective of the interest rate swaps is to protect the Group from the short to medium term impact to cash flows which arises out of variability in floating interest rates.

Interest rate swaps are initially recognised at fair value on the date a contract is entered into and are subsequently measured at fair value on each reporting date. The fair values of the interest rate swaps are determined based on cash flows discounted to present value using current market interest rates.

When interest rate swaps meet the criteria for cash flow hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income, while the ineffective portion is recognised in other expenses in the Consolidated Statement of Comprehensive Income. Amounts taken to reserves are transferred out of reserves and included in the measurement of the hedged transaction when the forecast transaction occurs. When interest rate swaps do not meet the criteria for cash flow hedge accounting, all movements in fair value of the hedging instruments are recognised in the Consolidated Statement of Comprehensive Income.

Under the interest rate swap agreements, the Group has a right to receive interest at variable rates and an obligation to pay interest at fixed rates. At 31 May 2018, the Group had interest rate swap agreements in place with a total notional principal amount of $100.0m (2017: $100.0m). Of the interest rate swaps in place, at 31 May 2018, $100.0m (2017: $100.0m) are being used to cover approximately 61% (2017: 111%) of the loan principal outstanding. These agreements effectively change the Group's interest exposure on the principal covered by the interest rate swaps from a floating rate to fixed rate. Bank loans of the Group currently bear an average fixed interest rate (including margin and line fees) of 4.1% (2017: 4.1%). The fair value of these agreements at 31 May 2018 is $0.3m liability. The agreements cover notional amounts for a term of 12 months.

The notional principal amounts and the period of expiry of the interest rate swap contracts are as follows:

	Average Contracted Fixed Interest Rate		Notional Principal Amount	
	May 2018 %	May 2017 %	**May 2018 $'000**	May 2017 $'000
Less than 1 year	4.10	4.10	100,000	100,000
Between 1 and 2 years	-	4.10	-	100,000
Between 2 and 3 years	-	-	-	-

(c) Credit Risk

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

In the normal course of business, the Group has no significant concentrations of credit risk. The Group requires settlement of the ORA before allowing occupation of its villas or apartments. Therefore, the Group does not face significant credit risk. The values attached to each financial asset in the Consolidated Balance Sheet represent the maximum credit risk. Except as disclosed in the consolidated financial statements, no collateral is held with respect to any financial assets. The Group enters into financial instruments with various counterparties in accordance with established limits as to credit rating and dollar limits and does not require collateral or other security to support the financial instruments.

Concentrations

Cash and cash equivalents of the Group are deposited with one of the major trading banks.
Non-performance of obligations by the bank is not expected due to the credit rating of the counter party considered. The Standard and Poors credit rating of the counter party as at 31 May 2018 is AA- (2017: AA-).

The Group's receivables represent distinct trading relationships with each of the residents. There are no concentrations of credit risk with residents. The only large receivables relate to the residential care subsidies which are received in aggregate via the various District Health Boards and Work and Income New Zealand. Neither of these entities has demonstrated, or is considered, a credit risk.

(d) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying businesses, the Directors aim at maintaining flexibility in funding by keeping committed credit lines available.

Cash flow forecasting is regularly performed by management. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans and covenant compliance.

The table below shows the maturity analysis of the Group's contractual undiscounted cash flows.

$'000	Less than 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years
2018				
Trade and other payables	23,005	-	-	-
Borrowings	8,969	171,678	2,353	-
Interest rate swaps	315	-	-	-
Refundable occupation right agreements	358,213	-	-	-
2017				
Trade and other payables	14,790	-	-	-
Borrowings	6,273	6,045	96,133	-
Interest rate swaps	159	159	-	-
Refundable occupation right agreements	282,904	-	-	-

The refundable occupation right agreements are repayable to the resident on vacation of the unit, apartment, care suite or on the termination of the occupation right agreement and subsequent resale of the unit, apartment or care suite. The expected maturity of the refundable occupation right agreements is shown in note 3.2.

(e) Capital Risk Management

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

5.7. New Accounting Standards

(a) New and amended standards adopted by the Group

In the current year, the Group adopted all mandatory new and amended standards and interpretations.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following relevant standards have not been early adopted by the Group but are to be adopted from 1 June 2018 and 1 June 2019 as appropriate which are the Group's mandatory adoption dates.

NZ IFRS 9, Financial Instruments (NZ IFRS 9) (effective for the Group from 1 June 2018)

NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. The Group's initial assessment did not highlight any significant impacts on the consolidated financial statements.

In summary:

(i) *Classification and measurement* – The standard requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 *Financial Instruments: Recognition and Measurement* (NZ IAS 39) requirements. Trade receivables are amounts due from residents and various government agencies held to collect contractual cash flows in the ordinary course of business. These balances shall continue to be held at amortised cost less a provision for impairment.

(ii) *Impairment* – The standard introduces the expected credit loss model for impairment of financial assets which replaces the incurred loss model used in NZ IAS 39. Application of the NZ IFRS 9 impairment model is expected to have minimal impact given the Group's credit risk management policies.

(iii) *Hedge accounting* – The standard amends the rules on hedge accounting to align the accounting treatment with the risk management practices of the reporting entity. Existing hedge relationships would appear to qualify as continuing hedge relationships on adoption of the new standard.

NZ IFRS 9 will require several new disclosures with respect to hedge accounting, credit risk and expected credit losses. The Group is currently working through the disclosure requirements which shall be required for the 30 November 2018 and 31 May 2019 consolidated financial statements onwards.

NZ IFRS 15, Revenue from contracts with customers (NZ IFRS 15) (effective for the Group from 1 June 2018)

NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts* and is applicable to all entities with revenue.

The standard is based on the principle that revenue is recognised when control of a good and service transfers to a customer and establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers and requires application of a 5-step process to:

a) Identify the contract with the customer;

b) Identify performance obligations;

c) Determine transaction price;

d) Allocate the transaction price to the performance obligations based on standalone selling prices; and

e) Recognise revenue when performance obligations are satisfied.

The Group has reviewed the impact of NZ IFRS 15 and note the following in relation to the main revenue streams:

(i) *Deferred management fees* – A contract is in place with all village residents by means of an ORA. The resident receives the benefit as they occupy the accommodation with a right to share in the use and enjoyment of common facilities. The deferred management fee is recognised on a straight-line basis over the greater of the term specified in a resident's ORA or the average expected occupancy for the relevant accommodation.

(ii) *Rest home, hospital and dementia fees* – A contract is in place with all care residents by means of an admission agreement. The resident receives the benefit as the daily care is administered and each resident incurs an agreed upon contracted daily care fee. Rest home, hospital and dementia service fees are recognised in the accounting period in which the services are rendered and are specifically linked to the day the service is delivered.

(iii) *Village service fees* – Village service fees are charged to residents to recover village operating costs. A contract is in place with all village residents by means of an ORA. The resident receives the benefit as they occupy the accommodation and have a contracted agreed weekly fee. Village service fees are recognised in the accounting period in which the services are rendered and are specifically linked to the service delivered.

(iv) Rental income – Contracts are in place with all rental residents in the form of rental agreements which detail the relevant weekly / monthly rental fee. The resident receives the benefit as they occupy the accommodation.

The Group's initial assessment of NZ IFRS 15 is that the Group will continue to recognise management fees on a straight-line basis and each of care fees, village service fees and rental income in line with the date that the service is rendered. The above represent the main revenue streams of the Group. It is noted that the level of disclosure in relation to revenue will increase because of the adoption of NZ IFRS 15. The Group is currently working through the disclosure requirements which shall be required for the 30 November 2018 and 31 May 2019 consolidated financial statements onwards.

NZ IFRS 16, Leases (effective for the Group from 1 June 2019)

NZ IFRS 16 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 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 will affect primarily the accounting of the Group's operating leases. As at 31 May 2018 the Group had non-cancellable operating lease commitments of $14.6m (refer note 5.8). Many of the Group's leases relate to leases of low value assets however the Group currently leases three care facility sites and the impact of recognising these properties on balance sheet will be material to the Group.

The Group is currently reviewing the impact of NZ IFRS 16. To date, work has focused on the identification and understanding of the provisions of the standard which will most impact the Group, establishing the population of lease contracts which will extend beyond 1 June 2019, discount rate determination and the review of system requirements. A lease management system has been selected and the Group is currently in the process of loading lease information.

Some of the operating leases currently held expire prior to the implementation of the standard. As such the Group has not finalised its quantification of the effect of the new standard, however the following impacts are expected:

a) The straight-line operating lease expense will be replaced with a depreciation charge for the right of use assets and interest expense on lease liabilities;

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

c) The Consolidated Balance Sheet will be impacted by the recognition of right to use assets and corresponding lease liabilities.

The adoption of NZ IFRS 16 will have no cash effect to the Group and the change is for financial reporting purposes only. NZ IFRS 16 is expected to be the most significant of the new standards in terms of impact to the Group and therefore the Group has chosen to not early adopt the standard to allow further time to fully understand the impact and determine which transition approach to apply.

5.8. Contingencies and Commitments

(a) Contingencies

As at 31 May 2018, the Group had no contingent liabilities or assets (2017: nil).

(b) Capital Commitments

At 31 May 2018, the Group has a number of commitments to develop and construct certain facilities totalling $104.6m (2017: $41.6m) of which $104.1m (2017: $39.5m) relates to development sites.

At 31 May 2018, the Group is committed to acquiring a number of small parcels of land totalling $14.3m.

(c) Lease Commitments

Finance Leases

Leases where the Group has substantially all the risk and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. See note 4.4.

Lease of Investment Property

On 28 October 2015, subsidiaries of the Group entered into an agreement with a third party to develop Everil Orr, an existing leasehold care site. The site will continue to operate as a leasehold care site and the Group will also perform village operations. Stage one of the village development was completed in February 2018 and a right to use asset recorded. See note 3.1 for further details. A commitment of $17.7m in relation to Stage One of the development in the form of future lease payments exists.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Commitments in relation to operating leases are payable as follows:

$'000	**May 2018**	May 2017
Within one year	1,593	1,535
Later than one year but not later than five years	4,677	3,809
Later than five years	8,339	8,577
	14,609	**13,921**

The above mainly relates to land and buildings leased for the purpose of operating healthcare facilities for the elderly. The leases vary from 5 year to 30 year terms. Lease rentals are subject to annual increases based on Consumer Price Index ("CPI") movements.

(d) Repairs and Maintenance

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

5.9. Events After Balance Date

Land Purchases

In June and July 2018, full and final settlement totalling $7.0m was made in respect of three parcels of land which were subject to unconditional agreements as at 31 May 2018 as per note 3.1.

During June 2018 unconditional agreements were entered into for the purchase of a further five parcels of land adjacent to three existing facilities totalling $14.3m. Final settlements are forecast to take place between July and October 2018.

Held for Sale Assets

A conditional Sale and Purchase Agreement was entered into with a third party in July 2018 in respect of the sale of the five facilities which were held for sale as at 31 May 2018 as per note 3.3.

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 $60m); and

(ii) Development Facility limit increased to $215m (formerly $175m).

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

Dividends

On 26 July 2018 a full year dividend of 2.6 cents per share (not imputed) was declared and will be paid on 20 August 2018. The record date for entitlement is 13 August 2018.

There have been no other significant events after balance date.

5.10. Comparison to Prospective Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

$'000	Actual May 2018	Prospective May 2018
Operating revenue	180,047	175,318
Change in fair value of investment property	68,320	40,419
Other income	3,995	-
Total income	**252,362**	**215,737**
Employee benefits	113,306	103,260
Depreciation and amortisation	8,835	8,689
Finance costs	2,944	2,140
(Reversal of impairment) / impairment of property, plant and equipment	(1,142)	-
Other expenses	52,543	43,590
Total expenses	**176,486**	**157,679**
Profit before income tax	**75,876**	**58,058**
Income tax benefit / (expense)	1,096	(4,965)
Profit for the year	**76,972**	**53,093**
Other comprehensive income	**4,755**	**(433)**
Total comprehensive income for the period	**81,727**	**52,660**

Commentary

Income was $36.6m ahead of the IPO forecast for the year ended 31 May 2018 due to a larger increase in the fair value of investment property ("IP") than forecast ($28.0m). This was due to higher ingoing prices achieved than forecast. Operating revenue (including other income) of $184.0m was $8.7m higher than forecast (for presentation purposes other income was aggregated with operating revenue for the IPO forecasts).

The IPO forecast assumed a net nil impact on profit from the settlement of the "equal pay" negotiations as both the timing and quantum of the impact on income and expenses was uncertain. As the settlement took effect from 1 July 2017, the actual income in 2018 reflects a full year of the increase in income associated with the settlement.

Expenses were $18.8m above the IPO forecast due to the increase in Healthcare Assistant wages from the "equal pay settlement" and the rental expense associated with the right to use IP (reflected in other expenses).

As outlined above the effects of the "equal pay settlement" were not explicitly included in the forecast expenses in the IPO forecast.

Tax expense was $6.1m below the IPO forecast due to reductions in the deferred tax liabilities relating to both IP and property, plant and equipment ("PPE"). This was forecast to increase in the IPO forecast.

Consolidated Balance Sheet

$'000	Actual May 2018	Prospective May 2018
Assets		
Cash and cash equivalents	18,288	3,764
Trade and other receivables	32,693	11,840
Assets held for sale	19,653	-
Property, plant and equipment	303,561	234,360
Investment property	755,561	763,139
Intangible assets	17,398	17,128
Total assets	**1,147,154**	**1,030,231**
Liabilities		
Trade and other payables	37,592	23,936
Derivative financial instruments	283	-
Deferred management fee	21,923	-
Refundable occupation right agreements	358,213	373,720
Borrowings	168,711	130,849
Deferred tax liability	23,335	28,564
Total liabilities	**610,057**	**557,069**
Net assets	**537,097**	**473,162**
Equity		
Contributed equity	579,498	587,030
Retained deficit	(127,899)	(182,499)
Reserves	85,498	68,631
Total equity	**537,097**	**473,162**

Commentary

Cash was $14.5m above the IPO forecast due to the timing of the repayment of the development debt facility from sales of new units and care suites (being the 20th of the following month) rather than contemporaneously, as modelled in the IPO forecast. Trade and other receivables was $21.0m above the IPO forecast as sales receipts for new ORAs were also modelled to occur on the ORAs becoming unconditional in the IPO forecast. The impact of this was $17.2m.

For the purposes of the modelling of the fair value of PPE and IP for the IPO forecast, all PPE under development was aggregated with IP under development. Consequently the variation to the IPO forecast for the PPE and IP balances is most appropriately considered collectively i.e. $1,059.1m (actual) compared to $997.5m (forecast). As outlined above the variance principally relates to the acquisition of new land and the revaluation of IP. The IPO forecast did not envisage any assets held for sale.

Actual trade payables as at 31 May 2018 were higher than the IPO forecast as the actual balance includes the residual amounts required to settle land purchases that were not factored into the IPO forecast.

The IPO forecast also aggregated the deferred management fee and refundable occupation right agreements consistent with the presentation of the 31 May 2016 consolidated financial statements. On a consolidated basis the actual balance as at 31 May 2018 of $380.1m is in line with that forecast of $373.7m.

Borrowings of $168.7m was higher than the IPO forecast ($130.8m) principally due to the acquisitions of new land made during the 2018 financial year that were not contemplated in the IPO forecast.

5.10. Comparison to Prospective Financial Statements (Continued)

Consolidated Statement of Changes in Equity

$'000	Contributed Equity	Retained Deficit	Reserve	Total Equity
Assets				
Balance at 31 May 2017	**579,498**	**(195,966)**	**84,421**	**467,953**
Profit for the year	-	76,972	-	76,972
Other comprehensive income				
Revaluation of interest rate swaps		-	79	79
Revaluation of assets net of tax	-	-	4,676	4,676
Transfer of revaluation reserve for assets held for sale	-	3,678	(3,678)	-
	-	**80,650**	**1,077**	**81,727**
Dividends paid	-	(12,732)	-	(12,732)
Employee share scheme	-	149	-	149
	-	**(12,583)**	**-**	**(12,583)**
Balance at 31 May 2018	**579,498**	**(127,899)**	**85,498**	**537,097**

Prospective Forecast				
Balance at 31 May 2017	**579,894**	**(215,711)**	**69,064**	**433,247**
Profit for the year	-	53,093	(433)	52,660
Other comprehensive income				
Revaluation of interest rate swaps	-	-	-	-
Revaluation of assets net of tax	-	-	-	-
	-	**53,093**	**(433)**	**52,660**
Dividends paid	-	(12,745)	-	(12,745)
	-	**(12,745)**	**-**	**(12,745)**
Balance at 31 May 2018	**579,894**	**(175,363)**	**68,631**	**473,162**

Commentary

Equity was $63.9m above the IPO forecast (2017: $34.7m above the IPO forecast) due to the higher Net Profit After Tax achieved in both 2018 and 2017 and revaluation of PPE in 2017.

Consolidated Cash Flow Statement

$'000	Actual May 2018	Prospective May 2018
Cash flows from operating activities		
Receipts from residents for membership fees, village and care fees	161,786	156,758
Payments to suppliers and employees	(155,229)	(146,181)
Receipts from new occupation right agreements	113,517	120,669
Payments for outgoing occupation right agreements	(35,421)	(32,634)
Interest received	165	46
Interest paid	(2,588)	(6,096)
Net cash inflow from operating activities	**82,230**	**92,562**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and investment property	170	-
Payments for property, plant and equipment and intangible assets	(33,389)	-
Payments for investment property and investment property under development	(98,172)	(107,552)
Net cash outflow from investing activities	**(131,391)**	**(107,552)**
Cash flows from financing activities		
Proceeds from borrowings	119,788	92,319
Repayment of borrowings	(50,468)	(65,177)
Transaction costs	-	-
Dividend paid	(12,732)	(12,745)
Proceeds from share issue	-	-
Net cash inflow from financing activities	**56,588**	**14,397**
Net increase in cash and cash equivalents	**7,427**	**(593)**
Cash and cash equivalents at beginning of the period	10,861	4,357
Cash and cash equivalents at end of the period	**18,288**	**3,764**

Commentary

Operating cashflow was below the IPO forecast due to higher payments to suppliers and lower net receipts from ORAs. Interest paid was lower as development related interest was modelled as "cash-paid" in the IPO forecast whereas in practice this is capitalised to the projects and repaid on sale of the units and beds.

As outlined above payments for PPE and IP were estimated in aggregate for the purposes of the IPO forecast. The combined variance of $23.8m in net cash flow from investing activities is due to the effect of the aforementioned land acquisitions and a variance in development capital expenditure which was modelled on a "straight line" basis for the IPO forecast with expenditure apportioned equally over the construction period.

The net cash flow from financing activities differs from the IPO forecast due to the land acquisitions made and the variance in the actual timing of the repayment of development debt compared to the way this was modelled for the IPO forecast.

Independent Auditor's Report

To the shareholders of Oceania Healthcare Limited

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 May 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated statements, which include significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Oceania Healthcare Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 May 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assurance services for the Group in the areas of trustee reporting and compliance with debt covenants. The provision of these other services has not impaired our independence as auditor of the Group.

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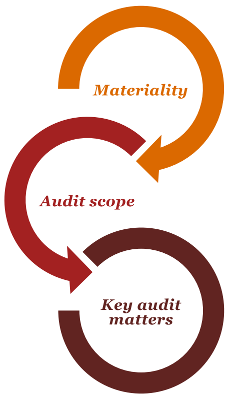
Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

Overall Group materiality: $1.8 million, which represents approximately 1% of operating revenue.

We chose operating revenue as the benchmark because, in our view, it is a key financial metric used in assessing the performance of the Group and is not as volatile as other profit or loss measures.

We have determined that there are three key audit matters:

- Valuation of investment property
- Valuation of freehold land and buildings
- Deferred tax on investment property

Materiality

The scope of our audit was influenced by our application of materiality.
Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property As disclosed in note 3.1 of the consolidated financial statements, the Group's investment property portfolio at $756 million represents the largest asset as at 31 May 2018. The fair value of investment property is calculated every six months by CBRE Limited (the Valuer), an independent registered valuer. Investment property is recorded in the consolidated financial statements at the value determined by the Valuer as at 30 April 2018, adjusted by management for the impact of any sale, resale and repurchase of Occupation Right Agreements (ORA) between the date of the valuation and 31 May 2018. For each investment property, assumptions and estimates are made in respect of: • discount rate; • property price growth rate; and • stabilised occupancy periods. The valuation is also adjusted for refundable occupation licence payments, residents' share of resale gains and management fees receivable which are recognised separately on the consolidated balance sheet and also reflected in the Valuer's cash flow model. The valuation of the Group's property portfolio is inherently subjective. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in assumptions on individual properties, when aggregated, could result in material differences, is why we have given specific audit focus and attention to this area.	Our audit procedures included the following: ***External valuations*** We read the valuation report and discussed the report with the Valuer. We assessed the valuation approach for the right to use and investment property assets (together referred to as investment property or properties in this section) with reference to the relevant accounting standards. From our discussions with management and the Valuer, and from our review of the valuation report, assumptions (including the discount rate, property price growth rate and stabilised occupancy periods) were made to reflect each property's individual characteristics, its overall quality, geographic location and desirability as a whole. On a sample basis, we tested whether property specific information supplied to the Valuer by the Group reflected the underlying property records held by the Group. ***Assumptions and estimates*** Our work over the assumptions focused on the largest properties in the portfolio and those properties where the assumptions (including the discount rate, property price growth rate and stabilised occupancy periods) used and/or year-on-year fair value movement suggested a possible outlier compared to the rest of the portfolio and the market data for the sector. We engaged our in-house valuation expert to challenge the work performed by the Valuer and assess the reasonableness of the assumptions used based on his knowledge gained from reviewing valuations of similar properties, known transactions and available market data. ***Valuation estimates*** Because of the subjectivity involved in determining valuations for individual properties and the existence of alternative assumptions and valuation methods, there is a range of values which can be considered reasonable when evaluating the independent property valuations used by the Group. If we identify an error in a property valuation or determine that the valuation is outside of a reasonable range, we evaluate the error or difference to determine if there is a material misstatement in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
	Valuation adjustments We tested, on a sample basis, the transactions representing the adjustments made to the valuations as at 30 April 2018 as determined by the Valuer for the impact of sales, resales and repurchases of ORAs between the date of the valuation and 31 May 2018. We checked that the adjustments to the valuation for refundable occupation licence payments, residents share of resale gains and management fees receivable reconciled to the corresponding amounts recognised separately on the consolidated balance sheet. We also considered whether there were any events subsequent to the date of the Valuer's report which may have caused the valuations of investment properties to be materially different to those determined by the Valuer.

Key audit matter	How our audit addressed the key audit matter
Valuation of freehold land and buildings As disclosed in note 3.3 of the consolidated financial statements, the Group's freehold land and buildings were valued at $245 million as at 31 May 2018. The valuations of individual properties are carried out by an independent registered valuer, CBRE Limited (the Valuer), every two years unless there is sustained market evidence of a significant change in fair value. An independent valuation was conducted by CBRE Limited at 31 May 2017 and the Directors have determined that there has been no material valuation movement in the period to 31 May 2018 with respect to freehold land and buildings, with the exception of the newly completed care suites at the Meadowbank facility. Apart from the newly completed care suites at the Meadowbank facility, no external valuation has been sought in relation to the 31 May 2018 balance date. In arriving at fair value of freehold land and buildings as at 31 May 2018, the 31 May 2017 carrying amounts have been adjusted for the cost of any additions or work in progress incurred, less any disposals and depreciation recognised since 1 June 2017. Due to the significant judgement exercised by the Directors in determining that the carrying values of freehold land and buildings do not differ materially from their fair values as at 31 May 2017 and that no independent valuation was required in the current year apart from the newly completed care suites at the Meadowbank facility, we have given specific audit focus and attention to this area.	Our audit procedures focused on the appropriateness of the Directors' assessment that the carrying values of freehold land and buildings as at 31 May 2018 were materially consistent with their fair values. We evaluated, together with our in-house valuation expert, the analysis prepared by management in supporting their assessment of whether there have been any significant changes to the assumptions used in the last external valuation as 31 May 2017 that would lead to the carrying values of freehold land and buildings as at 31 May 2018 being materially different to their fair values. We tested, on a sample basis, the validity of additions to freehold land and buildings and the reasonableness of depreciation charged since the date of the last external valuation. Apart from the movement caused by additions and depreciation, we reviewed management's assessment of the relevant assumptions, supporting that the carrying values of freehold land and buildings materially represented their fair value as at 31 May 2018. For freehold land and buildings comprising the newly completed care suites at the Meadowbank facility, the Valuer has carried out a valuation in the current year. We considered management's assessment that there were no changes in the assumptions that would cause the value as at 31 May 2018 to materially differ from the 30 April 2018 adopted value as determined by the Valuer. Our audit procedures and conclusions in relation to the current year valuations performed by the Valuer are set out in the preceding key audit matter.

Key audit matter	How our audit addressed the key audit matter
Deferred tax on investment property As disclosed in note 5.1 of the consolidated financial statements, the Group assesses deferred tax on investment property on the basis that the asset value will be realised through use ('Held for Use'). In applying the Held for Use methodology, the Group makes three key assumptions which involve significant judgement: 1. Determining the amount of taxable cash flows; 2. Timing of taxable cash flows, being at the end of the Occupation Right Agreement (ORA) period; and 3. Apportionment of investment property between land and buildings. Due to the significant judgement exercised by the Group in making and applying these assumptions to determine the deferred tax on investment property, we have given specific audit focus and attention to this area.	***Assumptions*** With respect to the assumptions used in the calculation of deferred tax, we engaged our in-house tax specialist and valuation expert to challenge the work performed and assess the reasonableness of the assumptions based on their knowledge of the tax legislation and other accepted approaches in the industry. ***1. Determining the amount of taxable cash flows*** We agreed the amount of taxable cash flows of investment property from the Valuer's report, which is based on materially the same assumptions and estimates used in the valuation of investment property described above. ***2. Timing of taxable cash flows*** We tested a sample of ORAs to confirm that the Deferred Management Fees (DMF) are contractually earned at the end of the ORA period. ***3. Apportionment of investment property*** For a sample of properties, we agreed the council rateable valuations to the council website and recalculated the apportionment between land and buildings.

Information other than the consolidated financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

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

Independent Auditor's Report (Continued)

To the shareholders of Oceania Healthcare Limited

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
26 July 2018

Auckland

Corporate Governance Statement

Corporate Governance

Oceania is committed to maintaining the highest standards of governance by implementing best practice structures and policies. This Corporate Governance Statement sets out the corporate governance policies, practices and processes adopted or followed by Oceania (including the guiding principles, authority, responsibilities, membership and operation of the Board of Directors of Oceania) as at 31 May 2018, and has been approved by the Board.

The best practice principles (and underlying recommendations) which Oceania has had regard to in determining its governance approach are the principles set out in the NZX Corporate Governance Code 2017 ("NZX Code"). The Board's view is that Oceania's corporate governance policies, practices and processes generally follow the recommendations set by the NZX Code. This Corporate Governance Statement includes disclosure of the extent to which Oceania has followed each of the recommendations in the NZX Code (or, if applicable, an explanation of why a recommendation was not followed and any alternative practices followed in lieu of the recommendation).

Oceania also supports the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Further information about Oceania's corporate governance framework (including Oceania's constitution, the Board and Board committee charters, and codes and policies referred to in this section) is available to view at **www.oceaniahealthcare.co.nz/investor-centre/governance**.

Principle 1 – Code of Ethical Behaviour

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

Code of Values and Conduct and Related Policies

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

Oceania expects its Directors, senior managers and employees to maintain the highest standards of honesty, integrity and ethical conduct in day to day behaviour and decision making. The Board has adopted a Code of Values and Conduct, a Whistleblowing Policy, a Confidentiality Policy, and a Trading in Company Securities Policy, all of which are available on Oceania's website.

The Code of Values and Conduct applies to all Directors, employees, contractors and consultants and outlines Oceania's expectations about behaviour (including the specific expectations prescribed in the NZX Code), as well as the procedure for any breach of the Code. Every new Director, employee, contractor and consultant is required to read and understand the Code of Values and Conduct as part of the induction process and acknowledge that they have done so.

Trading in Company Securities Policy

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

The Trading in Company Securities Policy sets out Oceania's requirements for all Directors and employees in relation to trading Oceania's shares. The policy incorporates all trading restraints. Directors and senior managers are restricted from trading in shares during "black out" periods around the balance date and the half year balance date, and proposed transactions by Directors or senior managers at any other time require approval. The policy also provides that no Directors or employees can trade shares if they are in possession of price sensitive information that is not publicly available.

Principle 2 – Board Composition and Performance

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

The Board is comprised of seven Directors with a mix of qualifications, skills and experience appropriate to Oceania's business. The Chair of the Board is elected by the Board each year. The Board schedules a minimum of nine meetings each year.

Board Charter

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

The Board has adopted a formal Board Charter which sets out the respective role, responsibilities, composition and structure of the Board and senior management, and this is available on Oceania's website. The Board is responsible for the strategic direction of Oceania and for supervising the management of the business for the benefit of its shareholders. Responsibility for the day to day management of Oceania has been delegated to the Chief Executive Officer and the Senior Management Team. The General Counsel & Company Secretary provides company secretarial services to the Board. The General Counsel & Company Secretary is accountable to the Board through the Chair.

Nomination and Appointment of Directors

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

The Board is responsible for succession planning. The procedure for the nomination and appointment of Directors is included in the Board Charter. When considering the appointment of a new Director, the Board will consider the skills of the existing Board and any gaps and the Board will undertake appropriate checks as to the candidate's character and experience. Where Oceania determines that a person is an appropriate candidate, shareholders are notified of that and are provided with all material information in Oceania's possession that is relevant to their decision on whether or not to elect or re-elect a Director. All new Directors enter into a written agreement with Oceania setting out the terms of their appointment.

Directors

The Board currently comprises seven Directors. All of the Directors are non-executive Directors. The Board has considered which of its Directors are deemed to be independent for the purposes of the NZX Listing Rules and has determined that, as at 31 May 2018, four Directors are independent Directors, including the Chair and the Chair of the Audit Committee. As at the date of this Annual Report, the Directors are:

Elizabeth Coutts	Chair, Independent Director	Appointed in November 2014
Alan Isaac	Independent Director	Appointed in October 2015
Kerry Prendergast	Independent Director	Appointed in December 2016
Sally Evans	Independent Director	Appointed in March 2018
Patrick McCawe	Non-Executive Director	Appointed in February 2017
Hugh FitzSimons	Non-Executive Director	Appointed in October 2012
Gregory Tomlinson	Non-Executive Director	Appointed in March 2018

Director Particulars

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

A biography of each Director is available on Oceania's website in accordance with this recommendation.

Directors' Interests in Shares

Directors disclosed the following relevant interests in shares as at 31 May 2018:

Director	Number of shares in which a relevant interest is held
Elizabeth Coutts	450,000 shares
Alan Isaac	110,000 shares
Kerry Prendergast	25,000 shares
Patrick McCawe	250,000 shares 349,175,418 shares held by Oceania Healthcare Holdings Limited[1]
Hugh FitzSimons	250,000 shares 349,175,418 shares held by Oceania Healthcare Holdings Limited[1]
Gregory Tomlinson	3,504,260 shares

Note:
[1] Oceania Healthcare Holdings Limited ("OHHL") is the majority shareholder of Oceania. OHHL is majority (98.83%) owned indirectly by three institutional funds that are managed by specialist management companies within the Macquarie Infrastructure and Real Assets division of Macquarie Group Limited. The fund investments are held through various sub trusts. The Trust Company Limited, as custodian, holds OHHL shares on behalf of the sub trusts. As Directors of OHHL, each of Patrick McCawe and Hugh FitzSimons have the power to control the exercise of the rights attaching to the shares held by OHHL, and the power to control the acquisition or disposition of such shares.

Diversity

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

Oceania has a Diversity Policy which aims to ensure that Oceania has a focus on diversity throughout the organisation. This recognises that a diverse work force (including at Board and management levels) contributes to business growth and performance, helping to drive an inclusive, high performance environment.

The Diversity Policy establishes the following measurable objectives for achieving diversity:

- Facilitating and promoting equal employment opportunities at all levels including assessment of diversity of skills, experience, values, culture and gender wherever possible from the available candidates.
- Promoting a merit based environment in which employees have the opportunity to develop and perform to their full potential in alignment with Oceania's commitment to the ongoing training and wellbeing of its employees.
- Ensuring employees are treated fairly, evaluated objectively and promoted on the basis of their performance.

The Diversity Policy also sets out requirements for the Board to assess its progress in achieving the objectives and the objectives themselves. The Diversity Policy is available on Oceania's website.

The Board considers that the Diversity Policy has been successfully implemented across the business with an excellent balance of gender and ethnicity at Director and officer levels. As at 31 May 2018 (and 31 May 2017 for the prior comparative period), the gender breakdown of the Directors, officers (as that term is defined in the NZX Listing Rules) and employees is as follows:

	31 May 2018		31 May 2017	
Gender	**Male**	**Female**	**Male**	**Female**
Directors	4	3	3	2
Officers	6	6	4	6
Employees	349	2390	340	2370

Oceania is developing further internal systems and processes to allow regular and efficient monitoring of policy objectives.

Director Training

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

The Board ensures that there is appropriate training for all Directors enabling them to remain current on how to best discharge their responsibilities and keep abreast of changes and trends in economic, political, social, financial and legal climates and governance practices. The Board also ensures that new Directors are appropriately introduced to management and the business, that all Directors are acquainted with relevant industry knowledge and receive copies of appropriate company documents to enable them to perform their role.

Evaluation of Performance of Directors

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

The Chair of the Board leads an annual performance review and evaluation of the Board as a whole, and of the Board committees, against the Board Charter including seeking Directors' views relating to Board and Board committee process, efficiency and effectiveness, for discussion by the full Board. The Chair of the Board also engages with individual Directors to evaluate and discuss performance and professional development.

Separation of Board Chair and CEO

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

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

Principle 3 – Board Committees

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

Overview of Board Committees

The Board has three standing committees to assist in the execution of the Board's duties, being the Audit Committee, the Remuneration Committee and the Clinical and Health and Safety Committee.

Recommendation 3.5: *All committees should operate under written charters. An issuer should identify the members of each of its committees, and periodically report member attendance.*

Each committee operates under a charter which is available on Oceania's website. Committee members are appointed from members of the Board and membership is reviewed on an annual basis. Any recommendations made by committees are submitted to the full Board as recommendations for Board decision.

Attendance at Board and Committee Meetings for the Year Ended 31 May 2018

	Board		Audit		Remuneration		Clinical and Health and Safety	
	Eligible	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**
Elizabeth Coutts	10	10	6	6	3	3	3	3
Alan Isaac	10	10	6	6	3	3		
Kerry Prendergast	10	9					3	3
Sally Evans	1	1					0	0
Patrick McCawe	10	8						
Hugh FitzSimons	10	10	6	5	3	3	3	3
Gregory Tomlinson	1	1						

Outside of the scheduled Board and committee meetings described above, the Board or a committee held an additional nine formal meetings in person or by way of conference calls during the year.

Audit Committee

Recommendation 3.1: *An issuer's Audit Committee should operate under a written charter. Membership on the Audit Committee should be majority independent and comprise solely of non-executive Directors of the issuer. The chair of the Audit Committee should not also be the Chair of the Board.*

The Audit Committee comprises Alan Isaac (Chair), Elizabeth Coutts and Hugh FitzSimons and met six times during the year. The Audit Committee assists the Board in providing oversight of all matters relating to financial management and controls, financial accounting, audit and the external reporting requirements of Oceania and its subsidiary companies. The Audit Committee operates under the Audit Committee Charter, which is reviewed annually.

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

The Chief Executive Officer, Chief Financial Officer, Financial Controller and General Counsel & Company Secretary attend Audit Committee meetings at the invitation of the Audit Committee. Oceania's external auditor attends meetings as deemed necessary by the Audit Committee. The Audit Committee also meets and receives regular reports from the external auditor without management present, concerning any matters that arise in connection with the performance of its role.

Remuneration Committee

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

As at 31 May 2018, the Remuneration Committee comprised Hugh FitzSimons (Chair), Elizabeth Coutts and Alan Isaac and met three times during the year. With effect from 1 July 2018, Hugh FitzSimons resigned from the Remuneration Committee, and Sally Evans was appointed as Chair. The Remuneration Committee assists the Board in the discharge of its responsibilities and oversight relative to the remuneration and performance of the Chief Executive Officer and the Senior Management Team, remuneration of Directors and human resources policy and strategy. The Remuneration Committee operates under the Remuneration Committee Charter, which is reviewed annually.

Management only attend Remuneration Committee meetings at the invitation of the Remuneration Committee.

Nomination Committee

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

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

Clinical and Health and Safety Committee

Recommendation 3.5: *An issuer should consider whether it is appropriate to have any other Board committees as standing Board committees.*

The Clinical and Health and Safety Committee comprises Kerry Prendergast (Chair), Elizabeth Coutts, Hugh FitzSimons (until 22 March 2018) and Sally Evans (from 23 March 2018) and met three times during the year.

The Clinical and Health and Safety Committee reviews clinical risks, health and safety policy and risks arising from Oceania's physical operations, and any other matters that may affect Oceania's reputation outside of the financial risks that are specifically addressed within the Audit Committee. The Clinical and Health and Safety Committee operates under the Clinical and Health and Safety Committee Charter, which is reviewed annually.

The Chief Executive Officer, the General Manager Nursing and Risk, the General Manager Health and Safety and the General Counsel & Company Secretary attend these meetings.

Takeover Protocols

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

As at 31 May 2018, Oceania is in the process of developing a Takeover Response Policy to apply in the event that Oceania receives an unsolicited offer or an unsolicited approach by a potential acquirer for a control stake in Oceania. It is expected that this will be adopted in the next financial year.

Principle 4 – Reporting and Disclosure

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

The Board is committed to providing timely, orderly, consistent, accurate and credible information to the market to promote investor confidence.

Continuous Disclosure

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

All information received by Oceania is considered in the context of Oceania's obligations as a listed company with regard to continuous disclosure of material information. At each Board meeting, the Board considers whether there is material information that is required to be disclosed to the market. Oceania has established a Market Disclosure Policy to ensure compliance with the continuous disclosure requirements of the NZX Listing Rules and the ASX Listing Rules. The Market Disclosure Policy is available on Oceania's website.

Charters and Policies

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

Information about Oceania's corporate governance framework (including the Code of Values and Conduct, Board and Board committee charters, and other key governance codes and policies) are available to view on Oceania's website at **www.oceaniahealthcare.co.nz/investor-centre/governance**.

Financial Reporting

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

The Audit Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements, and ensuring that financial reporting is balanced, clear and objective. It reviews annual and half year financial statements and makes recommendations to the Board concerning the application of accounting policies and practice, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit.

Management accountability for Oceania's financial reporting is reinforced by the written certification from the Chief Executive Officer and Chief Financial Officer that, in their opinion, financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of Oceania. Such representations are given on the basis of a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risk.

Non-Financial Reporting – Sustainability

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

The Board and management consider the sustainability of Oceania's buildings, particularly for new developments. New buildings include more insulation than is required, double glazing, water efficiency fittings, the use of energy efficient lighting and energy star rated appliances. Oceania has designed new developments (including Meadowbank Stages 3, 4 and 5, The Sands, The BayView, Green Gables and Windermere) in order to meet the 6 Homestar Built certification standards.

As at 31 May 2018, Oceania does not have a formal environmental, social and governance reporting framework, however Oceania is in the early stages of reporting on non-financial information, and intends to provide additional disclosure in this area in future reports.

Principle 5 – Remuneration

The remuneration of Directors and executives should be transparent, fair and reasonable.

Directors' Remuneration

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

Directors' remuneration is paid in the form of fees. Additional fees are payable in respect of work carried out on Board committees.

Where required in the future, the Board will ensure that recommendations to shareholders regarding approval of Director remuneration is provided in a transparent manner.

Approved Director Remuneration for 2018/2019

	Position	Fees (per annum)
Board of Directors	Chair	$180,000
	Member	$90,000
Audit Committee	Chair	$20,000
Clinical and Health and Safety Committee	Chair	$15,000
Remuneration Committee	Chair	$7,500

No additional fees will apply for Directors as members of Board Committees for the financial year ended 31 May 2019.

The maximum aggregate amount of remuneration payable by Oceania to its Directors for fees and Board committee responsibilities was fixed at $582,500 per annum in the Product Disclosure Statement dated 31 March 2017.

The appointment of Sally Evans as an independent Director and the appointment of Gregory Tomlinson as a Non-Executive Director on 23 March 2018 increased the total number of Directors to seven. Under NZX Listing Rule 3.5.1, the Directors are entitled without the requirement to put an ordinary resolution to shareholders, to increase the total remuneration pool by such amount as is necessary to enable the issuer to pay the additional Directors (such remuneration not to exceed the average amount then being paid to each of the other Non-Executive Directors, excluding the Chair). These Director appointments increased annualised Director fees to $762,500, inclusive of additional remuneration for committee Chairs, and accordingly the Board deemed the total fee pool to have increased to $762,500 on 23 March 2018.

Director Remuneration Received in 2017/2018

Director	Board Fees	Audit Committee	Remuneration Committee	Clinical and Health and Safety Committee	Total remuneration
Elizabeth Coutts (Chair)	$180,000	-	-	-	$180,000
Alan Isaac	$90,000	$20,000	-	-	$110,000
Kerry Prendergast	$90,000	-	-	$15,000	$105,000
Sally Evans[1]	$17,219	-	-	-	$17,219
Patrick McCawe	$90,000	-	-	-	$90,000
Hugh FitzSimons	$90,000	-	$7,500	-	$97,500
Gregory Tomlinson[1]	$17,219	-	-	-	$17,219

Notes:
[1] Sally Evans and Gregory Tomlinson were appointed to the Board on 23 March 2018 so their total remuneration for the year ended 31 May 2018 does not represent fees for a full year.

The above fees exclude GST and expenses.

Remuneration Policy

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

Oceania has adopted a Remuneration Policy which sets out the remuneration principles that apply to all Directors and senior managers of Oceania to ensure that remuneration practices are fair and appropriate, and that there is a clear link between remuneration and performance. Oceania is committed to applying fair and equitable remuneration and reward practices in the workplace, taking into account internal and external relativity, the commercial environment, the ability to achieve Oceania's business objectives and the creation of shareholder value. Under Oceania's remuneration framework, individual performance and market relativity are key considerations in all remuneration based decisions, balanced by the organisational context. Remuneration for senior managers includes a mix of fixed and variable components. A copy of the Remuneration Policy is available on Oceania's website.

Employees' Remuneration

Oceania did not employ people directly in the year ended 31 May 2018. All employees are employed by the subsidiaries of Oceania. The number of employees and former employees of Oceania's subsidiaries, not being a Director, who received remuneration and other benefits in excess of $100,000 for the financial year ended 31 May 2018 is set out in the table of remuneration bands below.

The remuneration figures shown in the "Remuneration" column includes all monetary payments actually paid during the course of the year ended 31 May 2018, which include performance incentive payments for the year ended 31 May 2017. The table does not include amounts paid after 31 May 2018 that relate to the year ended 31 May 2018.

Remuneration	Number of Employees
$100,000 to $109,999	12
$110,000 to $119,999	9
$120,000 to $129,999	7
$130,000 to $139,999	3
$140,000 to $149,999	7
$150,000 to $159,999	1
$160,000 to $169,999	4
$170,000 to $179,999	2
$180,000 to $189,999	1
$210,000 to $219,999	1
$230,000 to $239,999	1
$270,000 to $279,999	1
$390,000 to $399,999	1
$430,000 to $439,999	2
$590,000 to $599,999	1

Chief Executive Officer Remuneration

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

The remuneration of the Chief Executive Officer ("CEO") for the year ended 31 May 2018 is as follows:

Base Salary	Other Benefits	STI	Subtotal	LTIP	Remuneration Total
$490,172	$27,510	$75,938	$593,620	$36,827	$630,447

The remuneration of the CEO for the year ended 31 May 2017 (being the prior comparative period) is as follows:

Base Salary	Other Benefits	STI	Subtotal	Transaction Bonus	LTIP	Subtotal	Remuneration Total
$482,071	$23,913	$232,000	$737,984	$370,000	$47,482	$417,482	$1,155,466

The remuneration of the CEO comprises of fixed remuneration and performance payments. Fixed remuneration includes a base salary, the provision of a carpark and a vehicle allowance.

Mr Gasparich received a short term incentive of $75,938 in July 2017. This was based on achievement of financial performance (EBITDA performance against budget), health and safety performance (injury and reporting rates), personal goals and a discretionary component for the year ended 31 May 2017.

Mr Gasparich was invited to participate in a long term incentive plan which was established concurrent with the IPO. As part of this, Earl Gasparich, Celia Gasparich and Carla Pearce as trustees of the Gasparich Family Trust were provided with an interest free loan of an amount of $550,000 to acquire 696,203 ordinary shares in Oceania. These shares are held by OCA Employees Trustee Limited on behalf of the participants. Further detail about this Long Term Incentive Plan is set out below.

In addition, 320,513 ordinary shares were vested in Earl Gasparich, Celia Gasparich and Carla Pearce as trustees of the Gasparich Family Trust on 9 May 2017 as the IPO target for the first Long Term Incentive Plan that was implemented in August 2015 was met. An additional 641,026 ordinary shares vested on 28 July 2017, being the business day after release of the financial statements for the year ended 31 May 2017, as the financial hurdles were met. Further detail about this Long Term Incentive Plan is set out below.

Senior Managers

Oceania's senior managers are appointed by the CEO and their key performance indicators ("KPIs") contain specific financial and other objectives. These KPIs are reviewed annually by the CEO and the Remuneration Committee, which makes recommendations to the Board for approval. The performance of the senior managers against these KPIs is evaluated annually.

Short Term Incentive Payments

Short term incentive ("STI") payments are at risk payments designed to motivate and reward for performance, typically in that financial year. The target value of a STI payment is set as a percentage of the employee's base salary. The target areas for all employees who are entitled to a STI payment are set based on financial performance (EBITDA performance against budget), health and safety performance (injury and reporting rates), personal goals, and there is also a small discretionary component. The weightings applied to each of the target areas are consistent throughout Oceania for all employees entitled to a STI payment.

The Board approves the STI payments to be made to senior managers at the end of each financial year, and approves the senior manager targets for the following financial year.

Long Term Incentive Scheme

2015 LTIP Scheme

Certain Oceania senior managers participate in a Long Term Incentive Plan which was approved by the Board in August 2015 ("2015 LTIP Scheme"). The senior managers were each provided with an interest free loan by Oceania which was applied to acquiring shares. The amount of the loan for each senior manager was determined at the Board's discretion. As at 31 May 2018, the aggregate value of all outstanding loans made by Oceania to the senior managers under the 2015 LTIP Scheme was $1,420,001.44.

The Board then approved the issue of, and subsequently issued, 2,730,772 shares under the 2015 LTIP Scheme which vested to the participants as follows:

- One third of the participants' shares on the business day after the IPO; and
- The remaining two thirds of the participants' shares on the business day after release of the financial statements for the year ended 31 May 2017 (subject to financial hurdles having been met).

The first third of the participants' shares vested on 9 May 2017, being the business day after the IPO.

The remaining two thirds of the participants' shares vested on 28 July 2017, being the business day after release of the financial statements for the year ended 31 May 2017, as the financial hurdles were met. The shares issued to Earl Gasparich (through his family trust) and Matthew Ward under the 2015 LTIP Scheme are subject to escrow arrangements until the first Business Day after the date on which Oceania releases to NZX its preliminary announcement of its financial results in respect of the financial year ended 31 May 2018.

A participant will only benefit in respect of shares acquired under the 2015 LTIP Scheme if he or she remains employed by Oceania at the vesting date for the relevant shares.

The loans must be repaid on or before 31 May 2019.

2017 LTIP Scheme

In addition, certain Oceania senior managers were invited to participate in another Long Term Incentive Plan which was established concurrent with the IPO ("2017 LTIP Scheme"). The senior managers were each provided with an interest free loan by Oceania which was applied to acquiring the shares. The amount of the loan for each senior manager was determined at the Board's discretion. There were 3,164,557 shares issued under the 2017 LTIP Scheme on 4 May 2017 and these are held by OCA Employees Trustee Limited on behalf of the participants. As at 31 May 2018, the aggregate value of all outstanding loans made by Oceania to the senior managers under the 2017 LTIP Scheme was $2,500,000.

Generally, the shares under the 2017 LTIP Scheme will be eligible to vest if, at the vesting date (which is the business day after release of the financial statements for the year ended 31 May 2020), the participant remains employed by Oceania and the performance hurdles are achieved. The performance hurdles require Oceania's performance to meet, or exceed, an underlying Earnings per Share Compound Annual Growth Rate ("EPS CAGR") of 35% per annum or greater, over the three year period to 31 May 2020. In calculating the underlying EPS CAGR, the Board will make pro forma adjustments to the FY20 underlying EPS depending on the timing of delivery of key development projects. The Board may also adjust for the impact of items including significant one off gains or losses, acquisitions or divestments and changes to accounting policy. The 2017 LTIP Scheme shares may not vest in the participants if certain other conditions are not met.

The loans must be repaid after the 2017 LTIP Scheme shares have vested to each of the participants, or on such other date determined in accordance with the rules of the 2017 LTIP Scheme.

Principle 6 – Risk Management

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

Risk Management

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

The Board is responsible for Oceania's risk management and internal control. The Board monitors policies and processes that identify significant business risks and implements procedures to monitor these risks.

The Chief Executive Officer and senior managers regularly identify the major risks affecting the business in an organisational Risk Matrix, and develop strategies to mitigate these risks.

Significant risks are discussed at Board meetings, or as required. Oceania maintains insurance policies that it considers adequate to meet insurable risks.

Health and Safety

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

Oceania employs a General Manager Health and Safety and has a Clinical and Health and Safety Committee to assist the Board in meeting its responsibilities under the Health and Safety at Work Act 2015. In particular, the Committee is responsible for ensuring that health and safety has appropriate focus within Oceania by regularly engaging in assurance processes around risk assessment and mitigation, safety systems, staff capability, staff competency, safety leadership and business safety culture.

Health and safety review reports are a priority agenda item at all Board meetings and specific reviews are sought as required. Oceania has developed a health and safety risk matrix to identify specific risks, assess their severity and likelihood, document mitigation strategies and determine the level of residual risk. This matrix is reviewed annually by the Board and annual health and safety objectives and KPIs are set for the business based on the significant risks identified.

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

Principle 7 – Auditors

The Board should ensure the quality and independence of the external audit process.

Relationship with Auditor

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

The Audit Committee is responsible for the oversight of Oceania's external audit arrangements. It is committed to ensuring that Oceania's external auditor is able to carry out its work independently so that financial reporting is highly reliable and credible. Oceania has an External Auditor Independence Policy, which is available on Oceania's website. The External Audit Independence Policy implements the procedures set out in the NZX Code.

The policy sets out the work that the external auditor is required to do and specifies the services that the external auditor is not permitted to do, so that the ability of the auditor to carry out its work is not impaired and could not reasonably be perceived to be impaired. All non-audit work that the external auditor performs must be approved by the Chair of the Audit Committee.

Oceania's external auditor is PricewaterhouseCoopers. Total fees paid to PricewaterhouseCoopers in its capacity as auditor for FY18 were $428,000. Total fees paid to PricewaterhouseCoopers for other professional services (being trustee reporting and external reporting to banks) for FY18 were $14,000. No other fees were paid to PricewaterhouseCoopers for other professional services.

PricewaterhouseCoopers has been invited to attend this year's Annual Meeting and will be available to answer questions about the audit process, Oceania's accounting policies and the independence of the auditor.

Internal Audit Functions

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

Oceania engaged KPMG to perform an internal audit of the payroll processes during the financial year ended 31 May 2018.

The next step for the internal audit function will be for KPMG to conduct a thorough review of Oceania's risk framework, following which a three year rolling Internal Audit Plan will be prepared.

Principle 8 – Shareholder Rights and Relations

The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

Information for Shareholders

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

Oceania is committed to an open and transparent relationship with shareholders. The Board aims to ensure that all shareholders are provided with all information necessary to assess Oceania's direction and performance.

This is done through a range of communication methods including periodic and continuous disclosures to NZX and ASX, half year and annual reports and the Annual Meeting. Oceania's website provides financial and operational information, and information about its Directors and senior managers and copies of its governance documents, for investors and interested stakeholders to access at any time.

Communicating with Shareholders

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

Shareholders have the option of receiving their communications electronically, including by email or through Oceania's investor centre. Oceania's website also contains a section for electronic shareholder communications and the Board encourages investors to make enquiries if they wish on environmental, social and governance issues.

Shareholder Voting Rights

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

The regulatory safeguards built into the NZX Listing Rules, ASX Listing Rules, the Companies Act 1993 and Oceania's constitution operate to preserve shareholders' entitlement to vote on key decisions impacting Oceania, including where votes are conducted by poll, each shareholder shall have one vote per share.

Notice of Annual Meeting

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

Oceania encourages shareholder participation at the Annual Meeting, and the Board aims to ensure that all relevant information is provided to shareholders for consideration with sufficient notice in advance of shareholders' meetings (and at least 28 days prior to Oceania's Annual Meeting, including by posting the Notice of Annual Meeting on Oceania's website).

Principle 9 – Stakeholder Interests

The Board should respect the interests of stakeholders, taking into account the entity's ownership type and its fundamental purpose.

The Board carefully considers and respects the interests of Oceania's stakeholders (in addition to its shareholders) including, in particular, the residents and their families, its staff and the communities in which it operates.

In relation to residents, Oceania has a number of residential care and independent living policies that recognise the rights of residents. Oceania also complies with the requirements of the Retirement Villages Code of Practice 2008 which further identifies obligations to residents and protects residents' rights. Oceania has received external recognition for service delivery in aged care, and was awarded the New Zealand Aged Care Association's Award for Overall Excellence in Care in 2015, 2016 and 2017.

In relation to staff, Oceania has a strong commitment to staff training and development. A dedicated learning and development team focuses on the delivery of staff training and a Career Pathways Programme which includes a NZQA recognised Healthcare Assistant Certificate in residential care. In addition, Oceania's Wesley Institute of Learning provides postgraduate nursing and healthcare assistant training to Oceania staff and the wider nursing and healthcare industry, providing an important strategic avenue for recruitment by Oceania of well trained registered nurses.

OTHER DISCLOSURES REQUIRED UNDER THE COMPANIES ACT 1993

Disclosure of Directors' Interests

Section 140(1) of the Companies Act 1993 requires a Director of a company to disclose certain interests. Under section 140(2) of the Companies Act 1993, a Director can make disclosure by giving a general notice in writing to the company of a position held by a Director in another named company or entity.

The following particulars were entered in Oceania's interests register for the year ended 31 May 2018:

Elizabeth Coutts: Disclosed she ceased to hold the following position: Sanford Limited (Director)

Alan Isaac: Disclosed the following new position: Basin Reserve Trust (Chair). Disclosed he ceased to hold the following positions in respect of the following entities: Fliway Group (Director), Companies in the Opus Group (Director).

Hugh FitzSimons: Disclosed the following new position: RSL Lifecare Limited (Director).

Sally Evans: Disclosed the following positions in respect of the following entities: LifeCircle Australia Limited (Chair), Gateway Lifestyle Operations Limited (Director), Consumer and Industry Advisory Group to Australian Treasury on the proposed framework for retirement incomes (Member).

Gregory Tomlinson: Disclosed the following positions in respect of the following entities: Oceania Healthcare Holdings Limited (Director), Heartland Bank Limited (Director), Indevin Group Limited (Director), The Icehouse Limited (Director), St Leonards Limited (Director), Nearco Stud Limited (Director), Mountbatten Trustee Limited (Director), Chippies Vineyard Limited (Director), Forte Health Limited (Director), Forte Health Group Limited (Director), Tomlinson Holdings Limited (Director), Tomlinson Group NZ Limited (Director), Tomlinson Group Investments Limited (Director), Alta Cable Holdings Limited (Director), Ngakuta Trust Company Limited (Director), Pelorus Finance Limited (Director), Little Ngakuta Trust Company Limited (Director), Impact Capital Limited (Director), Impact Capital Management Limited (Director), Argenta Limited (Director).

Securities Dealings of Directors

Dealings by Directors in relevant interests in Oceania's ordinary shares during the year ended 31 May 2018 are entered in the Interests Register:

Director	No. of Shares	Nature of Relevant Interest	Acquisition / Disposal	Consideration (Per Share)	Date of Transaction
Alan Isaac	30,000	Registered holder and beneficial owner	Acquisition	NZ$0.98	28 July 2017
Elizabeth Coutts	100,000	Beneficial owner	Acquisition	NZ$0.98	28 July 2017
Hugh FitzSimons	50,000	Beneficial owner	Acquisition	AUD$0.92	28 July 2017
Hugh FitzSimons	37,753	Beneficial owner	Acquisition	AUD$0.92	31 July 2017
Hugh FitzSimons	62,247	Beneficial owner	Acquisition	AUD$0.93	1 August 2017
Patrick McCawe	250,000	Beneficial owner	Acquisition	NZ$0.98	1 August 2017
Hugh FitzSimons	50,000	Beneficial owner	Acquisition	AUD$0.93	2 August 2017
Hugh FitzSimons	50,000	Beneficial owner	Acquisition	AUD$0.97	7 August 2017
Kerry Prendergast	25,000	Registered holder and beneficial owner	Acquisition	NZ$1.05	18 August 2017
Alan Isaac	50,000	Registered holder and beneficial owner	Acquisition	NZ$1.09	25 January 2018
Elizabeth Coutts	25,000	Beneficial owner	Acquisition	NZ$1.04	25 January 2018
Elizabeth Coutts	25,000	Beneficial owner	Acquisition	NZ$1.02	26 January 2018

Indemnity and Insurance

Oceania has granted indemnities, as permitted by the Companies Act 1993 and the Financial Markets Conduct Act 2013, in favour of each of its Directors. Oceania also maintains Directors' and Officers' liability insurance for its Directors and officers.

Donations

For the year ended 31 May 2018, Oceania paid a total of $6,494.76 in donations.

Stock Exchange Listings

Oceania's shares are listed on the NZX and the ASX. Oceania is listed on ASX as a foreign exempt listing, which means that Oceania is required to comply with the NZX Listing Rules but it is exempt from the majority of the ASX Listing Rules. In accordance with ASX Listing Rule 1.15.3, Oceania confirms that it has complied with the NZX Listing Rules for the financial year ended 31 May 2018.

NZX Waivers

Oceania does not have any waivers from the requirements of the NZX Listing Rules.

Corporate Governance Statement (Continued)

Credit Rating

Oceania has no credit rating.

Former Directors

No Directors resigned during the financial year ended 31 May 2018.

Subsidiary Company Directors

Earl Gasparich and Matthew Ward are Directors of all Oceania's subsidiaries as at 31 May 2018, with the exception of OCA Employees Trustee Limited (the Directors of which are Elizabeth Coutts and Hugh FitzSimons). No extra remuneration is payable for any directorship of a subsidiary.

SHAREHOLDER INFORMATION

Twenty Largest Shareholders

(as at 30 June 2018)

Registered Shareholder		Number of Shares	% Shares
1	Oceania Healthcare Holdings Limited	349,175,418	57.21
2	New Zealand Central Securities Depository Limited	61,216,064	10.03
3	FNZ Custodians Limited	19,176,753	3.14
4	Custodial Services Limited	12,327,610	2.02
5	Custodial Services Limited	10,230,213	1.67
6	Investment Custodial Services Limited	9,399,786	1.54
7	Custodial Services Limited	5,831,408	0.95
8	Custodial Services Limited	3,648,405	0.59
9	Harrogate Trustee Limited	3,504,260	0.57
10	OCA Employees Trustee Limited	3,164,557	0.51
11	Custodial Services Limited	3,083,119	0.50
12	Custodial Services Limited	2,564,014	0.42
13	Walter Mick George Yovich & Jeanette Julia Yovich	2,493,476	0.40
14	Earl Gasparich, Celia Gasparich & Carla Pearce	2,023,078	0.33
15	HSBC Custody Nominees (Australia) Limited	2,000,000	0.32
16	Philip George Lennon	2,000,000	0.32
17	Forsyth Barr Custodians Limited	1,967,505	0.32
18	Ross Hollier John Jones, Moira Marguerite Jones & Walter Mick George Yovich	1,660,000	0.27
19	M A Janssen Limited	1,545,000	0.25
20	Mark Stockton	1,513,439	0.24
Total		**498,524,105**	**81.6**

New Zealand Central Securities Depository Limited provides a custodial depository service that allows electronic trading of securities to its members. It does not have a beneficial interest in these shares. Its major holdings of Oceania Healthcare Limited shares are:

Name		Number of Shares	% Shares
1	ANZ Wholesale Trans-Tasman Property Securities Fund	10,974,345	1.80
2	ANZ Wholesale Australasian Share Fund	7,456,046	1.22
3	MFL Mutual Fund Limited	6,518,162	1.07
4	TEA Custodians Limited	5,653,015	0.93
5	HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	4,472,235	0.73
6	HSBC Nominees (New Zealand) Limited	4,109,046	0.67
7	Mint Nominees Limited	3,439,425	0.56
8	Generate Kiwisaver Public Trust Nominees Limited	3,354,546	0.55
9	Citibank Nominees (New Zealand) Limited	2,698,987	0.44
10	ANZ Wholesale Property Securities	2,240,160	0.37
11	BNP Paribas Nominees (NZ) Limited	2,140,754	0.35
12	JP Morgan Chase Bank NA NZ Branch	1,795,456	0.29
13	Queen Street Nominees ACF Mint	1,331,787	0.22
14	BNP Paribas Nominees (NZ) Limited	1,278,564	0.21
15	ANZ Wholesale NZ Share Fund	1,184,676	0.19
16	Accident Compensation Corporation	907,150	0.15
17	Public Trust RIF Nominees Limited	725,204	0.12
18	BNP Paribas Nominees (NZ) Limited	492,450	0.08
19	ANZ Custodial Services New Zealand Limited	244,851	0.04
20	HSBC Nominees (New Zealand) Limited	199,205	0.03

Spread of Holdings

(as at 30 June 2018)

Size of Holding	Number of Shareholders	%	Number of Shares	%
1 – 1,000	327	6.81	258,266	0.04
1,001 – 5,000	1,263	26.31	4,673,272	0.77
5,001 – 10,000	1,046	21.79	8,716,971	1.43
10,001 – 100,000	1,975	41.13	59,204,070	9.7
100,001 and over	190	3.96	537,401,956	88.06
Totals		**100**		**100**

Substantial Product Holders

According to notices given under the Financial Markets Conduct Act 2013, the following were substantial product holders of Oceania as at 31 May 2018:

Substantial Product Holder	Shares	%	Date of Notice
Oceania Healthcare Holdings Limited	349,175,418	57.22	5 May 2017

The total number of shares on issue at 31 May 2018 was 610,254,535.

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