

**HANDLED
WITH CARE.**

INTERIM REPORT 2021



OCEANIA
HEALTHCARE



In the six months to 30 November 2020, Oceania Healthcare has achieved a 2.0% growth in unaudited underlying EBITDA compared to the prior corresponding period, with sales volumes being significantly ahead of the prior corresponding period. Oceania Healthcare has continued to successfully navigate the challenges of the COVID-19 pandemic, with no COVID-19 cases recorded to date in any of Oceania Healthcare's aged care centres or retirement villages, and has provided outstanding care to our approximately 3,700 residents across New Zealand.

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AT A GLANCE.



Green Gables, Nelson

Oceania Healthcare is a leading provider of premium healthcare services in New Zealand. We have successfully navigated our way through the COVID-19 pandemic to date with no positive cases reported for any of our staff or residents.

We are dedicated to delivering exceptional and innovative hospitality services that delight our residents and lead the sector.

We have a substantial development pipeline and sufficient land to build 1,780 new residences with 84.2% of these already consented.

AS AT 30 NOVEMBER 2020

Staff



2,800

Residents



3,700

Care beds and care suites



2,602

Units



1,310

Existing sites
with mature
operations

25

Existing sites
with brownfield
developments
(current and planned)

19

Undeveloped
sites

1

=

Total sites

45

HIGHLIGHTS

FINANCIAL

Underlying Earnings Before Interest,
Tax, Depreciation and Amortisation

\$35.4m

▲ **2.0%**

Ahead of 30 November 2019
underlying earnings before
interest, tax, depreciation
and amortisation of \$34.7m

Total Assets

\$1.7b

▲ **11.8%**

Higher than
30 November 2019
total assets of \$1.5b

Reported Total
Comprehensive Income

\$57.0m

▲ **137.5%**

Ahead of 30
November 2019
reported total
comprehensive
income of \$24.0m

Operating Cash Flow

\$74.6m

▲ **30.9%**

Ahead of
30 November
2019 operating
cash flow
of \$57.0m

OPERATIONAL

New Units

60

Resale Units

49

New Care Suites

85

Resale Care Suites

74

FOR THE 6 MONTHS TO 30 NOVEMBER 2020

Total Sales

= 268



44.1%

Ahead of total sales
for the six months to
30 November 2019

DEVELOPMENTS

Units + Care Suites

26

CONSENTS SECURED

Resource consents
received during the
six months to
30 November 2020:
Holmwood (Christchurch)

Units + Care Suites

520

UNDER CONSTRUCTION

520 units and care suites
under construction as at
30 November 2020:
The Bellevue (Christchurch)
The BayView (Stage 2)
(Tauranga)
Eden (Auckland)
Lady Allum (Auckland)
Awatere (Stage 2) (Hamilton)
Waimarie Street (Auckland)
Gracelands (Hastings)

Units + Care Suites

89

COMPLETED

89 units and care
suites completed
in the six months to
30 November 2020:
Green Gables
(28 Apartments,
61 Care Suites)

Units + Care Suites

128

TO COMPLETE IN FY2021

128 units and care suites
to complete by the end
of FY2021 at:
The BayView (Stage 2)
(Tauranga)
The Bellevue (Christchurch)



Dear Shareholder,

We are pleased to present our Interim Report for the six months to 30 November 2020.

Our priority over the first half of FY2021 has remained on protecting and keeping Oceania Healthcare's residents and staff safe from the heightened risks associated with the COVID-19 pandemic. Overall the business has performed very well since the Government alert level restrictions were lifted in June 2020. Although our momentum was temporarily slowed again during August 2020 when Government restrictions were reintroduced in Auckland, sales volumes have been very strong and occupancy levels have also improved over the six months ended 30 November 2020. Many of our new residents who have moved into our aged care centres and retirement villages over this period have done so after reflecting on what has been a very uncertain year. These residents have made a decision to move into a retirement village because of the benefits that retirement village living bring, including stronger communities, security and peace of mind.

The key highlights for the first half of FY2021 included:

- A 2.0% increase (\$0.7m) in unaudited underlying EBITDA compared to the prior corresponding period
- Unaudited Reported Net Profit after Tax (NPAT) of \$24.8m, up \$9.9m on the prior corresponding period
- Sales volumes (for both independent living apartments and villas, as well as care suites) being 44.1% ahead of the prior corresponding period
- Successfully navigating the challenges of the COVID-19 pandemic, with no COVID-19 cases recorded to date in any of Oceania Healthcare's aged care centres or retirement villages
- The completion of 28 apartments and 61 care suites at Green Gables (Nelson) in September 2020
- On track to complete 217 new independent living units (apartments and villas) and care suites prior to 31 March 2021
- Operating cash flow increased 30.9% to \$74.6m as a result of strong sales volumes
- Completion of a heavily oversubscribed retail bond issue in October 2020, raising \$125.0m
- Interim dividend of 1.3 cents per share (not imputed) announced. This will have a record date of 10 February 2021 and will be paid on 24 February 2021. The Dividend Reinvestment Plan will apply to this dividend.

Financial Performance

Oceania Healthcare's unaudited underlying EBITDA was \$35.4m for the six month period to 30 November 2020, representing a \$0.7m or 2.0% increase on the prior corresponding period. This result was primarily due to very strong new sales and resale volumes in our village and care segments.

Unaudited Reported Net Profit after Tax of \$24.8m included an unrealised increase of \$26.7m in the valuation of Investment Property, predominantly driven by the reversal of key changes to valuation assumptions made in response to COVID-19 reported in the 31 May 2020 year end results. In particular, CBRE returned their year one growth rate assumption to their pre-COVID level of 0% (-2% as at 31 May 2020), reflecting the sentiment that the property market has emerged better than expected since the Government restrictions were lifted in June 2020.

Oceania Healthcare's total assets are now \$1.7b, representing 11.8% growth over the prior corresponding period.

Operating cash flow increased 30.9% to \$74.6m as a result of strong sales volumes. As at 30 November 2020, Oceania Healthcare had current drawn debt of \$316.0m and \$16.4m of cash, representing \$175.4m of undrawn net debt headroom.

Oceania Healthcare completed a heavily oversubscribed 7-year retail bond issue in October 2020, raising \$125.0m. The transaction achieved the lowest coupon ever by an unrated first time issuer. The corporate bond has increased the diversity of Oceania Healthcare's funding sources and provides additional certainty of tenor to build out the remainder of Oceania Healthcare's brownfields development pipeline.

The Board has declared an interim dividend of \$8.1m, or 1.3 cents per share (not imputed). The record date for entitlement is 10 February 2021 and the dividend will be paid on 24 February 2021. The dividend reinvestment plan (DRP) announced in July 2019 will apply to the dividend payable on 24 February 2021 at a discount of 2.5% to the volume weighted average price of shares sold on the NZX Main Board over a period of five trading days starting on 9 February 2021.

Care

The Care segment generated total revenue for the first half of \$87.3m, representing 65.2% of total operating revenue. Underlying EBITDA of \$11.0m is a pleasing 15.3% increase in underlying EBITDA.

In the six months to 30 November 2020, there was a total of 159 care suite sales (comprising 85 new care suite sales and 74 resale care suite sales). This is a significant increase on the prior corresponding period, in which there were 117 care suite sales, and an almost fourfold increase on the 42 care suite sales made in the six months to 30 November 2017 (immediately following the Initial Public Offering) which is evidence that our strategy is proving to be successful.

With the completion of, and increasing number of residents staying in our new aged care centres at Meadowbank, The Sands, The BayView and Awatere, Oceania Healthcare's aged care earnings have now turned the corner as we informed shareholders at the time of our Annual Shareholders Meeting in September 2020.

Aged care earnings will continue to increase going forward as up front development margins on care suites are realised and higher recurring earnings are generated from the deferred management fees over the longer term.

Occupancy increased to 92.1% compared with 91.6% in the prior corresponding period. With the sale of new care suites at Awatere, The BayView and Green Gables during the period, it has been pleasing to see occupancy rates continuing to improve across the business.

The provision of the highest quality of aged care remains Oceania Healthcare's core focus. We are continuing to execute our aged care growth strategy by redeveloping our portfolio of well-located sites into new premium aged care centres. Selling care suites under occupation right agreements has transformed the economics of aged care, substantially increasing returns through the recycling of capital through first sales, as well as the sustainable trail earnings generated through deferred management fees earned in addition to standard care fees.

Oceania Healthcare's aged care business is "needs-based", which means that residents and their families make a decision to move into an aged care centre or buy a care suite when the resident needs rest home or hospital level care, rather than for lifestyle reasons. This feature of the aged care business brings resilience to it, with new admissions and stable occupancy levels recorded throughout the six months to 30 November 2020, despite the restrictions of the lockdown in the Auckland region in August and September 2020. Oceania Healthcare continues to have a higher weighting of aged care in its portfolio relative to other providers and this will reduce the impact of uncertain future economic conditions on the business.

Oceania Healthcare's innovative care suite model is now well-established in the market and is recognised as an attractive proposition for incoming residents. Larger care suites compete well against serviced apartments offered by other

providers because care suites are certified to provide both rest home and hospital level care to residents, which means that residents can stay in their care suite to receive both rest home and hospital level care.

In November 2020, we were pleased to win the "Community Connection" award at the New Zealand Aged Care Association Conference that recognises exceptional effort in catering for residents' needs and preferences by creating an environment that promotes inclusion and choice for older New Zealanders. This award continues a consistent achievement of success for Oceania Healthcare over the past six years with awards for "Excellence in Food", "Innovation" and "Training and Staff Development" also being achieved during this time.

Village

The Village segment generated total revenue for the first half of \$46.2m and underlying EBITDA of \$34.7m.

Village sales have been significantly ahead of the prior corresponding period, with strong demand from residents making the most of a buoyant residential property market and selling their homes quickly and at good prices, before moving into a retirement village. In the six months to 30 November 2020, there was a total of 109 independent living (apartment and villa) sales, comprising 60 new sales and 49 resales. This is a significant increase on the prior corresponding period, in which there were 68 independent living (apartment and villa) sales, primarily at Meadowbank and The Sands.

The 25.6% increase in resale volumes is particularly pleasing as a key indicator of the quality of Oceania Healthcare's annuity earnings streams.

One of the highlights of the first half of FY2021 was the completion of 28 apartments and 61 care suites at Green Gables (Nelson) at the end of September. The site is in an excellent location close to the city centre in Nelson in a high value area of the region with good levels of demand for aged care. This redevelopment is typical of Oceania Healthcare's brownfields redevelopment strategy, where the existing aged care facility was decommissioned and a new integrated aged care centre and retirement village was constructed on the site. The completed development not only produces higher earnings per care bed (as the care suites are sold to residents under an occupation right agreement) but also optimises the yield of retirement village apartments in an environment of high quality finishings. The Directors visited Green Gables in early November 2020 for their Board meeting and it was great to see the improvements at Green Gables since the Directors last visited the site as a Board in November 2015. The Directors enjoyed meeting with the Green Gables residents over lunch and hearing about how much the residents are loving their homes. Sales at Green Gables are progressing well. As at 30 November 2020, 14 apartments and 5 care suites have been sold, with an additional 2 care suites occupied by residents paying a premium accommodation charge.

COVID-19 and continuing response

The COVID-19 pandemic remains a real risk to the wellbeing of Oceania Healthcare's residents and staff however, for the reasons outlined above, Oceania Healthcare's business model has proven to be resilient throughout 2020.

In addition, we continue to be well prepared should further outbreaks occur in the community. Oceania Healthcare has established good stocks of personal protective equipment to respond to the

ongoing threat of COVID-19. We have also entered into an agreement with a private laboratory to undertake COVID-19 testing for Oceania Healthcare staff. This arrangement will enable surveillance testing of staff working at Oceania Healthcare's aged care centres. In addition, Oceania Healthcare has developed its own pandemic plan and outbreak management plan over the last six months and these plans have been recognised by the DHBs as being best in class. Together, these measures continue to make Oceania Healthcare's aged care centres safe places for the elderly to live.

Overall there was an excellent response to the challenges presented by the COVID-19 pandemic by the aged care sector, contrary to assertions made by some commentators earlier in the year. Now that the industry has proven its capability and its critical role as part of the national healthcare system in New Zealand, there is a real opportunity for the industry as a whole to engage meaningfully with the Ministry of Health and resolve some of the longstanding issues in the sector, such as the funding model and the lack of recognition of the cost of capital in aged care facilities, pay parity for registered nurses, workforce shortages and immigration policy restrictions.





The BayView, Tauranga

Sustainability

During FY2020, we made a strong commitment to building a sustainable future with the development of our first Sustainability Framework. This framework establishes goals and identifies measures to report people, planet and prosperity achievements as we move toward our vision of being the most sustainable aged care provider in New Zealand. Over the interim period we have developed waste diversion initiatives, undertaken an energy audit and are in the process of developing a Carbon Management Plan and roadmap to reaching our goal of being carbon neutral by 2030.

Developments

We have continued to make steady progress with the execution of our development pipeline during the six month period to 30 November 2020, despite the challenges presented by the lockdown restrictions from COVID-19.

Work on all developments that was paused during the Alert Level Three and Four lockdowns in March to May 2020 has now restarted and we are on track to complete 217 aged care beds and retirement village units by 31 March 2021.

There are currently six brownfields projects underway. Our developments at Stage Two at The BayView, Tauranga (comprising 35 apartments) and Stage One at The Bellevue, Christchurch (comprising 71 care suites and 22 apartments) are all progressing well and are expected to be completed by 31 March 2021. Other brownfields projects at Lady Allum, Auckland (113 new care suites), Eden, Auckland (comprising 49 apartments and a new community centre), a further 39 apartments at The BayView, Tauranga, Stage Two at Awatere, Hamilton (63 apartments and a new community centre) and Stage Three at Gracelands, Hastings (18 villas) are also underway and are expected to be completed during FY2022.

In addition, we also started groundwork at our first greenfields development at Waimarie Street (St Heliers, Auckland) in October 2020. This site will be one of the highest quality retirement villages in New Zealand offering a full continuum of care with 79 luxurious independent living apartments and 31 care suites. This project is expected to be completed during FY2023.

Looking ahead to FY2022, we are intending to commence three new brownfields projects, in Blenheim, Rangiora and the first stage of Elmwood, Manurewa. The construction of new premium care suites at these locations will continue to build upon Oceania Healthcare's reputation for delivering the highest quality of care and independent living accommodation to its residents.

Oceania Healthcare has sufficient brownfields projects to maintain its current build rate for the next five to six years. However, given the timeframes for purchasing, consenting and construction of new developments, we will seek to acquire new brownfields or greenfields sites as good opportunities arise in the next few years.

Our People

Oceania Healthcare is a genuine people-focused business. We recognise that our staff are the absolute key to delivering outstanding care to our residents. As part of our Clinical Governance Review, we have invested in our clinical team over the last six months, with changes made intended to strengthen clinical governance across Oceania Healthcare, including through improved systems and processes.

Oceania Healthcare is committed to defining and offering a clear clinical pathway for staff, as well as increasing support of post-graduate education and training of our registered nurses.

The Employee Share Scheme was offered to all permanent employees again this year. The scheme provides staff with an allocation of \$800 per annum (for full-time employees) or \$400 per annum (for part-time employees) of Oceania Healthcare shares. The scheme achieved a 70% uptake last year and a 77% uptake this year and it's great for our staff to own a stake in Oceania Healthcare and further reward staff for the vital role they play in Oceania Healthcare's success.

We are pleased to announce the appointment of Jo Copeland as General Manager People at Oceania Healthcare, a new leadership role in our executive team. Jo has a wealth of strategic HR, commercial and legal experience from her previous experience in the professional services, telecommunications and pharmaceuticals industries.

A new long term incentive scheme for senior executives has been established to provide an incentive to key executives to commit to Oceania Healthcare for the long term and align these executives' interests with the interests of Oceania Healthcare's shareholders.

We would like to acknowledge and thank the Directors and staff for their dedication and hard work in what has been a challenging six month period. With the change of balance date to 31 March, we are looking forward to releasing the Annual Report for FY2021 at the end of May 2021.

Thank you again for your ongoing support.

Yours sincerely



Elizabeth Coutts
Chair



Earl Gasparich
Chief Executive Officer



Three Year Summary

For the six months ended 30 November 2020

Financial Metrics

\$NZm	Unaudited Nov 2020	Unaudited Nov 2019	Unaudited Nov 2018
Underlying EBITDA ¹	35.4	34.7	27.2
Underlying net profit after tax ¹	23.3	24.8	20.9
Profit for the period	24.8	14.9	1.3
Total comprehensive income	57.0	24.0	19.5
Total assets	1,673.6	1,496.5	1,208.8
Operating cash flow	74.6	57.0	47.1

Operating Metrics

\$NZm	Unaudited Nov 2020	Unaudited Nov 2019	Unaudited Nov 2018
Units	1,310	1,209	1,088
Care Suites	772	655	451
Care Beds	1,830	1,940	2,129
Total	3,912	3,804	3,668
New Sales	145	84	65
Resales	123	102	79
Total	268	186	144
Occupancy	92.1%	91.6%	89.8%

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

Consolidated Interim Financial Statements

For the six months ended 30 November 2020

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Consolidated Statement of Comprehensive Income

For the six months ended 30 November 2020

\$NZ000s	Notes	Unaudited Six months 30 Nov 2020	Unaudited Six months 30 Nov 2019
Revenue		103,885	96,509
Change in fair value of investment property	3.1	26,651	11,365
Change in fair value of right of use investment property	3.4	2,276	10,196
Other income		1,145	1,439
Total income		133,957	119,509
Employee benefits and other staff costs		68,311	63,024
Depreciation (buildings)	3.2, 3.4	5,049	4,622
Depreciation and amortisation (chattels, leasehold improvements and software)	3.2, 3.4	3,025	2,525
Impairment of property, plant and equipment and right of use buildings	3.2, 3.4	517	1,044
Rental expenditure in relation to right of use investment property	3.4	3,330	11,536
Impairment of goodwill		815	-
Finance costs		4,011	2,911
Other expenses		28,551	27,161
Total expenses		113,609	112,823
Profit before income tax		20,348	6,686
Income tax benefit	5.1	4,436	8,166
Profit for the period		24,784	14,852
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Gain on revaluation of property, plant and equipment for the period, net of tax	3.2, 5.1	31,231	10,884
Gain on revaluation of right of use asset for the period, net of tax	3.4, 5.1	27	112
		31,258	10,996
Items that may be subsequently reclassified to profit or loss			
Gain on cash flow hedges, net of tax		918	(1,898)
Other comprehensive income for the period, net of tax		32,176	9,098
Total comprehensive income for the period attributable to shareholders of the parent		56,960	23,950
Basic earnings per share (cents per share)	4.2	4.0	2.4
Diluted earnings per share (cents per share)	4.2	4.0	2.4

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

Consolidated Balance Sheet

As at 30 November 2020

\$NZ000s	Notes	Unaudited 30 Nov 2020	Audited 31 May 2020
Assets			
Cash and cash equivalents		16,369	17,624
Trade and other receivables		51,613	41,630
Investment property	3.1	1,013,220	947,800
Property, plant and equipment	3.2	540,234	489,990
Right of use assets	3.4	41,480	40,822
Intangible assets		10,724	10,830
Deferred tax assets	5.1	-	-
Total assets		1,673,640	1,548,696
Liabilities			
Trade and other payables		45,110	34,831
Derivative financial instruments		9,236	10,484
Deferred management fee	3.3	38,886	34,344
Refundable occupation right agreements	3.3	603,365	535,370
Right of use liabilities	3.4	11,700	13,001
Borrowings	4.3	313,213	325,454
Total liabilities		1,021,510	953,484
Net assets		652,130	595,212
Equity			
Contributed equity	4.1	595,417	588,389
Retained deficit		(138,193)	(155,907)
Reserves		194,906	162,730
Total equity		652,130	595,212

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

Consolidated Statement of Changes in Equity

For the six months ended 30 November 2020

\$NZ000s	Notes	Contributed equity	Retained deficit	Asset revaluation reserve	Cash flow hedge reserve	Total equity
Balance as at 1 June 2019 (audited)		580,794	(110,060)	140,931	(1,786)	609,879
Impact of adoption of NZ IFRS 16 Leases	3.4	-	(2,211)	-	-	(2,211)
Profit for the period		-	14,852	-	-	14,852
Other comprehensive income						
Revaluation of cash flow hedge net of tax		-	-	-	(1,898)	(1,898)
Revaluation of assets net of tax	3.2, 5.1	-	-	10,884	-	10,884
Revaluation of right of use assets net of tax	3.4, 5.1	-	-	112	-	112
Total comprehensive income		-	14,852	10,996	(1,898)	23,950
Transactions with owners						
Dividends paid	4.1	-	(15,784)	-	-	(15,784)
Share issue: dividend reinvestment scheme	4.1	2,278	-	-	-	2,278
Employee share scheme	4.1	-	118	-	-	118
Total transactions with owners		2,278	(15,666)	-	-	(13,388)
Balance as at 30 November 2019 (unaudited)		583,072	(113,085)	151,927	(3,684)	618,230
Balance as at 1 June 2020 (audited)		588,389	(155,907)	170,205	(7,475)	595,212
Profit for the period		-	24,784	-	-	24,784
Other comprehensive income						
Revaluation of cash flow hedge net of tax		-	-	-	918	918
Revaluation of assets net of tax	3.2, 5.1	-	-	31,231	-	31,231
Revaluation of right of use assets net of tax	3.2, 5.1	-	-	27	-	27
Total comprehensive income		-	24,784	31,258	918	56,960
Transactions with owners						
Dividends paid	4.1	-	(7,377)	-	-	(7,377)
Share issue: dividend reinvestment scheme	4.1	7,028	-	-	-	7,028
Employee share scheme	4.1	-	307	-	-	307
Total transactions with owners		7,028	(7,070)	-	-	(42)
Balance as at 30 November 2020 (unaudited)		595,417	(138,193)	201,463	(6,557)	652,130

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

Consolidated Cash Flow Statement

For the six months ended 30 November 2020

\$NZ000s	Unaudited Six months 30 Nov 2020	Unaudited Six months 30 Nov 2019
Cash flows from operating activities		
Receipts from residents for village and care fees	82,829	81,796
Payments to suppliers and employees	(84,294)	(89,729)
Rental payments in relation to right of use investment property	(3,330)	(11,535)
Receipts from new occupation right agreements	113,436	102,070
Payments for outgoing occupation right agreements	(29,882)	(22,061)
Interest received	18	103
Interest paid	(3,711)	(3,130)
Interest paid in relation to right of use assets	(463)	(525)
Net cash inflow from operating activities	74,603	56,989
Cash flows from investing activities		
Proceeds from sale and / or disposal of property, plant and equipment and investment property	-	(36)
Payments for property, plant and equipment and intangible assets	(20,955)	(24,423)
Payments for investment property and investment property under development	(39,152)	(46,949)
Net cash outflow from investing activities	(60,107)	(71,408)
Cash flows from financing activities		
Proceeds from borrowings	48,369	77,201
Repayment of borrowings	(60,646)	(57,354)
Proceeds from bond issuance	125,000	-
Repayment of bank borrowing from bond proceeds	(125,000)	-
Capitalised borrowing costs	(1,861)	(41)
Principal payments for right of use assets	(1,264)	(1,276)
Dividends paid	(349)	(13,506)
Net cash (outflow) / inflow from financing activities	(15,751)	5,024
Net decrease in cash and cash equivalents	(1,255)	(9,395)
Cash and cash equivalents at the beginning of the period	17,624	22,762
Cash and cash equivalents at end of period	16,369	13,367

The Board of Directors of the Company authorised these Consolidated Financial Statements for issue on 22 January 2021.

For and on behalf of the Board



Elizabeth Coutts
Chair



Alan Isaac
Director

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

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For the six months ended 30 November 2020

1. General Information

1.1 Basis of Preparation

(i) Entities Reporting

The consolidated interim financial statements of the “Group” are for the economic entity comprising Oceania Healthcare Limited (the “Company”) and its subsidiaries, together “the Group”. Refer to note 5.5 of the 31 May 2020 annual report for details of the Group structure.

The consolidated interim financial statements incorporate the assets and liabilities of all subsidiaries of Oceania Healthcare Limited as at 30 November 2020 and the results of all subsidiaries for the six months then ended.

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

(ii) Statutory Base

Oceania Healthcare Limited is a limited liability company which is domiciled and incorporated in New Zealand. It is registered under the Companies Act 1993 and is a FMC Reporting Entity 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 interim financial statements have been prepared in accordance with the requirements of the NZX and ASX listing rules, and Part 7 of the Financial Markets Conduct Act 2013.

The consolidated interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). They comply with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (“NZ IAS 34”) and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”). The Group is a Tier 1 for-profit entity in accordance with XRB A1.

The accounting policies that materially affect the measurement of the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet and the Consolidated Cash Flow Statement have been applied on a basis consistent with those used in the audited consolidated financial statements for the year ended 31 May 2020.

The consolidated interim financial statements do not include all the notes of the type normally included in the consolidated annual financial statements. Accordingly, these consolidated interim financial statements are to be read in conjunction with the consolidated annual financial statements for the year ended 31 May 2020, prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (“NZ IFRS”).

The consolidated interim financial statements for the six months ended 30 November 2020 and comparatives for the six months ended 30 November 2019 are unaudited. The consolidated annual financial statements for the year ended 31 May 2020 were audited and form the basis for the comparative figures for that period in these statements. They are presented in New Zealand dollars which is the Group's presentation currency.

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

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

(iii) Measurement Basis

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

(iv) Key Estimates and Judgements

The preparation of the consolidated interim financial statements in conformity with 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.

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

- Fair value of investment property and investment property under development (note 3.1)
- Classification of accommodation with a care or service offering (note 3)
- Fair value of freehold land and buildings (note 3.2)
- Revenue recognition of deferred management fees (note 3.3)
- Fair value of right of use assets (note 3.4)
- Recognition of deferred tax (note 5.1).

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

1.2 Accounting Policies

(i) New and Amended Standards Adopted by the Group

There have been no changes to accounting standards during the period. The Group has not early adopted any standards, amendments or interpretations to existing standards that are not yet effective.

(ii) Measurement of Fair Value

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

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

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

1.3 Significant Events and Transactions

COVID-19

On 11 March 2020, the World Health Organisation declared COVID-19 to be a global pandemic. COVID-19 has impacted the health and wellbeing of people around the world and in turn the outbreak and the associated restrictions put in place to fight the virus have had a significant adverse impact on the global economy.

The New Zealand Government's overall public health strategy in respect of the COVID-19 pandemic affecting New Zealand was elimination, with the overall goal to stop community transmission in New Zealand. Refer to note 1.3 of the 31 May 2020 annual report for specific details of events to 31 May 2020.

- Post the 31 May 2020 balance date, at 11:59pm on 8 June 2020, Alert Level 1 was entered and was in place at the time of signing the 31 May 2020 annual financial statements. Strict border restrictions were in place and contact tracing was encouraged.
- At 12 noon on 12 August 2020, the greater Auckland region re-entered Alert Level 3 lockdown. Businesses including construction were permitted to operate under strict guidelines. Oceania Healthcare continued with construction projects in the development pipeline and sales of retirement village units continued under certain conditions.

The rest of New Zealand was moved back into Alert Level 2. Contact tracing, strict social distancing measures and mass gathering limits had to be followed.

- At 11:59pm on 30 August 2020, the greater Auckland region entered Alert Level 2 (with extra restrictions). The rest of New Zealand remained at Alert Level 2.
- At 11:59pm on 21 September 2020, Alert Level 1 came into force for all regions except the Auckland region.
- At 11:59pm on 23 September 2020, Alert Level 2 (with no extra restrictions) came into force for the Auckland region.
- At 11:59pm on 7 October 2020, the greater Auckland region entered Alert Level 1 at which point all of New Zealand aligned at Alert Level 1.

Certain key judgements and estimates are applied in the consolidated interim financial statements. The Directors have assessed the impact of COVID-19 on these judgements and estimates and concluded that limited changes are necessary. This is primarily due to Oceania Healthcare providing an essential service. The following key matters were considered and undertaken with regards to the financial impact of COVID-19 on the 30 November 2020 consolidated interim financial statements:

- CBRE Limited as independent valuers undertook a valuation as at 30 November 2020. As at 30 April 2020 CBRE Limited concluded their valuation on the basis of “material valuation uncertainty” which meant under extraordinary circumstances at the time there remained a higher degree of uncertainty than would otherwise be the case however the valuation could still be relied upon. As at 30 November 2020 this statement has been revised to a lesser one of “market uncertainty”. CBRE Limited continue to state that values and incomes may change more rapidly and significantly than during standard market conditions and recommend their valuations are reviewed periodically to reflect the duration and severity of impact COVID-19 has on New Zealand and its economy.
- No changes to the methodology or input estimates in relation to expected credit losses have been required as a result of continued strong collection levels in respect of private care fees and deferred settlement of Occupation Right Agreement (“ORA”) contracts; and
- The enactment of the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020 has resulted in the reintroduction of depreciation on buildings. The impact of this change is detailed in note 5.1.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

1.3 Significant Events and Transactions (continued)

Balance Date

On 9 July 2020 the Group received approval from the Commissioner of Inland Revenue to change the balance date for the Group and its subsidiaries to 31 March. All relevant parties have been notified. Full financial statements will be prepared for the 10 months ending 31 March 2021.

Retail Bond

On 25 September 2020 Oceania Healthcare Limited announced an offer of up to \$75.0m (with the ability to accept up to an additional \$50.0m in over subscriptions) of 7 year secured fixed rate bonds. On 19 October 2020 bonds totalling \$125.0m were issued to New Zealand retail investors. These bonds mature on 19 October 2027. A fixed interest rate of 2.3% per annum applies to the bonds. Refer to note 4.3 for the impact on the six months to 30 November 2020.

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 decisionmaker in total not by operating segment.

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

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

Additional segmental reporting information

Capital expenditure: Refer to notes 3.1 and 3.2 for details on capital expenditure.

Goodwill: Goodwill is allocated to care cash generating units.

What is Total Comprehensive Income?

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

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

2.1 Operating Segments (continued)

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

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

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

2.1 Operating Segments (continued)

Six months ended 30 November 2020 (unaudited) \$NZ000s	Care Operations	Village Operations	Other	Total
Revenue	86,899	16,569	417	103,885
Change in fair value of investment property	-	26,651	-	26,651
Change in fair value of right of use investment property	-	2,276	-	2,276
Other income	369	747	10	1,126
Total income	87,268	46,243	427	133,938
Operating expenses	(76,287)	(13,270)	(10,635)	(100,192)
Impairment of goodwill	(815)	-	-	(815)
Impairment of property, plant and equipment and right of use buildings	(517)	-	-	(517)
Segment EBITDA	9,649	32,973	(10,208)	32,414
Interest income	-	3	16	19
Finance costs	-	-	(4,011)	(4,011)
Depreciation (buildings)	(4,925)	-	(124)	(5,049)
Depreciation and amortisation (chattels and software)	(2,481)	-	(544)	(3,025)
Profit before income tax	2,243	32,976	(14,871)	20,348
Income tax benefit / (expense)	1,298	(6,667)	9,805	4,436
Profit for the period attributable to shareholders	3,541	26,309	(5,066)	24,784
Other comprehensive income				
Gain on revaluation of property, plant and equipment for the period, net of tax	31,231	-	-	31,231
Gain on revaluation of right of use asset for the period, net of tax	27	-	-	27
Gain on cash flow hedges, net of tax	-	-	918	918
Total comprehensive income for the period attributable to shareholders of the parent	34,799	26,309	(4,148)	56,960

Six months ended 30 November 2019
(unaudited)
\$NZ000s

	Care Operations	Village Operations	Other	Total
Revenue	81,320	14,551	638	96,509
Change in fair value of investment property	-	11,365	-	11,365
Change in fair value of right of use investment property	-	10,196	-	10,196
Other income	194	1,135	8	1,337
Total income	81,514	37,247	646	119,407
Operating expenses	(72,139)	(19,701)	(9,881)	(101,721)
Impairment of goodwill	-	-	-	-
Impairment of property, plant and equipment	(1,044)	-	-	(1,044)
Segment EBITDA	8,331	17,546	(9,235)	16,642
Interest income	-	22	80	102
Finance costs	-	-	(2,911)	(2,911)
Depreciation (buildings)	(4,484)	-	(138)	(4,622)
Depreciation and amortisation (chattels and software)	(2,207)	-	(318)	(2,525)
Profit before income tax	1,640	17,568	(12,522)	6,686
Income tax benefit	254	2,146	5,766	8,166
Profit for the period attributable to shareholders	1,894	19,714	(6,756)	14,852
Other comprehensive income				
Gain on revaluation of property, plant and equipment for the period, net of tax	10,884	-	-	10,884
Gain on revaluation of right of use asset for the period, net of tax	112	-	-	112
Loss on cash flow hedges, net of tax	-	-	(1,898)	(1,898)
Total comprehensive income for the period attributable to shareholders of the parent	12,890	19,714	(8,654)	23,950

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

2.1 Operating Segments (continued)

Underlying net profit after tax ("Underlying Profit")

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

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

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

In the prior comparative period Underlying Profit was also adjusted to remove the DMF income of \$0.6m in relation to right to use investment property assets. This was prior to the implementation of *NZ IFRS 16 Leases*.

Resale gain – Underlying Profit

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

Development margin – Underlying Profit

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

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

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

2.1 Operating Segments (continued)

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

Included	New builds:
----------	-------------

- | | |
|--|---|
| | <ul style="list-style-type: none">- the construction costs directly attributable to the relevant project, including any required infrastructure (e.g. roads) and amenities related to the units (e.g. landscaping) as well as any demolition and site preparation costs associated with the project. The costs are apportioned between the ORA units and care suites, in aggregate, using estimates provided by the project quantity surveyor. The construction costs for the individual ORA units or care suites sold are determined on a prorated basis using gross floor areas of the ORA units and care suites;- an apportionment of land value based on the gross floor area of the ORA units and care suites developed. The value for Brownfield¹ development land is the estimated fair value of land at the time a change of use occurred² (from operating as a care centre or retirement village to a development site), as assessed by an external independent valuer. Greenfield³ development land is valued at historical cost; and- capitalised interest costs to the date of project completion apportioned using the gross floor area of ORA units and care suites developed. |
|--|---|

Conversions:

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

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

¹ Brownfield land refers to land previously utilised by, or part of, an operational aged care centre or retirement village.

² The timing of a change of use is a Directors' estimate. It is based on a range of factors including evidence of steps taken to secure a resource consent and/or building consent for a particular development or stage of a development and the decommissioning of existing operations (either through the buy-back of existing village ORA units or decommissioning of an existing care centre). Note the cost of buybacks is not included in the development cost as an independent fair value of the land on an unencumbered basis is used as the value ascribed to the development land.

³ Greenfield land refers to land not previously utilised by, or as part of, an operational aged care centre or retirement village. Greenfield land is typically bare (undeveloped) land at the time of purchase.

**Six months ended 30 November 2020
(unaudited)
\$NZ000s**

**Total comprehensive income
for the period attributable to
shareholders of the parent**

**Care
Operations** **Village
Operations** **Other** **Total**

34,799 26,309 (4,148) 56,960

**Adjusted for Underlying
Profit items**

Less: Change in fair value of
investment property, right of
use assets and cash flow hedges
and impairment of property,
plant and equipment

(30,741) (28,927) (918) (60,586)

Add: Impairment of goodwill

815 - - 815

Add: Rental expenditure in
relation to right of use asset

- 3,330 - 3,330

Add: Gain on sale or
decommissioning of assets

- - (84) (84)

Add: Realised resale gain

- 10,364 - 10,364

Add: Realised development margin

- 16,981 - 16,981

Underlying net profit before tax

4,873 28,057 (5,150) 27,780

Less: Deferred tax benefit

(1,298) 6,667 (9,805) (4,436)

Underlying net profit after tax

3,575 34,724 (14,955) 23,344

Less: Interest income

- (3) (16) (19)

Add: Finance costs

- - 4,011 4,011

Add: Depreciation (buildings)

4,925 - 124 5,049

Add: Depreciation and amortisation
(chattels, leasehold improvements
and software)

2,481 - 544 3,025

Underlying EBITDA

10,981 34,721 (10,292) 35,410

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

2.1 Operating Segments (continued)

Six months ended 30 November 2019 (unaudited) \$NZ000s	Care Operations	Village Operations	Other	Total
Total comprehensive income for the period attributable to shareholders of the parent	12,890	19,714	(8,654)	23,950
Adjusted for Underlying Profit items				
Less: Change in fair value of investment property, right of use assets and cash flow hedges and impairment of property, plant and equipment	(9,952)	(21,561)	1,898	(29,615)
Add: Impairment of goodwill	-	-	-	-
Add: Rental expenditure in relation to right of use asset	-	11,536	-	11,536
Add: (Gain) / loss on sale or decommissioning of assets	148	(11)	-	137
Add: Realised resale gain	-	8,222	-	8,222
Add: Realised development margin	-	18,719	-	18,719
Underlying net profit before tax¹	3,086	36,619	(6,756)	32,949
Less: Deferred tax benefit	(254)	(2,146)	(5,766)	(8,166)
Underlying net profit after tax	2,832	34,473	(12,522)	24,783
Less: Interest income	-	(22)	(80)	(102)
Add: Finance costs	-	-	2,911	2,911
Add: Depreciation (buildings)	4,484	-	138	4,622
Add: Depreciation and amortisation (chattels and software)	2,207	-	318	2,525
Underlying EBITDA	9,523	34,451	(9,235)	34,739

¹ The comparatives above have been restated to exclude an adjustment for DMF in relation to the right of use asset. This has increased Underlying Profit by \$0.7m in the prior period.

3. Property Assets

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

What is Investment Property?

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

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

What is Property, Plant and Equipment?

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

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

What is a Care Suite?

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

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

3. Property Assets (continued)

Market uncertainty

30 April 2020 was a particularly significant time in the property market with New Zealand having only exited Alert Level 4 at 11.59pm on 27 April 2020 and was still subject to stringent Alert Level 3 restrictions. As at 30 April 2020 CBRE Limited reassessed a number of their inputs and assumptions to take account of:

- Lower growth rates, particularly in the short term;
- Higher discount rates; and
- Increased discounts on unsold stock.

The property portfolio has been independently valued by CBRE Limited as at 30 November 2020. The valuation represents a 'point in time valuation' and while the same overall approach was used for this valuation as in prior years the valuers highlighted that there has been a reversal of some of the changes made to key inputs and assumptions which were made in the 30 April 2020 valuation as a result of COVID-19.

As at 30 November 2020 New Zealand was at Alert Level 1 and whilst New Zealand's borders remain largely closed, and immigration (which has formerly underpinned growth in the residential market) will be absent for some time, in CBRE Limited's view the market had shown better than expected sentiment upon exiting the Alert Level 4 lockdown and as a result the key assumptions used in the valuation have almost all returned to pre COVID-19 levels and the unfavourable changes made to growth rates, discount rates and discounts on unsold stock at 30 April 2020 have largely been reversed.

CBRE Limited at 30 November 2020 have reported on the basis of "market uncertainty" meaning that there remains uncertainty in the market because of the longer term economic impacts of COVID-19. CBRE Limited commented in the valuation report that, for the avoidance of doubt, the inclusion of the "market uncertainty" declaration does not mean that the valuation cannot be relied upon. Rather, it has been used in order to be clear and transparent with all parties that, in the current extraordinary circumstances, there is a higher degree of uncertainty than would otherwise be the case. Further, CBRE Limited continue to state that values and incomes may change more rapidly and significantly than during standard market conditions and recommend their valuations are reviewed periodically to reflect the duration and severity of impact COVID-19 has on New Zealand and its economy.

Classification of Serviced Apartments and Care Suites

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

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

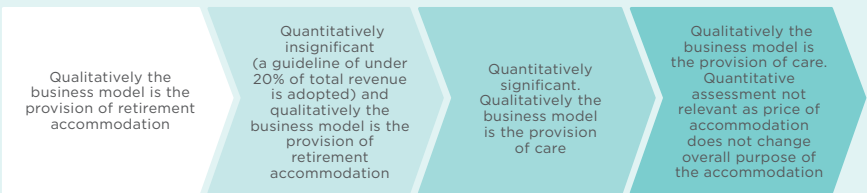
CLASSIFICATION

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

SCENARIO



CONSIDERATION OF SIGNIFICANCE OF CASH FLOWS



¹ ARRC refers to age-related residential care.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

3.1 Village Assets: Investment Property

\$NZ000s	Notes	Unaudited 30 Nov 2020	Audited 31 May 2020
Investment property under development at fair value			
Opening balance		145,020	101,460
Transfer from / (to) property, plant and equipment	3.2	-	22,193
Capitalised expenditure		33,424	82,472
Capitalised interest and line fees		1,782	3,332
Transfer from / (to) completed investment property		11,452	(61,551)
Transfer to held for sale investment property		-	(720)
Change in fair value during the period – developments as at balance date		2,465	(1,258)
Change in fair value during the period – developments completed during the period		-	(908)
Closing balance		194,143	145,020
Completed investment property at fair value			
Opening balance		802,060	780,214
Transfer (to) / from investment property under development		(11,452)	61,551
Transfer to property, plant and equipment	3.2	(1,329)	(17,592)
Transfer to right of use assets	3.4	-	(14,006)
Capitalised expenditure		5,488	10,208
Capitalised interest and line fees		124	1,287
Disposals		-	(44)
Change in fair value during the period – existing villages		37,992	(25,132)
Change in fair value during the period – recently completed developments ¹		(13,806)	5,574
Closing balance		819,077	802,060
Held for sale investment property at fair value			
Opening balance		720	-
Transfer from investment property under development		-	720
Disposals		(720)	-
Closing balance		-	720
Total investment property		1,013,220	947,800

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

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

\$NZ000s	Unaudited 30 Nov 2020	Unaudited 30 Nov 2019
Increase in fair value of investment property	65,420	35,881
Add: Transfers to property, plant and equipment and to right of use assets during the period	1,329	28,248
Less: Capitalised expenditure including capitalised interest	(40,818)	(52,808)
Add: Disposals	720	44
Change in fair value recognised in Consolidated Statement of Comprehensive Income	26,651	11,365

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

\$NZ000s	Unaudited 30 Nov 2020	Audited 31 May 2020
Investment Property under development		
Valuation	194,143	145,020
	194,143	145,020
Completed Investment Property		
Valuation	348,928	370,257
Add: Refundable occupation licence payments	559,035	501,739
Add: Residents' share of resale gains	6,525	5,870
Less: Management fee receivable	(80,863)	(72,933)
Less: Resident obligations for units not included in valuation	(14,548)	(2,873)
	819,077	802,060
Held for Sale Investment Property		
Valuation	-	720
	-	720
Total investment property at fair value	1,013,220	947,800

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. In certain circumstances, accommodation under an ORA is valued as development land. In these situations the CBRE Limited valuation is not adjusted for the refundable amounts and consequently no offsetting "gross up" is required. An adjustment of \$14.5m (31 May 2020: \$2.9m) is included in the above reconciliation to reflect this.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

3.1 Village Assets: Investment Property (continued)

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

Why do we adjust for the liability to residents?

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

Valuation Process and Key Inputs

Investment Property under Development

CBRE Limited provided valuations of development land in respect of investment property under development as at 30 November 2020.

The fair value of investment property is determined by the Directors having taken into consideration the valuation conducted by CBRE Limited as an independent registered valuer and the cost of work undertaken in relation to investment property under development.

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

Practical completion not achieved

Where the development still requires substantial work such that practical completion is not going to be achieved, and a reliable estimate of fair value cannot be made, at or close to balance date, the fair value recognised is the fair value of the development land per the Directors' valuation plus the cost of any work in progress. An amount of \$101.3m as at 30 November 2020 (31 May 2020: \$65.2m) has been recognised in relation to these development sites. Further, the CBRE Limited valuation of development land as at 30 November 2020 has been adjusted downwards by \$1.2m in respect of future demolition costs where development land has been valued as vacant land.

Where an individual development is of both investment property and freehold buildings in nature, the fair value of land and work in progress is apportioned between investment property under development and freehold land and buildings under development, by applying the estimated gross floor area for these respective areas of the development based on information obtained from the project quantity surveyors at the planning and design stages.

Practical completion achieved

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

Completed Investment Property

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

The Group's interest in all completed investment property was valued on 30 November 2020 by CBRE Limited (31 May 2020: 30 April 2020 by CBRE Limited), at a total of \$348.9m (2020: 30 April 2020 \$379.8m adjusted downwards for the impact of any sale, resale and repurchase of ORAs between 1 May 2020 and 31 May 2020 by \$10.3m), with a corresponding increase in refundable occupation licence payments of \$13.3m to arrive at the fair value of completed investment properties at 30 November 2020.

Investment Property 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.

On 8 September 2020 the one parcel of land which met the definition of held for sale as at 31 May 2020 was sold to a third party. There was no gain or loss on this transaction.

No properties met the definition of held for sale as at 30 November 2020.

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 periods.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

3.2 Care Assets: Property, Plant and Equipment

\$NZ000s	Notes	Freehold Land and Buildings Under Development	Freehold Land	Freehold Buildings	Chattels and Leasehold Improvements	Total
Period ended 30 November 2020						
Opening net book amount		54,206	77,496	339,916	18,372	489,990
Additions		9,463	-	7,086	2,927	19,476
Capitalised interest and line fees		483	-	271	-	754
Disposals		-	-	-	-	-
Depreciation		-	-	(4,751)	(1,798)	(6,549)
Transfer to right of use assets	3.4	-	-	-	-	-
Transfer from investment property	3.1	-	-	1,329	-	1,329
Reclassification within Property, Plant and Equipment		-	-	-	-	-
Revaluation surplus						
<i>Comprehensive income</i>						
Existing care centres		308	442	-	-	750
Care centres recently developed / under development		-	-	(853)	-	(853)
<i>Other comprehensive income¹</i>						
Existing care centres		738	11,143	12,927	-	24,808
Care centres recently developed / under development		-	-	10,529	-	10,529
Closing net book amount		65,198	89,081	366,454	19,501	540,234
At 30 November 2020 (unaudited)						
Cost		-	-	-	50,333	50,333
Valuation		65,198	89,081	366,454	-	520,733
Accumulated depreciation		-	-	-	(30,832)	(30,832)
Net book amount		65,198	89,081	366,454	19,501	540,234

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

\$NZ000s	Notes	Freehold Land and Buildings Under Development	Freehold Land	Freehold Buildings	Chattels and Leasehold Improvements	Total
Year ended 31 May 2020						
Opening net book amount		70,297	70,662	282,417	19,333	442,709
Additions		20,776	-	7,722	7,643	36,141
Capitalised interest and line fees		958	-	790	-	1,748
Disposals		-	-	-	(155)	(155)
Depreciation		-	-	(8,643)	(3,074)	(11,717)
Transfer to right of use assets	3.4	-	-	-	(5,375)	(5,375)
Transfer (to) / from investment property	3.1	(22,193)	570	17,022	-	(4,601)
Reclassification within Property, Plant and Equipment		(22,759)	3,300	19,459	-	-
Revaluation surplus						
<i>Comprehensive income</i>						
Existing care centres		(1,034)	454	(313)	-	(893)
Care centres recently developed / under development		-	(95)	72	-	(23)
<i>Other comprehensive income¹</i>						
Existing care centres		1,608	2,469	652	-	4,729
Care centres recently developed / under development		6,553	136	20,738	-	27,427
Closing net book amount		54,206	77,496	339,916	18,372	489,990
At 31 May 2020						
Cost		-	-	-	47,407	47,407
Valuation		54,206	77,496	339,916	-	471,618
Accumulated depreciation		-	-	-	(29,035)	(29,035)
Net book amount		54,206	77,496	339,916	18,372	489,990

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

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

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

Land and Buildings Under Development

A valuation in respect of development land was provided by CBRE Limited as at 30 November 2020.

Any costs incurred to 30 November 2020 on the developments are included in arriving at the fair value as at 30 November 2020.

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

Practical completion not achieved

Where the development still requires substantial work such that practical completion is not going to be achieved, and a reliable estimate of fair value cannot be made, at or close to balance date, the fair value recognised is the fair value of the development land per the Directors' valuation plus the cost of any work in progress. An amount of \$29.5m as at 30 November 2020 (31 May 2020: \$20.3m) has been recognised in relation to these development sites.

Where an individual development is of both investment property and freehold buildings in nature, the fair value of land and work in progress is apportioned between investment property under development and freehold land and buildings under development, by applying the estimated gross floor area for these respective areas of the development based on information obtained from the project quantity surveyors at the planning and design stages.

Practical completion achieved

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

Completed Land and Buildings

A valuation in respect of completed land and buildings (including care suites) was provided by CBRE Limited as at 30 November 2020 (31 May 2020: 30 April 2020). The 30 November 2020 valuation of the Group's care centres was apportioned to land, buildings, 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 site subject to average efficient management. The fair value of the Group's land and buildings as determined by the Directors is based on these apportionments. However, chattels are carried at historic cost less depreciation and the amount apportioned to goodwill by CBRE Limited is not recorded in the consolidated interim financial statements.

The CBRE Limited valuation used in the determination of the fair value of freehold buildings, incorporates an allowance in relation to remediation to properties where seismic strength testing has been carried out in prior years. The CBRE Limited valuation included \$16.0m of goodwill in respect of completed land and buildings (30 April 2020: \$12.0m).

Care Suites

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

Where a site is in its first few years of operation, the Directors assess the appropriateness of the fair value of care suites by taking into consideration the CBRE Limited valuation and applying different operating assumptions including instances where care suites are occupied by residents paying a premium accommodation charge. No adjustment has been made or required as at 30 November 2020. As at 31 May 2020 an adjustment was made in respect of two sites, a decrease of \$8.7m, to the CBRE Limited valuation. The CBRE Limited valuation of care suites includes \$0.3m of goodwill (31 May 2020: \$0.6m). This goodwill is not recognised in the consolidated interim financial statements.

Key Accounting Estimates and Judgements

All land and buildings have been determined to be Level 3 (31 May 2020: Level 3) in the fair value hierarchy as the fair value is determined using inputs that are unobservable.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

3.3 Refundable Occupation Right Agreements

What's an ORA?

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

What's DMF?

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

\$NZ000s	Unaudited 30 Nov 2020	Audited 31 May 2020
Village		
Refundable occupation licence payments	559,035	501,739
Residents' share of resale gains	6,525	5,870
Less: Management fee receivable (per contract)	(111,414)	(100,912)
	454,146	406,697
Leasehold Village		
Refundable occupation licence payments	36,345	33,015
Less: Management fee receivable (per contract)	(5,546)	(3,809)
	30,799	29,206
Care Suites		
Refundable occupation licence payments	143,673	120,506
Accommodation rebate	485	559
Less: Management fee receivable (per contract)	(25,738)	(21,598)
	118,420	99,467
Total refundable occupation right agreements	603,365	535,370

Reconciliation of Management Fees recognised under NZ IFRS and per ORA

\$NZ000s	Unaudited 30 Nov 2020	Audited 31 May 2020
Village		
Management fee receivable (per contract)	(111,414)	(100,912)
Deferred management fee	30,551	27,979
Management fee receivable (per NZ IFRS)	(80,863)	(72,933)
Leasehold Villages		
Management fee receivable (per contract)	(5,546)	(3,809)
Deferred management fee	2,272	1,621
Management fee receivable (per NZ IFRS)	(3,274)	(2,188)
Care Suites		
Management fee receivable (per contract)	(25,738)	(21,598)
Deferred management fee	6,063	4,744
Management fee receivable (per NZ IFRS)	(19,675)	(16,854)

3.4 Leases

What's a right of use asset?

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

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

3.4 Leases (continued)

Right of use Assets					
\$NZ000s					
Year ended 31 May 2020	Notes	Investment Property	Land and Buildings	Chattels	Total
Opening net book value		-	-	-	-
Recognition on adoption of NZ IFRS 16 Leases		-	5,423	235	5,658
Transfer from investment property / property, plant and equipment	3.1, 3.2	14,006	-	5,375	19,381
Additions		6	8	1,336	1,350
Disposals		-	-	(5)	(5)
Depreciation		-	(623)	(2,096)	(2,719)
Revaluation for the period - Comprehensive Income		17,128	(42)	-	17,086
Revaluation for the period ¹ - Other Comprehensive Income		-	71	-	71
Net book value as at 31 May 2020 (audited)		31,140	4,837	4,845	40,822

\$NZ000s					
Period ended 30 Nov 2020	Notes	Investment Property	Land and Buildings	Chattels	Total
Opening net book value		31,140	4,837	4,845	40,822
Transfer from investment property / property, plant and equipment	3.1, 3.2	-	-	-	-
Additions		5	13	321	339
Disposals		-	(266)	(9)	(275)
Depreciation		-	(298)	(997)	(1,295)
Revaluation for the period - Comprehensive Income		2,276	(414)	-	1,862
Revaluation for the period ¹ - Other Comprehensive Income		-	27	-	27
Net book value as at 30 November 2020 (unaudited)		33,421	3,899	4,160	41,480

\$NZ000s					
30 Nov 2020		Investment Property	Land and Buildings	Chattels	Total
Cost		-	-	8,373	8,373
Valuation		33,421	3,899	-	37,320
Accumulated depreciation		-	-	(4,213)	(4,213)
Net book value as at 30 November 2020 (unaudited)		33,421	3,899	4,160	41,480

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

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

\$NZ000s	30 Nov 2020	31 May 2020
Right of use Investment Property		
Valuation	350	313
Add: Refundable occupation licence payments	36,345	33,015
Less: Management fee receivable	(3,274)	(2,188)
	33,421	31,140

The valuation of right of use investment property is adjusted for cash flows relating to refundable occupation licence payments and management fee receivable recognised separately on the Consolidated Balance Sheet and also reflected in the valuation model.

Lease Liabilities					
\$NZ000s					
Year ended 31 May 2020	Notes	Investment Property	Land and Buildings	Chattels	Total
Opening net book value		-	-	-	-
Recognition on adoption of NZ IFRS 16 Leases		-	8,444	278	8,722
Transfer from borrowings	4.3	-	-	5,517	5,517
Additions		-	-	1,331	1,331
Interest		-	471	508	979
Lease payments made		-	(1,050)	(2,498)	(3,548)
Lease liabilities as at 31 May 2020 (audited)		-	7,865	5,136	13,001

\$NZ000s					
Period ended 30 Nov 2020	Notes	Investment Property	Land and Buildings	Chattels	Total
Opening net book value		-	7,865	5,136	13,001
Transfer from borrowings	4.3	-	-	-	-
Additions and disposals		-	(349)	312	(37)
Interest		-	215	212	427
Lease payments made		-	(510)	(1,181)	(1,691)
Lease liabilities as at 30 November 2020 (unaudited)		-	7,221	4,479	11,700

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

3.4 Leases (continued)

Lease of Investment Property

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

Due to the variability of these payments both the right of use asset and the corresponding lease liability were initially recognised at nil value. Rental payments are recognised as a rental expense through the Consolidated Statement of Comprehensive Income. The right of use asset is held at fair value in accordance with NZ IAS 40 *Investment Property*. A valuation in respect of right of use investment property was provided by CBRE Limited as at 30 November 2020. The carrying value of the right of use asset as at 30 November 2020 in respect of this leased site is \$33.4m (31 May 2020: \$31.1m).

Lease of Property, Plant and Equipment

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

A valuation in respect of right of use property assets was provided by CBRE Limited as at 30 November 2020.

4. Shareholder Equity and Funding

4.1 Shareholder Equity and Reserves

	Unaudited 30 Nov 2020 Shares	Audited 31 May 2020 Shares	Unaudited 30 Nov 2020 \$NZ000s	Audited 31 May 2020 \$NZ000s
Share capital				
Authorised, issued and fully paid up capital	626,339,430	618,056,183	595,417	588,389
Total contributed equity	626,339,430	618,056,183	595,417	588,389
Movements				
Opening balance of ordinary shares issued	618,056,183	610,254,535	588,389	580,794
Shares issued for employee share scheme	1,193,045	1,004,640	-	-
Shares issued for dividend reinvestment plan	7,090,202	6,797,008	7,028	7,595
Closing balance of ordinary shares issued	626,339,430	618,056,183	595,417	588,389

All ordinary shares are authorised and rank equally with one vote attached to each fully paid ordinary share. The shares have no par value. The Company incurred no transaction costs issuing shares during the period (31 May 2020: nil).

Long Term Incentive Plan

On 15 September 2020 the Board approved a new Long Term Incentive Scheme for its senior executives ("LTI Scheme"). The LTI Scheme has been established to:

- provide an incentive to key executives to commit to Oceania Healthcare for the long term; and
- align these executives' interests with the interests of Oceania Healthcare's shareholders.

Participants in the Scheme will be granted Share Rights from time to time which will, on vesting, convert into an entitlement to receive ordinary shares. Vesting will depend on achievement of certain performance hurdles relating to Oceania Healthcare's total shareholder return relative to the NZX50, and Oceania Healthcare's performance against EBITDA targets.

Share Rights become exercisable if the holder remains employed on the vesting date and performance hurdles are met over the period from the commencement date to the measurement date, and in certain other exceptional circumstances. On becoming exercisable, each Share Right will entitle the holder to receive one fully paid ordinary share in Oceania Healthcare Limited, less an adjustment for tax paid on the holder's behalf for the benefit received under the Scheme. The Share Rights have a nil exercise price.

Performance Hurdles

The Share Rights in each grant are divided between two performance hurdles;

- Share Rights will qualify for vesting on a straight-line basis; from 0%, where the total shareholder return (TSR) from the commencement date to the measurement date is equal to the 35th percentile of the NZX50 Group, to 100% where the TSR is equal to or greater than the 75th percentile of the NZX50 Group; and
- For the second performance hurdle, Share Rights will qualify for vesting if the Group's annual growth in underlying earnings (before interest, tax, depreciation and amortisation) per share (UEPS) from the commencement date to the measurement date is equal to or greater than the target for growth in UEPS for that period.

Lapse

Share Rights will lapse where the performance hurdles are not met on a relevant measurement date or, in general, where the participant ceases to be employed by the Group before the vesting date (except in certain circumstances).

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

4.1. Shareholder Equity and Reserves (continued)

Employee Share Scheme

During the six months to 30 November 2020, 1,193,045 shares were issued as part of an employee share scheme ("ESS") (year to 31 May 2020: 1,004,640 shares). All permanent employees were invited to participate. Full time employee participants were allocated an equivalent of \$800 of shares and part time employee participants were allocated an equivalent of \$400 of shares. The shares are held in trust and will be transferred to the employee if the employee remains employed by Oceania Healthcare (or any of its subsidiaries) for the following three years.

Dividend Reinvestment Plan ("DRP")

2,613,632 shares with a value of \$0.9910 were issued in the six months to 30 November 2020 in relation to the 31 May 2020 dividend reinvestment plan. Further, 4,476,570 shares with a value of \$0.9910 were issued in the six months to 30 November 2020 pursuant to an underwriting agreement with Macquarie Securities (NZ) Limited.

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

4,524,128 shares with a value of \$1.175 per share were issued in relation to the 30 November 2019 dividend reinvestment plan.

Recognition and Measurement

3,164,556 shares are held by the Group and its subsidiaries in relation to a previously cancelled long term incentive plan scheme. Shares issued to OCA Employees Trustee Limited, a subsidiary, on behalf of Oceania Healthcare employees in relation to the 2017 long term incentive plan which did not vest are classified as Treasury Shares as the Group has a beneficial interest in the 3,164,556 shares.

On 20 November 2020, 1,948,061 share rights were issued for nil consideration and a nil exercise price in relation to the LTI Scheme for the provision of performance-based remuneration.

Group Structure

There are no major shareholders.

Dividends

On 22 January 2021, an interim dividend of 1.3 cents per share (not imputed) was declared and will be paid on 24 February 2021. The record date for entitlement is 10 February 2021.

	Unaudited 30 Nov 2020 cents per share	Unaudited 30 Nov 2020 \$NZ000s	Audited 31 May 2020 cents per share	Audited 31 May 2020 \$NZ000s
Final dividend for the prior year	1.2	7,417 ¹	2.6	15,867
Interim dividend for the period	-	-	2.3	14,037
Total dividends declared during the period		7,417		29,904

Dividend Reinvestment Plan

On 25 July 2019, the Board approved the implementation of a dividend reinvestment plan for New Zealand and Australian shareholders. This plan was effective for the FY2019 final dividends, the FY2020 interim dividends and the FY2020 dividends paid (at a discount of 2.5% to the volume weighted average price of shares sold on the NZX Main Board over a period of five trading days starting on 31 July 2020). This plan shall also be effective for the dividend payable on 24 February 2021 at a discount of 2.5% to the volume weighted average price of shares sold on the NZX Main Board over a period of five trading days starting on 9 February 2021. The dividend reinvestment plan shall apply to those shareholders who have provided a participation election by 5:00pm on the dividend election date, being 11 February 2021.

Asset Revaluation Reserve

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

Cash Flow Hedge Reserve

The cash flow hedge reserve is used to record gains or losses on instruments used as cash flow hedges. The amounts are recognised in the Consolidated Statement of Comprehensive Income when the hedged transaction affects profit or loss. Refer note 5.6 of the 31 May 2020 annual report.

¹ Total dividends declared during the period differs to dividends paid per the Consolidated Statement of Changes in Equity as a result of dividends payable on shares held within the Group.

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

4.2 Earnings per Share

Basic

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

	Unaudited 30 Nov 2020	Unaudited 30 Nov 2019
Profit after tax (\$'000)	24,784	14,852
Weighted average number of ordinary shares outstanding ('000s)	619,514	608,656
Basic earnings per share (cents per share)	4.0	2.4

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 30 November 2020 there were no shares with a dilutive effect (31 May 2020: nil).

	Unaudited 30 Nov 2020	Unaudited 30 Nov 2019
Profit after tax (\$'000)	24,784	14,852
Diluted weighted average number of ordinary shares outstanding ('000s)	619,514	608,656
Diluted earnings per share (cents per share)	4.0	2.4

4.3 Borrowings

\$NZ000s	Unaudited 30 Nov 2020	Audited 31 May 2020
Secured		
Bank loans	191,027	326,686
Capitalised loan costs	(540)	(1,232)
Retail Bond – OCA010	125,000	-
Capitalised bond costs	(2,274)	-
Total borrowings	313,213	325,454
Current	-	-
Non current	316,027	326,686
Total borrowings excluding capitalised loan costs	316,027	326,686

Recognition and Measurement

Bank Loans

Interest is charged using the BKBM Bill rate plus a margin and line fee. Interest rates applicable in the six months to 30 November 2020 ranged from 1.57% to 1.91% (year to 31 May 2020: 2.52% to 3.85%).

Retail Bond

The Group issued 125.0m retail bonds totalling \$125.0m on 19 October 2020 with a maturity date of 19 October 2027. This retail bond is listed on the NZX Debt Market (NZDX) with the ID OCA010. The bond has a fixed interest rate of 2.3%.

The bonds are quoted on the NZX Debt Market and their fair value at balance date is based on their listed market price as at balance date. Interest on OCA010 is payable quarterly in January, April, July and October in equal instalments.

The listed market price of the bonds as at 30 November 2020 was \$1.0033.

Debt Financing

On 3 April 2020 an agreement was entered into with the banking syndicate to increase the facility limit from \$350.0m to \$420.0m through the introduction of a third facility (General Facility) totalling \$70.0m.

On 23 September 2020 an agreement was entered into with the banking syndicate to decrease total debt facility limits to \$350.0m as follows:

- (i) General Corporate Facility limit decreased to \$85.0m (formerly \$135.0m); and
 - (ii) Development Facility limit increased to \$265.0m (formerly \$215.0m).
- the maturity of borrowings is 31 July 2023.
- (iii) General Facility limit \$70.0m, which was undrawn, was cancelled.

Financing arrangements

At 30 November 2020, the Group held committed bank facilities with drawings as follows:

\$NZ000s	Unaudited 30 Nov 2020		Audited 31 May 2020	
	Committed	Drawn	Committed	Drawn
General Corporate Facility	85,000	-	135,000	118,567
Development Facility	265,000	191,027	215,000	208,119
General Facility	-	-	70,000	-
Total	350,000	191,027	420,000	326,686

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

4.3 Borrowings (continued)

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

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

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

- a) Interest Cover Ratio – the ratio of Adjusted EBITDA to Net Interest Charges is not less than 2.0x;
- b) Loan to Value Ratio – the ratio of total bank indebtedness shall not exceed 50% of the total property value of all Group properties (including the “as-complete” valuations for projects funded under the Development Facility);
- c) Guarantor Group Coverage – at all times the adjusted EBITDA of the Guaranteeing Group must be at least 90% of the Adjusted EBITDA of the Group and the total tangible assets of the Guaranteeing Group must be at least 90% of the total tangible assets of the Group; and
- d) Development – At all times the outstanding principal amount under the Development Facility shall not exceed the Development Value. Development Value (per the most recent valuation excluding any settled stock) is the aggregate value of all Residential Facilities in all Developments that are being funded by the Development Facility less their cost to complete.

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

Assets Pledged as Security

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

As at 30 November 2020 the balance of the bank loans over which the properties are held as security is \$191.0m (31 May 2020: \$327.0m), the total commitment as at 30 November 2020 is \$350.0m (31 May 2020: \$420.0m).

5. Other Disclosures

5.1 Income Tax

What is Current Tax?

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

What is Deferred Tax?

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

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

5.1 Income Tax (continued)

\$NZ000s	Unaudited 30 Nov 2020	Unaudited 30 Nov 2019
Income tax benefit		
Current tax	-	-
Deferred tax	(4,436)	(8,166)
	(4,436)	(8,166)
Taxation expense is calculated as follows:		
Profit before income tax	20,348	6,686
Tax at the New Zealand tax rate of 28%	5,698	1,872
<i>Adjusted by the tax effect of:</i>		
Non-deductible impairment of goodwill	228	-
Non-deductible expenditure	285	166
Capitalised interest deductible for tax	(745)	(900)
Taxable deferred management fees	(1,934)	(435)
Non-assessable revaluation of investment property	(8,100)	(6,037)
Taxable depreciation	(3,510)	(2,519)
Accounting depreciation	1,856	1,658
Right of use asset	9	24
Non-deductible impairment / (reversal of non-deductible impairment) of fixed asset	145	292
Adjustment for timing difference of provisions	832	133
Other	-	-
Losses generated / (utilised)	5,236	5,746
Current tax expense	-	-
Impact of movements in investment property	480	(2,659)
Impact of movements in property, plant and equipment	(1,671)	(6)
Impact of movements in right of use assets	(92)	(60)
Other adjustments	(912)	(133)
Deferred management fee	1,934	438
Prior period adjustments: other	-	-
Losses utilised or derecognised / (recognised)	(4,175)	(5,746)
Deferred tax benefit	(4,436)	(8,166)
Income tax benefit	(4,436)	(8,166)

Movement in the Deferred Tax Balance:

	Balance 1 June 2020 Audited	Recognised in Consolidated Statement of Comprehensive Income	Recognised in Other Comprehensive Income	Balance 30 Nov 2020 Unaudited
\$NZ000s				
Investment property	(960)	(480)	-	(1,440)
Property, plant and equipment	(14,651)	1,671	(4,106)	(17,086)
Right of use assets	929	92	-	1,021
Provisions and other assets / liabilities	8,645	912	(330)	9,227
DMF revenue in advance	5,538	(1,934)	-	3,604
Tax losses	499	4,175	-	4,674
Deferred tax (liabilities) / assets	-	4,436	(4,436)	-

	Balance 1 June 2019 Audited	Recognised in Consolidated Statement of Comprehensive Income	Recognised in Other Comprehensive Income	Balance 31 May 2020 Audited
\$NZ000s				
Investment property	(9,264)	8,304	-	(960)
Property, plant and equipment	(22,504)	10,785	(2,932)	(14,651)
Right of use assets	-	89	840	929
Provisions and other assets / liabilities	6,123	271	2,251	8,645
DMF revenue in advance	7,069	(1,531)	-	5,538
Tax losses	3,751	(3,252)	-	499
Deferred tax (liabilities) / assets	(14,825)	14,666	159	-

Recognition and Measurement

No income tax was paid or payable during the period (30 November 2019: nil).

Key accounting judgements

Deferred Tax on Investment Property

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

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

Notes to the Consolidated Interim Financial Statements (continued)

For the six months ended 30 November 2020

5.1 Income Tax (continued)

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

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

Deferred Tax on Freehold Buildings

Due to the re-introduction of depreciation on residential buildings after the enactment of the COVID-19 Response (Taxation and Social Assistance Urgent Measure) Act 2020, \$13.5m of deferred tax liability that was held in respect of freehold buildings as at 31 May 2019 was derecognised at 31 May 2020.

Recognition of Deferred Tax on Deferred Management Fee

The interpretation of New Zealand tax laws in relation to DMF involves significant judgements and uncertainty.

During October 2018, the Group obtained a binding ruling from Inland Revenue, applicable for ORAs entered into after 1 June 2018 with certain revisions to the terms and conditions relating to the DMF. Pursuant to this ruling DMF revenue is recognised as derived on the exit of a unit or care suite by a resident.

Recognition of Deferred Tax on Tax Losses

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

After taking into consideration losses generated in the period to 30 November 2020, the Group now has an estimated \$72.1m (31 May 2020: \$53.4m) of available tax losses at 30 November 2020.

The Group may recognise deferred tax assets to the extent that it is probable that the Group will generate future economic profits to offset the deferred tax assets or to the extent that they offset deferred tax liabilities. A deferred tax asset of \$4.7m has been recognised as at 30 November 2020 (31 May 2020: \$0.5m) in order to offset the net deferred tax liability position. All other available losses are held off balance sheet.

5.2 Contingencies and Commitments

At 30 November 2020, the Group had no contingent liabilities or assets (31 May 2020: nil).

At 30 November 2020, the Group has a number of commitments to develop and construct certain sites totalling \$93.1m (31 May 2020: \$113.9m) of which \$88.5m (31 May 2020: \$113.5m) relates to development sites.

As at 30 November 2020, a commitment of \$9.3m (31 May 2020: \$9.3m) exists in relation to Stage One and \$6.6m (31 May 2020: \$9.9m) in relation to Stage Two in the form of future lease payments in respect of the development of Everil Orr, a leasehold site. Lease payment obligations arise as ORAs are sold. Refer to note 3.4 for further details.

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

5.3 Events After Balance Date

Commitments

During December 2020 a contract was awarded in respect of the construction of the Waimarie Street development. This contract totals \$76.0m.

Dividend

On 22 January 2021 an interim dividend of 1.3 cents per share (not imputed) was declared and will be paid on 24 February 2021. The record date for entitlement is 10 February 2021. Refer to note 4.1.

There have been no other significant events after balance date.

Independent Auditor's Review Report

To the shareholders of Oceania Healthcare Limited



Independent auditor's review report

To the shareholders of Oceania Healthcare Limited

Report on the consolidated interim financial statements

Our conclusion

We have reviewed the consolidated interim financial statements of Oceania Healthcare Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 30 November 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended on that date, and significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 November 2020, and its financial performance and cash flows for the six months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the consolidated interim financial statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Group in the area of trustee reporting. The provision of these other services has not impaired our independence.

Directors' responsibility for the consolidated interim financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these consolidated interim financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the consolidated interim financial statements

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. A review of consolidated interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.



The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

Who we report to

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

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

For and on behalf of:

A stylized, cursive signature of "PricewaterhouseCoopers" in a light blue or purple ink.

Chartered Accountants
22 January 2021

Auckland



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