Bright from the start

ANNUAL REPORT 2017

OCEANIA
HEALTHCARE

Contents

Welcome to our first Annual Report.

With over 3,000 shareholders now firmly part of our future, we have more people to champion our endeavours in the ever-growing aged care sector. The Directors, management and our employees all welcome you as shareholders and thank you for putting your trust in us.

We are very pleased to be at this exciting stage of our development as a company. We are focused on creating sustainable, long term value for you through strong governance and excellent execution of our strategy delivered by our exceptional management team.

A MILESTONE YEAR

In this first Annual Report since Oceania Healthcare became a listed company, I am pleased to report that your Company has successfully completed a milestone year. From the listing on the New Zealand and Australian stock exchanges, the completion of 44 apartments at Lady Allum Village, to the delivery of forecast returns for our new shareholders, this has been a busy and rewarding year.

We have harnessed our diverse portfolio of residential care facilities and our experienced management to deliver financial results for the year ended May 2017 that are ahead of the Initial Public Offering ('IPO') forecast published in the Company's March 2017 Product Disclosure Statement ('PDS').

The Company has produced reported Net Profit After Tax ('NPAT') ahead of the IPO forecast for the year ended 31 May 2017 of $44.9 million.

Pro forma underlying earnings before interest, income tax, depreciation, and amortisation* ('Pro forma Underlying EBITDA') were $45.0 million, also ahead of the IPO forecast.

Our primary purpose is to provide healthcare and associated services to our 3,800 residents. We are proud of the quality of care and facilities that our 2,700 employees provide. Our dedicated focus on aged care differentiates Oceania Healthcare from its listed competitors which are more weighted towards retirement village independent and serviced units.

The capital raised by the IPO has enabled us to reduce debt, take advantage of our momentum and continue a broad range of projects.

The intention of the IPO in May 2017 was to raise capital that would enable the Company to implement its strategy of being a leading provider of aged care rooms while also developing our portfolio of retirement village units. In the short term, the Company is looking to double its number of units and significantly enhance its care rooms whilst maintaining a higher weighting in aged care than our peers.

We are about to commence aboveground development works at Maureen Plowman, our Brown's Bay beachfront development village in Auckland and have acquired the freehold title at Elderslea Care Facility in Upper Hutt that was previously leased. Further, we are about to commence Stage 4 of the development of Meadowbank Village in Auckland. These initiatives, along with many others that will be rolled out in the years ahead, are intended to place Oceania Healthcare in an excellent position to meet the needs of New Zealand's elderly, particularly as 2021 approaches and the first of the 'baby boomer' generation celebrate their 75th birthdays.

Oceania Healthcare has two revenue streams: aged care, and retirement villages. A high share of revenue from the aged care business is Government funded by District Health Boards, providing certainty of payment. The retirement village units provide revenue from a weekly service fee and a deferred management fee ('DMF'),

* Pro forma Underlying EBITDA is a non-GAAP measure. Underlying NPAT and EBITDA are retirement village industry earnings measures that assist in the comparison of Oceania's performance with its peers. Oceania uses underlying NPAT to monitor financial performance and, in future to determine dividend distributions. It is reported in the operating segment note of the audited consolidated financial statements. Underlying measures require a methodology and a number of estimations to be approved by Directors in their preparation. Both the methodology and the estimations may differ among companies in the retirement village sector that report underlying financial measures. Underlying NPAT is a measure of financial performance and does not represent business cash flow generated during the period. A reconciliation of Underlying NPAT and EBITDA to reported NPAT is presented in section 2.1 of the audited Consolidated Financial Statements. The pro forma adjustments made to reported Underlying EBITDA of Pro forma of $41.3 million relate to transaction and listed company costs of $3.7 million. Refer to page 77 of the Product Disclosure Statement ('PDS') dated 31 March 2017 for further details.

deducted from the resale of units. In addition, amounts are also received on issuance of new occupation right agreements ('ORA') which reflect the resale gain of the underlying property portfolio held by us.

The new care suite hybrid combines the benefit of a premium aged care room with daily care fees and the retirement village unit ORA. As well as being a superior product for residents and their families, the care suite funding model has a positive capital impact for Oceania, as the Company can recover the capital used in the construction of the suite. Oceania has plans to complete a further 40 care suites by the end of FY2018 increasing the total to 282 suites in the Company at that date.

At the end of FY2017, Oceania had net debt of $84.4 million which is below the IPO forecast ($98.6 million). Total assets at the end of May 2017 were valued at $918.2 million compared to $886.2 million in the IPO forecast.

SHAREHOLDER RETURNS

Oceania Healthcare has established a dividend policy with a targeted pay out ratio of 50% to 60% of annual underlying NPAT. We intend to commence paying dividends during the 2018 financial year, with an initial interim dividend expected to be paid in February 2018.

OUR PEOPLE

We asked a great deal of our people this year to complete a successful Initial Public Offering, and they certainly delivered. I would like to thank my fellow Directors, the Chief Executive and the management team for their exemplary contribution to the Company.

MOMENTUM DELIVERING RETURNS

With funding now in place and construction on track at all three of our current Auckland development sites and in Tauranga, and with resource consents in place at Hamilton, Christchurch and Nelson, we expect the business to perform strongly against the 2018 IPO forecast.

The public listing is now behind us and has established a platform for growth. The Board and management of Oceania Healthcare are firmly focused on exceeding our residents' expectations and expanding our business and operational processes to meet the growing market. Above all, your Board is determined to provide a consistent and reliable return on your investment in Oceania Healthcare. Thank you for investing your trust with us.

Yours sincerely

Liz Coutts

Elizabeth Coutts
Chair, Oceania Healthcare Limited

Highlights

Oceania's end of May 2017 financial result exceeded the IPO forecast set out in the Product Disclosure Statement when we listed on the NZX and ASX.

Financial

Total Revenue

$174.8m

+1%: Ahead of IPO forecast by $1.2m

Reported Net Profit after Tax

$44.9m

+77%: Ahead of IPO forecast of $25.3m

Pro forma Underlying EBITDA

$45.0m

+2%: Ahead of IPO forecast of $44.3m

Aged Care:	$31.9m
Retirement Village:	$26.8m
Corporate/Other:	($13.7m)

CBRE plus WIP

$647.9m

+4% Ahead of IPO forecast of $625.6m

Operational

Care Beds

2,797

90.4% occupancy
(average for the FY2017 year)

Units

1,296

Unit Sales

New Units	Resale Units	New Care Suites	Resale Care Suites
37	89	15	62

Developments

- Completed 44 Lady Allum apartments in Auckland in April 2017 with 20 units settling within 6 weeks of completion.
- Secured resource consents for Trevellyn (133 apartments, 90 care suites), Melrose (7 villas, 209 apartments, 81 care suites) and Green Gables (27 apartments, 61 care suites).
- Successful mediation for Windermere resource consent (68 apartments, 60 care suites).

Delivering

"I'm absolutely delighted with my apartment and the marvellous interiors. The people here have just clicked, it's honestly lovely."

Resident

At a Glance

We are an experienced developer with a large brownfields land bank in key urban locations providing a strong growth platform for aged care and retirement villages.

Elmwood Village
Manurewa
Under construction

Melrose
Tauranga
Under construction

Maureen Plowman Village

Browns Bay

Under construction

Meadowbank Village

Meadowbank

Under construction

Trevellyn

Hamilton

Commencing February 2018

We have a tangible growth path

We own sufficient land to build 1,708 new residences (1,282 net of decommissions) with 1,072 of these units already consented.

Brownfield development pipeline

PFI period: Nov 2016 – May 2018

	Gross Residences in stage	Net Residences in stage*	Timeline (Nov 2015 – May 2018)	Future Years
LADY ALLUM Auckland	44	44	Construction completed April 17; Selldown May 17	
MEADOWBANK Auckland **STAGE 3**	92	92	Construction began Feb 16; Selldown Feb 18	
STAGE 4	81	81	Construction begins Sep 17	
STAGE 5	20	20		Consented
STAGE 6	~40	~40		Planning
ELMWOOD Auckland **STAGE 3**	25	25	Construction began Nov 16; Selldown Nov 17	
STAGE 4-5				Planning
MAUREEN PLOWMAN Auckland	108	108	Construction began Dec 16	Selldown May 19
STOKE Nelson	10	-7	Construction begins Apr 17; Selldown Dec 17	
MELROSE Tauranga **STAGE 1**	81	81	Construction begins Jul 17	
STAGE 2-5	216	107		Consented
TREVELLYN Hamilton **STAGE 1**	90	87	Construction begins Feb 18	
STAGE 2-3	133	27		Consented
GREEN GABLES Nelson	88	45		Consented
WINDMERE Christchurch **STAGE 1**	75	75		Consented
STAGE 2-3	53	36		Consented
Total consented/ under construction	**1,072**	**777**		
OTHER Auckland	36	36		Planning
Hawke's Bay	165	159		Planning
Christchurch	224	175		Planning
Nelson	86	10		Planning
Various	85	85		Planning
Total brownfield development pipeline	**1,708**	**1,282**		

* Net of decommissions and conversions that are removed to make way for brownfield development.

Aged care services are "needs based"

The growing demand for needs-based aged care services is relentless. We have a higher portfolio weighting towards aged care and a significantly larger proportion of higher acuity care beds than the industry average, which provides revenue streams that are resilient against any property market volatility.

Stable regulatory environment

A high proportion of our care revenue is government funded which increases via annual changes in District Health Board aged residential care fees.

More recently the government has also funded the Equal Pay settlement for healthcare workers. We are delighted for our staff and we are very pleased that the government has recognised its role in helping to attract and retain healthcare workers as the demand for aged care services in New Zealand grows.

New Zealand's retirement village sector is widely considered to be world leading with robust regulations to protect residents.

Best practice clinical standards

We have a leading clinical care platform with a strong clinical governance framework including a dedicated clinical and quality team of senior registered nurses to provide expert clinical leadership and support the delivery of quality care.

Consented development pipeline

Approximately two thirds of our land bank is already consented for redevelopment with all of our six key strategic sites consented.

Proven track record of delivery

We have completed seven redevelopment projects since 2011 many of which were in complex brownfield locations.

Considerable embedded value

We have $183.1m embedded value within our existing portfolio. In addition, our needs based care business generates cash flows that will underpin dividends.

NZ Aged Care Association

SUPREME WINNER

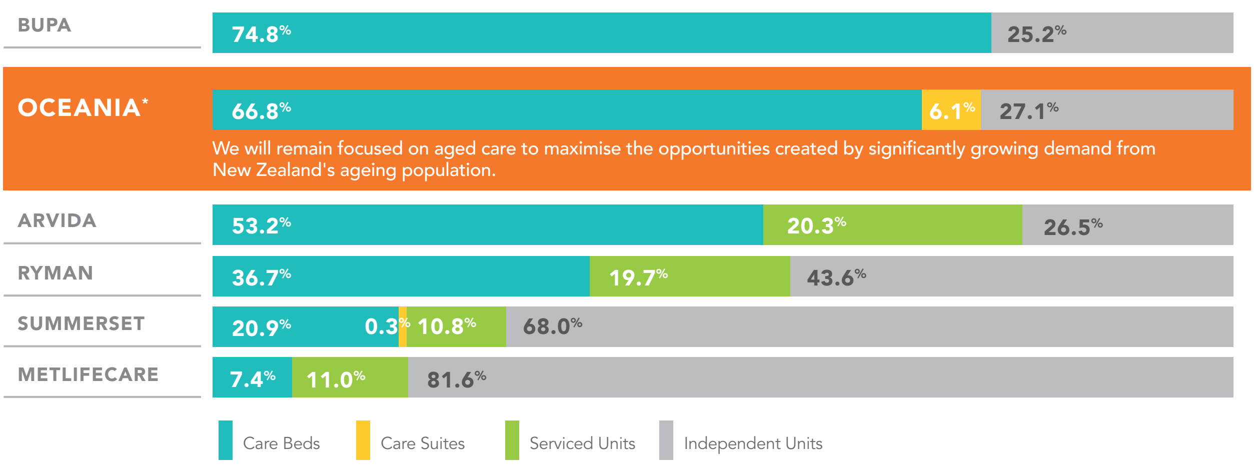
2015 & 2016

OVERALL EXCELLENCE IN CARE AWARD

We are a recognised leader in clinical care and we have a clear growth strategy.

We're enhancing our care business by building new superior beds that can either be sold under occupation right agreements or attract a premium charge. This business model leverages our expertise in aged care and generates good commercial returns.

Portfolio composition (by Residences) – key competitors



* Following completion of Oceania's brownfields development landbank.

Growing

"The successful public listing has established a platform for growth. We are now firmly focused on exceeding our residents' expectations and expanding our business to meet the growing market."

Elizabeth Coutts

Keeping our momentum going.

Following the IPO, the management team at Oceania Healthcare is determined to activate our strategies and accelerate the delivery of our development land bank.

While we have a busy programme of capital works, with brownfield site development and new builds underway from Auckland to Christchurch, we have not lost sight of our core purpose: to provide high quality aged care services and retirement facilities in New Zealand.

We recognise that even though there is strong growth forecast in the aged care sector, we are in a competitive market. Our focus on development is not just on bricks and mortar, we are always thinking about and improving our core care and health services for our residents. At the end of the day, occupancy levels will determine the future success of Oceania Healthcare. Occupancy across our care beds and suites during FY2017 was 90.4%, while occupancy of our village units was 92.3% at the end of the year.

Care

In the past financial year we completed the scoping of a new clinical information system with implementation planned in 2018. In preparation for this, and other initiatives, we installed Wifi across all our sites during 2017.

Good quality and nutritious food is of critical importance to our residents. Our chefs at each site are challenged daily to manage complex dietary considerations for aged care residents without compromising on taste, visual appeal, and cultural requirements. In July 2016 we competed and won the national Senior Lifestyle Cuisine Award (for the second year in a row) against other top aged care chefs from around the country. In 2015 and 2016 Oceania Healthcare was awarded the New Zealand Aged Care Association's Award for Overall Excellence in Care.

During 2017 we completed a national roll out of a new Food Control Plan and all sites were audited, which is significantly in advance of the Ministry of Primary Industries requirement deadline.

Our people

Our team of 2,700 employees is passionate about delivering great care to our 2,600 aged care residents and I am very proud of their dedication to help create Magic Moments each day for our residents.

I am thrilled that the Government's Equal Pay settlement with $2 billion funding over the next five years for healthcare workers recognises the truly wonderful contribution our people make to caring for our elderly.

In 2017 we launched a new learning and development programme, Step Up. The programme will further enhance our clinical capability and will help to develop strong leaders within the business.

Caring for the safety of our team is just as important to us as caring for our residents. We understand our risk profile and with operating safely at the forefront of our minds we track a range of indicators. During 2017 we redesigned our moving and handling training programme, introduced new regional safety representatives and trialled a new injury management process that will now be delivered nationally.

Ageing population growth drives development

Oceania Healthcare meets the needs of a rapidly growing and ageing market in New Zealand. Our target market for aged care, 85 years and older, is expected to triple in the next 20 years and the 75 to 84 age group is expected to double in the same time period.

This naturally growing market is expected to provide significantly increased demand for aged care and retirement village facilities.

Oceania will be able to continually fund the development of our existing sites and, over time newly acquired greenfield sites, through the ORA model for both aged care beds and retirement village units which enables capital to be recycled into new builds.

"We are confident of meeting our targets for the upcoming financial year."

Current development work

While Oceania Healthcare has underway an unprecedented construction and development programme, the management team is confident it has the expertise, people and track record to deliver the projects. In-house procurement and design capability is allowing us to take greater control over specification and procurement functions. We are managing five development projects in construction and overseeing planning and consenting for numerous future projects.

Auckland

We recently completed construction of a block of 44 premium apartments at Lady Allum Village, including a common area with a restaurant, cinema and large lounge to complement the other facilities at this well-respected village in Milford. Marketing efforts are in full swing and we expect the new apartments to sell down by end of May 2018. Further stages of redevelopment are now in the pipeline for Lady Allum Village.

Construction is progressing well for Stage 3 at our Meadowbank Village consisting of 62 independent living apartments with a vast new village community centre including bar and dining areas, a library, gymnasium, craft room, hair salon and cinema. Very importantly, this stage also brings care back to Meadowbank with 30 new care suites also being built.

CHIEF EXECUTIVE OFFICER'S REPORT

Stage 3 is on track for completion by February 2018 with strong pre-sales. We are finalising the fixed price contract for Stage 4 consisting of 49 apartments and a further 32 care suites with construction commencing in September 2017. Design has also commenced for Stage 5 of Meadowbank. Once Stage 5 is complete the village will consist of 187 apartments and 62 care suites.

We have started the earthworks stage on the beachfront of Brown's Bay at our Maureen Plowman site. This unrivalled location will feature 64 independent living apartments and 44 care suites and is expected to be complete in April 2019.

Our third development in Auckland under construction comprises 25 new villas at Elmwood Village in The Gardens, Manurewa. These villas are being built on adjoining land that was acquired in late 2016. Further stages of redevelopment are also planned for this village.

Tauranga

In May 2017, we started site preparation works for Stage 1 construction of 80 new care suites at our Melrose Village. The construction contract for this stage was awarded in July 2017 and will take around 15 months to build (September 2018). Stage 2 including 72 apartments and a full community centre including bar, restaurant, cinema and lounges will commence at the completion of Stage 1. There are five development stages planned for this hill-top site commanding panoramic views of Tauranga's harbour and Mt Maunganui.

Hamilton

A resource consent amendment was issued in February 2017 at Trevellyn which increased the number of care suites as part of Stage 1 of this redevelopment site to 90 beds. We expect construction to begin by February 2018.

Nelson

We have two redevelopment sites in the Nelson region and construction has started on 10 villas at our Stoke Retirement Village with completion on track for December 2017. Our other redevelopment site in the region is Green Gables in the heart of Nelson City and just a short stroll to the city centre. In January 2017 we received resource consent to build 61 new care suites and 27 independent living apartments. In February this year we successfully relocated our Green Gables care residents into two of our other care facilities in Nelson and we have recently started demolition works on site.

Christchurch

We reached agreement with our neighbours at Windermere Village for the construction of a boutique development of 68 apartments and 60 care suites. This project is planned to be constructed in two stages with the first being the new care facility including café, restaurant, salon, lounges and 15 apartments.

Outlook

Oceania Healthcare has significant commercial advantages in a growing and competitive market. Our nationwide footprint and established properties with co-located aged care and retirement units provide a strong platform for growth, we are diversified across the aged care and retirement village sector with opportunities for innovation being activated, and we have both an experienced Board and management team. We have an advantage in aged care through a long history of service delivery and the IPO has helped us accelerate that further.

We have delivered a financial result that is ahead of our IPO forecast. With significant progress being made at our key development sites we are well placed to achieve our forecast in 2018 and continue to create long term value for our shareholders.

Yours sincerely

Earl Gasparich
Chief Executive Officer

Focused

"Our focus on development is not just on bricks and mortar we are always thinking about improving our core care and health services for our residents."

Earl Gasparich

Our Strategy

Care

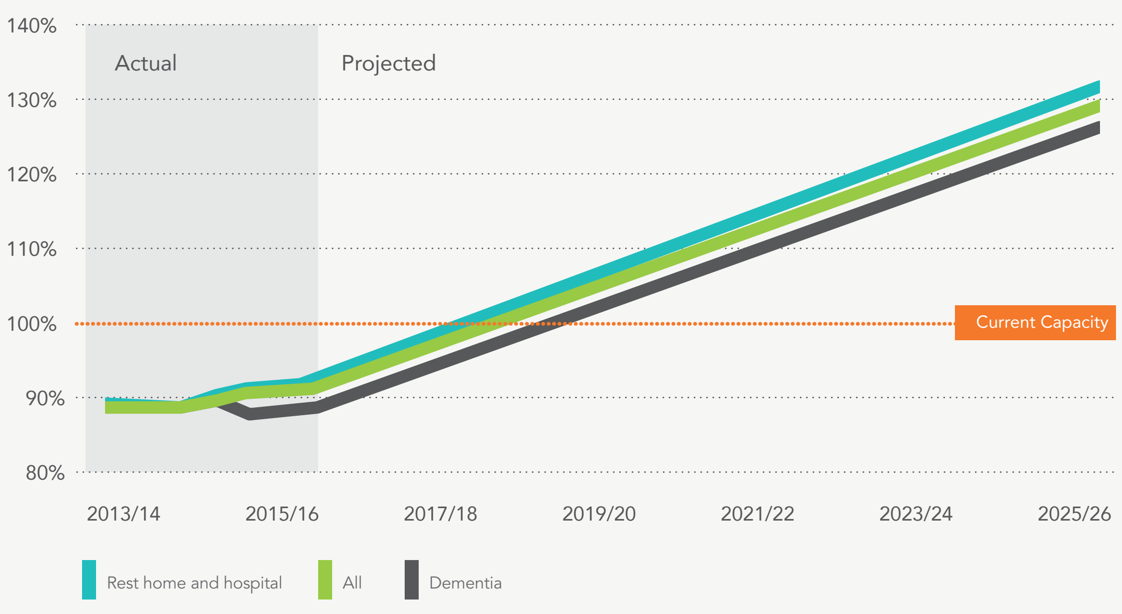
Industry supply and demand dynamics have led to innovations in the funding model for aged care to help address the required growth in bed capacity. Oceania was the first New Zealand provider to commercialise the care suite model in scale, combining the benefits of premium aged care and the retirement village ORA funding model. We have rolled this model out over the last eight years in Auckland and Christchurch, as well as in some regional locations.

Private charging for aged care is now well-established in the market, through either premium accommodation charges or via the care suite model. With these private charging options we can generate good commercial returns from new care developments. Eden, in Auckland, was our first 100% care suite development and has proved its commercial viability.

The care suite model is an integral part of our care development strategy to deliver enhanced returns.

As well as care suite development, our care business strategies include maximising occupancy through continuous improvement in service delivery and quality of clinical care; optimising the bed mix through needs assessment; increasing revenue through premium accommodation charges; and driving operational efficiency.

Estimated occupancy rate of funded care beds (fixed capacity)*



* Source: Central TAS demand forecasts as at March 2017.

Retirement Village

We have an established and growing retirement village operation with 1,054 units across 25 facilities. Our growth strategy includes optimising DMF from rolling legacy contracts onto new agreements, increasing resale margins, providing additional resident funded services, and continuing to standardise refurbishments.

Retirement Village operation

Developments

We intend to maintain an overall portfolio focus on aged care, while optimising capital efficiency by increasing the proportion of retirement village units and care suites.

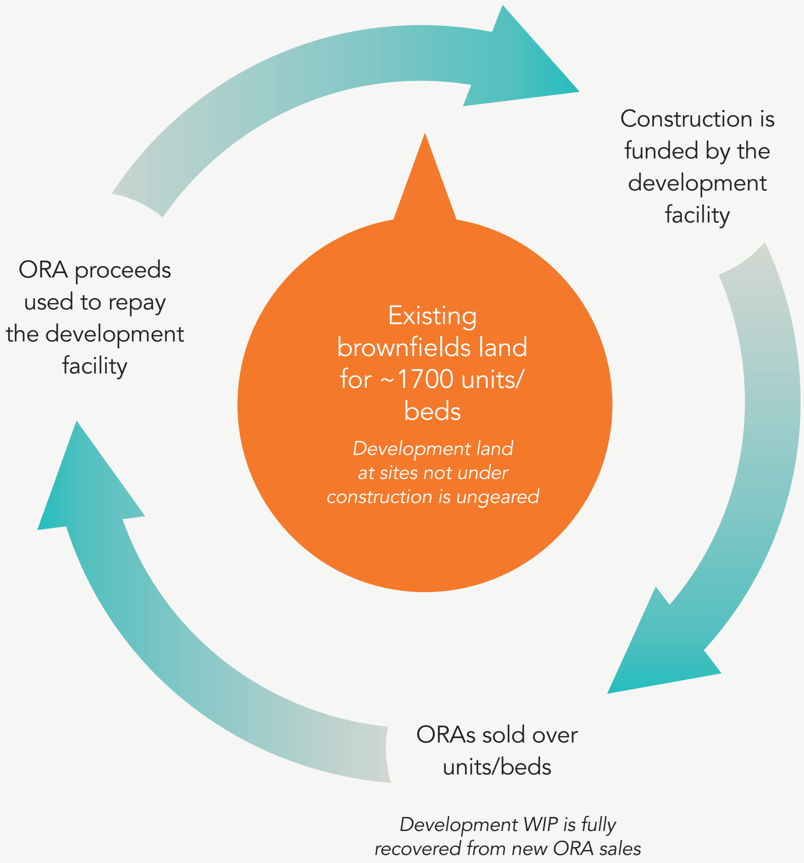
Our strategy is to **activate our existing consented brownfield development sites** (1,072 units over the next 5 years), **develop our remaining brownfield land bank** (636 units), and supplement our building strategy with **opportunistic brownfield and greenfield acquisition** of sites in complementary regions.

Oceania has sufficient capacity in its senior debt facilities to fund our existing pipeline at a build rate of **approximately 200 units per annum**.

We have a $175m Revolving Development Facility and $60m General Corporate Facility currently drawn down to $68.5m and $21.0m respectively. This is all backed by development work in progress ('WIP') and land.

We have sufficient capacity to fund the existing pipeline of 1,708 units/beds at our target build rate and also acquire new sites to increase our development pipeline.

How this funding works



Our Values

We're proud of our brand and our people. They are one and the same, embodying Oceania's everyday values of kindness, passion, respect, delivery and excellence. It's a spirit and attitude that characterises our caring culture.

- **Kindness**: Show compassion and understanding.
- **Passion**: Believe we make a difference.
- **Respect**: Everyone matters.
- **Deliver**: We will do what we say.
- **Excellence**: Quality in everything we do.

Our Values in Action

Meet Elaine Dingle and Millie who are the real life inspiration for our 'Magic Moments' brand campaign.

Elaine was one of a group of residents who went to the SPCA, along with Oceania therapist Deborah Watts, to choose a cat for one of Oceania's rest homes in Hawkes Bay.

"I knew Elaine liked cats as she used to have one called Pinkie and she has Pinkie's photograph in her room," says Deborah. "When I suggested she come and help us choose a cat, she was the first to put her name on the list for the trip."

"Once we got there it was a hard choice to make. We chose Millie as she was gentle, and Elaine particularly liked her, as she looked like a cat Elaine used to have, called Tiddlums." Elaine was in a wheelchair after a fall at home, which led to a hospital stay and then a move to a rest home.

"She wasn't very social or inclined to join in," says Deborah. "Elaine wanted to spend most of her time in her wheelchair, in her room." Two days after adopting the cat, Elaine got up and began to learn to walk again. "Until then, she simply didn't want to," says Deborah. "Now, with the aid of our physiotherapist, she's working hard and she's really motivated. It's beautiful."

Kindness

"...all I saw was kindness, sensitivity, reassurance and real empathy, together with consummate professional skills, in managing her symptoms. [Later] the nurse spoke gently and kindly to Mum and put her arms around her; she did not have to do that – it was a gesture of empathy and compassion."

Daughter of Resident

Board of Directors

Oceania has an experienced Board with a diverse range of skills, including industry and business knowledge, financial management and corporate governance experience. The Board comprises an independent Chair, two independent non-executive Directors and two non-executive Directors.

Elizabeth Coutts

Chair and Independent Director

ONZM, BMS, FCA

Alan Isaac

Independent Director

CNZM, BCA, FCCA, FICS

Kerry Prendergast

Independent Director

CNZM, MBA (VUW), NZRN, NZM

Hugh FitzSimons

Non-Executive Director

BEc LLB (Hons) (Syd)

Patrick McCawe

Non-Executive Director

BCA (Hons), MBA, CA

Consolidated financial statements

For the year ended 31 May 2017

Directors' report

31 May 2017

The Board has pleasure in presenting the consolidated audited financial statements of Oceania Healthcare Limited and its subsidiaries, incorporating the consolidated financial statements and the independent auditor's report, for the year ended 31 May 2017.

The Board of Directors of the Company authorised these consolidated financial statements for issue on 27 July 2017.

For and on behalf of the Board

Elizabeth Coutts
Chairman

Hugh William FitzSimons
Director

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2017

$'000	Notes	**May 2017**	May 2016
Operating revenue	2.2	171,883	170,160
Change in fair value of investment property	3.1	57,161	50,167
Change in fair value of interest rate swaps	5.6	4	49
Other income	2.3	2,959	3,472
Total income		**232,007**	**223,848**
Employee benefits		103,274	105,124
Depreciation and amortisation		7,911	7,742
Finance costs		20,146	20,491
Impairment of property, plant and equipment	3.3	4,328	1,775
Other expenses		48,941	42,284
Total expenses	2.4	**184,600**	**177,416**
Profit before income tax		47,407	46,432
Income tax (expense) / benefit	5.1	(2,525)	2,218
Profit for the year		**44,882**	**48,650**
Other comprehensive income			
Items that will not be subsequently reclassified to profit and loss			
Gain on revaluation for the year net of tax	3.3	16,204	8,910
Items that may be subsequently reclassified to profit and loss			
Movement in interest rate swap net of tax	5.6	(182)	-
Other comprehensive income for the year net of tax		**16,022**	**8,910**
Total comprehensive income for the year attributable to shareholders of the parent		**60,904**	**57,560**
Basic earnings per share (cents per share)	4.2	12.4	14.5
Diluted earnings per share (cents per share)	4.2	12.4	14.5

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

Consolidated Balance Sheet

As at 31 May 2017

$'000	Notes	May 2017	May 2016
Assets			
Cash and cash equivalents		10,861	4,104
Trade and other receivables	5.3	11,302	12,145
Property, plant and equipment	3.3	267,972	253,139
Investment property	3.1	611,016	495,871
Intangible assets	5.2	17,053	17,622
Total assets		**918,204**	**782,881**
Liabilities			
Trade and other payables	5.4	27,480	23,975
Derivative financial instruments	5.6	283	34
Deferred management fee	3.2	19,534	17,400
Refundable occupation right agreements	3.2	282,904	261,117
Borrowings	4.4	95,242	259,135
Deferred tax liabilities	5.1	24,808	21,176
Total liabilities		**450,251**	**582,837**
Net assets		**467,953**	**200,044**
Equity			
Contributed equity	4.1	579,498	372,633
Retained deficit		(195,966)	(240,988)
Reserves		84,421	68,399
Total equity		**467,953**	**200,044**

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

Consolidated Statement of Changes in Equity

For the year ended 31 May 2017

$'000	Notes	Contributed equity	Retained deficit	Asset revaluation reserve	Interest rate swap reserve	Total equity
Balance at 31 May 2015		**371,583**	**(289,849)**	**59,489**	**-**	**141,223**
Profit for the year		-	48,650	-	-	48,650
Other comprehensive income						
Revaluation of assets net of tax	3.3	-	107	8,910	-	9,017
Total comprehensive income		**-**	**48,757**	**8,910**	**-**	**57,667**
Transactions with owners						
Share capital issued	4.1	1,050	-	-	-	1,050
Employee share scheme	4.1	-	104	-	-	104
Total transactions with owners		**1,050**	**104**	**-**	**-**	**1,154**
Balance as at 31 May 2016		**372,633**	**(240,988)**	**68,399**	**-**	**200,044**
Profit for the year		-	44,882	-	-	44,882
Other comprehensive income						
Revaluation of interest rate swaps		-	-	-	(182)	(182)
Revaluation of assets net of tax	3.3	-	-	16,204	-	16,204
Total comprehensive income		**-**	**44,882**	**16,204**	**(182)**	**60,904**
Transactions with owners						
Share capital issued	4.1	214,398	-	-	-	214,398
Costs capitalised to equity	4.1	(7,533)	-	-	-	(7,533)
Employee share scheme	4.3	-	140	-	-	140
Total transactions with owners		**206,865**	**140**	**-**	**-**	**207,005**
Balance as at 31 May 2017		**579,498**	**(195,966)**	**84,603**	**(182)**	**467,953**

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

Consolidated Cash Flow Statement

For the year ended 31 May 2017

$'000	May 2017	May 2016
Cash flows from operating activities		
Receipts from customers	159,289	163,830
Payments to suppliers and employees	(141,062)	(147,380)
Receipts from new occupation right agreements	68,763	78,384
Payments for outgoing occupation right agreements	(30,894)	(36,398)
Interest received	133	231
Interest paid	(17,306)	(19,121)
Net cash inflow from operating activities	**38,923**	**39,546**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and investment property	7	1,856
Payments for property, plant and equipment and intangible assets	(33,503)	(6,972)
Payments for investment property and investment property under development	(47,560)	(18,235)
Net cash outflow from investing activities	**(81,056)**	**(23,351)**
Cash flows from financing activities		
Proceeds from borrowings	144,994	15,800
Repayment of borrowings	(285,424)	(33,562)
Transaction costs	(10,680)	-
Proceeds from share issue	200,000	1,050
Net cash inflow / (outflow) from financing activities	**48,890**	**(16,712)**
Net increase / (decrease) in cash and cash equivalents	6,757	(517)
Cash and cash equivalents at the beginning of the year	4,104	4,621
Cash and cash equivalents at end of year	**10,861**	**4,104**

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

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

$'000	Notes	May 2017	May 2016
Profit after income tax for the year		**44,882**	**48,650**
Non cash items			
Deferred management fee accrued but not settled	2.2	(16,330)	(10,955)
Depreciation and amortisation	2.4	7,911	7,742
Impairment of goodwill	2.4	478	838
Net loss / (gain) on disposal of property, plant and equipment	2.4	563	(12)
Fair value adjustment to investment property	3.1	(57,161)	(50,167)
Impairment of property, plant and equipment	3.3	4,328	1,775
Bad and doubtful debt expense / (benefit)	2.4	125	(1,973)
Interest charged but not paid		2,840	1,266
Residents share of resale gains	2.4	2,207	1,733
Fair value gain on derivatives	5.6	(4)	(49)
Movement in deferred tax	5.1	2,525	(2,218)
Other non cash items		330	799
		(52,188)	**(51,221)**
Cash items			
Receipts from new occupation right agreements		68,763	78,384
Payments for outgoing occupation right agreements		(30,894)	(36,398)
Transaction costs expensed and held in financing activities		3,147	-
		41,016	**41,986**
Increase in operating assets and liabilities			
Decrease in trade and other receivables		718	1,396
Increase / (decrease) in trade and other payables		4,495	(1,265)
Net cash inflow from operating activities		**38,923**	**39,546**

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

Notes to the financial statements

For the year ended 31 May 2017

1. General Information

1.1. Basis of Preparation

(i) Entities Reporting

The consolidated financial statements of the 'Consolidated' or 'Group' entity are for the economic entity comprising Oceania Healthcare Limited and its subsidiaries, together 'the Group'. Refer to note 5.5 for details of Group structure.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Oceania Healthcare Limited as at 31 May 2017 and the results of all subsidiaries for the year then ended.

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

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

(ii) Statutory Base

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

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

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. The Consolidated Balance Sheet has been prepared using a liquidity format.

(iii) Measurement Basis

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

(iv) Going Concern Assumption

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

(v) Key Estimates and Judgements

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

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

1.1. Basis of Preparation (Continued)

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

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

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

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

– Revenue recognition of deferred management fee (note 3.2)

– Recognition of deferred tax (note 5.1)

– Capitalised costs associated with the issue of equity (note 4.1)

– Costs associated with the Long Term Incentive Plans (note 4.3)

1.2. Accounting Policies

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

Other relevant policies are provided as follows:

(i) Principles of Consolidation

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

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

(ii) Presentation Currency

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

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

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

(iv) Comparative Information

Where a change has been made to the presentation of the financial statements to that used in prior periods, comparative figures have been restated accordingly.

The presentation of refundable occupation right agreements ('ORA') on the Balance Sheet has been revised from the audited financial statements for the year ended 31 May 2016, to align with industry practice, by presenting the refunds to residents net of the management fee receivable in accordance with the terms of the ORA. The deferred management fee presented separately on the Balance Sheet represents the difference between this contractual entitlement and the management fees accrued for revenue recognition purposes. Refer to note 3.2 for further details.

Further, additional disclosure has been made, to that in the audited financial statements for the year ended 31 May 2016, in relation to the taxation expense and deferred tax liabilities due to a change in approach for the recognition of deferred tax on investment properties and re-recognition of tax losses. Refer to note 5.1 for further details.

(v) Measurement of Fair Value

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

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

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

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

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

2. Operating Performance

2.1. Operating Segments

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

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

Reporting Segment	Description
Care Operations	Includes all revenue and facility-level expenses associated with the provision of care and related services to Oceania's aged care and retirement village residents, including the deferred management fee ('DMF') and operating expenses associated with care suites.
	The Group derives care fee revenue in respect of eligible Government subsidised aged care residents as well as private contributions from residents. Aged care subsidies received from the Ministry of Health, included in rest home, hospital and dementia fee revenue, amounted to $96.9m (2016:$101.1m).
Village Operations	Includes the DMF on the Group's retirement village units, weekly service fees, retirement village operating expenses, and, in respect of underlying measures, the realised gains on resales and the development margins from the sale of both units and care suites.
Other	Includes Support Office and corporate expenses, operating lease costs relating to the Group's three leasehold sites, and the impacts of any extraordinary or one-off transactions. In addition, income and expenditure relating to the Wesley Training Institute is recognised in this segment.

There is a degree of integration between the care and village operations. This includes the provision of services such as meals and care packages by care operations to village residents. Inter-segment pricing is determined at arm's length.

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 ('underlying EBITDA'); being the most relevant measure in evaluating the performance of segments relative to other entities that operate within the aged care and retirement village industries.

2.1. Operating Segments (Continued)

Additional segmental reporting information

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

Goodwill: Goodwill is allocated to Care and Village Cash Generating Units. Refer to note 5.2 for further details.

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

Oceania calculates Underlying NPAT by making the following adjustments to reported NPAT:

- Removing the change in fair value of investment properties and the impairment of property, plant and equipment (from the Statement of Comprehensive Income);
- Removing any impairment of goodwill;
- Removing any loss on disposal of chattels from the decommissioning of development sites;
- Adding back the Directors' estimate of realised gains on ORA units and care suites[1];
- Adding back the Directors' estimate of realised development margin on the cash settlement of the first sale of new ORA units or care suites following the development, or conversion of an existing care bed to a care site or conversion of a rental unit to an ORA unit; and
- Adding back the deferred taxation component of taxation expense so that only current tax expense is reflected.

Resale Gain

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

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

Development Margin

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

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

– An apportionment of land valued based on the gross floor area of the ORA units and care suites developed. The value for Brownfield[2] development land is the estimated fair value of land at the time a change of use occurred[3] (from operating as a care facility or retirement village to a development site), as assessed by an external independent valuer. Greenfield[4] development land is valued at historical cost; and

– Capitalised interest costs to the date of project completion apportioned using the gross floor area of ORA units and care suites developed.

Development costs do not include:

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

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

– In the case of conversion of care beds to care suites, the actual refurbishment costs incurred; and

– In the case of conversions of rental units to ORA units, the actual refurbishment costs incurred and the fair value of the rental unit prior to conversion.

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 May 2017

2.1. Operating Segments (Continued)

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

$'000	Care Operations	Village Operations	Other	Total
2016				
Operating revenue	155,568	14,592	-	170,160
Other income	672	1,479	1,139	3,290
Revaluation of investment property	-	50,167	-	50,167
Total income	**156,240**	**66,238**	**1,139**	**223,617**
Operating expenses	(120,216)	(10,518)	(15,836)	(146,570)
Impairment of goodwill	(838)	-	-	(838)
Impairment of property, plant and equipment	(1,775)	-	-	(1,775)
Segment EBITDA	**33,411**	**55,720**	**(14,697)**	**74,434**
Interest income	-	10	221	231
Finance costs	-	-	(20,491)	(20,491)
Depreciation and amortisation	(6,710)	-	(1,032)	(7,742)
Profit before income tax	**26,701**	**55,730**	**(35,999)**	**46,432**
Taxation benefit			2,218	2,218
Profit for the year attributable to shareholders	**26,701**	**55,730**	**(33,781)**	**48,650**
Adjusted for underlying profit items				
Add / (less): Change in fair value of investment property and impairment of property, plant and equipment	1,775	(50,167)	-	(48,392)
Add: Impairment of goodwill	838	-	-	838
Add: Loss on disposal of chattels at decommissioned sites	-	-	-	-
Add: Realised gain on resale	-	14,071	-	14,071
Add: Realised development margin	-	4,472	-	4,472
Underlying net profit before tax	**29,314**	**24,106**	**(33,781)**	**19,639**
Add: Deferred tax			(2,218)	(2,218)
Underlying net profit after tax	**29,314**	**24,106**	**(35,999)**	**17,421**
Less: Interest income	-	(10)	(221)	(231)
Add: Finance costs	-	-	20,491	20,491
Add: Depreciation and amortisation	6,710	-	1,032	7,742
Underlying EBITDA	**36,024**	**24,096**	**(14,697)**	**45,423**

2.2. Operating Revenue

Accounting Policy

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

Deferred Management Fees

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

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

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

Rest Home, Hospital and Dementia Service Fees

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

Village Service Fees

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

Rental Income

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

$’000	May 2017	May 2016
Deferred management fees	16,330	10,955
Rest home, hospital, dementia fees	149,092	152,956
Village service fees	5,260	5,073
Rental income	1,201	1,176
	171,883	**170,160**

2.3. Other Income

Interest Income

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

Other Income

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

$’000	May 2017	May 2016
Interest income	133	231
Other income	2,826	3,241
	2,959	**3,472**

2.4. Expenses

Accounting Policy

All operating expenses are recognised on an accrual basis.

$'000	Notes	May 2017	May 2016
Profit before income tax includes the following expenses:			
Employee benefits			
Wages and salaries[1]		102,733	104,637
Termination benefits		401	383
Share based payment expense	4.3	140	104
		103,274	**105,124**
Depreciation and amortisation			
Depreciation of property, plant and equipment	3.3	7,706	7,123
Amortisation of software	5.2	205	619
		7,911	**7,742**
Finance costs			
Interest on senior debt facilities		13,135	16,250
Interest on swaps		243	210
Capitalised interest		(517)	(37)
Agency, commitment and line fees		1,514	1,025
Interest on shareholder loans		990	-
Amortisation of bank fees		1,491	986
Interest on other loans		2,853	1,692
Interest on finance lease		437	365
		20,146	**20,491**
Impairment of property, plant and equipment	3.3	**4,328**	**1,775**
Auditor's remuneration			
Audit and review of financial statements		346	301
Other assurance services			
Trustee reporting and external reporting to banks		13	13
Other services			
Taxation compliance services		125	72
Transaction costs[2]	4.1	525	832
Total fees paid to auditor		1,009	1,218
Transaction costs paid to auditor capitalised[2]	4.1	(193)	(308)
Fees to auditor expensed		816	910

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 May 2017

2.4. Expenses (Continued)

$'000	Notes	May 2017	May 2016
Transaction costs	4.1	4,042	-
Impairment of goodwill	5.2	478	838
Repairs and maintenance of property, plant and equipment		2,846	2,658
Repairs and maintenance of investment property		712	670
Loss on disposal of property, plant and equipment		563	-
Donations		3	2
Bad and doubtful debts expense / (release)	5.3	125	(1,973)
Rental expense relating to operating leases		1,339	1,523
Resident consumables		15,230	15,453
Residents share of resale gains		2,207	1,733
Insurance		1,212	1,621
Legal and professional services		1,238	541
Other expenses (no items of individual significance)		18,130	18,308
		48,941	**42,284**
Total expenses		**184,600**	**177,416**

3. Property Assets

3.1. Investment Property

Accounting Policy

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

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

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

$'000	Notes	**May 2017**	May 2016
Investment property under development at fair value			
Opening balance		48,311	33,033
Transfer from property, plant and equipment	3.3	12,944	-
Capitalised expenditure		29,131	7,914
Capitalised interest		230	24
Transfer within investment property		(14,915)	-
Change in fair value during the year		3,785	7,340
Closing balance		**79,486**	**48,311**
Completed investment property at fair value			
Opening balance		447,560	395,660
Transfer within investment property		14,915	-
Transfer to property, plant and equipment	3.3	(2,981)	-
Capitalised expenditure		18,429	9,299
Capitalised interest		232	13
Disposals		(1)	(239)
Change in fair value during the year		53,376	42,827
Closing balance		**531,530**	**447,560**
Total investment property		**611,016**	**495,871**

3.1. Investment Property (Continued)

Change in Fair Value Recognised in the Statement of Comprehensive Income

$'000	May 2017	May 2016
Increase in fair value of investment property	115,145	67,178
Less: Transfers during the year	(9,964)	-
Less: Capitalised expenditure including capitalised interest	(48,021)	(17,250)
Plus: Disposals	1	239
Change in fair value recognised in Statement of Comprehensive Income	**57,161**	**50,167**

Valuation Process and Key Inputs

The Group's interest in all completed investment property was valued on 31 May 2017 by CBRE Limited (2016: CBRE Limited), independent registered valuers and associates of the New Zealand Institute of Valuers, at a total of $252.7m (2016: $189.6m).

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

The valuation calculates the expected cash flows for a projected sequence of sales based on recycle profiling using a Monte Carlo simulation and a stabilised occupancy term for residents. The analysis includes significant unobservable inputs used to determine the fair value, as disclosed below.

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

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 CBRE Limited valuation plus the cost of any work in progress, an amount of $32.2m as at 31 May 2017 (2016: $12.9m), 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 is apportioned between investment property under development and freehold land and buildings under development, in line with the estimated gross floor area of the development as based on information obtained from external Quantity Surveyors at the planning and design stages. Any work in progress is allocated in line with the budgeted cost to build.

Practical completion achieved

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

Completed Investment Property

The Group's interest in all completed investment property was valued by CBRE Limited as at 31 May 2017. CBRE Limited is an independent registered valuer and associate of the New Zealand Institute of Valuers and is appropriately qualified with experience of valuing retirement village properties in New Zealand.

Property Specific Assumptions

Seismic and Weather Tightness Assessments

The CBRE Limited valuation, and accordingly the fair value of investment property, incorporates the findings of independent seismic strength engineering assessments conducted by MSC Consulting Group Ltd ('MSC'), based on visual inspections and by applying the guidelines recommended by the New Zealand Society for Earthquake Engineering. The CBRE Limited valuation also incorporates the estimated costs to address weather tightness at certain sites based on estimates provided by building condition reports completed by CoveKinloch New Zealand Limited in February 2017.

Key Accounting Estimates and Judgements

Introduction

All investment properties have been determined to be Level 3 (2016: Level 3) in the fair value hierarchy as the fair value is determined using inputs that are unobservable.

Classification of Accommodation with a Care or Service Offering

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

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

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

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

3.1. Investment Property (Continued)

Sensitivity

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

Significant Input	Description	2017	2016
Discount rate	The pre-tax discount rate	14.0% – 22.0% (median: 15.0%)	13.75% – 22.0% (median: 15.0%)
Property price growth rate	Anticipated annual property price growth over the cash flow period 0-4 years	0.0% – 3.0%	0.0% – 3.0%
Property price growth rate	Anticipated annual property price growth over the cash flow period 5+ years	2.5% – 3.5%	2.5% – 3.5%
Stabilised Occupancy Period		3.1yrs – 8.4yrs (median: 7.2yrs)	3.1yrs – 8.7yrs (median: 7.0yrs)

Completed Investment Property Sensitivity

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

$'000	Adopted Value	Discount Rate +0.5%	Discount Rate –0.5%	Property Growth Rate +50 bp	Property Growth Rate –50 bp
2016					
Valuation	188,933				
Difference $'000		(6,699)	7,132	9,636	(9,447)
Difference %		(3.5%)	3.8%	5.1%	(5.0%)

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

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

Other Relevant Information

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

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

$'000	May 2017	May 2016
Completed investment property		
Valuation	252,706	188,933
Plus: Refundable occupation licence payments	315,425	290,142
Plus: Residents share of resale gains	9,770	8,690
Less: Management fee receivable	(46,150)	(39,943)
Less: Resident obligations for units not included in valuation	(221)	(262)
	531,530	**447,560**
Investment property under development		
Valuation	79,486	48,311
	79,486	**48,311**
Total investment property at fair value	**611,016**	**495,871**

3.2. Refundable Occupation Right Agreements

Accounting Policy

A new resident is charged a refundable occupation licence payment in consideration for the right to occupy one of the Group's units, apartments or care suites. On termination of the ORA the licence payment is repaid to the exiting resident. The Group has a legal right to set-off any amounts owing to the Group by a resident against that resident's licence payment. Such amounts include deferred management fees, recovery of village operating costs and recovery of outstanding obligations to the village.

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

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

The deferred management fee represents the difference between the management fees receivable under the occupation right agreement and the portion of the management fee accrued which is recognised on a straight-line basis over the greater of the term specified in a resident's occupation right agreement or the average expected occupancy for the relevant accommodation i.e. 7 years for units, 5 years for apartments and 3 years for care suites (2016: 7 years, 5 years, 3 years).

The management fee recognised in the Statement of Comprehensive Income represents income earned in line with the average expected occupancy i.e. the net of the management fee receivable and the deferred management fee for the period.

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

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

3.2. Refundable Occupation Right Agreements (Continued)

$'000	May 2017	May 2016
Village		
Refundable occupation licence payments	315,425	290,142
Residents share of resale gains	9,770	8,690
Less: Management fee receivable	(64,856)	(56,832)
	260,339	**242,000**
Care Suites		
Refundable occupation licence payments	28,285	22,780
Accommodation rebate	575	506
Less: Management fee receivable	(6,295)	(4,169)
	22,565	**19,177**
Total refundable occupation right agreements	**282,904**	**261,117**

Reconciliation of Management Fees recognised under IFRS and per ORA

$'000	May 2017	May 2016
Village		
Management fee receivable (per contract)	(64,856)	(56,832)
Deferred management fee	18,706	16,889
Management fee receivable (per IFRS)	**(46,150)**	**(39,943)**
Care Suites		
Management fee receivable (per contract)	(6,295)	(4,169)
Deferred management fee	828	511
Management fee receivable (per IFRS)	**(5,467)**	**(3,658)**

Expected Maturity

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

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

$'000	May 2017	May 2016
Within 12 months	26,876	24,806
Beyond 12 months from Balance Sheet date	256,028	236,311
Total refundable occupation right agreements	**282,904**	**261,117**

3.3. Property, Plant and Equipment

Accounting Policy

Owner-occupied freehold land and buildings are classified as property, plant and equipment. This comprises land and buildings operated by the Group for the provision of care services.

Land and buildings are stated at fair value based on annual valuations by external independent valuers. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying value of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance Date. No depreciation is charged in the year of sale for all assets other than Buildings in which case depreciation is charged to the date of sale.

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 May 2017

3.3. Property, Plant and Equipment (Continued)

$'000	Freehold Land	Freehold Buildings	Freehold Land and Buildings under Development	Chattels and Leasehold Improvement	Total
At 31 May 2015					
Cost	-	-	-	40,567	40,567
Valuation	68,465	144,593	19,613	-	232,671
Accumulated depreciation	-	-	-	(28,441)	(28,441)
Net book amount	68,465	**144,593**	**19,613**	**12,126**	**244,797**
Year ended 31 May 2016					
Opening net book amount	68,465	144,593	19,613	12,126	244,797
Additions	209	2,611	1,854	6,368	11,042
Disposals	-	(17)	-	(1,863)	(1,880)
Depreciation	-	(4,436)	-	(2,687)	(7,123)
Reclassification within property, plant and equipment	(2,800)	-	2,800	-	-
Net revaluation surplus	3,216	492	2,595	-	6,303
Closing net book amount	**69,090**	**143,243**	**26,862**	**13,944**	**253,139**
At 31 May 2016					
Cost	-	-	-	45,072	45,072
Valuation	69,090	143,243	26,862	-	239,195
Accumulated depreciation	-	-	-	(31,128)	(31,128)
Net book amount	**69,090**	**143,243**	**26,862**	**13,944**	**253,139**
Year ended 31 May 2017					
Opening net book amount	69,090	143,243	26,862	13,944	253,139
Additions	360	7,364	7,841	4,397	19,962
Capitalised interest	-	-	56	-	56
Disposals	-	-	-	(570)	(570)
Depreciation	-	(4,588)	-	(3,118)	(7,706)
Transfer from / (to) investment property	-	2,081	(12,044)	-	(9,963)
Reclassification within property, plant and equipment	-	113	(113)	-	-
Net revaluation surplus	2,595	5,255	5,204	-	13,054
Closing net book amount	**72,045**	**153,468**	**27,806**	**14,653**	**267,972**
At 31 May 2017					
Cost	-	-	-	46,750	46,750
Valuation	72,045	153,468	27,806	-	253,319
Accumulated depreciation	-	-	-	(32,097)	(32,097)
Net book amount	**72,045**	**153,468**	**27,806**	**14,653**	**267,972**

Key Accounting Estimates and Judgements

All land and buildings have been determined to be Level 3 (2016: Level 3) in the fair value hierarchy as the fair value is determined using inputs that are unobservable.

Valuation Process and Key Inputs

The Group's land and buildings and land and buildings under development were revalued on 31 May 2017 by independent registered valuers CBRE Limited (2016: CBRE Limited). CBRE Limited are appropriately qualified with experience of valuing residential aged care and retirement village properties in New Zealand.

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

Total net revaluation gains of $13.0m have been recognised in the current year in respect of land and buildings (2016: $6.3m gain). In the current year an impairment of $4.3m (2016: $1.8m) has been recognised in the Statement of Comprehensive Income. The remaining gain of $17.3m (2016: $8.0m gain) has been recognised in the revaluation reserve together with deferred tax of $1.2m (2016: $0.9m decrease). Refer to note 5.1 for the tax effects of revaluation.

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

The CBRE Limited valuation incorporates the estimated costs to address weather tightness at certain sites based on estimates provided by building condition reports completed by CoveKinloch New Zealand Limited in February 2017.

Critical Judgements and Estimates in Applying Accounting Policies

(i) Classification of Care Suites

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

3.3. Property, Plant and Equipment (Continued)

(ii) Valuation of Freehold Land and Buildings

The valuation approach for the freehold land and buildings is an income capitalisation approach and/or discounted cash flow analysis supplemented by the direct comparison approach. The valuation is determined by the capitalisation of net cash flow profit/earnings before interest, tax, depreciation, amortisation and rent ('EBITDAR') under the assumption a positive cash flow will be generated into perpetuity. Capitalisation rates range from 10.0% to 18.5% (2016: 10.0% to 18.73%) with a median value of 13.5% (2016: 13.63%). The valuation has been apportioned between land, buildings, chattels / plant and equipment and goodwill to determine the fair value of the assets.

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

Sensitivity

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

$'000	Adopted Value	Capitalisation Rate +50 bp	Capitalisation Rate –50 bp
31 May 2016			
Freehold land and buildings (excluding property under development)			
Valuation	212,333		
Difference $		(11,678)	11,891
Difference %		(5.5%)	5.6%

Finance leases

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

As at 31 May 2016 the Group leased one care facility (Elderslea) that included contractual rights and obligations to purchase the property. At this time the site was recognised as freehold land and buildings in property, plant and equipment with a corresponding secured obligation recognised in other borrowings. On 31 May 2017 the Group exercised an option to purchase the freehold land and buildings at Elderslea. At this time the lease liability was extinguished.

Carrying Value of Assets

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

$'000	Freehold Land	Freehold Buildings	Freehold Land and Buildings under Development	Total
Carrying amount Historical cost 2017	43,931	150,974	5,919	200,824
Carrying amount Historical cost 2016	45,480	145,673	5,536	196,689

4. Shareholders' Equity and Funding

4.1. Shareholder Equity and Reserves

Accounting Policy

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

	May 2017 Shares	May 2016 Shares	**May 2017 $'000**	May 2016 $'000
Share capital				
Authorised, issued and fully paid up capital	610,254,535	340,213,420	579,480	372,633
Total contributed equity	**610,254,535**	**340,213,420**	**579,480**	**372,633**
Movements				
Opening balance of ordinary shares issued	340,213,420	335,463,416	372,633	371,583
Subscription for shares (Oceania Healthcare Holdings Limited)	13,712,002	2,019,232	14,398	1,050
Subscription for shares (IPO)	253,164,557	-	200,000	-
Capitalised costs on IPO	-	-	(7,533)	-
Shares issued for long term incentive plan	3,164,556	2,730,772	-	-
Closing balance of ordinary shares issued	**610,254,535**	**340,213,420**	**579,498**	**372,633**

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

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

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

The treatment of transaction costs is a significant assumption. Costs which are directly attributable to the issuing of new shares have been netted against equity, including fees paid to Joint Lead Managers and the Investigating Accountant. Costs which relate to both the issuing of new shares and listing costs, such as legal fees, are apportioned between equity and expense, through the Statement of Comprehensive Income, in proportion to the new shares issued as a percentage of total shares.

Proceeds of $200m were raised pursuant to the IPO in accordance with the Product Disclosure Statement dated 31 March 2017. The proceeds were applied by the Group as follows:

$'m	**Application of Funds**
179.0	To repay $179 million of external borrowings including all accrued interest and fees to 4 May 2017.
10.7	To fund costs related to the IPO incurred in the financial year to 31 May 2017. This includes all capitalised IPO costs, listing costs and management bonuses expensed to the Statement of Comprehensive Income in 2017.
10.3	Retained by the Group.
200.0	**Gross proceeds**

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

4.1. Shareholder Equity and Reserves (Continued)

Recognition and Measurement

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

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

Dividends

As outlined in the Product Disclosure Statement no dividend is to be declared for the year ended 31 May 2017 with the first dividend anticipated to be paid during the 2018 financial year in respect of the first half of the 2018 financial year ending 30 November 2017.

Asset Revaluation Reserve

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

Interest Rate Swap Reserve

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

4.2. Earnings per Share

Basic

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

	May 2017	May 2016
Profit after tax ($'000)	**44,882**	**48,650**
Weighted average number of ordinary shares outstanding ('000s)	360,868	336,462
Basic earnings per share (cents per share)	**12.4**	**14.5**

Diluted

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

	May 2017	May 2016
Profit after tax ($'000)	**44,882**	**48,650**
Diluted weighted average number of ordinary shares outstanding ('000s)	360,890	336,462
Diluted earnings per share (cents per share)	**12.4**	**14.5**

4.3. Employee Share Based Payments

(a) Long Term Incentive Plan

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

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

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

The 2,730,772 shares in the 2015 share plan vest equally upon three vesting criteria being achieved as follows:

	Vesting Date	Vesting Criteria
First	Business day after an IPO	IPO of the Company
Second	Business day after FY2017 accounts are released	Non-market earnings based performance hurdle
Third	Business day after FY2017 accounts are released	Total shareholder return hurdle

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

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

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

During the year to 31 May 2017, 910,257 shares (or 33.33%) of the 2015 plan have vested and are held directly by employees, a portion of which are subject to escrow requirements. These shares were originally issued at $0.52 per share during the 2016 financial year.

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

	May 2017 Shares	May 2016 Shares
Opening balance	2,730,772	-
Granted during the year	3,164,556	2,730,772
Vested during the year	(910,257)	-
Forfeited during the year	-	-
Closing balance	**4,985,071**	**2,730,772**

4.3. Employee Share Based Payments (Continued)

(b) Key Estimates and Assumptions

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

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

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

As at 31 May 2017 it has been assumed that Participants will remain employed with the Group and that the earnings based performance hurdles will be met. Dividend assumptions are based on forecast dividend payments over the vesting period. Any dividend payments during the vesting period are applied to the outstanding balance of the loan.

The combined cost for the year is $0.1m (2016: $0.1m) giving a total cost to date of $0.2m (2016: $0.1m).

4.4. Borrowings

Accounting Policy

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

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

$'000	May 2017	May 2016
Secured		
Bank loans	89,430	240,996
Other loans	-	14,578
Capitalised loan costs	(627)	(1,476)
Finance leases	6,439	5,037
Total borrowings	**95,242**	**259,135**
Current	2,201	12,150
Non current	93,668	248,461
Total borrowings excluding capitalised loan costs	**95,869**	**260,611**

Recognition and Measurement

(i) Bank Loans

Under the Group's senior debt facilities prior to the IPO, interest on loans and advances was charged using the BKBM Bill rate plus a margin. Interest is now charged using the BKBM Bill rate plus a margin and line fees. Interest rates applicable in the year to 31 May 2017 ranged from 3.61% to 5.97% (2016: 5.84% to 6.89%).

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

Financing Arrangements

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

	May 2017		May 2016	
$'000	**Committed**	**Drawn**	Committed	Drawn
General Corporate Facility	60,000	20,965	-	-
Term Loan Facility	-	-	221,043	221,043
Development Facility	175,000	68,465	43,000	2,575
Capex Facility	-	-	17,000	14,728
Working Capital Facility	-	-	8,000	2,650
Total	**235,000**	**89,430**	**289,043**	**240,996**

The Group's revolving Development Facility is utilised to cover costs associated with current development projects. The revolving General Corporate Facility represents corporate debt supported by the cash flows of the business as well as development land.

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 that the Group must comply with, tested half yearly include:

a) Interest Cover Ratio – the ratio of Adjusted EBITDA to Net Interest Charges is not less than 1.75x; and

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

Assets Pledged as Security

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

4.4. Borrowings (Continued)

(ii) Other Loans

As at 31 May 2016 other loans included the borrowings recognised in relation to the contractual property rights and obligations for the Elderslea rest home. An option to purchase the freehold land and buildings at this site was exercised on 31 May 2017 thereby extinguishing this liability.

(iii) Finance Lease

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

	Minimum Future Lease Payments	
$'000	**May 2017**	May 2016
Not later than 1 year	2,201	1,500
Later than 1 year and not later than 5 years	5,084	4,290
Minimum lease payments	**7,285**	**5,790**
Less: future finance charges	(846)	(753)
Present value of minimum lease payments	**6,439**	**5,037**
Included in the financial statements as:		
Finance leases – current portion	1,813	1,194
Finance leases – non current portion	4,626	3,843

5. Other Disclosures

5.1. Income Tax

Accounting Policy

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

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

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

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

$'000	May 2017	May 2016
Income tax expense / (benefit)		
Current tax	-	-
Deferred tax	2,525	(2,218)
	2,525	**(2,218)**
Taxation expense / (benefit) is calculated as follows:		
Profit before income tax	47,407	46,432
Tax at the New Zealand tax rate of 28%	13,274	13,001
Adjusted by the tax effect of:		
Non-deductible impairment of goodwill	134	235
Non-deductible expenditure	1,425	340
Capitalised interest deductible for tax	(145)	(10)
Non assessable revaluation of investment property	(16,005)	(13,561)
Impact of change to held for use for investment property	9,844	-
Impact of movement in investment property valuation	(817)	(900)
Impact of movement in property, plant and equipment valuation	(2,427)	(3,619)
Shared Resale Gains	(1,663)	-
Other adjustments	(6)	-
Prior period adjustments	(631)	(394)
	(10,291)	**(17,909)**
Subtotal adjusted income tax expense / (benefit)	**2,983**	**(4,908)**
(Recognition of previously unrecognised tax losses) / De-recognition of tax losses	(458)	2,690
Income tax expense / (benefit) in Statement of Comprehensive Income	**2,525**	**(2,218)**

5.1. Income Tax (Continued)

Movement in the Deferred Tax Balance

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

$'000	Balance 1 June 2015	Recognised in Income	Recognised in Other Comprehensive Income	Balance 31 May 2016
Investment property	(3,077)	994	-	(2,083)
Property, plant and equipment	(24,477)	2,183	937	(21,357)
Provisions and other assets / liabilities	3,223	(959)	-	2,264
Tax losses	-	-	-	-
Deferred tax liabilities	**(24,331)**	**2,218**	**937**	**(21,176)**

Recognition and Measurement

No income tax was paid or payable during the period (2016: nil).

Key Accounting Judgements

(i) Deferred Tax on Investment Property

A change in the approach for the recognition of deferred tax on investment property has been applied from 1 June 2016. Previously, deferred tax in relation to investment property assets has been recognised on the basis of the asset value being realised through sale ('Held for Sale'). From 1 June 2016 deferred tax on investment property is assessed on the basis that the asset value will be realised through use ('Held for Use'). This is a key area of judgement and represents a change in estimate from 1 June 2016.

NZ IAS 12 '*Income Taxes*' provides that there is a rebuttable presumption that investment property measured at fair value under NZ IAS 40 is recovered entirely through sale. This presumption is rebutted if:

- the investment property is depreciable (e.g. buildings and land under a lease); and
- the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Due to changes in the objectives of the Group's business model, the Group has rebutted the presumption as the Held for Use methodology more appropriately represents the Group's current business model. The Group's current business model is to be a long term operator of a large scale portfolio of integrated care facilities and villages and consume substantially all of the economic benefits of its investment property through operating the existing villages and/or redeveloping these villages over time. Furthermore, the objective of the current business model is not to sell investment property sites.

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).

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

As a result of applying the Held for Use methodology, the deferred tax liability recognised on investment property as at 31 May 2017 has increased to $12.2m. This compares to $2.4m, had the Held for Sale methodology continued to be applied.

The Group considered whether deferred tax should be recognised on the basis that the DMF is 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 deferred tax based on the DMF being receivable at the end of the ORA period as this best represents the Group's contractual entitlement.

The Group's ORA comprises two gross cash flows (being an ORA deposit upon entering the unit and the refund of this deposit upon exit) that are non-taxable and need to be excluded to determine the taxable temporary differences arising on investment properties. Contractually, management fees are received upon refund of the ORA deposit by way of set off on exit of a unit by a resident.

Should the DMF be treated as received at the beginning of the ORA period an additional deferred tax liability of $3.1m (2016: $1.8m) would be recognised on the Balance Sheet. An additional current year tax expense of $3.1m (2016: $1.8m) and a corresponding reduction in net profit after tax of $3.1m (2016: $1.8m) would also be recognised.

(ii) Recognition of Tax Losses

Up until 31 May 2015 the Company and its subsidiaries were members of a Tax Consolidated Group together with the Company's parent company, Oceania Healthcare Holdings Limited ('OHHL'). The issuance of shares to the executive members participating in the Long Term Incentive Plan in November 2015 triggered the Company and its subsidiaries' exit from the tax consolidated group as the Company, and its subsidiaries, no longer met the Tax Consolidated Group eligibility criteria of being in a wholly-owned group. The impact of this is that all tax losses incurred by the Company and its subsidiaries until 31 May 2015 remain within the Tax Consolidated Group (of which OHHL is the sole member). These losses can be utilised by the Company and its subsidiaries by way of a group loss offset so long as a minimum of 66% common shareholding is maintained in Oceania Healthcare Limited.

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

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

The Group entered into a tax loss offset agreement with its parent company, OHHL, to offset the taxable income generated by Oceania Village Company Limited ('OVCL'), a subsidiary of the Company, for the year ended 31 May 2016 for $27.5m. Following the loss offset of the OVCL taxable income with OHHL losses, and losses generated in the May 2017 year, the Group will have $42.5m (31 May 2016: $34.0m) of available tax losses at 31 May 2017. Based on the Group's forecast profit prior to any breach of shareholding continuity, $8.4m of these losses are expected to be utilised against the future taxable profits of the Group. Accordingly, $2.3m (28% of the $8.4m) has been recognised as a deferred tax asset in respect of the available tax losses as at 31 May 2017.

(iii) Shared Resale Gains

The Group has revisited the tax filing position to recognise a deduction on a realisation basis for the capital gains paid out to residents on exit. This has resulted in a deferred tax asset of $1.9m.

(iv) Update of 30 November 2016 Comparatives

In estimating the income tax expense and deferred tax liability in the interim period to 30 November 2016, certain assets were classified incorrectly as depreciable for tax purposes. As a result the deferred tax liability as at 30 November 2016 and, consequently, the income tax expense for the interim period ended 30 November 2016 were understated by $4.1m. There is no cash impact in the interim period to 30 November 2016. There was also no impact on the annual financial statements for the year ended 31 May 2016. The classification has been corrected in the estimation of the income tax expense and deferred tax liability in the annual financial statements for the year ended 31 May 2017.

5.2. Intangible Assets

Accounting Policy

Goodwill

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

Computer Software

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

$'000	Goodwill	Software	Total
Year ended 31 May 2016			
Opening net book amount	18,133	714	18,847
Additions	-	232	232
Amortisation and impairment charge	(838)	(619)	(1,457)
Closing net book amount	**17,295**	**327**	**17,622**
As at 31 May 2016			
At cost	216,203	3,080	219,283
Accumulated amortisation and impairment	(198,908)	(2,753)	(201,661)
Net book amount	**17,295**	**327**	**17,622**
Year ended 31 May 2017			
Opening net book amount	17,295	327	17,622
Additions	-	114	114
Amortisation and impairment charge	(478)	(205)	(683)
Closing net book amount	**16,817**	**236**	**17,053**
As at 31 May 2017			
At cost	216,203	3,194	219,397
Accumulated amortisation and impairment	(199,386)	(2,958)	(202,344)
Net book amount	**16,817**	**236**	**17,053**

Impairment Test for Goodwill

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

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

Key Judgements in Applying the Accounting Policies

Care CGU's Recoverable Amount

The recoverable amount of the individual care sites has been determined based on an external valuation of fair value less costs to sell by CBRE Limited as an external valuer. The fair value less costs to sell is considered level 3 in the fair value hierarchy. This has been used for comparison to current carrying value. The assumptions used in determining the fair value for care facilities are disclosed in note 3.3. Reasonable possible movements in the capitalisation rates have been considered to have no material impact on the carrying value of goodwill.

5.3. Trade and Other Receivables

Accounting Policy

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

$'000	May 2017	May 2016
Net trade and other receivables		
Trade receivables	10,281	10,541
Less: Provision for impairment	(669)	(649)
	9,612	**9,892**
Occupation right agreements receivable	883	387
Prepayments	807	1,844
Related party receivables	-	22
Trade and other receivables	**11,302**	**12,145**

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

$'000	May 2017	May 2016
Opening provision for doubtful debts	649	4,250
Balances recovered	(352)	(2,157)
Increase in provision	537	254
Bad debts written off	(165)	(1,698)
Closing provision for doubtful debts	**669**	**649**

5.3. Trade and Other Receivables (Continued)

Recognition, Measurement and Critical Judgements in Applying Accounting Policies

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

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

The ageing of these receivables is as follows:

$'000	May 2017	May 2016
Past due and impaired receivables (by invoice date)		
0 to 3 months	467	152
Over 3 months	202	497
	669	**649**
Past due but not impaired receivables (by invoice date)		
0 to 3 months	765	681
Over 3 months	678	699
	1,443	**1,380**

Trade receivables past due but not impaired are considered to be fully collectible in the ordinary course of business.

5.4. Trade and Other Payables

Accounting Policy

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

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

Sundry payables include $0.1m (2016: $0.3m) relating to cash held on behalf of residents.

Wages and Salaries, Annual Leave

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

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

Long Service Leave

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

$'000	May 2017	May 2016
Trade payables	3,518	2,872
Sundry payables and accruals	11,272	6,955
Accrued interest on external borrowings and derivatives	35	4
Employee entitlements	12,655	14,144
Trade and other payables	**27,480**	**23,975**

5.5. Related Party Transactions

Parent and Subsidiary Entities

The Group's parent entity is Oceania Healthcare Holdings Limited, owning 57.22% of the Group. The ultimate owners are The Trust Company Limited (interest 98.8%) and Ngakuta Trust Company Limited (interest 1.2%). The below entities are subsidiaries of Oceania Healthcare Limited.

Name of Entity	Principal Activities	2017	2016	Class of Shares
Oceania Group (NZ) Limited	Support office functions	100%	100%	Ordinary
Oceania Care Company Limited	Operation of aged care facilities	100%	100%	Ordinary
Oceania Village Company Limited	Ownership and operation of retirement villages	100%	100%	Ordinary
OCA Employees Trustee Limited	Hold LTIP shares on behalf of employees	100%	-	Ordinary

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

Key Management Personnel Compensation

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

$'000	May 2017	May 2016
Directors' fees	370	208
Salaries and other short term employee benefits	3,282	2,189
Termination benefits	-	114
	3,652	**2,511**

5.5. Related Party Transactions (Continued)

Transactions with Related Parties

The following transactions occurred with related parties:

$'000	Notes	May 2017	May 2016
Transactions with shareholders			
Shares issued to Oceania Healthcare Holdings Limited	4.1	14,398	-

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

Outstanding Balances

$'000	May 2017	May 2016
Amount owing from Oceania Healthcare Holdings Limited for central treasury function	-	22

5.6. Financial Risk Management

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

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

(a) Market Risk

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

(b) Cash Flow and Fair Value Interest Rate Risk

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

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

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

	+1%		–1%	
$'000	**Profit / Loss**	**Equity**	**Profit / Loss**	**Equity**
2017				
Interest expense	(520)	(520)	520	520
Change in fair value of interest rate swaps	9	1,966	(35)	(1,388)
2016				
Interest expense	(2,581)	(2,581)	2,581	2,581
Change in fair value of interest rate swaps	436	436	(441)	(441)

Interest Rate Swaps

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

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

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

Under the interest rate swap agreements, the Group has a right to receive interest at variable rates and an obligation to pay interest at fixed rates. At 31 May 2017, the Group had interest rate swap agreements in place with a total notional principal amount of $100.0 million (2016: $178.5 million). Of the interest rate swaps in place, at 31 May 2017, $100.0 million (2016: $178.5 million) are being used to cover approximately 111% (2016: 74%) of the loan principal outstanding. The current swaps were entered into on 29 November 2016 prior to the IPO and the repayment of debt that occurred at this time. The notional principal of $100.0m was determined in accordance with the Group's Treasury Policy based on the Group's forecast medium term debt exposure. The ratio of notional principal to drawn bank debt as at 31 May 2017, i.e. over 100%, will reduce below 100% over the course of the 2018 financial year as drawings on the Development Facility increase to fund work in progress. These agreements effectively change the Group's interest exposure on the principal covered by the interest rate swaps from a floating rate to fixed rate. Bank loans of the Group currently bear an average fixed interest rate (including margin and line fees) of 4.1% (2016: 5.97%). The fair value of these agreements at 31 May 2017 is $0.3m liability. The agreements cover notional amounts for a term of 2.5 years.

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

	Average contracted fixed interest rate		Notional principal amount	
$'000	**May 2017**	May 2016	**May 2017**	May 2016
Less than 1 year	4.10	5.97	100,000	178,500
Between 1 and 2 years	4.10	-	100,000	-
Between 2 and 3 years	4.10	-	100,000	-

Notes to the Financial Statements (Continued)

For the year ended 31 May 2017

5.6. Financial Risk Management (Continued)

(c) Credit Risk

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

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

Concentrations

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

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

(d) Liquidity Risk

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

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

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

$'000	Less than 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years
2017				
Trade and other payables	14,790	-	-	-
Borrowings	6,273	6,045	96,133	-
Interest rate swaps	159	159	-	-
Refundable occupation right agreements	282,904	-	-	-
2016				
Trade and other payables	9,916	-	-	-
Borrowings	29,014	240,874	18,376	-
Refundable occupation right agreements	260,962	-	-	-

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

(e) Capital Risk Management

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

5.7. Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

No new standards effective as at 1 June 2016 have had a material impact on the financial statements.

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

The following relevant standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 June 2017 or later periods, but the Group has not early adopted them.

NZ IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018). The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 *Financial Instruments: Recognition and Measurement* requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is currently assessing the full impact of NZ IFRS 9 and has decided to not early adopt this standard.

NZ IFRS 15, 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2018). NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 '*Revenue*' and NZ IAS 11 '*Construction contracts*' and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group is currently assessing the full impact of NZ IFRS 15 and has decided to not early adopt this standard.

NZ IFRS 16, 'Leases' (effective for annual periods beginning on or after 1 January 2019). NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that leases and lessors provide relevant information in a manner that faithfully represents those transactions. It replaces the current lease guidance in NZ IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a lease', SIC 15 'Operating leases – Incentives' and SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'. The Group has decided not to early adopt NZ IFRS 16 and is currently assessing its full impact. Should the Group decide to early adopt NZ IFRS 16 in a future period, NZ IFRS 15 '*Revenue from contracts with customers*' must also be adopted.

Notes to the Financial Statements (Continued)

For the year ended 31 May 2017

5.8. Contingencies and Commitments

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

(a) Capital Commitments

At 31 May 2017 the Group has a number of commitments to develop and construct certain facilities totalling $41.6m (2016: $23.0m) of which $39.5m (2016: $23.0m) relates to development sites.

(b) Lease Commitments

Finance Leases

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

On 28 October 2015, subsidiaries of the Group entered into an agreement with a third party to develop Everil Orr, an existing leasehold care site. The site will continue to operate as a leasehold care site and after development will also perform village operations. This transaction does not impact on the 31 May 2017 financial statements as the practical completion date is not certain at this time. Accordingly the Group has not valued this finance lease. There are two other sites that are also subject to a development deed with the same landlord.

Operating Leases

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

Commitments in relation to operating leases are payable as follows:

$'000	**May 2017**	May 2016
Within one year	1,535	1,843
Later than one year but not later than five years	3,809	5,880
Later than five years	8,577	10,033
	13,921	**17,756**

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

(c) Repairs and Maintenance

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

5.9. Events After Balance Date

On 13 July 2017 the Board approved the construction of a new care facility at the Melrose facility at an estimated cost of $19.1m (excl GST).

There have been no other significant events after Balance Date.

5.10. Comparison to Prospective Financial Statements

Consolidated Statement of Comprehensive Income

$'000	Actual May 2017	Prospective May 2017
Operating revenue	171,883	173,564
Change in fair value of investment property	57,161	37,302
Change in fair value of interest rate swaps	4	-
Other income	2,959	-
Total income	**232,007**	**210,866**
Employee benefits	103,274	103,097
Depreciation and amortisation	7,911	7,775
Finance costs	20,146	19,980
Impairment of property, plant and equipment	4,328	2,823
Other expenses	48,941	48,427
Total expenses	**184,600**	**182,102**
Profit before income tax	**47,407**	**28,764**
Income tax expense	(2,525)	(3,487)
Profit for the Year	**44,882**	**25,277**
Other comprehensive income	**16,022**	**665**
Total comprehensive income for the period	**60,904**	**25,942**

Commentary

Income was $21.1m ahead of the IPO forecast for the year ended 31 May 2017 due to a larger increase in the fair value of investment property ('IP') than forecast ($19.9m). The IPO forecast reflected the half year valuations as at 30 November 2016 and assumed no further increase in the current ingoing prices at Oceania's existing villages would be used in the CBRE valuations for 31 May 2017 that derive the fair value movements. The actual fair value of Oceania's IP as at 31 May 2017 was above that as at 30 November 2016 primarily due to increases in the current ingoing prices achieved by Oceania and, consequently, adopted by CBRE Limited in their valuation.

Expenses were in line with the IPO forecast with the exception of the impairment of property, plant and equipment ('PPE'). The IPO forecast reflected the impairment of PPE recorded in the interim accounts to 30 November 2016 but did not assume any subsequent impairment of PPE for the period to 31 May 2017. The actual net revaluation of PPE was $13.0m incorporating a $17.3m increase through the revaluation reserve ($16.2m net of tax) offset by an impairment of $4.3m. The principal cause of the variation of the impairment of PPE to the IPO forecast was a reduction in the fair value of buildings at Lady Allum of $1.8m due to a corresponding increase in the fair value of land (with the overall valuation of land and buildings being constant).

Tax expense was $1.0m below the IPO forecast as a result of the change in the treatment of residents share of resale gains ($1.9m), discussed in note 5.1, combined with the tax effect of the differences noted above.

Notes to the Financial Statements (Continued)

For the year ended 31 May 2017

5.10. Comparison to Prospective Financial Statements (Continued)

Consolidated Balance Sheet

$'000	Actual May 2017	Prospective May 2017
Assets		
Cash and cash equivalents	10,861	4,357
Trade and other receivables	11,302	11,636
Property, plant and equipment	267,972	234,839
Investment property	611,016	618,354
Intangible assets	17,053	16,990
Total assets	**918,204**	**886,176**
Liabilities		
Trade and other payables	27,480	23,550
Derivative financial instruments	283	-
Deferred management fee	19,534	-
Refundable occupation right agreements	282,904	302,608
Borrowings	95,242	103,004
Deferred tax liability	24,808	23,767
Total liabilities	**450,251**	**452,929**
Net Assets	**467,953**	**433,247**
Equity		
Contributed equity	579,498	587,030
Retained deficit	(195,966)	(222,847)
Reserves	84,421	69,064
Total equity	**467,953**	**433,247**

Commentary

Cash was $6.5m above the IPO forecast due to the higher number of new ORA sales at Lady Allum as well as the timing of the repayment of the development debt facility (being on the 20th of June 2017 rather than contemporaneous with the sale as forecast).

For the purposes of the modelling of the fair values of PPE and IP for the IPO forecast, all PPE under development was aggregated with IP under development. Consequently the variation to the IPO forecast for the PPE and IP balances is most appropriately considered collectively, i.e. $879.0m (actual) compared to $853.2m (forecast). As outlined above, the variance principally relates to the revaluation of existing village and care assets.

The IPO forecast also aggregated the deferred management fee and refundable occupation right agreements consistent with the presentation of the FY2016 annual financial statements (refer to section 1.2 (iv)). On a consolidated basis the actual balance as at 31 May 2017 of $302.4m is in line with the IPO forecast of $302.6m.

Borrowings of $95.2m was lower than the IPO forecast ($103.0m) due to a combination of lower development capital expenditure than forecast as well as the timing of repayments as outlined above.

Consolidated Statement of Changes in Equity

$'000	Contributed Equity	Retained Deficit	Reserve	Total Equity
Assets				
Balance at 1 June 2016	**372,633**	**(240,988)**	**68,399**	**200,044**
Profit for the year	-	44,882	-	44,882
Other comprehensive income				
Revaluation of interest rate swaps	-	-	(182)	(182)
Revaluation of assets net of tax			16,204	16,204
	-	**44,882**	**16,022**	**60,904**
Share capital issued	214,398	-	-	214,398
Costs capitalised to equity	(7,533)	-	-	(7,533)
Employee share scheme		140	-	140
	206,865	**140**	**-**	**207,005**
Balance at 31 May 2017	**579,498**	**(195,966)**	**84,421**	**467,953**
Prospective Forecast				
Balance at 1 June 2016	**372,633**	**(240,988)**	**68,399**	**200,044**
Profit for the year	-	25,277	-	25,277
Other comprehensive income				
Revaluation of interest rate swaps	-		-	-
Revaluation of assets net of tax	-	-	665	665
	-	**25,277**	**665**	**25,942**
Share capital issued	214,398	-	-	214,398
Costs capitalised to equity	(7,137)	-	-	(7,137)
Employee share scheme	-	-	-	-
	207,261	**-**	**-**	**207,261**
Balance at 31 May 2017	**579,894**	**(215,711)**	**69,064**	**433,247**

Commentary

Equity was $34.7m above the IPO forecast due to the higher NPAT achieved and an increase in the asset revaluation reserve due to the aforementioned revaluation of PPE (refer to Balance Sheet commentary above).

Notes to the Financial Statements (Continued)

For the year ended 31 May 2017

5.10. Comparison to Prospective Financial Statements (Continued)

Consolidated Cash Flow Statement

$'000	**Actual May 2017**	Prospective May 2017
Receipts from customers	159,289	158,315
Payments to suppliers and employees	(141,062)	(147,743)
Receipts from new occupation right agreements	68,763	66,775
Payments for outgoing occupation right agreements	(30,894)	(28,382)
Interest received	133	64
Interest paid	(17,306)	(17,191)
Net cash inflow from operating activities	**38,923**	**31,838**
Proceeds from sale of property, plant and equipment and investment property	7	-
Payments for property, plant and equipment and intangible assets	(33,503)	(37,168)
Payments for investment property and investment property under development	(47,560)	(51,839)
Net cash outflow from investing activities	**(81,056)**	**(89,007)**
Proceeds from borrowings	144,994	162,008
Repayment of borrowings	(285,424)	(294,133)
Transaction costs	(10,680)	(10,453)
Proceeds from share issue	200,000	200,000
Net cash inflow from financing activities	**48,890**	**57,422**
Net increase in cash and cash equivalents	**6,757**	**253**
Cash and cash equivalents at beginning of the period	4,104	4,104
Cash and cash equivalents at end of the period	**10,861**	**4,357**

Changes to Presentation of IPO forecast cash flow statement

To assist with comparison with the IPO forecast, the following changes in the presentation of the cash flow statement per the IPO forecast have been made to align with the audited cash flow statement:

1) Transaction costs of $10.5m have been reclassified from payments to suppliers and employees to financing cashflows as a separate line item;

2) Acquisition of the freehold land and buildings at Elderslea of $16.1m has been reclassified from repayment of borrowings to payments for PPE;

3) The proceeds from drawdowns and repayments has been presented on a gross basis, whereas the IPO forecast presented the net repayment of borrowings made as a result of the IPO as the repayment of borrowings; and

4) The IPO forecast presented the conversion of the $14.4m of shareholder loans from OHHL to equity as a separate repayment of borrowings and proceeds from issue of shares. This was a non-cash transaction. Accordingly the IPO forecast has been adjusted to align with the presentation of the audited cash flow statement.

These reclassifications are outlined in the table below:

$'000	IPO forecast as issued May 2017	Transaction Costs	Elderslea Acquisition	Gross Borrowings	Shareholder Loan	IPO forecast as presented above May 2017
Receipts from customers	158,315	-	-	-	-	158,315
Payments to suppliers and employees	(158,196)	10,453	-	-	-	(147,743)
Receipts from new occupation right agreements	66,775	-	-	-	-	66,775
Payments for outgoing occupation right agreements	(28,382)	-	-	-	-	(28,382)
Interest received	64	-	-	-	-	64
Interest paid	(18,181)	-		-	990	(17,191)
Net cash inflow from operating activities	**20,395**	**10,453**	**-**	**-**	**990**	**31,838**
Proceeds from sale of property, plant and equipment and investment property	-	-	-	-	-	-
Payments for property, plant and equipment and intangible assets	(21,026)	-	(16,142)	-	-	(37,168)
Payments for investment property and investment property under development	(51,839)	-	-		-	(51,839)
Net cash outflow from investing activities	**(72,865)**	**-**	**(16,142)**	**-**	**-**	**(89,007)**
Proceeds from borrowings	68,327	-	-	93,681	-	162,008
Repayment of borrowings	(230,002)	-	16,142	(93,681)	13,408	(294,133)
Transaction costs	-	(10,453)	-	-	-	(10,453)
Proceeds from issue of shares	214,398	-	-	-	(14,398)	200,000
Net cash inflow from financing activities	**52,723**	**(10,453)**	**16,142**	**-**	**(990)**	**57,422**
Net increase in cash and cash equivalents	253					253
Cash and cash equivalents at beginning of the year	4,104					4,104
Cash and cash equivalents at end of the year	**4,357**					**4,357**

Commentary

Operating cashflow was above the IPO forecast due to lower payments to suppliers.

As outlined above, payments for PPE and IP were estimated in aggregate as payments for IP for the purposes of the IPO forecast. The combined variance of $8.0m (note PPE and IP) is due to lower development capital expenditure as this was modelled on a 'straight line' basis for the IPO forecast with expenditure apportioned equally over the construction period.

The net cash inflow from financing is lower than the IPO forecast due to lower than forecast drawings on the development debt facility.

Independent Auditor's Report

To the shareholders of Oceania Healthcare Limited

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 May 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Oceania Healthcare Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 May 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

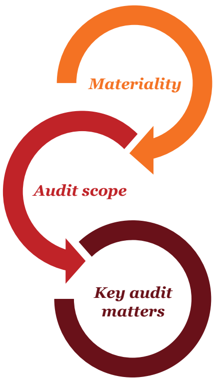
We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements*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

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

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

Our firm carries out other services for the Group in the areas of other assurance services, tax compliance services and due diligence work in relation to the initial public offering. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach



Overview

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

Overall Group materiality is $1.7 million, which represents 1% of operating revenue.

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

We believe 1% of operating revenue provides a dollar value that would influence the users of the consolidated financial statements in assessing the performance of the Group.

We have two key audit matters:

- Valuation of investment property and freehold land and buildings
- Change in deferred tax presumption for investment property

Materiality

The scope of our audit was influenced by our application of materiality.

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

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. Given the nature or location of the entities comprising the Group we have undertaken all the audit procedures with respect to the Group.

Independent Auditor's Report (Continued)

To the shareholders of Oceania Healthcare Limited

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property and freehold land and buildings The Group's investment property at $611.0 million (refer to note 3.1 of the consolidated financial statements) and freehold land and buildings (including freehold land and buildings under development) at $253.3 million (refer to note 3.3 of the consolidated financial statements) represent the majority of the Group's assets as at 31 May 2017. The valuations of individual properties were carried out by third party valuer, CBRE Limited (the Valuer). The valuation processes for investment property and freehold land and buildings are described in notes 3.1 and 3.3 of the consolidated financial statements, respectively. Investment property is recorded in the consolidated financial statements at the value determined by the Valuer, adjusted for refundable occupation licence payments, residents' share of resale gains and management fee receivable which are recognised separately on the balance sheet and also reflected in the Valuer's cash flow model. The Group has adopted the assessed value determined by the Valuer for freehold land and buildings. The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property and the expected future cash flows for that particular property. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in assumptions on individual properties, when aggregated, could result in material differences, is why we have given specific audit focus and attention to this area.	**External valuations** We read the valuation report for a sample of properties and discussed the report with the Valuer. We confirmed that the valuation approach for each property was in accordance with the relevant accounting standards. It was evident from our discussions with management and the Valuer, and from our review of the valuation report that close attention had been paid to each property's individual characteristics, its overall quality, geographic location and desirability as a whole. We assessed the Valuer's qualifications, expertise and their objectivity and we found no evidence that suggested that the objectivity of the Valuer in their performance of the valuation was compromised. We carried out procedures, on a sample basis, to test whether property specific information supplied to the Valuer by the Group reflected the underlying property records held by the Group. For the items tested, the information was materially consistent. **Assumptions and estimates** Our work over the assumptions focused on the largest properties in the portfolio and those properties where the assumptions used and/or year-on-year fair value movement suggested a possible outlier compared to the rest of the portfolio and the market data for the sector. We engaged our own in-house valuation expert to challenge the work performed by the Valuer and assess the reasonableness of the assumptions used based on his knowledge gained from reviewing valuations of similar properties and known transactions. No matters arose from this assessment. **Overall valuation estimates** Because of the subjectivity involved in determining valuations for individual properties and the existence of alternative assumptions and valuation methods, we determined a tolerable allowance of +/-5% of the individual property value to evaluate the property valuations used by management. Our audit procedures did not identify any issues that would indicate that the valuations adopted by the Group were outside an acceptable range. We also considered whether or not there was bias in determining individual valuations and found no evidence of bias.

Change in deferred tax presumption for investment property

As disclosed in note 5.1 of the consolidated financial statements, the basis for the recognition of deferred tax on investment property has changed to "Held for Use" due to a change in the objectives of the Group's business model from 1 June 2016.

In planning and executing the Initial Public Offering in May this year, the Group reassessed their business model and changed the objectives of holding investment property to that of consuming all of the economic benefits through use.

This is a significant judgement exercised by management and resulted in a $9.8 million increase in the deferred tax liability at 31 May 2017.

In applying the Held for Use presumption, management have made three key assumptions which involve significant judgement over:

1. Determining the amount of taxable cash flows;
2. Timing of taxable cash flows; and
3. Apportionment of investment property.

The mechanics of applying these assumptions are described in note 5.1 of the consolidated financial statements.

The change in the basis for recognising deferred tax had a significant impact on the consolidated financial statements and we have given specific audit focus and attention to this area.

We have discussed with management and the directors their assessment of the business model. The business model is consistent with their strategic plan and has been approved by the board. We have also observed that it is consistent with the way the business has been run over the past 12 months. The forecast over the Prospective Financial Information period also supports the change in the model.

Assumptions

With respect to the assumptions used in the calculation of deferred tax, we engaged our own in-house tax specialist and valuation expert to challenge the work performed and assess the reasonableness of the assumptions based on their knowledge of the tax legislation and other accepted approaches in the industry.

1. Determining the amount of taxable cash flows

We confirmed that the amount of taxable cash flows of investment property is based on the same assumptions and estimates used in the valuation of investment property described above.

2. Timing of taxable cash flows

We have tested a sample of Occupation Right Agreements (ORAs) to check that the Deferred Management Fees (DMF) is contractually earned at the end of the ORA period. No exceptions were identified.

3. Apportionment of investment property

For a sample of properties, we agreed the council rateable valuations to the council website and recalculated the apportionment between land and buildings. For the items tested no differences were identified.

We also considered whether or not there was bias in adopting these assumptions and found no evidence of bias.

Independent Auditor's Report (Continued)

To the shareholders of Oceania Healthcare Limited

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Indumin Senaratne (Indy Sena).

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 July 2017

Auckland

Corporate Governance Statement

Corporate Governance

Oceania is committed to maintaining the highest standards of governance by implementing best practice structures and policies. This Corporate Governance Statement sets out the corporate governance policies, practices and processes adopted or followed by Oceania (including the guiding principles, authority, responsibilities, membership and operation of the Board of Directors of Oceania) as at 31 May 2017, and has been approved by the Board.

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

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

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

Principle 1 – Code of Ethical Behaviour

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

Code of Values and Conduct and Related Policies

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

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

The Code of Values and Conduct applies to all Directors, employees, contractors and consultants and outlines Oceania's expectations about behaviour (including the specific expectations prescribed in the NZX Code), as well as the procedure for any breach of the Code. Every new Director, employee, contractor and consultant is required to read and understand the Code of Values and Conduct and acknowledge that they have done so. As at the date of this Corporate Governance Statement, regular training in respect of the Code of Values and Conduct has not commenced but this will be implemented in the following financial year.

Trading in Company Securities Policy

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

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

Corporate Governance Statement (Continued)

Principle 2 – Board Composition and Performance

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

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

Board Charter

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

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

Nomination and Appointment of Directors

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

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

Directors

The Board currently comprises five Directors. All of the Directors are non-executive Directors. The Board has considered which of its Directors are deemed to be independent for the purposes of the NZX Listing Rules and has determined that, as at 31 May 2017, three Directors are independent Directors, including the Chair and the Chair of the Audit Committee. As at the date of this Annual Report, the Directors are:

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

Director Particulars

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

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

Directors' Interests in Shares

Directors disclosed the following relevant interests in shares as at 31 May 2017:

Director	Number of shares in which a relevant interest is held
Elizabeth Coutts	300,000 shares
Alan Isaac	30,000 shares
Patrick McCawe[1]	349,175,418 shares
Hugh FitzSimons[1]	349,175,418 shares

Note:

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

Diversity

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

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

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

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

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

The Board considers that the Diversity Policy has been successfully implemented across the business with an excellent balance of gender and ethnicity at Director and officer levels. As at 31 May 2017 (and 31 May 2016 for the prior comparative period), the gender breakdown of the Directors, officers (as that term is defined in the NZX Listing Rules) and employees is as follows:

	31 May 2017		31 May 2016	
Gender	**Male**	**Female**	**Male**	**Female**
Directors	3	2	3	1
Officers	4	6	4	6
Employees	340	2370	364	2456

Director Training

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

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

Evaluation of Performance of Directors

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

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

Separation of Board Chair and CEO

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

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

Principle 3 – Board Committees

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

Overview of Board Committees

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

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

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

Attendance at Board and Committee Meetings for the Year Ended 31 May 2017

	Board		Audit		Remuneration		Clinical and Health and Safety	
	Eligible	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**
Elizabeth Coutts	12	12	6	6	3	3	1	1
Alan Isaac	12	12	6	6	3	3	-	-
Kerry Prendergast	6	6	-	-	-	-	1	1
Patrick McCawe	4	4	-	-	-	-	-	-
Hugh FitzSimons	12	11	6	6	3	3	1	1

Audit Committee

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

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

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

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

Remuneration Committee

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

The Remuneration Committee comprises Hugh FitzSimons (Chair), Elizabeth Coutts and Alan Isaac and met three times during the year. The Remuneration Committee assists the Board in the discharge of its responsibilities and oversight relative to the remuneration and performance of the Chief Executive Officer and the Senior Management Team, remuneration of Directors and human resources policy and strategy. The Remuneration Committee operates under the Remuneration Committee Charter.

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

Nomination Committee

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

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

Clinical and Health and Safety Committee

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

The Clinical and Health and Safety Committee was formed in April 2017 and comprises Kerry Prendergast (Chair), Elizabeth Coutts and Hugh FitzSimons. This Committee met once in the period from April to May 2017. Prior to the establishment of the Clinical and Health and Safety Committee, the Board considered clinical risks and health and safety policy.

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

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

Takeover Protocols

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

Given Oceania's recent listing, it does not have formal takeover protocols in place as at the date of this Corporate Governance Statement. Such formal protocols are in the process of being developed, and are expected to be adopted shortly.

Principle 4 – Reporting and Disclosure

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

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

Continuous Disclosure

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

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

Charters and Policies

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

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

Financial Reporting

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

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

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

Non-Financial Reporting – Sustainability

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

The Board and management consider the sustainability of Oceania's buildings, particularly for new developments. Oceania carefully considers the selection of materials for its developments and all timber used in developments is sourced from sustainable forests. Oceania takes appropriate measures to reduce its impact on the environment, including ensuring that waste from construction sites is separated on site before being transported to transfer stations. Newer buildings that have been developed include more insulation than is required, double glazing, water efficiency fittings, the use of energy efficient lighting and energy star rated appliances.

Given Oceania's recent listing, the Board is in the process of developing a sustainability policy. It expects this to be adopted shortly, with sustainability measures to be reported on in future years.

Principle 5 – Remuneration

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

Directors' Remuneration

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

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

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

Approved Director Remuneration for 2017/2018

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

With effect from 1 June 2017, the total pool for fees and Board committee responsibilities is fixed at $582,500 per annum. No additional fees will apply for Directors as members of Board Committees for the financial year ended 31 May 2018.

Director Remuneration Received in 2016/2017

Director	Board Fees	Audit Committee	Remuneration Committee	Clinical and Health and Safety Committee	Other payments/ benefits	Total remuneration
Elizabeth Coutts (Chair)	$165,000	-	-	-	$25,000[1]	$190,000
Alan Isaac	$82,500	$5,000	-	-	$25,000[1]	$112,500
Kerry Prendergast[2]	$39,167	-	-	$3,750	$25,000[1]	$67,917
Patrick McCawe[3]	-	-	-	-	-	Nil
Hugh FitzSimons[3]	-	-	-	-	-	Nil

Notes:

1 Elizabeth Coutts, Alan Isaac and Kerry Prendergast were each paid additional Director fees of $25,000 in May 2017 to remunerate them for additional work required in preparation for the IPO.

2 Kerry Prendergast was appointed to the Board on 22 December 2016 so her total remuneration for the year ended 31 May 2017 does not represent fees for a full year.

3 Patrick McCawe and Hugh FitzSimons, as appointees of Oceania Healthcare Holdings Limited, did not receive any Director fees for the year ending 31 May 2017. Patrick McCawe and Hugh FitzSimons will each receive Director fees for the year ending 31 May 2018.

The above fees exclude GST and expenses and represent a combination of the former fee rates and increased fee rates that applied from 1 March 2017.

Corporate Governance Statement (Continued)

Remuneration Policy

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

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

Employees' Remuneration

Oceania did not employ people directly in the year ended 31 May 2017. All employees are employed by the subsidiaries of Oceania. The number of employees and former employees of Oceania's subsidiaries, not being a Director, who received remuneration and other benefits in excess of $100,000 for the financial year ended 31 May 2017 is set out in the table of remuneration bands below.

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

Remuneration	Number of Employees
$100,000 to $109,000	10
$110,000 to $119,000	9
$120,000 to $129,000	7
$130,000 to $139,000	4
$140,000 to $149,000	3
$150,000 to $159,000	6
$160,000 to $169,000	1
$180,000 to $189,000	1
$190,000 to $199,000	1
$260,000 to $269,000	1
$370,000 to $379,000	1
$380,000 to $389,000	1
$820,000 to $829,000	1[1]
$1,080,000 to $1,089,000	1[1]

Note:

[1] The amounts payable to these employees include a transaction bonus that was paid on completion of the IPO, in recognition of the employees' past services to Oceania.

Chief Executive Officer Remuneration

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

The remuneration of the Chief Executive Officer (CEO) for the year ended 31 May 2017 is as follows:

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

As this is the first annual report following Oceania's listing, there are no comparable historic disclosures of CEO remuneration. Comparable figures will be provided in future years.

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

Mr Gasparich received a short term incentive of $232,000 in July 2016. This was based on an achievement of financial performance (EBITDA performance against budget), health and safety performance (injury and reporting rates), personal goals and a discretionary component for the year ended 31 May 2016, in which earnings increased substantially over the previous year.

Mr Gasparich also received a transaction bonus of $370,000 on completion of the IPO, in recognition of his past services to Oceania.

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

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

Senior Managers

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

Short Term Incentive Payments

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

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

Long Term Incentive Scheme

2015 LTIP Scheme

Certain Oceania senior managers participate in a Long Term Incentive Plan which was approved by the Board in August 2015 ('2015 LTIP Scheme'). The senior managers were each provided with an interest free loan by Oceania which was applied to acquiring shares. The amount of the loan for each senior manager was determined at the Board's discretion. As at 31 May 2017, the aggregate value of all outstanding loans made by Oceania to the senior managers under the 2015 LTIP Scheme was $1,420,001.44.

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

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

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

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

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

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

2017 LTIP Scheme

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

Generally, the shares under the 2017 LTIP Scheme will be eligible to vest if, at the vesting date (which is the business day after release of the financial statements for the year ended 31 May 2020), the participant remains employed by Oceania and the performance hurdles are achieved. The performance hurdles require Oceania's performance to meet, or exceed, an underlying Earnings per Share Compound Annual Growth Rate ('EPS CAGR') of 35% per annum or greater, over the three year vesting period. In calculating the underlying EPS CAGR, the Board will make pro forma adjustments to the FY2017 underlying EPS depending on the timing of delivery of key development projects. The Board may also adjust for the impact of items including significant one off gains or losses, acquisitions or divestments and changes to accounting policy. The 2017 LTIP Scheme shares may not vest in the participants if certain other conditions are not met.

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

Principle 6 – Risk Management

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

Risk Management

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

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

The Chief Executive Officer and senior managers regularly identify the major risks affecting the business in an organisational Risk Matrix, and develop strategies to mitigate these risks. Significant risks are discussed at Board meetings, or as required. Oceania maintains insurance policies that it considers adequate to meet insurable risks.

Health and Safety

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

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

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

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

Oceania benchmarks its Health and Safety reporting rates against its peers, however, the methodology for calculating such information is inconsistent in the industry. As part of an industry Health and Safety Working Group, Oceania is working with other industry participants to agree on a consistent methodology for calculating Health and Safety reporting rates.

Principle 7 – Auditors

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

Relationship with Auditor

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

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

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

Oceania's external auditor is PricewaterhouseCoopers. Total fees paid to PricewaterhouseCoopers in its capacity as auditor for FY2017 were $346,000. Total fees paid to PricewaterhouseCoopers for other professional services for FY2017 were $663,000. The other service fees comprise other assurance services (trustee reporting and external reporting to banks) ($13,000), taxation compliance services ($125,000) and transaction costs relating to the IPO ($525,000).

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

Internal Audit Functions

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

Oceania does not have an internal audit function other than the oversight of the Audit Committee. However, Oceania appointed KPMG for the audit of its payroll system during the financial year ended 31 May 2017, and specialist auditors are engaged for other areas for evaluating and continually improving the effectiveness of risk management and internal processes, including:

- Oceania has successfully achieved ACC Workplace Safety Management Practices tertiary status since 2006. The last audit was undertaken in December 2016, and Oceania passed the audit with no actions required. In addition, Oceania engages external subject matter experts such as Site Safe to undertake regular contractor management reviews of its site developments.
- Oceania's clinical policies and processes are subject to an external audit via HealthCert. In addition, Technical Advisory Services is Oceania's designated auditing agency which conducts site audits of each care facility every 18 to 24 months. These site audits comprise both surveillance audits and certification audits.
- Oceania is audited for food safety by Quality Auditing Specialists Limited who are registered as approved evaluators and verifiers for Food Control Plans by the Ministry for Primary Industries. Oceania's Custom Food Control Plan was evaluated by an MPI approved evaluator from Quality Auditing Specialists Limited and approved on 28 October 2016. A verification audit was undertaken between 29 March and 20 June 2017 at each of the 39 of Oceania's sites that were registered. This is an annual registration, and verification audits are currently undertaken every 12 months for each site.
- Oceania engages the DAA Group to undertake an audit of its retirement villages as is required under the Retirement Villages Act 2003. DAA Group audits each registered village every three years.

Principle 8 – Shareholder Rights And Relations

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

Information for Shareholders

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

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

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

Communicating with Shareholders

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

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

Shareholder Voting Rights

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

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

Notice of Annual Meeting

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

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

Principle 9 – Stakeholder Interests

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

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

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

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

OTHER DISCLOSURES REQUIRED UNDER THE COMPANIES ACT 1993

Disclosure of Directors' Interests

Directors disclosed, under section 140(2) of the Companies Act 1993, the following interests during the year ended 31 May 2017:

Director	Entity	Nature of Interest
Elizabeth Coutts	Ports of Auckland Limited	Chair
	Skellerup Holdings Limited	Chair
	Sanford Limited	Director
	EBOS Group Limited	Director
	Tennis Auckland Region Inc	Director
	Marsh Limited	Member of the Advisory Board
	Institute of Directors	President
Alan Isaac	New Zealand Community Trust	Chair
	McGrathNicol & Partners	Chair
	Companies in the Skellerup Group	Director
	Companies in the Opus Group	Director
	Fliway Group Limited	Director
	Companies in the Scales Corporation Group	Director
	Institute of Directors	Vice-President
Kerry Prendergast	Tourism New Zealand	Chair
	Environmental Protection Authority	Chair
	New Zealand Film Commission	Chair
	Alzheimer's New Zealand	Ambassador
	New Zealand Community Trust	Trustee and Chair of Audit and Risk
	Wellington Free Ambulance	Deputy Chair
	Compass Health Board	Trustee
Patrick McCawe	Oceania Healthcare Holdings Limited	Director
	Retirement Finance Limited	Director
	RVU Investments Limited	Director
	Various companies associated with Macquarie Group	Director
Hugh FitzSimons	Oceania Healthcare Holdings Limited	Director
	Retirement Finance Limited	Director
	RVU Investments Limited	Director
	RCNZ Properties 2008 Limited	Director
	Various companies associated with Macquarie Group	Director

Indemnity and Insurance

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

Donations

For the year ended 31 May 2017, Oceania paid a total of $3,092.24 in donations.

Corporate Governance Statement (Continued)

Stock Exchange Listings

Oceania's shares are listed on the NZX and the ASX. Oceania is listed on ASX as a Foreign Exempt Listing, which means that Oceania is required to comply with the NZX Listing Rules but it is exempt from the majority of the ASX Listing Rules. In accordance with ASX Listing Rule 1.15.3, Oceania confirms that it has complied with the NZX Listing Rules for the financial year ended 31 May 2017.

NZX Waivers

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

Credit Rating

Oceania has no credit rating.

Former Directors

The following Directors resigned during the financial year ended 31 May 2017:

- Gregory Tomlinson (resigned on 28 October 2016)
- Grant Smith (resigned on 16 February 2017)

Subsidiary Company Directors

Earl Gasparich and Matthew Ward are Directors of all Oceania's subsidiaries as at 31 May 2017, with the exception of OCA Employees Trustee Limited (the Directors of which are Elizabeth Coutts and Hugh FitzSimons). No extra remuneration is payable for any directorship of a subsidiary.

SHAREHOLDER INFORMATION

Twenty Largest Shareholders

(as at 30 June 2017)

Registered Shareholder		Number of Shares	% Shares
1	Oceania Healthcare Holdings Limited	349,175,418	57.21
2	New Zealand Central Securities Depository Limited	93,345,781	15.29
3	JP Morgan Nominees Australia Limited	12,430,948	2.03
4	Custodial Services Limited	12,012,731	1.96
5	Custodial Services Limited	8,257,816	1.35
6	FNZ Custodians Limited	8,191,853	1.34
7	National Nominees Limited	5,864,864	0.96
8	Investment Custodial Services Limited	5,046,450	0.82
9	Custodial Services Limited	4,518,124	0.74
10	Custodial Services Limited	3,970,310	0.65
11	Harrogate Trustee Limited	3,504,260	0.57
12	OCA Employees Trustee Limited	3,164,557	0.51
13	Custodial Services Limited	3,106,600	0.50
14	Custodial Services Limited	2,653,700	0.43
15	Leveraged Equities Finance Limited	2,244,500	0.36
16	BNP Paribas Noms Pty Limited	2,091,412	0.34
17	Earl Gasparich, Celia Gasparich & Carla Pearce	2,023,078	0.33
18	Forsyth Barr Custodians Limited	1,889,000	0.30
19	Walter Mick George Yovich & Jeanette Julia Yovich	1,770,000	0.29
20	Mark Stockton	1,463,439	0.23
Total		**526,724,841**	**86.21**

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

Name		Number of Shares	% Shares
1	HSBC Nominees (New Zealand) Limited	18,940,338	3.10
2	TEA Custodians Limited	16,176,521	2.65
3	ANZ Wholesale Trans-Tasman Property Securities Fund	8,947,420	1.47
4	ANZ Wholesale Australasian Share Fund	6,778,768	1.11
5	Generate Kiwisaver Public Trust Nominees Limited	6,700,000	1.10
6	MFL Mutual Fund Limited	6,386,469	1.05
7	Mint Nominees Limited	4,642,807	0.76
8	HSBC Nominees	4,126,193	0.68
9	Guardian Nominees	3,059,341	0.50
10	ANZ Wholesale Property Securities	3,004,972	0.49
11	Citibank Nominees (New Zealand) Limited	2,880,918	0.47
12	BNP Paribas Nominees (NZ) Limited	2,685,192	0.44
13	JP Morgan Chase Bank NA NZ Branch	2,657,544	0.44
14	BNP Paribas Nominees (NZ) Limited	1,564,129	0.26
15	Accident Compensation Corporation	1,561,646	0.26
16	Public Trust RIF Nominees Limited	1,114,893	0.18
17	ANZ Wholesale NZ Share Fund	538,345	0.09
18	BNP Paribas Nominees (NZ) Limited	425,000	0.07
19	National Nominees New Zealand Limited	409,375	0.07
20	ANZ New Zealand Investments Nominees Limited	283,427	0.05

Spread of Holdings

(as at 30 June 2017)

Size of Holding	Number of Shareholders	%	Number of Shares	%
1 – 1,000	110	3.44	91,581	0.02
1,001 – 5,000	804	25.13	3,243,123	0.53
5,001 – 10,000	749	23.41	6,163,047	1.01
10,001 – 100,000	1,365	42.67	39,250,514	6.43
100,001 and over	171	5.35	561,506,270	92.01
Totals		**100**		**100**

Substantial Product Holders

According to notices given under the Financial Markets Conduct Act 2013, the following were substantial product holders of Oceania as at 31 May 2017:

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

The total number of shares on issue at 31 May 2017 was 610,254,535.

Notes

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