

## **ANNOUNCEMENT**

### **NON-CASH AMORTISATION OF BED LICENCE INTANGIBLE ASSETS BY OUR AUSTRALIAN ASSOCIATE, OPAL HEALTHCARE GROUP**

G. K. Goh Holdings Limited (“GKGH”) owns 47.6% of Opal HealthCare Group (“Opal”) in Australia. Opal is one of the largest private sector operators of Australian residential aged care homes. In 2018, the Australian Government appointed a Royal Commission to look into Aged Care Quality and Safety. The Royal Commission released its report in early 2021, and the Australian Government responded with a wide-ranging Aged Care Reform package in the 2021-2022 Budget released in May 2021. The reforms proposed are for the most part excellent and will set the stage for greater regulatory clarity as well as higher operating standards across the industry. One of the reforms, however, will have a direct impact on Opal’s and GKGH’s income statement for FY2021 and for all financial periods until June 2024, although it will have no impact on Opal’s business operations or access to credit lines.

#### ***Policy Background***

For many decades, the Australian government has conducted an annual Aged Care Approvals Round (“ACAR”) to allocate residential aged care places (“bed licences”). Approved Providers, including Opal, would put up proposals each year to secure bed licences for specific districts, so as to expand existing facilities, or build new residential aged care homes. These licences came without cost and were not transferable from one district to another. However, Approved Providers, including Opal, would from time to time buy the operations of competitors to expand their business. In doing so, the premium over the tangible assets of the home was recognised in the accounts as an intangible asset.

In September 2021, the Department of Health released a discussion paper *Improving Choice in Residential Aged Care – ACAR Discontinuation* confirming the Australian Government’s Budget decision to discontinue the ACAR, as a consequence doing away with the issuance of bed licences to operators, who would then be free to add capacity in attractive districts without having to first secure a licence. From 1 July 2024, bed licences will no longer exist and senior Australians will be allocated the funding, giving them better control in choosing an Approved Provider to meet their needs. This policy change will support faster expansion in future when an unmet demand is identified in any district.

#### ***Accounting for this change***

Opal currently records the bed licences as an intangible asset without any amortisation because bed licences have an indefinite useful life. In September 2021, the Australian Securities and Investments Commission issued guidelines for the accounting of bed licences following the policy changes. In accordance with these guidelines and in compliance with the accounting standards, the accounting profession in Australia (including Opal’s auditors) have decided that, as the bed licences will be discontinued from 1 July 2024, the entire value of bed licences held within the balance sheet of aged care operators would have to be fully amortised against the income statement over the remaining useful life by 30 June 2024. The government has no plans to provide any form of compensation to Approved Providers for the removal of bed licences and the reclassification of bed licences to goodwill is not permitted.

Opal’s unaudited balance sheet as at 30 September 2021 included an intangible asset “Aged Care Licences” with a carrying value of A\$244.2 million and an associated deferred tax liability of A\$38.3 million. Opal expects to amortise the carrying value (net of tax) of bed licences of A\$205.9 million on a straight-line basis over the remaining economic life from 1 October 2021 to 30 June 2024.

As a result, GKGH's 47.6% share of Opal's non-cash amortisation expense over the financial periods will be as follows:

Financial Period	No. of Months	Opal's Amortisation (A\$million)	GKGH's share of Amortisation (S\$million)*
FY2021: 1 Oct – 31 Dec	3	18.7	8.9
FY2022: 1 Jan – 31 Dec	12	74.9	35.7
FY2023: 1 Jan – 31 Dec	12	74.9	35.7
FY2024: 1 Jan – 30 Jun	6	37.4	17.8
	33	205.9	98.1

(\*Assuming an exchange rate of A\$1:S\$1.00)

This is a non-cash amortisation of the bed licences, which by itself is not expected to limit Opal's ability to pay dividends, nor impact continued compliance of the banking covenants associated with the Opal's syndicated bank debt facility.

However, Opal's and consequently GKGH's net profits will be significantly impacted over the periods as set out in the table above. The carrying value of Opal in GKGH's book, before accounting for our share of profits and any dividends received from Opal during the amortisation period, is expected to reduce from **S\$149.6 million** (as at 30 June 2021) to **S\$51.5 million** (as at 30 June 2024). This would correspondingly reduce GKGH's net asset value by approximately **S\$0.30** per share. To put this valuation in perspective, Opal contributed **S\$8.7 million** to GKGH's profits in FY2020 despite the COVID-19 pandemic.

This is an industry-wide issue, and Opal's two major listed competitors Regis Healthcare<sup>(1)</sup> and Estia Healthcare<sup>(2)</sup> have recently issued statements to their shareholders detailing similar amortisation plans.

Estia's 31 January 2022 announcement reads in part: "These expected charges do not impact bank covenants, the cash flows of the Group, taxation payable nor is it expected that the treatment will impact or restrain the ability to pay dividends in line with the Group's expectations prior to the non-cash amortisation charges." Regis similarly does not expect that "this non-cash amortisation of bed licences will, in itself, limit the Company's ability to pay dividends nor impact continued compliance with the banking covenants associated with the Company's syndicated bank debt facility".

Your Directors believe that the same is true of Opal, and that the amortisation charges do not have any impact on the underlying value of Opal. Opal has been growing its market share, has a strong development pipeline and is well-prepared to respond to the challenges and opportunities of deregulation. An update on Opal's operational performance will be provided in the Group's full-year financial results to be released on 24 February 2022.

By Order of the Board

Thomas Teo  
Executive Director & Chief Financial Officer  
4 February 2022, Singapore

(1) Regis Healthcare ASX Announcement 13 December 2021:

<https://events.miraqle.com/DownloadFile.axd?file=/Report/ComNews/20211213/02465735.pdf>

(2) Estia Healthcare ASX Announcement 31 January 2022:

<https://investors.estiahealth.com.au/DownloadFile.axd?file=/Report/ComNews/20220131/02480587.pdf>