

## ASX APPENDIX 4E Results for Announcement to the Market

### Preliminary final report For the year ended 30 June 2015

The following, which is provided to the ASX under Listing Rule 4.3A, sets out the requirements of Appendix 4E with the stipulated information either provided here or cross-referenced to the 2015 Financial Report, which is attached.

<b>Comparison to previous period</b>	<b>Increase/ (decrease)</b>	<b>30 June 2015 \$'000</b>	<b>30 June 2014<sup>1</sup> \$'000</b>	<b>Change %</b>
Revenue from ordinary activities	Increase	281,249	48,914	474.99 <sup>2</sup>
Profit/(loss) from ordinary activities after tax attributable to members	Increase	28,839	(2,938)	1,081.59 <sup>2</sup>
Net profit/(loss) for the period attributable to members	Increase	28,839	(2,938)	1,081.59 <sup>2</sup>

1. The comparative information relates to the period from 22 April 2014 to 30 June 2014.
2. The percentage change is not meaningful as the comparative period is only for a 10 week period.

Please refer to the 2015 Financial Report attached for further explanation of the results above.

<b>Dividends</b>	<b>Amount per security (cents)</b>	<b>Franked amount per security</b>
Final dividend (declared)	5.5	100%
Interim dividend (paid)	5.5	Nil

Record date for determining entitlements to the dividend 9 October 2015  
 Payment date of final dividend 30 October 2015

There was no foreign sourced income and no dividend reinvestment plan was in operation during the year ended 30 June 2015.

#### **Net tangible assets per security**

Net tangible assets per ordinary share as at 30 June 2015: 43.7 cents per share (2014: 49.2 cents).

Net tangible assets as at 30 June 2015 \$114.9m (2014: \$129.2m)  
 Ordinary shares on issue as at 30 June 2015 263.0m (2014: 262.5m)

**Entities over which control has been gained during the period**

On 31 October 2014, the Company acquired Oakleigh Glen Pty Ltd as part of the Whelan Care Business acquisition (refer note 27 to the 2015 Financial Report).

**Commentary on the results for the period**

Please refer to the 2015 Financial Report attached and Media Release.

**Status of audit**

The Financial Report for the year ended 30 June 2015 has been audited. The audit opinion is unqualified.

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**Japara Healthcare Limited  
and  
Controlled Entities  
ABN 54 168 631 052**

**Annual Financial Report  
For the reporting period ended 30 June 2015**

**Annual Financial Report**  
**For the reporting period ended 30 June 2015**

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# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report

For the year ended 30 June 2015

The directors present their report together with the consolidated financial statements of Japara Healthcare Limited (**the Company**) and its controlled entities (**the Group**) for the financial year ended 30 June 2015 and the Independent Auditor's Report thereon.

The Company was incorporated on 19 March 2014 and comparative information is presented from this date to 30 June 2014.

### 1. Directors

Each of the current directors of the Company were appointed on 19 March 2014 and remain in office at the date of this report. The details of the directors are as follows:

Linda Bardo Nicholls AO  
BA (Econ), MBA, FAICD  
Non-Executive Chairman

Linda is a senior executive and company director with more than 30 years experience across Australia, New Zealand and the United States. Presently, Linda is the Chairman of Yarra Trams and has directorships with Fairfax Media, Medibank Private, Pacific Brands Group and Sigma Pharmaceuticals.

Previously, she has held the position of Chairman at some of Australia's most well-regarded companies, including Healthscope and Australia Post, and was a director of St George Bank.

Linda has not held any other directorships of listed companies in the last three years.

Linda holds a Masters of Business Administration from Harvard Business School and a Bachelor of Arts in Economics from Cornell University.

Andrew Sudholz  
FPI, MAICD  
Managing Director and Chief  
Executive Officer (**CEO**)

Andrew is a founding shareholder and executive director of the Japara Group. Andrew has more than 30 years experience in the real estate, healthcare and professional services industries.

Prior to the establishment of the Japara Group, Andrew was a global partner of the Arthur Andersen Group, a national partner of Ernst & Young's Real Estate Advisory Services Group and the state general manager of the Triden Corporation.

He is also a fellow of the Australian Property Institute, a former president of the Victorian division and national board member of the Property Council of Australia and is currently a member of the Australian Institute of Company Directors.

Andrew has not held any other directorships of listed companies in the last three years.

Richard England  
FCA, MAICD  
Non-Executive Director

Chairman of the Audit, Risk and Compliance Committee and member of the Remuneration and Nomination Committee.

Richard has more than 20 years experience as a non-executive director and Chairman of multiple ASX listed and unlisted companies across the financial services, banking, healthcare and insurance industries.

Richard is currently the chairman of Ruralco Holdings and is a non-executive director of Nanosonics and Macquarie Atlas Roads.

Prior to embarking on his career as a director, Richard was a Chartered Accountant in Public Practice and a partner at Ernst & Young, where he was the national director of Corporate Recovery and Insolvency.

Richard is a fellow of the Institute of Chartered Accountants in Australia and a member of the Australian Institute of Company Directors.

During the last three years Richard was Chairman of Chandler Macleod Group.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 1. Directors (continued)

Tim Poole BComm, CA Non-Executive Director	<p>Member of the Audit, Risk and Compliance Committee and the Remuneration and Nomination Committee.</p> <p>Tim has more than 15 years experience as a director and chairman of ASX listed and unlisted companies across the financial services, infrastructure and natural resources industries.</p> <p>He is currently a non-executive director of McMillan Shakespeare Limited and Aurizon Holdings Limited and chairman of Lifestyle Communities Limited. He was formerly managing director of Hastings Funds Management Limited and chairman of Asciano Limited.</p> <p>During the last three years Tim has also been a non-executive director of Newcrest Mining Limited and AustralianSuper.</p> <p>Tim holds a Bachelor of Commerce from the University of Melbourne and is a qualified Chartered Accountant.</p>
David Blight BAppSc Non-Executive Director	<p>Chairman of the Remuneration and Nomination Committee and member of the Audit, Risk and Compliance Committee.</p> <p>David is currently Managing Director and CEO of ARA Australia; the Australian business of the Singapore listed ARA Group. He is also a director of several private unlisted companies in the construction, development and investment markets.</p> <p>Up to 2008, David was Global Chairman and CEO of ING Real Estate Investment Management, as well as Vice Chairman of ING Real Estate, based in The Netherlands. Over his 32 years in the industry, David has held senior executive positions with Armstrong Jones, Mirvac Group and APN Property Group.</p> <p>David has not held any directorships of listed entities in addition to those set out above during the last three years.</p> <p>David holds a Bachelor of Applied Science in Property Resource Management (Valuation) from the University of South Australia and is a Board member of APREA (Australian Chapter).</p>

#### 2. Company secretary

Kathryn Davies was appointed to the position of Company Secretary on 30 September 2014. Kathryn has over 15 years corporate experience in senior roles of stock exchange listed companies, has a Bachelor of Business in Accounting and Business Law and is a member of CPA Australia.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors during the financial year are:

Director	Board Meetings		Audit, Risk and Compliance Committee Meetings		Remuneration and Nomination Committee Meetings	
	A	B	A	B	A	B
Linda Bardo Nicholls AO	12	12	-	-	-	-
Andrew Sudholz	11	12	-	-	-	-
Richard England	11	12	7	7	3	4
Tim Poole	12	12	6	7	4	4
David Blight	12	12	7	7	4	4

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the financial year

#### 4. Principal activities

The principal activity of the Group during the financial year was that of owner, operator and developer of aged care facilities. No significant change in the nature of these activities occurred during the financial year.

#### 5. Operating and financial review

##### Overview of the Group

The Group is one of the largest residential aged care operators in Australia with 3,389 resident places nationally across 39 facilities located in Victoria, New South Wales, South Australia and Tasmania.

In conjunction with the business of providing aged care services, the Group also operates 180 Independent Living Units (ILUs) across five retirement villages, located adjacent to its aged care facilities. Retirement village revenue accounts for less than 1% of the Group's operations by revenue.

Since inception in 2005, the Group has successfully expanded its business and achieved significant growth in earnings by:

- Development and expansion of facilities;
- Selective acquisition of facilities, particularly underperforming facilities with low refundable accommodation deposit balances and/or sub optimal financial characteristics; and
- Implementation of the Group's care and operating model (see below).

In 2014 the Group was restructured resulting in an Initial Public Offering of Ordinary Shares (IPO). Japara Healthcare Limited was admitted to the official list of ASX Limited on 17 April 2014.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 5. Operating and financial review (continued)

The Group's provision of care is underpinned by an operating model that is designed to facilitate ageing-in-place by servicing the full spectrum of resident care needs as well as providing services to those residents with dementia. This operating model is aimed at achieving:

- above industry average occupancy levels through providing a high standard of resident care;
- EBITDA per place levels in excess of the industry average for top quartile operators;
- internal processes to ensure receipt of all entitled Government care funding; and
- cash flow generation to meet working capital requirements, facilitate future growth and provide returns to shareholders.

#### Funding sources

The Group derives funding from two main sources, being operating funding (Government funding, resident contributions and accommodation charges) and capital funding (Refundable Accommodation Deposits (**RADs**)).

#### **Government and resident contributions**

As an Approved Provider of residential aged care services as determined by the Department of Social Services (**Department**), each of the Group's facilities is eligible to receive funding contributions from the Government. Funding is received in the form of subsidies and supplements (primary supplements and other supplements) for approved residents in funded places, on a per resident per day basis. The Group derived circa 72% of its revenue from Government care funding during the financial year.

The Group also receives contributions from residents for the provision of a full spectrum of aged care services, optional additional services and accommodation charges. Resident fees made up approximately 28% of the Group's revenue for the financial year.

#### **Refundable Accommodation Deposits (RADs)/Accommodation bonds**

RADs (which replaced Accommodation bonds from 1 July 2014) account for a significant component of the Group's capital funding. The Group maintains a conservative RAD management regime with the average value of incoming RADs set with reference to the median house price in the relevant Local Government Authority (LGA).

During the 2015 financial year the Group used capital funding received from RADs for the following purposes:

- financing capital works for aged care facilities in line with its brownfield developments program;
- financing the acquisition of the Whelan Care Business (see below); and
- repaying bank debt that was used to finance both capital works for aged care facilities and the acquisition of the Whelan Care Business.

The Group maintains a disciplined approach to capital expenditure, with all key capital projects subject to strict approval protocols. Capital expenditure comprises expenditure on asset enhancement and replacement programs and general maintenance projects (maintenance capital expenditure is funded from operational cash flows) as well as growth capital expenditure comprising brownfield development projects and acquisition of aged care facilities (funded via equity, borrowings, operating cash flows, RADs or any combination of these, as appropriate).

Each resident has the option to either pay a RAD or a Daily Accommodation Payment (DAP) (or a mixture of both). The DAP is charged monthly and recognised in revenue as a resident contribution. The value of a DAP is calculated with reference to the room price using the maximum permissible interest rate which is set by the government.

#### **Key costs**

The Group's key cost relates to labour, which is approximately 66% of total revenue for the financial year. The remaining costs related to medical supplies, catering, cleaning, consumables, repairs and maintenance, energy, utilities and corporate costs.

As one of the largest operators of residential aged care services in Australia, the Group leverages its ability to achieve cost advantages through internalisation and centralisation of certain functions and economies of scale.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 5. Operating and financial review (continued)

##### Review of operations

	2015	2014 <sup>1</sup>
	\$'000	\$'000
Revenue and other income	281,249	48,914
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	50,590	(1,346)
Net Profit After Tax (NPAT)	28,839	(2,938)

Net profit amounts have been calculated in accordance with Australian Accounting Standards (AASBs).

The results for 2014 included one off costs of \$9,839,000 relating to the Initial Public Offering.

##### Operational highlights

The Group's revenue for the financial year has increased by 10.3% from the prior year on an annualised basis, reflecting:

- Average occupancy of 94.6% - in line with expectations;
- An increase in the average Aged Care Funding Instrument (ACFI) (per resident day) from \$166.30 (adjusted)<sup>2</sup> to \$175.10;
- The acquisition of the Whelan Care Business contributing \$14.8 million revenue (see note 27 to the financial statements); and
- The impact of the 124 brownfield places completed between May 2014 and June 2014 becoming fully operational during FY2015.

This is a pleasing result following the Governments' decision to cease the dementia supplement and the payroll tax supplement effective 31 July 2014 and 1 January 2015 respectively. The resulting reduction in revenue was offset in FY2015 by increases in occupancy, the ACFI rate and revenue from brownfield developments and the Whelan Care Business acquisition.

The annualised EBITDA (excluding the FY2014 IPO costs) has increased by 14.2%. This increase was in line with expectations.

During the financial year the Group introduced a number of initiatives to better manage staff costs including limiting the use of agency staff. As a result of this, staff costs as a percentage of the Group's revenue have decreased from 68% in FY2014 to 66% in FY2015. The decrease was achieved despite the annual Enterprise Bargaining Agreement (EBA) increase for all nurses of 2.75% in October 2014 and the introduction of 124 brownfield places at the end of FY2014 requiring more staff at the facilities in the initial months after opening.

To assist in the management of staff and to ensure the appropriate staffing levels to fulfil all of the residents' care requirements are achieved, the Group has invested in the Kronos Workforce Management System. The implementation of the Workforce Management System is expected to deliver long-term savings to the Group and maintain full compliance with legislation. The Workforce Management System is expected to be fully implemented across the Group in the first half of FY2016.

Prior to the investment in the Workforce Management System, the Group undertook a review of its payroll system and discovered that in some instances loading on overtime was not identified and paid to some employees. The unpaid amount (including on-costs and associated legal and professional advisory fees), net of income tax benefit is \$4,918,000 of which \$4,746,000 relates to the period prior to the Group listing on the ASX.

1. Comparative operating results are presented from the date of incorporation of Japara Healthcare Limited to the reporting date (19 March 2014 to 30 June 2014 – operations commenced on 22 April 2014).
2. FY2014 ACFI of \$146.70 adjusted for; 8.75% CAP (Conditional Adjustment Payment), 1.86% of COPE (Commonwealth Own Purpose Expense Indexation) and the Workforce Supplement redirection of 2.4% to show like for like FY15 funding comparative.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 5. Operating and financial review (continued)

##### Review of financial position

A summary of the audited balance sheet is set out below:

	2015	2014
	\$'000	\$'000
Total assets	915,799	807,258
Total liabilities	385,760	293,271
Net assets	530,039	513,987

The Group's total assets increased by 13.4% during the financial year. This was primarily due to an increase in the cash balance from operations, an increase in RAD funding (discussed below) and the acquisition of the Whelan Care Business which included four residential aged care facilities accommodating 258 residents.

Total liabilities increased by 31.5% which was mainly due to an increase in the RAD/accommodation bond liability of 47.5%. The net RAD cash inflow for the year was \$77.3 million. This represents a significant increase in RAD funding due to the introduction of the aged care reforms on 1 July 2014 which allowed aged care providers to potentially charge a RAD on all types of resident places. The increase represents an increase in both quantum and average RAD value, both of which were in line with the Group's expectations for the year. The acquisition of the Whelan Care Business also increased the RAD liability by a further \$23.1 million.

The Group's current liabilities exceed current assets by \$315.8 million (2014: \$249.8 million) as at 30 June 2015. This mainly arises because of the requirement to classify resident obligations relating to RADs/accommodation bonds and ILU resident loans as current liabilities, whereas, the property, plant and equipment, investment properties and intangible assets to which they relate are required to be classified as non-current assets.

The Group maintains a minimum level of liquidity to ensure RADs/accommodation bonds are able to be refunded as required and its working capital requirements are generally consistent throughout the course of the financial year with no significant variations. The Group's cash position is expected to provide sufficient liquidity to meet the Group's currently anticipated cash requirements (see note 24 to the financial statements for further details).

The Group currently has a syndicated debt facility with a limit of \$95 million. The facility is in place for the purpose of funding future brownfield developments and initial funding for acquisitions. At the date of signing this report the facility is undrawn.

Over time, the Group may seek additional debt funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risk.

##### Business strategies and prospects for future financial years

The Group is committed to maximising the value in its current portfolio through **organic growth** while maintaining a high level of resident care in line with its care and operating model as described in the overview of the Group.

In addition to organic growth the Group has an expansion plan which centres on increasing the size of its aged care portfolio through **brownfield and greenfield developments** and through **the acquisition of existing aged care facilities**.

The Group has ambitions to increase its portfolio over the medium term and is focusing on strategic expansion throughout Victoria, South Australia and Tasmania, where it can leverage its existing management platform and operations as well as expanding into New South Wales and Queensland if an appropriate platform can be acquired and readily integrated into the Group's existing operations.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 5. Operating and financial review (continued)

##### **Organic growth**

###### i. Additional services

The Company has introduced a full suite of additional services that are available to our residents, known as Japara Signature Services, which is expected to generate revenue growth from resident contributions as they access these services. These services include hairdressing, pay TV, superior room furnishings, concierge services and various non-clinical therapy services and are now offered to all residents including those who occupy the pre reform "high care" beds in our existing portfolio. In addition the majority of our brownfield and greenfield developments will include Japara Signature Services once these are completed.

###### ii. Government ACFI funding

As of 1 July 2015, the Government increased the ACFI rates by 1.3%. In keeping with the Group's continuous improvement program, the current revenue model structure continues to deliver value to the Group. The revenue model structure ensures that the appropriate funding is received for care provided and ensures that residents' acuity is assessed accurately and appropriately funded. In FY2015 the resident profile resulted in higher levels of care and acuity which transpired into an increase in funding per resident per day.

###### iii. Cost reduction initiatives

- The Group reviews each of its major supplier and service contracts as they come to the end of their term. Further costs savings are expected as other major supplier and service contracts are re-tendered.
- Following the implementation of the Kronos Workforce Management System planned for the first half of FY2016, the Group is well placed to deliver further efficiencies in staff and agency costs from FY2016 onwards whilst maintaining high levels of care.

###### iv. Occupancy levels

The Group's occupancy levels are a direct result of the quality of care we provide to our residents and are maintained and where possible increased. A dedicated client services team work with the facility managers on a daily basis to maintain a close relationship with our consumer base and and referral network. Benchmarking occupancy levels across the Group and amongst its competitors is used for strategic direction and initiatives.

The Group continues to provide care and services that are closely aligned with consumer demands and is proactive in strategic marketing activities to ensure the Group's occupancy objectives are met. In addition, our growth strategy is targeted towards undersupplied regions, as defined by our internal research team, which supports high occupancy levels across the portfolio.

###### v. RAD/DAP funding

The Group has received strong RAD inflows during the year totalling \$77.3 million. Substantial new capital is anticipated to be received from new RADs and RAD uplift emanating from the existing portfolio. Specifically, the Group's portfolio comprises a significant number of places which were previously licenced as "high care" places and could not be charged an accommodation bond, however from 1 July 2014 a large number of these places can now attract a RAD as part of the aged care reform. The capital from RADs on these places was partly received in FY2015 and more is expected to be received over the next 2 to 3 years. In FY2015 the capital received from this source was circa \$44 million of the \$77.3 million total, with the balance from RAD uplift and RADs from brownfield developments.

The Group continues to review its strategy to optimise the mix of RADs and DAPs.

##### **Brownfield and greenfield developments**

The Group's development program delivered 124 additional new resident places in FY2014; 63 places at Millward in Doncaster, 30 places at Mirridong in Bendigo and 31 places in Albury. During FY2015 the Group delivered a further 30 new places at Kelaston in Ballarat and 30 new places at Bayview in Carrum Downs (with further significant refurbishment on existing places to be completed in FY2016). An additional 69 places at Trevu in Gawler will become operational in FY2016 after being completed on 2 July 2015.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 5. Operating and financial review (continued)

The target is to deliver a further 805 net new places by the end of FY2019. The Group will utilise the 465 resident places that it was allocated during the Department of Social Services 2014 Aged Care Approvals Rounds with the balance to be obtained either from future Aged Care Approvals Rounds, by acquisition or transferred from its current facilities with non-operational places.

It is estimated that the brownfield and greenfield construction costs of future developments will be repaid by the RAD inflows received from residents entering these facilities post completion.

During FY2015 the Group acquired land for greenfield developments in Glen Waverley in Victoria and Riverside in Tasmania and for a brownfield extension of an existing aged care facility in Springvale, Victoria.

At the date of this report the following development projects are underway:

- Kirralee, Ballarat, Vic, significant refurbishment of 36 places, expected completion FY2017;
- George Vowell, Mt Eliza, Vic, 34 place extension, expected completion FY2017;
- Central Park, Windsor, Vic, significant refurbishment of the entire facility, expected completion FY2017;
- St Judes, Narre Warren, Vic, 30 place extension, expected completion FY2017;
- Riverside, Launceston, Tas, 75 place new build expected to be completed FY2017;
- Kingston Gardens, Springvale South, Vic, 51 place extension and significant refurbishment, expected completion FY2017; and
- Glen Waverley, Vic, 60 place new build expected to be completed in FY2018 (subject to planning approval).

As these projects are completed, the Group will also receive funding from the significant refurbishment accommodation supplement which provides a potential additional \$20 per day for each concessional resident in newly built or significantly refurbished facilities.

The Group remains on track to deliver new places in line with its brownfield and greenfield program.

#### **Acquisitions of existing aged care facilities**

The Group continues to review new acquisition opportunities of existing aged care facilities. The Group targets individual or groups of facilities where shareholder value can be enhanced through operational improvements, specifically the implementation of the Group's care and operating model and the centralisation of corporate costs. This was demonstrated following the Group's acquisition and successful integration of the Whelan Care Business during FY2015 (see note 27 of the financial statements), adding 258 resident places to the Group.

#### *A disciplined and selective approach*

The Group has established policies and procedures for the acquisition of additional aged care facilities. As part of the due diligence process, pricing is confirmed by independent valuations undertaken by the Group's panel of valuers for both the business and real estate components. The Group undertakes formal legal, financial, property, operational and compliance due diligence on each facility before completing any acquisition.

Typically, management targets facilities where expertise can be applied in the short-term to improve the performance of the facility and grow EBITDA before corporate costs to bring it in line with the Group average. The Group utilises its existing infrastructure and compliance platform to successfully execute acquisitions including the application of strict investment criteria to identify and filter acquisition opportunities, subject to market conditions and availability of capital.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 5. Operating and financial review (continued)

The Group's key acquisition investment criteria include:

- **Lifecycle:** new or near new facilities with minimum 15 year economic life;
- **Demand:** facilities in locations that have unmet demand;
- **Growth:** operational facilities that provide potential for long term growth from income and RADs;
- **Cash flow:** facilities that have a substantial income flow; and
- **Value creation:** facilities that provide an opportunity for the Group to execute strategic value enhancement and asset management strategies to enhance returns to investors through:
  - purchasing undervalued assets which may be mispriced due to complexities of ownership, capital structure, planning controls or ineffective management processes;
  - countercyclical investing involving acquisitions and divestments using additional knowledge and information;
  - asset management through asset repositioning, refurbishment, extension and re-development of existing assets; and
  - effective deal sourcing including opportunities that are off-market or subject to capital constraints, utilising the Group's network of contacts and market intelligence.

The Group will consider the acquisition of a single aged care facility or any portfolio where the investment criteria are met.

#### Key business risks

##### ***The regulatory framework may change***

The Australian aged care industry is highly regulated by the Federal Government. Any future regulatory changes may have an adverse impact on the way the Group promotes, manages and operates its facilities, and its financial performance.

In addition, there is a risk that other participants in the industry may, through their actions and business practices cause future regulatory changes that will have an adverse impact on the Group's financial performance.

##### ***The Group's RAD levels may decline***

The Group may be exposed to the liquidity risks associated with the repayment and future receipt of RADs. These risks include particular circumstances that require the repayment of a large number of RADs at any one aged care facility, a reduction in the price achieved for new RADs, inappropriate pricing of RADs, economic factors impacting the demand for the Group's aged care services or regulatory changes that limit the ability to receive replacement or new RADs.

##### ***Occupancy levels may fall***

In the ordinary course of its business, the Group faces the risk that occupancy levels may fall below expectations. Reduced occupancy levels may adversely affect the Group's financial performance as it would reduce the amount of Government care funding to which the Group is entitled, resident contributions, accommodation payments and RADs. A decrease in occupancy levels may also result in an increase in financing costs. Either of these occurrences would be likely to lead to a decline in the Group's profitability.

##### ***The Group may lose key personnel***

The Group relies on a high quality management team with significant aged care industry experience. The loss of key members of the Group's management team could adversely affect the Group's ability to operate its facilities and its business to the current standard.

This could undermine the Group's ability to effectively comply with regulations and may also result in a reduction in demand for the Group's aged care services from new and existing residents. Either of these occurrences may adversely impact on the Group's financial performance and position.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 5. Operating and financial review (continued)

##### *Facilities may lose their approvals or accreditation*

Aged care facilities are required to be operated by Approved Providers and accredited in various ways. These approvals are generally subject to regular review and may be revoked in certain circumstances. Aged care facilities must be operated by an Approved Provider, certified and accredited to attract Government care funding. If the Group does not comply with regulation and is unable to secure accreditation for the operation of its aged care facilities and resident places in the future, or if any of its existing accreditation or approvals are adversely amended or revoked, this may affect Government care funding, breach lending covenants and may also adversely impact on the financial performance and position and future prospects of the Group.

##### *The Group's reputation may be damaged*

The Group operates in a commercially sensitive industry in which its reputation could be adversely impacted should it, or the aged care industry generally, suffer from any adverse publicity. If any such adverse publicity were to occur, this may reduce the number of existing residents at the Group's facilities or the Group's ability to attract new residents to its facilities, both of which occurrences may adversely impact the Group's financial performance and position and future prospects.

#### 6. Dividends

Dividends paid or recommended for payment on ordinary shares are as follows:

Final dividend @ 5.5 cents per share (2014: Nil cents)	\$14,468,000
Interim dividend paid during the year @ 5.5 cents per share (2014: Nil cents)	\$14,468,000

The interim dividend paid during FY2015 was unfranked. The final dividend for FY2015 will be fully franked.

#### 7. Events subsequent to reporting date

On 2 July 2015, the Group completed the purchase of the land and buildings of the Trevu at Gawler aged care facility located in South Australia for a total consideration of \$12,735,000. The facility has capacity to accommodate 69 residents. The purchase included the transfer of 24 resident places to the Group from the vendor as approved by the Department of Social Services. The remaining 45 resident places have been transferred from the Trevu at Willaston aged care facility acquired with the Whelan Care Business on 31 October 2014 (see section 5 above). All residents have been relocated from Trevu at Willaston to Trevu at Gawler and the Trevu at Willaston aged care facility has been closed.

The Group funded the purchase of the newly built Trevu at Gawler aged care facility and resident places with cash.

Other than mentioned above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years.

#### 8. Likely developments

The Group's growth strategy centres on increasing the size of its aged care portfolio through the acquisition of additional aged care facilities and the development of brownfield and greenfield projects. Other than the likely developments disclosed in section 5 above and elsewhere in this report, no matters or circumstances have arisen which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued) For the year ended 30 June 2015

#### 9. Environmental regulation

The Group's operations are not subject to particular significant environmental regulation under either Commonwealth or State legislation. However, the following areas of the business have been identified as having a potential affect on the environment in which the Group operates:

- Energy management;
- Waste management;
- Water management.

Each area identified above is managed with the intention of reducing unnecessary waste and minimising the consumption of resources in a cost effective way. Further information on the Group's environmental sustainability initiatives can be found in the Group's Corporate Governance Statement which is available at [japarahealthcare.com.au](http://japarahealthcare.com.au).

#### 10. Indemnification and insurance of officers

##### Indemnification

The Company has agreed to indemnify the current directors and officers of the Company, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, to the full extent permitted by law. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The Company has agreed to meet the full amount of any such liabilities, including costs and expenses.

##### Insurance premiums

During the financial year, the Group paid a premium in respect of a contract insuring the directors named in this report and current executive officers of the Group against certain liabilities that may be incurred by such a director or executive officer to the extent permitted by the *Corporations Act 2001*.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses, as such disclosure is prohibited under the terms of the contract.

#### 11. Non-audit services

During the year, KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties. Other services are performed by KPMG where the Group considers that KPMG is best qualified to perform those procedures and that the performance of those procedures would not compromise auditor independence requirements.

The Board has considered the other services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit, Risk and Compliance Committee, is satisfied that the provision of those other services during the year are compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* due to the following:

- the other services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2015

#### 11. Non-audit services (continued)

Details of the amounts paid to the auditor of the Group, KPMG, for audit and non-audit services provided during the year are set out below:

	2015
	\$'000
Audit and review of financial statements	335
Debt financing advisory fee	190
Other advisory services	90
	<u>615</u>

#### 12. Proceedings on behalf of the Group

From time to time, the Group is subject to claims and litigation during the normal course of business. The directors have given consideration to such matters, which are or may be subject to litigation at period end, and are of the opinion that, other than for specific provisions already raised, no material liability exists.

#### 13. Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 15 and forms part of the Directors' Report for the financial year ended 30 June 2015.

#### 14. Rounding off

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

#### Remuneration Report

The Remuneration Report is set out in Section 15 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 24 August 2015



Linda Bardo Nicholls AO  
Chairman



Andrew Sudholz  
Managing Director and CEO



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Japara Healthcare Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Darren Scammell  
*Partner*

Melbourne

24 August 2015

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### Letter from the Chairman and the Chairman of the Remuneration and Nomination Committee

Dear Shareholder

On behalf of the Board, we are pleased to present the Japara Healthcare Limited Remuneration Report for the year ended 30 June 2015.

This past financial year was Japara's first full year as a listed entity. It was a challenging year on several fronts with the continued changes to the regulatory environment including Aged Care reforms, the removal of the dementia supplement to care providers and removal of the payroll tax subsidy.

Pleasingly, since listing in April 2014 the share price increased from the issue price of \$2.00 per share to close at \$2.57 per share as at 30 June 2015, an increase of 28.5%, which, when added to the total dividend of \$0.11 per share for FY2015, provided a total shareholder return since listing of 34%. In addition, the Group met its earnings forecast as set out in the prospectus, adjusted for the acquisition and integration of Whelan Healthcare.

While the prospectus forecast was met, the result was not sufficient for an STI pool to form. It is a requirement that the STI is self-funding, that is, that following the payment of the STI, EBITDA adjusted for acquisitions, needs to be at or above forecast. This was not the case for FY2015 once adjusted for the Whelan acquisition.

In relation to the LTI, the first performance gateway hurdle was not met resulting in the FY2014 LTI being forfeited. No further performance rights were granted during the period ended 30 June 2015.

The Board intends to grant a replacement LTI in the form of performance rights to senior executives including the CEO (subject to shareholder approval where required). The performance period of the proposed LTI performance rights will be from 1 July 2015 to 30 June 2018. Further information on the new LTI will be included in the Explanatory Memorandum accompanying the Notice of Annual General Meeting.

The Board has determined that there will be no increase in non-executive director's fees or senior executive fixed remuneration for FY2016. Nurses and other facility staff employed by the Group are subject to the various Enterprise Bargaining Agreements which stipulate wage increases throughout FY2016 of up to 3.25%.

The Board is committed to ensuring that the remuneration arrangements of the Group are directly linked to the objectives of the business and that employees are compensated fairly and competitively for their results. During the year, particular attention has been paid to the performance review program and succession planning within the Group.

The Board recommends this Remuneration Report to you and asks that you support our remuneration policies and practices by voting in favour of this Report at our 2015 Annual General Meeting.

Linda Bardo Nicholls AO  
Chairman  
24 August 2015

David Blight  
Chairman, Remuneration and Nomination Committee

# Japara Healthcare Limited and Controlled Entities

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## Directors' Report (continued) For the year ended 30 June 2015

### Remuneration Report - Audited

#### 15.1. Key management personnel

This remuneration report sets out the remuneration arrangements of key management personnel in accordance with the *Corporations Act 2001* and Australian Accounting Standards for the year ended 30 June 2015 (**FY2015**). Key management personnel are those people who have the authority and responsibility for planning, directing and controlling the Group's activities, either directly or indirectly.

Table 1 – Key Management Personnel for FY2015

Name	Position
<b>Senior executives</b>	
Andrew Sudholz	CEO and Managing Director ( <b>CEO</b> )
Chris Price	Chief Financial Officer ( <b>CFO</b> ) (from 22 June 2015)
Jerome Jordan	Group Executive of Operations
Julie Reed	Group Executive of Aged Care
John McKenna	Chief Financial Officer ( <b>CFO</b> ) (until 22 June 2015)
<b>Independent non-executive directors</b>	
Linda Bardo Nicholls AO	Chairman
Richard England	Chairman of the Audit, Risk and Compliance Committee
David Blight	Chairman of the Remuneration and Nomination Committee
Tim Poole	

#### 15.2. Remuneration Framework and Governance

##### *Remuneration and Nomination Committee*

The Remuneration and Nomination Committee (**the Committee**) is responsible for matters relating to succession planning, nomination and remuneration of the directors, the Chief Executive Officer and senior executives as set out in the Committee's Charter. The Committee comprises only non-executive directors all of whom are independent from management.

The main responsibilities of the Committee in respect to remuneration include:

- Review and recommend to the Board arrangements for the executive directors (including the CEO) and the executives reporting to the CEO, including contract terms, annual remuneration and participation in the Company's short and long term incentive plans;
- Review and approve short term incentive strategy, performance targets and bonus payments;
- Recommend to the Board whether offers are to be made under any or all of the Company's employee equity incentive plans in respect of a financial year; and
- Review and recommend to the Board the remuneration arrangements for the Chairman and the non executive directors of the Board, including fees, travel and other benefits.

##### *Services from remuneration consultants*

The Committee considers the advice of independent remuneration consultants and other external providers as required. The advice and recommendations are used as a guide only, and do not serve as a substitute for thorough consideration and debate of the issues by the Directors.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2015

#### 15.2. Remuneration Framework and Governance (continued)

##### *Services from remuneration consultants (continued)*

During the reporting period the Board engaged KPMG as remuneration consultant to review the amount and elements of the key management personnel remuneration and provide benchmarking in relation thereto. KPMG was paid \$8,800 (2014: \$39,500) for the remuneration benchmarking in respect of reviewing the amount and elements of remuneration. The Board is satisfied that the remuneration benchmarking performed by KPMG was free from undue influence by members of the key management personnel about whom the recommendations may relate.

KPMG was required to provide a summary of the way in which it carried out its work, details of its interaction with key management personnel in relation to the assignment and other services, and respond to questions by the Board after the completion of the assignment.

#### 15.3. FY2015 Remuneration summary

Details of the remuneration of Executives, prepared in accordance with statutory obligations and accounting standards, are set out in a Table 6 in Section 15.4.3 of this report.

The Board recognises that the statutory tables may not provide a clear indication of the actual value of remuneration earned by Executives during the year. As such, Table 2 below summarises the actual amounts the executives received in FY2015. This includes their fixed remuneration for FY2015 and any other payments received during the year.

No Short Term Incentives (STI's) or Long Term Incentives (LTI's) were paid or vested during the year.

The key difference between remuneration figures provided in Table 2 below and Table 6 in section 15.4.3 is that the statutory table requires the value of equity grants to be estimated and apportioned over the relevant vesting period, irrespective of whether those awards ultimately vest.

Table 2 – Remuneration paid in FY2015

	Cash salary <sup>1</sup>	Superannuation	Other	Total
<b>A. Sudholz</b>	838,819	32,674	2,597	<b>874,090</b>
<b>C. Price</b> (from 22 June 2015)	10,762	751	-	<b>11,513</b>
<b>J. Jordan</b>	391,655	30,650	2,597	<b>424,902</b>
<b>J. Reed</b>	387,843	31,185	2,597	<b>421,625</b>
<b>J. McKenna</b> (until 22 June 2015)	372,241	34,730	-	<b>406,971</b>

1. Cash salary includes salary and fees and leave entitlements paid in the year detailed in Table 6.

##### *STI performance outcomes*

The STI performance gateways for FY2015 were:

- that ongoing compliance and accreditation targets are met in accordance with the *Aged Care Act 1997*; and
- the prospectus forecast EBITDA of \$48.9 million be met (adjusted for acquisitions).

As noted in the covering letter to this Remuneration Report, the Board has determined that no STI is payable for FY2015 as prospectus forecast was met but the result was not sufficient for an STI pool to form. It is a requirement that the STI is self-funding, that is, that following the payment of the STI, EBITDA adjusted for acquisitions, needs to be at or above forecast. This was not the case for FY2015, once adjusted for the Whelan acquisition.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2015

#### 15.3. FY2015 Remuneration summary (continued)

##### *LTI performance outcomes*

Similarly, in relation to the LTI, the Board considered a performance gateway hurdle was not met resulting in the FY2014 LTI being forfeited. No further performance rights were granted during the period ended 30 June 2015.

The Board intends to grant a replacement LTI in the form of performance rights to senior executives including the CEO (subject to shareholder approval where required). The performance period of the proposed LTI performance rights will be from 1 July 2015 to 30 June 2018. Further information on the new LTI will be included in the Explanatory Memorandum accompanying the Notice of Annual General Meeting.

#### 15.4. Senior Executive Remuneration Structure

##### 15.4.1 Principles of executive remuneration packages

The remuneration structures outlined below are designed to attract suitably qualified candidates, reward the achievement of stretch objectives, and help achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to influence performance;
- the Group's performance including:
  - the Group's Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**) and Net Profit After Tax (**NPAT**);
  - the growth in earnings per share; and
  - compliance with relevant legislation and regulation.

No STI has been granted in the current year and is therefore presented at target levels. The LTI amount is presented based on the fair value of the LTI granted in the period using an accepted valuation methodology. Table 3 below represents the target remuneration mix for Group executives.

Table 3 – Target mix of remuneration components

	Fixed remuneration	At risk		Total
		Short-term incentive	Long-term incentive	
CEO	50.0%	25.0%	25.0%	100.0%
CFO	58.8%	23.5%	17.7%	100.0%
Other senior executives	58.8%	23.5%	17.7%	100.0%

##### 15.4.2 Executive remuneration in detail

###### i) Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as leave entitlements and employer contributions to superannuation funds. Remuneration levels are reviewed annually by the Remuneration and Nomination Committee. Senior executive's remuneration is also reviewed on promotion.

The Board has determined that there will be no increase in senior executive fixed remuneration for FY2016. Nurses and other facility staff employed by the Group are subject to the various Enterprise Bargaining Agreements which stipulate wage increases throughout FY2016 of up to 3.25%.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2015

#### 15.4.2 Executive remuneration in detail (continued)

##### ii) Performance linked remuneration (At risk)

Performance linked remuneration includes both STI's and LTI's, and is designed to reward senior executives for exceeding their objectives. The STI is an 'at risk' bonus provided in the form of cash. The LTI is in the form of a performance-based Equity Incentive Plan (**EIP**).

In FY2014 an LTI was granted to the CEO under the Group's performance-based Limited Recourse Loan Plan (**Loan Plan**). Following forfeiture of the shares issued under the Loan Plan a new LTI for FY2016 will be granted to the CEO under the Group's EIP, subject to shareholder approval.

The Board has the discretion to vary the "at risk" performance-based elements of remuneration, including STI's and LTI's, at any time, where it considers a reduction to be prudent.

##### **STI bonus**

The Remuneration and Nomination Committee sets certain financial and non-financial performance hurdles for each senior executive. There are also gateway hurdles in place to ensure that threshold financial performance measures and ongoing compliance and accreditation targets are met prior to any payment of STI's. Should these performance hurdles be met, the STI bonus may be paid subject to the Board's discretion.

In the event the STI bonus is payable in future years, 50% will be paid in cash following the end of the performance year, and the remaining 50% will be deferred for a further 12 months before also being paid in cash or performance rights (subject to certain conditions including the participant's continued employment for the additional 12 months).

The Remuneration and Nomination Committee reviews and makes a recommendation to the Board as to whether or not an STI bonus should be made to eligible executives on an annual basis.

##### **LTI plan**

The Group's EIP is an LTI plan under which performance rights are issued to the participant for nil consideration and each performance right entitles the holder to acquire one share for nil consideration at the end of the performance period subject to the satisfaction of certain conditions. The performance rights do not carry voting rights or dividend entitlements.

The **key terms** of the EIP are as follows:

- offers may be made at the Board's discretion to employees of the Group or any other person that the Board determines to be eligible to receive a grant under either long-term incentive plan;
- the Board has the discretion to set the terms and conditions on which it will offer performance rights in individual offer documents;
- participants must accept an offer made under the EIP to be eligible to receive performance rights;
- the participant must not sell, transfer, encumber, hedge or otherwise deal with performance rights;
- the participant will be free to deal with any shares allocated on vesting of the performance rights, subject to the requirements of the Group's Policy for Dealing in Securities; and
- if the participant ceases employment for cause or due to their resignation, unless the Board determines otherwise, any unvested performance rights will be automatically forfeited.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

### For the year ended 30 June 2015

#### 15.4.3. Total executive remuneration

Table 6 – Total executive remuneration for FY2015 and FY2014

The remuneration of executives included within employee benefits expense in the Statement of Profit or Loss for the FY2015 was as follows (FY2014 covers the period from 22 April 2014 to 30 June 2014):

	Short-term benefits		Post-employment benefits			Total fixed remuneration Cost	At risk			Total fixed and at risk remuneration
	Salary & fees Paid	Non-monetary benefits Paid	Superannuation benefits Paid	Annual leave entitlements Accrued	Long-service leave entitlements Accrued		STI - Bonus paid in cash	STI - Bonus deferred for 12 months	LTI - Share-based payments accrued	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Andrew Sudholz</b>										
FY2015	771,636	2,597	32,674	67,183	12,730	886,820	-	-	(25,316)	861,504
FY2014	166,460	498	15,398	13,989	2,774	199,119	-	-	25,316	224,435
<b>Chris Price (appointed 22 June 2015)</b>										
FY2015	10,156	-	751	606	-	11,513	-	-	-	11,513
FY2014	-	-	-	-	-	-	-	-	-	-
<b>Jerome Jordan</b>										
FY2015	361,620	2,597	30,650	30,035	5,672	430,574	-	-	(5,815)	424,759
FY2014	76,136	498	7,043	6,398	1,269	91,344	-	-	5,815	97,159
<b>Julie Reed</b>										
FY2015	357,808	2,597	31,185	30,035	5,688	427,313	-	-	(5,815)	421,498
FY2014	76,136	498	7,043	6,398	1,269	91,344	-	-	5,815	97,159
<b>John McKenna (resigned 22 June 2015)</b>										
FY2015	342,865	-	34,730	29,376	5,688	412,659	-	-	(5,815)	406,844
FY2014	76,136	-	7,043	6,398	1,269	90,846	-	-	5,815	96,661
<b>FY2015</b>	<b>1,844,085</b>	<b>7,791</b>	<b>129,990</b>	<b>157,235</b>	<b>29,778</b>	<b>2,168,879</b>	-	-	<b>(42,761)</b>	<b>2,126,118</b>
<b>FY2014</b>	<b>394,868</b>	<b>1,494</b>	<b>36,527</b>	<b>33,183</b>	<b>6,581</b>	<b>472,653</b>	-	-	<b>42,761</b>	<b>515,414</b>

In accordance with AASB 2 *Share-based payments*, the values provided in the shaded column have been calculated using an accepted option valuation methodology (see Note 9). The expense relates to Loan Shares and performance rights granted in FY2014. The FY2014 expense has been reversed as a credit to the statement of profit or loss in FY2015 due to the forfeiture of rights discussed in section 15.3, in accordance with AASB 2.

The Group's policy in relation to the proportion of remuneration that is performance related is discussed in section 15.4.1 and details of the long-term incentive plans are set out in section 15.4.2.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued) Remuneration report (continued) For the year ended 30 June 2015

#### 15.5. CEO and other senior executives' employment arrangements

The CEO's service agreement with the Group specifies the duties and obligations to be fulfilled by him. The agreement may be terminated by either party by giving 12 months' notice. The Group retains the right to terminate the contract immediately by making payment equal to 12 months' total fixed remuneration in lieu of notice, less any applicable taxable deduction. The CEO has no entitlement to termination payment in the event of removal for cause.

The CFO's service agreement with the Group specifies the duties and obligations to be fulfilled by him. The agreement may be terminated by either party by giving 6 months' notice. The Group retains the right to terminate the contract immediately by making payment equal to 6 months' pay in lieu of notice, less any applicable taxable deduction. The CFO has no entitlement to termination payment in the event of removal for cause.

The Group has entered into service agreements with each of the other senior executives that are capable of termination on 3 months' notice by the employee. The Group retains the right to terminate an agreement immediately for serious misconduct without any obligation to provide notice or pay the employee any remuneration. In the event that the employee is terminated due to abolition of their position or redundancy the employee will be entitled to a severance payment equivalent to 12 months gross salary, less any applicable taxable deduction. On termination of employment the senior executives are also entitled to receive their statutory entitlements of accrued annual and long-service leave, together with any superannuation benefits.

The service agreements outline the components of remuneration but do not prescribe how remuneration levels are modified year to year. The Remuneration and Nomination Committee reviews remuneration levels each year taking into account cost-of-living changes and any change in the scope of the role performed by the senior executive.

#### 15.6. Non-executive directors remuneration

Under the Constitution, the Board may decide the remuneration which each non-executive director is entitled to receive from the Group for his or her services as a non-executive director. However, the total amount provided to all non-executive directors for their services as non-executive directors must not exceed, in aggregate in any financial year, the amount fixed by the shareholders of the Company. This amount was fixed at \$1,000,000 at a general meeting of the Company on 4 April 2014. In FY2015, the fees payable to the current non-executive directors were in line with those disclosed in the Company's Prospectus dated 11 April 2014.

The annual base director fees currently agreed to be paid by the Group are \$200,000 to the non-executive chairman, \$100,000 to each other non-executive director and an additional \$20,000 to the chair of each standing Committee of the Board. There will be no increase in non-executive director's fees for FY2016.

Non-executive directors did not receive nor are eligible for performance related remuneration.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued) Remuneration report (continued) For the year ended 30 June 2015

#### 15.6. Non-executive directors remuneration (continued)

The remuneration of non-executive directors' included within employee benefits expense in the Statement of Profit or Loss for FY2015 was as follows (FY2014 covers the period from 22 April 2014 to 30 June 2014):

Table 7 – Non-executive directors remuneration for FY2015 and FY2014

	Short-term benefits		Post-employment benefits	Total fees paid
	Fees	Non-monetary benefits	Superannuation benefits	
	\$	\$	\$	\$
<b>Linda Bardo Nicholls AO (Chairman)</b>				
FY2015	183,066	-	16,934	<b>200,000</b>
FY2014	37,616	-	3,480	<b>41,096</b>
<b>Richard England</b>				
FY2015	109,840	-	10,160	<b>120,000</b>
FY2014	22,570	-	2,088	<b>24,658</b>
<b>Tim Poole</b>				
FY2015	91,533	-	8,467	<b>100,000</b>
FY2014	18,808	-	1,740	<b>20,548</b>
<b>David Blight</b>				
FY2015	109,840	-	10,160	<b>120,000</b>
FY2014	22,570	-	2,088	<b>24,658</b>
<b>Total non-executive directors' remuneration</b>				
<b>FY2015</b>	<b>494,279</b>	<b>-</b>	<b>45,721</b>	<b>540,000</b>
<b>FY2014</b>	<b>101,564</b>	<b>-</b>	<b>9,396</b>	<b>110,960</b>

#### 15.7. Other benefits

Key management personnel may be reimbursed for travel and other expenses incurred in attending to the Group's affairs, including attending and returning from meetings of directors or committees or general meetings. There are no retirement benefit schemes for directors, other than statutory superannuation contributions.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued) Remuneration report (continued) For the year ended 30 June 2015

#### 15.8. Key management personnel shareholdings in the Company

Table 8 – The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2014	Received under the Loan Plan arrangement <sup>1</sup>	Other net change	Held at 30 June 2015
	No. of shares	No. of shares	No. of shares	No. of shares
<b>Non-executive directors</b>				
Linda Bardo Nicholls AO	25,000	-	21,500	<b>46,500</b>
Richard England	25,000	-	6,250	<b>31,250</b>
Tim Poole	200,000	-	-	<b>200,000</b>
David Blight	50,000	-	-	<b>50,000</b>
<b>Managing director &amp; CEO</b>				
Andrew Sudholz	15,700,001	546,591	-	<b>16,246,592</b>
<b>Other key management personnel</b>				
Chris Price	-	-	-	-
Jerome Jordan	-	-	-	-
Julie Reed	10,000	-	-	<b>10,000</b>
John McKenna	125,000	-	-	<b>125,000</b>

1. Shares issued under the Loan Plan (see section 15.4.2 for further details). These shares have been forfeited as disclosed in section 15.3.

Japara Healthcare Limited and Controlled Entities

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Directors' Report (continued)  
Remuneration Report (continued)  
For the year ended 30 June 2015

15.9. Other statutory disclosures

Analysis of movements in equity instruments held by key management personnel

Table 9 - The movement during the reporting period in the number of rights over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Performance/ Retention Rights	Date of grant	Vesting date	Held at 1 July 2014 No. of rights	Granted/ (forfeited) No. of rights	Exercised No. of rights	Held at 30 June 2015 No. of rights	Vested during FY2015 No. of rights	Vested and exercisable at 30 June 2015 No. of rights
<b>Non-executive directors</b>									
Linda Bardo Nicholls AO	N/A	N/A	N/A	-	-	-	-	-	-
Richard England	N/A	N/A	N/A	-	-	-	-	-	-
Tim Poole	N/A	N/A	N/A	-	-	-	-	-	-
David Blight	N/A	N/A	N/A	-	-	-	-	-	-
<b>Managing director &amp; CEO</b>									
Andrew Sudholz	Performance	17/04/2014	30/06/2017	546,591	(546,591)	-	-	-	-
<b>Other key management personnel</b>									
Chris Price	N/A	N/A	N/A	-	-	-	-	-	-
Jerome Jordan	Performance	17/04/2014	30/06/2017	66,000	(66,000)	-	-	-	-
	Retention <sup>1</sup>	17/04/2014	17/04/2016	50,000	-	-	<b>50,000</b>	-	-
Julie Reed	Performance	17/04/2014	30/06/2017	66,000	(66,000)	-	-	-	-
	Retention <sup>1</sup>	17/04/2014	17/04/2016	100,000	-	-	<b>100,000</b>	-	-
John McKenna	Performance	17/04/2014	30/06/2017	66,000	(66,000)	-	-	-	-

1. Upon the successful listing of the Group on the Australian Securities Exchange, Jerome Jordan and Julie Reed to received a one-off offer bonus in recognition of their contribution to the success of the Japara Group as set out in the Prospectus dated 11 April 2014.
2. All rights are for ordinary shares of the Company, which are exercisable on a one-for-one basis.

**Japara Healthcare Limited and Controlled Entities**

ABN: 54 168 631 052

**Statement of Profit or Loss and Other Comprehensive Income**  
**For the Year Ended 30 June 2015**

	2015	2014
Note	\$'000	\$'000
Revenue	6 278,262	48,378
Other income	6 2,987	536
Finance income	6 1,292	203
<b>Total income</b>	<b>282,541</b>	<b>49,117</b>
Employee benefits expense	10 (186,742)	(32,934)
Resident costs	(22,860)	(3,804)
Occupancy costs	(13,384)	(2,478)
Depreciation and amortisation expense	(9,718)	(1,582)
Administrative expenses	(7,315)	(1,180)
Other expenses	7 (358)	(9,864)
Finance costs	7 (2,825)	(325)
<b>Profit/(loss) before income tax</b>	<b>39,339</b>	<b>(3,050)</b>
Income tax (expense)/benefit	11(a) (10,500)	112
<b>Profit/(loss) for the period</b>	<b>28,839</b>	<b>(2,938)</b>
Other comprehensive income, net of income tax	-	-
<b>Total comprehensive income/(loss) for the period</b>	<b>28,839</b>	<b>(2,938)</b>
<b>Profit/(loss) attributable to members of the group</b>	<b>28,839</b>	<b>(2,938)</b>
<b>Total comprehensive income/(loss) attributable to members of the group</b>	<b>28,839</b>	<b>(2,938)</b>
<b>Earnings per share</b>		
Basic earnings per share (cents)	8 10.97	(0.01)
Diluted earnings per share (cents)	8 10.94	(0.01)

The accompanying notes form part of these financial statements.

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Statement of Financial Position

As at 30 June 2015

	Note	2015 \$'000	2014 \$'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	13	53,878	28,107
Trade and other receivables	12	10,168	7,073
Current tax receivable	11(e)	-	2,702
Other assets		3,237	3,585
<b>TOTAL CURRENT ASSETS</b>		<b>67,283</b>	<b>41,467</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	12	2,607	1,210
Other financial assets	31(d)	1,078	-
Non-current assets held for sale		1,997	-
Property, plant and equipment	14	383,797	340,799
Investment property	16	31,549	23,312
Deferred tax assets	11(e)	12,300	15,684
Intangible assets	15	415,188	384,786
<b>TOTAL NON-CURRENT ASSETS</b>		<b>848,516</b>	<b>765,791</b>
<b>TOTAL ASSETS</b>		<b>915,799</b>	<b>807,258</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	21	16,657	22,180
Other liabilities	22	9,498	9,331
Loans and borrowings	19	-	15,817
Current tax payable	11(e)	4,432	-
Other financial liabilities	20	325,251	220,904
Short-term provisions	23	27,217	23,045
<b>TOTAL CURRENT LIABILITIES</b>		<b>383,055</b>	<b>291,277</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term provisions	23	2,705	1,994
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,705</b>	<b>1,994</b>
<b>TOTAL LIABILITIES</b>		<b>385,760</b>	<b>293,271</b>
<b>NET ASSETS</b>		<b>530,039</b>	<b>513,987</b>
<b>EQUITY</b>			
Issued capital		517,848	516,755
Retained earnings/(deficit)		12,191	(2,768)
<b>TOTAL EQUITY</b>		<b>530,039</b>	<b>513,987</b>

The accompanying notes form part of these financial statements.

## Statement of Changes in Equity

For the Year Ended 30 June 2015

### 2015

	Issued capital \$'000	Retained earnings/ (deficit) \$'000	Total \$'000
<b>Balance at 1 July 2014</b>	516,755	(2,768)	513,987
<b>Comprehensive income</b>			
Profit attributable to members of the group	-	28,839	28,839
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	-	28,839	28,839
<b>Transactions with owners of the company</b>			
Issue of shares	1,093	-	1,093
Dividends	-	(14,468)	(14,468)
Equity settled share-based payment	-	588	588
<b>Total transactions with owners of the company</b>	1,093	(13,880)	(12,787)
<b>Balance at 30 June 2015</b>	517,848	12,191	530,039

### 2014

	Issued capital \$'000	Retained earnings/ (deficit) \$'000	Total \$'000
<b>Balance at 19 March 2014</b>	-	-	-
<b>Comprehensive income</b>			
Loss attributable to members of the group	-	(2,938)	(2,938)
Other comprehensive income	-	-	-
<b>Total comprehensive income/(loss)</b>	-	(2,938)	(2,938)
<b>Transactions with owners of the company</b>			
Issue of shares	525,000	-	525,000
Equity raising costs, net of tax	(8,245)	-	(8,245)
Equity settled share-based payment	-	170	170
<b>Total transactions with owners of the company</b>	516,755	170	516,925
<b>Balance at 30 June 2014</b>	516,755	(2,768)	513,987

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Statement of Cash Flows For the Year Ended 30 June 2015

	2015	2014
Note	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	275,995	48,569
Payments to suppliers and employees	(234,918)	(45,636)
Income taxes refunded/(paid)	684	(1,326)
Interest received	1,204	143
Finance costs paid	(2,782)	(325)
Net cash provided by operating activities	33 <u>40,183</u>	1,425
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of land & buildings	(9,796)	-
Proceeds from sale of land	758	-
Purchase of plant and equipment	(4,040)	(2,013)
Proceeds from sale of plant and equipment	-	43
Capital works in progress	(18,224)	(2,711)
Purchase of resident places	(493)	-
Acquisition of aged care business, net of cash	27(d) (23,879)	-
Acquisition of the Japara Group, net of cash	-	(181,411)
Other acquisitions and acquisition related costs	(6,326)	-
Net cash used by investing activities	<u>(62,000)</u>	(186,092)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issue of share capital	-	350,919
Equity raising costs	(1,291)	(18,803)
Dividends paid	17(b) (14,468)	-
Net proceeds/(repayments) of bank borrowings	19 (14,000)	14,000
Proceeds from RADs/accommodation bonds & ILU resident loans	154,111	25,645
Repayment of RADs/accommodation bonds & ILU resident loans	(76,779)	(11,210)
Proceeds from other financial assets	15	-
Settlement of pre-acquisition receivables/(payables) of the Japara Group	-	(147,777)
Net cash provided by financing activities	<u>47,588</u>	212,774
Net increase in cash and cash equivalents held	25,771	28,107
Cash and cash equivalents at beginning of the period	<u>28,107</u>	-
Cash and cash equivalents at end of the period	13 <u><u>53,878</u></u>	<u>28,107</u>

The accompanying notes form part of these financial statements.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **1 Reporting entity**

Japara Healthcare Limited ("the Company") is a company domiciled in Australia. The Company was incorporated on 19 March 2014. The consolidated financial statements comprise the Company and its subsidiaries (collectively "the Group" and individually "Group companies"). The comparative information and results for the Group are presented from 19 March 2014 to 30 June 2014.

The Company's registered office is at Q1 Building, Level 4, 1 Southbank Boulevard, SOUTHBANK, VIC, 3006, AUSTRALIA.

The Group is a for-profit entity and is primarily involved in the provision of residential aged care services throughout Australia (see note 5).

### **2 Basis of Accounting**

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations associated with all financial liabilities.

Comparative figures in the Statement of Profit or Loss and Other Comprehensive Income have been reclassified as considered appropriate based upon the nature of the revenue and expenses.

The Group's current liabilities exceed current assets by \$315,722,000 as at 30 June 2015. This mainly arises because of the requirement to classify resident obligations relating to accommodation bonds, refundable accommodation deposits ("RADs") and independent living unit ("ILU") resident loans of \$325,251,000 as current liabilities (refer note 20 for further details), whereas, the investment properties, property, plant and equipment, and intangible assets to which they relate are required to be classified as non-current assets.

Note 24(b)(ii) explains that liquidity risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. This is also achieved by maintaining a liquidity management strategy to ensure that the Group has sufficient liquidity to enable it to refund accommodation bonds and RADs that are expected to fall due within the next twelve months.

The financial statements were authorised for issue by the Board of Directors on 24 August 2015. Details of the Group's accounting policies are included in note 37.

### **3 Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

### **4 Use of judgements and estimates**

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about critical judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ended 30 June 2015 are included in the following notes:

- Note 11 – recognition of deferred tax assets: availability of future taxable profit;
- Note 15 – impairment test: key assumptions underlying recoverable amounts; and
- Note 27 – acquisition of subsidiaries: fair value measured on a provisional basis.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 4 Use of judgements and estimates continued

#### *Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Chief Financial Officer has overall responsibility for overseeing all significant fair value measurements, including Level 3 measurements.

The finance team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the finance team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit, Risk & Compliance Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 9 – share-based payment arrangements;
- Note 16 – investment property;
- Note 24 – financial instruments; and
- Note 27 - Acquisition of Whelan Care Business.

### 5 Segment Reporting

The consolidated group operates predominantly in one business and geographical segment being the provision of residential aged care services throughout Australia. Segment information reported to key management personnel is substantially similar to information provided in this financial report.

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 6 Revenue and Other Income

	2015	2014
	\$'000	\$'000
<b>Revenue</b>		
Government care funding	200,392	35,315
Resident fees	77,870	13,063
<b>Total revenue</b>	<u>278,262</u>	<u>48,378</u>
<b>Other income</b>		
Increase in fair value of investment property	16 772	452
Discount on acquisition	27(c) 727	-
Other income	1,488	84
<b>Total other income</b>	<u>2,987</u>	<u>536</u>
<b>Finance income</b>		
Interest income	1,197	199
Decrease in fair value of Independent Living Unit liability	95	4
<b>Total finance income</b>	<u>1,292</u>	<u>203</u>
<b>Total income</b>	<u>282,541</u>	<u>49,117</u>

### 7 Expenses

<b>Other expenses</b>		
Acquisition costs	104	-
Loss on disposal of non-current assets	254	25
Equity raising costs	-	5,843
Transfer duty arising on the restructure of the Group	-	3,996
<b>Total other expenses</b>	<u>358</u>	<u>9,864</u>
<b>Finance costs</b>		
Loan establishment fees	542	131
Loan interest expense	1,039	36
RAD/accommodation bond settlement interest expense	1,079	158
Increase in fair value of Independent Living Unit liability	165	-
<b>Total finance costs</b>	<u>2,825</u>	<u>325</u>

### 8 Earnings per Share

The calculation of basic earnings per share (EPS) has been based on the following profit/(loss) attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

(a) Profit/(loss) attributable to ordinary shareholders

	2015	2014
	\$'000	\$'000
<b>Profit/(loss) for the period attributable to ordinary shareholders</b>	<u>28,839</u>	<u>(2,938)</u>

**Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

**8 Earnings per Share continued**

(b) Weighted average number of ordinary shares outstanding during the period used in calculating basic EPS

	<b>2015</b>	<b>2014</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the period used in calculating basic EPS	<b>262,962,730</b>	262,500,001
Weighted average number of dilutive options outstanding	<b>682,000</b>	1,457,000
<b>Weighted average number of ordinary shares outstanding during the period used in calculating dilutive EPS</b>	<b><u>263,644,730</u></b>	<b><u>263,957,001</u></b>

**9 Share-based payment arrangements**

(a) **Description of equity-settled share option arrangements**

During the year ended 30 June 2015, the Group had the following share-based payment arrangements.

(i) **Offer bonus**

On 17 April 2014, following the successful listing on the Australian Securities Exchange a number of employees received a one-off offer bonus in recognition of their contribution to the Initial Public Offering. The offer bonus was funded by the previous shareholders of Japara Holdings Pty Ltd and was delivered partly in a cash component and partly as rights that vest as ordinary shares in the Company on 17 April 2016, after two years continued employment with the Group subsequent to ASX listing.

(ii) **Loan Plan**

The Company's Loan Plan is an LTI plan under which the Chief Executive Officer and any other employee as determined by the Board are entitled to acquire Loan Shares in the Company. Loan Shares have the same rights as ordinary shares. Participants will be provided with a limited recourse loan from the Company for the sole purpose of subscribing for Loan Shares in the Company. The loan is recognised as a financial asset in the financial statements of the Group when the Loan Shares vest. Eligibility to participate in the Loan Plan and the number of Loan Shares (and the associated loan amount) to be acquired by each participant will be determined by the Board.

On 17 April 2014, the CEO was granted 547,000 Loan Shares under the Loan Plan. During the year ended 30 June 2015 the Loan Shares were forfeited as a gateway performance hurdle was not met. No Loan Shares were granted under the Company's Loan Plan in the year ended 30 June 2015.

(iii) **Rights Plan**

The Company's Rights Plan is an LTI plan under which eligible employees that are invited by the Board to participate in the Rights Plan are provided with performance rights. On 17 April 2014, performance rights were granted to the former Chief Financial Officer (resigned 22 June 2015), Group Executive of Operations and the Group Executive of Aged Care. During the year ended 30 June 2015 the rights were forfeited as a gateway performance hurdle was not met. No rights were granted under the Company's Rights Plan in the year ended 30 June 2015.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Notes to the Financial Statements

For the Year Ended 30 June 2015

#### 9 Share-based payment arrangements continued

##### (b) Reconciliation of outstanding rights

	Offer bonus		Loan Plan		Rights Plan		Total	
	Number of rights 2015	Number of rights 2014	Number of rights 2015	Number of rights 2014	Number of rights 2015	Number of rights 2014	Number of rights 2015	Number of rights 2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Outstanding at the beginning of the reporting period	712	-	547	-	198	-	1,457	-
Granted during the period	-	745	-	547	-	198	-	1,490
Forfeited during the period	(30)	(33)	(547)	-	(198)	-	(775)	(33)
Exercised during the period	-	-	-	-	-	-	-	-
<b>Total</b>	<b>682</b>	<b>712</b>	<b>-</b>	<b>547</b>	<b>-</b>	<b>198</b>	<b>682</b>	<b>1,457</b>

No rights outstanding were exercisable at the reporting date (2014: Nil). The weighted average exercise price for rights outstanding at 30 June 2015 was \$Nil (2014: \$0.73). Of the 682,000 rights outstanding at 30 June 2015, 150,000 were granted to key management personnel.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 9 Share-based payment arrangements continued

#### (c) Measurement of fair value

##### (i) Offer bonus

As the exercise price is \$Nil upon vesting, the fair value of the rights issued under the offer bonus scheme is deemed to be equal to the spot price at the grant date (\$2.00 per share) less the fall in value due to the dividend yield estimated to be 5.4%. The fair value of the rights issued under the offer bonus scheme on 17 April 2014 was \$1,390,000.

##### (ii) Loan Plan

As discussed in note 9(a)(ii) the Loan Shares granted under the Loan Plan in the period ended 30 June 2014 were forfeited during the year ended 30 June 2015 and no further Loan Shares have been granted.

The fair value of the Loan Shares granted under the loan plan in the period ended 30 June 2014 was measured utilising the assumptions underlying the Black Scholes valuation methodology to produce a Monte-Carlo simulation model which allows for the incorporation of the dividend approach to paying down the loan. Service and non-market performance conditions attached to the transactions were not taken into account in measuring fair value. The fair value of the rights issued under the Loan Plan Scheme on 17 April 2014 was \$481,000.

##### (iii) Rights Plan

As discussed in note 9(a)(ii) the performance rights granted under the Rights Plan in the period ended 30 June 2014 were forfeited during the year ended 30 June 2015 and no further performance rights have been granted.

As the exercise price is \$Nil upon vesting, the fair value of the performance rights issued under the offer bonus scheme was deemed to be equal to the spot price at the grant date (\$2.00 per share on 17 April 2014) less the fall in value due to the dividend yield estimated to be 5.4%. The fair value of the rights issued under the Rights Plan on 17 April 2014 was \$331,000.

#### (d) Expense recognised in profit or loss

The expense recognised in profit or loss as an employee benefit for each of the share arrangements was as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Loan Plan	(25)	25
Rights Plan	(18)	18
<b>Total</b>	<b>(43)</b>	<b>43</b>

During the year ended 30 June 2015 the Loan Shares granted under the Loan Plan and the performance rights granted under the Rights Plan were forfeited due to the failure to meet a gateway performance hurdle. In accordance with AASB 2 *Share-based payment*, the expense recognised in the Statement of Profit or Loss and Other Comprehensive Income is reversed through profit or loss when equity settled share-based payments are forfeited.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 10 Employee benefits expense

	2015	2014
Note	\$'000	\$'000
Wages and leave expenses	154,447	26,965
Superannuation contributions	14,285	2,417
Payroll tax expense	8,293	1,441
Agency staff costs	3,653	876
Workcover expense	5,161	937
Share-based payment	9(d) (43)	43
Other staff costs	946	255
<b>Total employee benefit expense</b>	<b>186,742</b>	<b>32,934</b>

### 11 Income Tax Expense

(a) The major components of tax expense/(benefit) comprise:

Current tax expense	6,670	816
Deferred tax expense/(benefit)	4,049	(928)
Under/(over) provision in respect of prior period	(219)	-
<b>Income tax expense/(benefit) for continuing operations</b>	<b>10,500</b>	<b>(112)</b>

(b) The prima facie taxable profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense/(benefit) in the financial statements as follows:

	2015	2014
	\$'000	\$'000
Profit/(loss) before income tax	39,339	(3,050)
Prima facie tax on profit/(loss) at the statutory tax rate of 30% (2014: 30%)	11,802	(915)
Add:		
Tax effect of:		
non-deductible tax expenses	496	803
Less:		
Tax effect of:		
over provision for income tax in prior year	(219)	-
gain on acquisition of a business - non-taxable	(1,369)	-
other non-taxable income	(210)	-
<b>Income tax expense/(benefit)</b>	<b>10,500</b>	<b>(112)</b>
 Weighted average effective tax rate	 27 %	 4 %

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 11 Income Tax Expense continued

#### (c) Income tax rate

The tax rate used in the above reconciliations is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under the Australian tax law.

#### (d) Tax consolidation

*Relevance of tax consolidation to the consolidated group*

Japara Healthcare Limited and its controlled entities formed a tax consolidated group which commenced on 16 April 2014.

*Relevance of tax consolidation to the parent entity*

Japara Healthcare Limited commenced operations in April 2014. It is the head entity of the tax consolidated group.

*Nature of tax funding arrangements and tax sharing agreements*

The tax consolidated group has entered into income tax sharing and funding agreements effective from 16 April 2014 whereby each company in the group contributes to the income tax payable in proportion to their contribution to profit before tax of the consolidated group. The income tax liability/receivable of the subsidiary is recorded in the books of account of Japara Healthcare Limited as an intercompany payable or receivable with the subsidiary.

#### (e) Reconciliations

##### (i) Gross movements of deferred tax account

	Note	2015 \$'000	2014 \$'000
The overall movement in the deferred tax account is as follows:			
Opening balance		15,684	-
Acquisitions through business combinations	26,27(b)	665	11,222
Credited/(debited) to the income statement		(4,049)	928
Credited directly to equity		-	3,534
<b>Closing balance</b>		<b>12,300</b>	<b>15,684</b>

##### (ii) Gross movements of current tax account

	2015 \$'000	2014 \$'000
The overall movement in the current tax account is as follows:		
Opening balance	2,702	-
Acquisitions through business combinations	-	2,192
Income tax payable	(6,670)	(816)
Income tax amounts paid during the period	2,797	1,326
Income tax amounts received during the period	(3,480)	-
Over provision for income tax in prior period	219	-
<b>Closing balance</b>	<b>(4,432)</b>	<b>2,702</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 11 Income Tax Expense continued

#### (f) Deferred Tax Assets - Consolidated

	Opening Balance \$'000	Charged to Income \$'000	Charged directly to Equity \$'000	Acquisitions through business combinations \$'000	Closing Balance \$'000
<b>Deferred tax assets</b>					
Provisions	-	127	-	9,341	9,468
Deferred borrowing costs	-	35	-	136	171
Deferred legal costs	-	(40)	-	202	162
Sundry creditors and accruals	-	119	-	626	745
ILU resident loans	-	(1)	-	453	452
Deferred equity raising costs	-	984	3,534	1,336	5,854
<b>Balance at 30 June 2014</b>	<b>-</b>	<b>1,224</b>	<b>3,534</b>	<b>12,094</b>	<b>16,852</b>

Provisions	<b>9,468</b>	<b>(476)</b>	-	<b>665</b>	<b>9,657</b>
Deferred borrowing costs	<b>171</b>	<b>52</b>	-	-	<b>223</b>
Deferred legal costs	<b>162</b>	<b>(30)</b>	-	-	<b>132</b>
Sundry creditors and accruals	<b>745</b>	<b>(130)</b>	-	-	<b>615</b>
ILU resident loans	<b>452</b>	-	-	-	<b>452</b>
Deferred equity raising costs	<b>5,854</b>	<b>(1,121)</b>	-	-	<b>4,733</b>
<b>Balance at 30 June 2015</b>	<b>16,852</b>	<b>(1,705)</b>	<b>-</b>	<b>665</b>	<b>15,812</b>

#### (g) Deferred Tax Liability - Consolidated

##### Deferred tax liability

Property, plant and equipment	-	360	-	79	439
Capital works in progress (interest expense)	-	(75)	-	215	140
Deferred management fee receivable	-	11	-	578	589
<b>Balance at 30 June 2014</b>	<b>-</b>	<b>296</b>	<b>-</b>	<b>872</b>	<b>1,168</b>

Property, plant and equipment	<b>439</b>	<b>1,952</b>	-	-	<b>2,391</b>
Capital works in progress (interest expense)	<b>140</b>	-	-	-	<b>140</b>
Deferred management fee receivable	<b>589</b>	<b>392</b>	-	-	<b>981</b>
<b>Balance at 30 June 2015</b>	<b>1,168</b>	<b>2,344</b>	<b>-</b>	<b>-</b>	<b>3,512</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 12 Trade and other receivables

		2015	2014
		\$'000	\$'000
<b>CURRENT</b>			
Trade receivables	24(b)(i)	9,204	6,380
Provision for impairment	24(b)(i)	(418)	(243)
		<u>8,786</u>	<u>6,137</u>
Deferred management fees receivable		609	753
Other receivables		773	183
<b>Total current trade and other receivables</b>		<u><u>10,168</u></u>	<u><u>7,073</u></u>
<b>NON-CURRENT</b>			
Deferred management fees receivable		<u>2,607</u>	1,210
<b>Total non-current trade and other receivables</b>		<u><u>2,607</u></u>	<u><u>1,210</u></u>

### 13 Cash and cash equivalents

Cash at bank and on hand		53,570	27,799
Short-term deposits		<u>308</u>	<u>308</u>
		<u><u>53,878</u></u>	<u><u>28,107</u></u>

#### Reconciliation of cash

Cash reported in the Statement of Cash Flows are reconciled to the equivalent items in the Statement of Financial Position as follows:

Cash		<u><u>53,878</u></u>	<u><u>28,107</u></u>
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included within cash at bank and on hand is an amount that is reserved for the refund of RAD/accommodation bond liabilities in accordance with the *Aged Care Act 1997*. For more information on RAD/accommodation bond liabilities see note 20(a).

The Group has also entered into a number of security deposit guarantees with its bankers for security for the performance of the Group. As at the reporting date, \$1,143,000 (2014: \$748,000) of the cash balance was secured by its bankers.

## Japara Healthcare Limited and Controlled Entities

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### Notes to the Financial Statements

For the Year Ended 30 June 2015

#### 14 Property, plant and equipment

##### (a) Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment are shown below:

	Note	Land and buildings \$'000's	Property improvements \$'000's	Plant and Equipment \$'000's	Motor Vehicles \$'000's	Capital Works in Progress \$'000's	Total \$'000's
<b>Year ended 30 June 2015</b>							
Balance at the beginning of year		316,527	6,130	15,253	323	2,566	340,799
Additions		9,056	-	4,004	-	18,160	31,220
Additions through business combinations	27(b)	21,600	-	1,302	-	-	22,902
Disposals - written down value		(550)	(2)	(254)	-	-	(806)
Transfers		8,144	-	-	-	(8,144)	-
Transfers to held for sale		(600)	-	-	-	-	(600)
Depreciation expense		(5,915)	(355)	(3,317)	(131)	-	(9,718)
<b>Balance at the end of the year</b>		<b>348,262</b>	<b>5,773</b>	<b>16,988</b>	<b>192</b>	<b>12,582</b>	<b>383,797</b>
<b>Period ended 30 June 2014</b>							
Additions		357	8	1,642	6	2,711	4,724
Additions through business combinations		283,086	6,190	14,254	352	35,410	339,292
Disposals - written down value		-	-	(67)	-	-	(67)
Transfers		33,987	-	-	-	(35,555)	(1,568)
Depreciation expense		(903)	(68)	(576)	(35)	-	(1,582)
<b>Balance at the end of the period</b>		<b>316,527</b>	<b>6,130</b>	<b>15,253</b>	<b>323</b>	<b>2,566</b>	<b>340,799</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 14 Property, plant and equipment continued

#### (b) Property, plant and equipment under construction

During the reporting period the Group completed construction of an extension of the Kelaston aged care facility. Costs totalling \$7,726,000 were transferred from capital works in progress to land and buildings upon completion of construction.

### 15 Intangible Assets

#### (a) Movements in carrying amounts of intangible assets

	Note	Goodwill \$'000	Resident places \$'000	Total \$'000
<b>Year ended 30 June 2015</b>				
Balance at the beginning of the year		260,746	124,040	384,786
Additions at cost		-	493	493
Additions through business combinations	27(b)	-	29,909	29,909
<b>Closing value at 30 June 2015</b>		<b>260,746</b>	<b>154,442</b>	<b>415,188</b>

	Note	Goodwill \$'000	Resident places \$'000	Total \$'000
<b>Period ended 30 June 2014</b>				
Additions through business combinations	26	260,746	124,040	384,786
<b>Closing value at 30 June 2014</b>		<b>260,746</b>	<b>124,040</b>	<b>384,786</b>

#### (b) Impairment testing

For the purpose of impairment testing of intangible assets with an indefinite useful life the Group has identified one Cash Generating Unit (CGU); this is consistent with the operating segment identified in note 5.

The recoverable amount of the CGU was based upon its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The recoverable amount was determined to be higher than the carrying amount and therefore no impairment loss was recognised.

The post tax discount rate of 10.18% (2014: 10.1%) was determined based on the cash rate target adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the CGU.

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined at 3% (2014: 4%), consistent with an assumption a market participant would make.

Budgeted EBITDA was based upon expectation of future outcomes taking into account past experience, adjusted for anticipated revenue growth and occupancy rates.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 15 Intangible Assets continued

#### (b) Impairment testing continued

The estimated recoverable amount of the CGU exceeded its carrying amount. Management has identified that a reasonable possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	2015	2014
	%	%
Discount rate	1.06	1.26
Long-term growth rate	(1.42)	(1.56)

### 16 Investment Property

#### (a) Reconciliation of carrying amount

	2015	2014
	\$'000	\$'000
Balance at beginning of period	23,312	-
Additions resulting from capitalised expenditure	5	-
Additions through business combinations	7,460	21,292
Transfer in from capital work in progress	-	1,568
Fair value adjustments	6 772	452
<b>Balance at end of period</b>	<b>31,549</b>	<b>23,312</b>

Investment property comprises Independent Living Units (ILUs) located across five retirement villages. Four retirement villages are subject to loan licence agreements which confer the right to occupancy of the unit, until such time as the resident's occupancy terminates and the occupancy rights are transferred to another resident. Upon entry a resident will loan the Group an amount equal to the fair value of the unit. On termination the resident is entitled to repayment of the loan inclusive of any uplift in fair value since the agreement date less the deferred management fee. The remaining retirement village is subject to 49 year lease agreements with no loan agreement - it is carried at fair value with reference to external valuations.

#### (b) Fair value hierarchy

The fair value of investment property of \$31,549,000 (2014: \$23,312,000) has been categorised as a Level 3 based on the inputs to the valuation technique used (see note 4).

Due to the frequency of residents entering and departing from a unit the fair value of each unit within a retirement village under a loan licence agreement is based upon the most recent loan received for a similar unit.

## Japara Healthcare Limited and Controlled Entities

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### Notes to the Financial Statements

For the Year Ended 30 June 2015

#### 17 Issued Capital

##### (a) Ordinary shares

	2015 '000	2014 '000
At the beginning of the reporting period	262,500	-
Issued during the period	547	262,500
At the end of the reporting period	<u>263,047</u>	<u>262,500</u>

##### Ordinary shares

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

The Company does not have authorised capital or par value in respect of its shares.

##### Issue of ordinary shares

In August 2014, 547,000 shares were issued to the CEO under the terms of the Loan Plan (see note 9). In accordance with the Loan Plan the CEO is granted a loan (see note 31) in exchange for the shares. The shares vest at the end of the performance period as set out in the Loan Plan. During the performance period any dividends earned on the shares are offset against the loan balance.

During the year the performance gateway hurdles were not met and the shares granted under the Loan Plan were forfeited by the CEO.

##### (b) Dividends

	2015 \$'000	2014 \$'000
The following dividends were declared and paid:		
Interim unfranked ordinary dividend of 5.5 cents (2014: Nil) per share to be paid on 30 April 2015	<u>14,468</u>	-
Proposed final 2015 fully franked ordinary dividend of 5.5 cents (2014: Nil) per share to be paid 30 October 2015	<u>14,468</u>	-

The proposed final dividend for 2015 was declared after the end of the reporting period and therefore has not been provided for in the financial statements. There are no income tax consequences arising from this dividend at 30 June 2015.

##### Franking account

	2015 \$'000	2014 \$'000
The franking credits available for subsequent financial years at a tax rate of 30%	<u>427</u>	<u>1,111</u>

The ability to use the franking credits is dependent upon the ability to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of \$427,000 franking credits. The Group intends to pay income tax instalments to the Australian Taxation Office (ATO) in the months subsequent to the reporting date to enable the proposed dividend to be franked to the extent proposed above.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

# Notes to the Financial Statements

For the Year Ended 30 June 2015

### 18 Capital Management

The Group's principal sources of funds are cash flows from operations and RADs. The Group may finance its ongoing operations with operating cash flows or bank borrowings or a combination.

Over time, the Group may seek debt funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risk on long-term borrowings. Quantitative and qualitative disclosures about market risk sensitive instruments are included in note 24.

The Group's working capital requirements are generally consistent throughout the course of the year and there are no significant variations.

The Group maintains a disciplined approach to capital expenditure, with all key capital projects subject to strict approval protocols. Capital expenditure comprises expenditure on asset enhancement and replacement programs and general maintenance projects (maintenance expenditure funded from operational cash flows) as well as growth capital expenditure comprising brownfields and greenfields development projects and acquisition of aged care facilities (funded via equity, borrowings, RAD inflows, operating cash flows or any combination of these, as appropriate).

The Group may borrow money from time to time in order to finance activities.

### 19 Loans and borrowings

		2015	2014
		\$'000	\$'000
CURRENT			
Unsecured liabilities:			
Bank loan	19(b)	-	14,000
Vendor loan	19(c)	-	1,817
<b>Total current borrowings</b>		<u>-</u>	<u>15,817</u>

#### (a) Syndicated facility agreement

On 5 August 2014, the Group signed a three year Syndicated Debt Facility Agreement (SFA) with NAB, CBA and ANZ for a total facility of \$95,000,000. Under the SFA the Company can draw funds as and when required in order to assist with construction funding of brownfield and greenfield developments as well as funding for acquisitions where required.

On 31 October 2014, \$25,000,000 was drawn down to fund part of the purchase of the Whelan Care Portfolio (see note 27). On 27 November 2014, \$15,000,000 was repaid and on 28 January 2015 the remaining \$10,000,000 was repaid.

The facility remains undrawn at 30 June 2015.

#### (b) Revolving cash advance facility

On 12 June 2014 the Group entered into a Revolving Cash Advance Facility. The facility limit was \$17,000,000 of which \$14,000,000 was drawn down upon at 30 June 2014. The debt was repaid in full on 9 January 2015 and the agreement was terminated.

#### (c) Vendor loan

Upon acquisition of the Japara Group (see note 26) the Group assumed a liability due to the vendor of the Scottvale aged care facility. The Japara Group purchased the Scottvale aged care facility in August 2013 and the vendor loan was repaid in full on 5 September 2014.

**Japara Healthcare Limited and Controlled Entities**

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**Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

**20 Other Financial Liabilities**

	2015	2014
	\$'000	\$'000
CURRENT		
RADs/Accommodation bonds	302,948	205,327
ILU resident loans	22,303	15,577
<b>Total</b>	<b>325,251</b>	<b>220,904</b>

**(a) RADs/Accommodation bonds**

Refundable Accommodation Deposits (RADs)/Accommodation bonds are non-interest bearing deposits made by some aged care facility residents to the Group upon their admission.

The Group has provided each resident that has entered into a RAD/accommodation bond agreement with the Group and/or paid a RAD/accommodation bond to the Group with a written guarantee of future refund of the RAD/accommodation bond balance in accordance with the RAD/accommodation bond agreement and in compliance with the prudential requirements set out under the *Aged Care Act 1997*.

**(b) ILU resident loans**

ILU (independent living unit) resident loans are non-interest bearing loans made by ILU residents to the Group upon entering into a loan/licence agreement to occupy an independent living unit operated by the Group.

**21 Trade and other payables**

	2015	2014
	\$'000	\$'000
CURRENT		
Unsecured liabilities		
Trade payables	6,381	6,811
Sundry payables and accrued expenses	10,276	15,369
	<b>16,657</b>	<b>22,180</b>

**22 Other liabilities**

CURRENT		
Billing in advance of services provided	6,548	5,551
Other current liabilities	2,950	3,780
	<b>9,498</b>	<b>9,331</b>

**23 Provisions**

CURRENT		
Provision for annual leave	18,792	16,274
Provision for long service leave	8,425	6,771
	<b>27,217</b>	<b>23,045</b>
NON-CURRENT		
Provision for long service leave	2,705	1,994

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 24 Financial Instruments

#### (a) Accounting classifications

The following table shows the carrying amounts of financial assets and financial liabilities at the reporting date. The carrying amounts of financial assets and liabilities are a reasonable approximation of fair value.

	Loans and receivables	Other financial liabilities	2015 Total
	\$'000	\$'000	\$'000
<b>2015</b>			
<b>Financial assets</b>			
Cash and cash equivalents	53,878	-	53,878
Receivables	12,775	-	12,775
Other financial assets	1,078	-	1,078
<b>Total financial assets</b>	<b>67,731</b>	<b>-</b>	<b>67,731</b>
<b>Financial liabilities</b>			
Accruals	-	(10,276)	(10,276)
Trade and other payables	-	(9,331)	(9,331)
RADs/accommodation bonds & ILU loans (other financial liabilities)	-	(325,251)	(325,251)
<b>Total financial liabilities</b>	<b>-</b>	<b>(344,858)</b>	<b>(344,858)</b>
	Loans and receivables	Other financial liabilities	2014 Total
	\$'000	\$'000	\$'000
<b>2014</b>			
<b>Financial assets</b>			
Cash and cash equivalents	28,107	-	28,107
Receivables	8,283	-	8,283
<b>Total financial assets</b>	<b>36,390</b>	<b>-</b>	<b>36,390</b>
Bank loans	-	(14,000)	(14,000)
Accruals	-	(15,369)	(15,369)
Trade and other payables	-	(10,591)	(10,591)
Accommodation bonds & ILU loans (other financial liabilities)	-	(220,904)	(220,904)
Vendor loans	-	(1,817)	(1,817)
<b>Total financial liabilities</b>	<b>-</b>	<b>(262,681)</b>	<b>(262,681)</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 24 Financial Instruments continued

#### (b) Financial risk management

Inherent within the Group's activities are the risks that arise from holding financial instruments. These are managed through a process of ongoing identification, measuring and monitoring. The Group's financial instruments consist mainly of deposits with banks, bank loans, accounts receivable and payable, and RADs/accommodation bonds, which all arise directly from its operations. The main purpose of non-derivative financial instruments is to raise finance for the Group's operations. The Group does not have any derivative financial instruments at balance date.

The directors of the Group are responsible for identifying and controlling risks that arise from these financial instruments. As such the Group has identified that the key areas of risk are credit risk, liquidity risk and market risk (which can be analysed further into interest rate risk, currency risk and price risk), with further information on each risk category disclosed below. The directors of the consolidated group, amongst other responsibilities, are tasked to identify, monitor, control and hence mitigate risk, within the framework of the Group's operational mandate and compliance with legislation and industry specific regulations. Information is reported to all relevant parties within the Group on a regular basis including key management, the Board of Directors and the Audit, Risk and Compliance Committee. All risk management policies are approved and reviewed by the Audit, Risk and Compliance Committee under the authority of the Board on a regular basis.

#### (i) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss.

With respect to credit risk arising from the financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position and notes to the financial statements. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Group has identified that it does not have any material credit risk exposure to any single nonrelated party receivable or group of nonrelated party receivables under financial instruments entered into by the Group. The Group has identified that its single largest customer is the Department of Social Services in respect of funding received. Such funding is received on a monthly basis, in advance at the start of each month, and any funding receivable at balance date is accrued based upon Department of Social Services calculations of balancing funding amounts. The Group has determined that any credit risk associated with the Department of Social Services is insignificant. In respect of other customers, being aged care facility residents, the Group monitors the level of receivables balances on a weekly basis and any associated credit risk is mitigated by their independence of each other and individual immateriality to the Group. As a result of the 1 July 2014 Federal Government reforms relating to funding of the aged care industry, more residents are now contributing greater amounts towards their aged care costs. This is primarily as a result of increases in the levels of means and assets testing of residents. There have been delays in the Federal Governments assessments of the amounts that are payable by individual residents due to the implementation of new Centrelink and Medicare IT systems used to calculate fees using the new methodology. This has resulted in delays by some residents in paying their means tested care fees as they are querying the Federal Government's calculations of the amounts that they owe. The figures below do not take into account the fact that approximately \$1,000,000 of the aged debtors greater than 61+ days can be offset against RADs or accommodation bonds paid by a resident prior to it being refunded to the relevant resident upon discharge. The Group's overall exposure to bad debts is therefore largely mitigated, however a provision for doubtful debts has been raised in the financial statements which at reporting date is \$418,000 (2014: \$243,000).

At 30 June 2015, the ageing analysis of resident debtors is as follows:

	Not yet due \$'000	Current \$'000	31 - 60 days \$'000	61+ days \$'000	Impaired \$'000	Total \$'000
<b>Year</b>						
<b>2015</b>	<b>5,318</b>	<b>761</b>	<b>262</b>	<b>2,863</b>	<b>(418)</b>	<b>8,786</b>
2014	4,865	444	274	797	(243)	6,137

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 24 Financial Instruments continued

#### (ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. In addition, the Group maintains sufficient cash and cash equivalents to meet normal operating requirements. Also, as part of the Group's compliance with the *User Rights Principles 1997*, the Group maintains a liquidity management strategy to ensure that the Group has sufficient liquidity to enable it to refund RAD and accommodation bond balances that are expected as and when they fall due.

Financial liabilities of the Group comprise trade and other payables, dividends payable, RADs, accommodation bonds and ILU resident loan liabilities. Trade and other payables have no contractual maturities and are typically settled within 30 days or within the terms negotiated. RADs and accommodation bonds are potentially repayable within 14 days of a resident leaving the aged care facility and therefore classified under "current liabilities" in the Statement of Financial Position. However, on average, each resident occupies a place for approximately 29 months, resulting in approximately 41.4% of RADs and accommodation bonds being replaced in any 12 month period. In addition, any RAD or accommodation bond payable is typically replaced by an equivalent or higher RAD receivable from a new incoming resident. ILU resident loan liabilities are subject to loan agreements and whilst repayable within the earlier of 14 days after a new ILU resident replaces the departing ILU resident or six months after ILU resident departure, and therefore classified under "current liabilities" in the Statement of Financial Position, are typically replaced by an equivalent or higher ILU resident loan receivable from a new incoming ILU resident. It is also unlikely in practice that all ILU resident loan liabilities would be refundable within a 12 month period.

#### (iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and prices. Financial instruments affected by market risk include cash, loans and borrowings and RADs and accommodation bonds. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all operational activities are undertaken in accordance with established internal and external guidelines, financing and investment strategies of the Group.

#### **Interest rate risk**

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, primarily relates to the Group's bank debt. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group reviews its bank borrowings on a monthly basis and monitors its position in respect of fixing interest rates or leaving them as floating rates in accordance with its interest rate hedging strategy. As at 30 June 2015 the Group has no bank borrowings.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 24 Financial Instruments continued

#### (iii) Market risk continued

The Group's exposure to interest rate risk at the reporting date is as follows:

	Weighted average effective interest rate	Floating interest rate	Maturing within 1 year	Non-interest bearing	Total
	%	\$'000	\$'000	\$'000	\$'000
<b>2015</b>					
<b>Financial assets</b>					
Cash and cash equivalents	2.24	53,878	-	-	53,878
Receivables	-	-	-	12,775	12,775
Other financial assets	-	-	-	1,078	1,078
<b>Total financial assets</b>		<b>53,878</b>	<b>-</b>	<b>13,853</b>	<b>67,731</b>
<b>Financial liabilities</b>					
Accruals	-	-	-	(10,276)	(10,276)
Trade and other payables	-	-	-	(9,331)	(9,331)
RADs/accommodation bonds & ILU loans	-	-	-	(325,251)	(325,251)
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>(344,858)</b>	<b>(344,858)</b>
<b>2014</b>					
<b>Financial assets</b>					
Cash and cash equivalents	2.66	28,107	-	-	28,107
Receivables	-	-	-	8,283	8,283
<b>Total financial assets</b>		<b>28,107</b>	<b>-</b>	<b>8,283</b>	<b>36,390</b>
<b>Financial liabilities</b>					
Bank loans	4.29	-	(14,000)	-	(14,000)
Accruals	-	-	-	(15,369)	(15,369)
Trade and other payables	-	-	-	(10,591)	(10,591)
Accommodation bonds & ILU loans	-	-	-	(220,904)	(220,904)
Other financial liabilities	-	-	-	(1,817)	(1,817)
<b>Total financial liabilities</b>		<b>-</b>	<b>(14,000)</b>	<b>(248,681)</b>	<b>(262,681)</b>

#### Interest rate risk sensitivity analysis

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position based upon a reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in interest rates on the interest income and interest expense for the reporting period, based on the floating rate financial assets held at 30 June 2015. The sensitivity has been calculated using a change in interest rates of 100 basis points increase and decrease.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 24 Financial Instruments continued

At reporting date, the effect on profit/(loss) after tax and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2015		2014	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Net results	377	(377)	31	(31)
Equity	377	(377)	31	(31)

#### Price risk

The Group has assessed that it is materially exposed to the risk that the Federal Government, through the Department of Social Services, may alter the rate of funding provided to Approved Providers of residential aged care services. As Government funding represents approximately 72% of the Group's revenue, a fluctuation in the rate of Government funding may have a direct impact on the revenue of the Group. Whilst the Group is not able to influence Government policy directly, it and members of its senior management team, participates in aged care industry public awareness discussions and in aged care industry dialogue with the Government about its proposals for changes to funding for the aged care industry.

#### Price risk sensitivity analysis

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position based upon reasonably possible changes in levels of Government funding, with all other variables held constant. The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in levels of Government funding on the revenue of the Group, based on the amount of Government funding received for the year ended 30 June 2015. The sensitivity has been calculated using a change in the level of Government funding of 1.00% increase and decrease.

At reporting date, the effect on profit/(loss) after tax and equity as a result of changes in the level of Government funding, with all other variables remaining constant would be as follows:

	2015		2014	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Net results	1,403	(1,403)	246	(246)
Equity	1,403	(1,403)	246	(246)

### 25 List of subsidiaries

Name of entity	Ownership	Equity holding
		2015
Japara Holdings Pty Ltd	Direct	100%
Japara Property Holdings Pty Ltd	Direct	100%
Japara Aged Care Property Trust	Direct	100%
Aged Care Services Australia Group Pty Ltd	Indirect	100%
Aged Care Services One (Central Park) Pty Ltd	Indirect	100%
Aged Care Services Two (Roccoco) Pty Ltd	Indirect	100%
Aged Care Services Three (Balmoral Grove) Pty Ltd	Indirect	100%
Aged Care Services Four (Park Group) Pty Ltd	Indirect	100%

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 25 List of subsidiaries continued

	<b>Ownership</b>	<b>Equity holding 2015</b>
Aged Care Services Five (Narracan Gardens) Pty Ltd	Indirect	100%
Aged Care Services Six (Mirridong) Pty Ltd	Indirect	100%
Aged Care Services Seven (Kelaston) Pty Ltd	Indirect	100%
Aged Care Services Eight (Elanora) Pty Ltd	Indirect	100%
Aged Care Services Nine (George Vowell) Pty Ltd	Indirect	100%
Aged Care Services 10 (Kingston Gardens) Pty Ltd	Indirect	100%
Aged Care Services 11 (View Hills) Pty Ltd	Indirect	100%
Aged Care Services 12 (Albury & District) Pty Ltd	Indirect	100%
Aged Care Services 13 (Lakes Entrance) Pty Ltd	Indirect	100%
Aged Care Services 14 (Lower Plenty Garden Views) Pty Ltd	Indirect	100%
Aged Care Services 15 (Rosanna Views) Pty Ltd	Indirect	100%
Aged Care Services 16 (Millward) Pty Ltd	Indirect	100%
Aged Care Services 17 (Bonbeach) Pty Ltd	Indirect	100%
Aged Care Services 18 (Hallam) Pty Ltd	Indirect	100%
Aged Care Services 19 (Goonawarra) Pty Ltd	Indirect	100%
Aged Care Services 20 (Bayview Gardens) Pty Ltd	Indirect	100%
Aged Care Services 21 (Barongarook Gardens) Pty Ltd	Indirect	100%
Aged Care Services 22 (Sandhurst) Pty Ltd	Indirect	100%
Aged Care Services 23 (Capel Sands) Pty Ltd	Indirect	100%
Aged Care Services 24 (St Judes) Pty Ltd	Indirect	100%
Aged Care Services 25 (Springvale) Pty Ltd	Indirect	100%
Aged Care Services 26 (Bayview) Pty Ltd	Indirect	100%
Aged Care Services 27 (Kirralee) Pty Ltd	Indirect	100%
Aged Care Services 28 (Elouera) Pty Ltd	Indirect	100%
Aged Care Services 29 (Mirboo North) Pty Ltd	Indirect	100%
Aged Care Services 30 (Brighton) Pty Ltd	Indirect	100%
Aged Care Services 31 (Vonlea Manor) Pty Ltd	Indirect	100%
Aged Care Services 32 (Scottvale) Pty Ltd	Indirect	100%
Aged Care Services 33 (Anglesea) Pty Ltd	Indirect	100%
Aged Care Services 34 (Yarra West) Pty Ltd	Indirect	100%
Aged Care Services 35 (The Homestead) Pty Ltd	Indirect	100%
Aged Care Services 36 (Trevu) Pty Ltd	Indirect	100%
Aged Care Services 37 (Oaklands) Pty Ltd	Indirect	100%
Aged Care Services 38 (Mitcham) Pty Ltd	Indirect	100%
Aged Care Services 39 (Tugan) Pty Ltd	Indirect	100%
Aged Care Services 40 (Ballina) Pty Ltd	Indirect	100%
Aged Care Services 41 (Cairns) Pty Ltd	Indirect	100%
Aged Care Services 42 (Portland) Pty Ltd	Indirect	100%
Aged Care Services 43 (Mildura) Pty Ltd	Indirect	100%
Aged Care Services 44 (Lakes Entrance) Pty Ltd	Indirect	100%
Aged Care Services 45 (Woodend) Pty Ltd	Indirect	100%
Oakleigh Glen Pty Ltd	Indirect	100%
Bacaal Pty Ltd	Indirect	100%

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Notes to the Financial Statements

For the Year Ended 30 June 2015

#### 25 List of subsidiaries continued

	<b>Ownership</b>	<b>Equity holding 2015</b>
Japara Developments Pty Ltd	Indirect	100%
Japara Property Management Pty Ltd	Indirect	100%
Japara Retirement Living Pty Ltd	Indirect	100%
Japara Retirement Living 1 (Woodburn lodge) Pty Ltd	Indirect	100%
Japara Retirement Living 2 (Balmoral Mews) Pty Ltd	Indirect	100%
Japara Retirement Living 3 (Lakes Entrance) Pty Ltd	Indirect	100%
Japara Retirement Living 4 (Cosgrove Cottages) Pty Ltd	Indirect	100%
Japara Retirement Living 5 (Sydney Williams) Pty Ltd	Indirect	100%
Japara Retirement Living 6 (Barongarook) Pty Ltd	Indirect	100%
Japara Retirement Living 7 (The Homestead) Pty Ltd	Indirect	100%
Japara Retirement Living 8 (The Heritage) Pty Ltd	Indirect	100%
JD No. 1 (Bundaberg) Pty Ltd	Indirect	100%
JD No. 2 (Balmoral Mews) Pty Ltd	Indirect	100%
JD No. 3 (Lakes Entrance) Pty Ltd	Indirect	100%
JD No. 4 (Queenscliff) Pty Ltd	Indirect	100%
JD No. 5 (Albury & District) Pty Ltd	Indirect	100%
JD No. 6 (Dava) Pty Ltd	Indirect	100%
JD No. 7 (Colac) Pty Ltd	Indirect	100%
JD No. 8 (Yarra West) Pty Ltd	Indirect	100%
JD No. 9 (North Albury) Pty Ltd	Indirect	100%

#### 26 Acquisition of Japara Group

On 22 April 2014, the Company acquired 100% of the shares and voting interests of the Japara Group. The acquisition met the definition of a business combination in accordance with *AASB 3: Business Combinations* and was treated as such in the consolidated annual financial report for the period ended 30 June 2014.

In accordance with *AASB 3*, during the measurement period (not to exceed one year from the acquisition date) the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

##### *Adjustment 1*

The Company has obtained new information about facts and circumstances that existed as of the acquisition date relating to overtime wages payable. Had these facts been known at the acquisition date the payable would be \$6,780,000 greater than the amount disclosed in the consolidated annual financial report for the period ended 30 June 2014. This provision gives rise to a deferred tax asset of \$2,034,000 and therefore has a net effect of increasing Goodwill at acquisition by an amount of \$4,746,000.

##### *Adjustment 2*

The Company has obtained new information about facts and circumstances that existed as of the acquisition date relating to leave loading payable. Had these facts been known at the acquisition date the payable would be \$518,000 greater than the amount disclosed in the consolidated annual financial report for the period ended 30 June 2014. This provision gives rise to a deferred tax asset of \$155,000 and therefore has a net effect of increasing Goodwill at acquisition by an amount of \$363,000.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 26 Acquisition of Japara Group continued

#### Adjustment 3

Following a review of the opening taxation balances, the Company has determined that the deferred tax balances arising due to timing differences on property, plant & equipment and resident places do not exist at the acquisition date as a result of the resetting of the tax cost base, making them equal to the fair value taken up at acquisition. This has resulted in an increase in the deferred tax asset of \$4,864,000 and therefore a decrease in the Goodwill balance of the same amount.

The new information obtained has resulted in the following adjustments to the provisional amounts recognised at 22 April 2014:

	<b>Provisional balance as reported</b>	<b>Adjustment 1</b>	<b>Adjustment 2</b>	<b>Adjustment 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade and other payables	(39,743)	(6,780)	-	-	(46,523)
Provisions	(23,896)	-	(518)	-	(24,414)
Deferred tax assets	4,169	2,034	155	4,864	11,222
Goodwill	260,501	4,746	363	(4,864)	260,746

As a result of this new information, the Statement of Financial Position as at 30 June 2014 has been restated as follows:

	<b>Provisional balance as reported</b>	<b>Adjustment 1</b>	<b>Adjustment 2</b>	<b>Adjustment 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade and other payables	(15,400)	(6,780)	-	-	(22,180)
Provisions (current)	(22,527)	-	(518)	-	(23,045)
Deferred tax assets	8,631	2,034	155	4,864	15,684
Intangible assets	384,541	4,746	363	(4,864)	384,786

### 27 Acquisition of Whelan Care Business

On 31 October 2014, the Company acquired certain assets and shares from entities associated with the Whelan Care Group ("Whelan Care Business") which consisted of:

- 100% of the shares and voting rights of Oakleigh Glen Pty Ltd, a company that owns and operates two aged care facilities in South Australia - Mitcham (38 resident places) and Oaklands (88 resident places);
- The business and assets of another two aged care facilities in South Australia – Trevu at Willaston (45 resident places) and The Homestead (63 resident places);
- The business and assets of 41 Independent Living Apartments (ILAs) at The Homestead; and
- The titles to all land and buildings on which each of the abovementioned businesses operate.

#### (a) Consideration transferred

The consideration transferred was \$41,113,000 (\$26,700,000 contact price plus settlement adjustments of \$14,413,000). \$25,000,000 was drawn down from the debt facility to fund the acquisition and the remaining \$16,113,000 was funded from cash. The \$25,000,000 debt raised has subsequently been repaid in full (see note 19).

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 27 Acquisition of Whelan Care Business continued

#### (b) Identifiable assets and liabilities assumed

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition date:

	<b>31 October 2014</b>
	<b>\$'000</b>
Cash	17,234
Trade and other receivables	1,646
Property, plant and equipment	22,902
Investment property	7,460
Deferred tax assets	665
Intangible assets	29,909
Trade and other payables	(1,400)
Other financial liabilities - RADs/accommodation bonds/ILU loans	(30,533)
Provisions	(2,215)
<b>Total</b>	<b><u>45,668</u></b>

#### *Measurement of fair values*

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

#### *Property, plant and equipment*

Property, plant and equipment have been valued by an independent expert.

Land and buildings have been valued using a combination of the direct comparison and capitalisation approaches.

Plant and equipment has been valued at the depreciated replacement cost which reflects adjustments for physical deterioration as well as functional and economic obsolescence.

#### *Investment property*

Investment property has been valued by an independent expert using a combination of the direct comparison and capitalisation approaches.

#### *Intangible assets*

Intangible assets represent resident places valued using a going concern market value of the Whelan Care Business to determine the value of the resident places. The valuation was based upon a discounted cash flow, with the value of the resident places determined after the fair value of the tangible assets were deducted from the valuation. Five year forecast cash flows generated by the Whelan Care Business, discount rates of 13.0% - 14.5% and a long term growth rate into perpetuity of 4.7% were used in the discounted cash flow model. Using this methodology, a going concern market value of the business of \$31,300,000 was ascertained.

Independent valuations of the Whelan Care Business were obtained from CBRE as at 30 June 2014. These valuations were determined by a combination of the capitalisation approach and the direct comparison approach giving a going concern market value (net of liabilities) of circa \$33,400,000.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 27 Acquisition of Whelan Care Business continued

#### (c) Discount on acquisition

A discount on acquisition, net of acquisition-related costs, has been recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of 'Other income' as follows:

	Note	2015 \$'000
Fair value of identifiable assets	27(b)	45,668
Consideration	27(a)	<u>(41,113)</u>
<b>Discount on acquisition</b>		<b>4,555</b>
Less acquisition-related costs		<u>(3,828)</u>
<b>Total</b>		<b><u>727</u></b>

Acquisition and integration related costs include legal fees, due diligence, stamp duty and the costs incurred by the acquisition department associated with the acquisition of the Whelan Care Business.

#### (d) Acquisition of Whelan Care Business, net of cash

	Note	2015 \$'000
Consideration	27(a)	41,113
Less cash acquired	27(b)	<u>(17,234)</u>
<b>Total cost of acquisition, net of cash</b>		<b><u>23,879</u></b>

### 28 Operating leases

#### (a) Operating lease commitments

	2015 \$'000	2014 \$'000
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	1,429	1,517
- between one year and five years	4,578	4,916
- later than five years	<u>1,527</u>	<u>2,199</u>
	<b><u>7,534</u></b>	<b><u>8,632</u></b>

The above amounts relate primarily to property leases for the business premises of the Group which are non-cancellable leases with terms between 4 and 10 years, with rent payable monthly in advance.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 29 Commitments

As at the reporting date, the Group had entered into contracts relating to capital expenditure. Details of the contracts are included in the table below:

Aged care facility	Nature of capital expenditure	Contract amount	Amount incurred	Future commitment	Expected completion date
Bayview	30 place extension & significant refurbishment	7,311	6,027	1,284	Nov-15
Central Park	Significant refurbishment	12,102	1,867	10,235	Nov-16

### 30 Contingencies

#### Security Deposit Guarantees

The Group has entered into a number of security deposit guarantees with its bankers for security for the performance of the Group (see note 13). At the date of signing this financial report, the directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented to the bank.

### 31 Related Parties

#### (a) Parent Entity

Japara Healthcare Limited is the ultimate parent entity.

#### (b) Subsidiaries

Interests in subsidiaries are detailed in note 25.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 31 Related Parties continued

#### (c) Totals of remuneration paid

Key management personnel remuneration included within the Statement of Profit or Loss and Other Comprehensive Income for the period is shown below:

	2015	2014
	\$'000	\$'000
Short-term employee benefits	2,337	496
Post employment benefits	177	46
Other short-term benefits	165	35
Other long-term benefits	30	7
Share-based payments	(43)	43
	<u>2,666</u>	<u>627</u>

Executive officers also participate in the Group's Long Term Incentive Scheme's (see note 9).

#### (d) Key management personnel transactions

In August 2014, 547,000 shares were issued to the Chief Executive Officer ("CEO") under the terms of the Loan Plan (see note 9). In accordance with the Loan Plan the CEO was granted a loan in exchange for the shares. The shares vest at the end of the performance period as set out in the Loan Plan. During the performance period any dividends earned on the shares are offset against the loan balance. The total loan outstanding at 30 June 2015 is \$1,078,000; this amount is classified as an "Other financial asset" in the Statement of Financial Position.

During the year the performance gateway hurdles were not met and the shares granted under the Loan Plan were forfeited by the CEO.

### 32 Subsequent events

On 2 July 2015, the Group completed the purchase of the land and buildings of the Trevu at Gawler aged care facility located in South Australia for a total consideration of \$12,735,000. The facility has capacity to accommodate 69 residents. The purchase included the transfer of 24 resident places to the Group from the vendor as approved by the Department of Social Services. The remaining 45 resident places have been transferred from the Trevu at Willaston aged care facility acquired with the Whelan Care Business on 31 October 2014 (see note 27). All residents have been relocated from Trevu at Willaston to the newly built Trevu at Gawler. The Trevu at Willaston facility has now been closed.

The Group funded the purchase of the newly built Trevu at Gawler aged care facility and resident places with cash.

Other than mentioned above, no matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 33 Cash Flow Information

#### Reconciliation of result for the period to cashflows from operating activities

	Note	2015 \$'000	2014 \$'000
Profit for the year		28,839	(2,938)
Cash flows excluded from profit attributable to operating activities			
Acquisition-related costs		3,871	-
net refund of equity raising costs		(734)	-
Non-cash flows in profit:			
depreciation	14(a)	9,718	1,582
gain on bargain purchase	27(c)	(4,555)	-
straight lining of rental expense		20	24
net loss on disposal of property, plant and equipment		88	25
accommodation bond retention revenue		(2,621)	(554)
deferred management fee income		(853)	(130)
Increase in fair value of investment property	6	(772)	(452)
ILU loan finance charge		69	-
equity-settled share based payment transactions		(43)	170
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:			
(increase)/decrease in trade and other receivables		(2,718)	731
(increase)/decrease in other assets		961	13,277
(increase)/decrease in deferred tax assets		4,733	309
increase/(decrease) in trade and other payables		(4,938)	(11,662)
increase/(decrease) in current tax liabilities		6,451	418
increase/(decrease) in provisions		2,667	625
Net cash provided from operating activities		<u>40,183</u>	<u>1,425</u>

### 34 Remuneration of Auditors

	2015 \$'000	2014 \$'000
<b>Audit and review services</b>		
Audit and review of financial statement	335	236
Other services		
Other advisory services	280	1,068
<b>Total</b>	<u>615</u>	<u>1,304</u>

The majority of the fees relating to other advisory services were fees incurred relating to the acquisition of the Japara Group in FY2014 and debt re-financing fees in FY2015.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Notes to the Financial Statements

For the Year Ended 30 June 2015

#### 35 Deed of Cross-Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed in note 25 are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports as they are part of a Closed Group as defined by the Corporations Act 2001.

As a condition of the Class Order the Company and each of the subsidiaries entered into a Deed of Cross Guarantee on 12 June 2014 or have been added as parties to the Deed of Cross Guarantee by way of Assumption Deeds dated 23 June 2015. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for the Closed Group is the same as the financial statements for Japara Healthcare Limited and its controlled entities.

#### 36 Parent entity

As at, and throughout, the reporting period ended 30 June 2015 the parent entity of the Group was Japara Healthcare Limited.

	2015	2014
	\$'000	\$'000
<b>Statement of Financial Position</b>		
Assets		
Current assets	7,652	6,127
Non-current assets	490,644	509,616
<b>Total Assets</b>	<b>498,296</b>	<b>515,743</b>
Liabilities		
Current liabilities	1,597	4,117
<b>Total Liabilities</b>	<b>1,597</b>	<b>4,117</b>
Equity		
Issued capital	517,848	516,755
Retained earnings	(21,149)	(5,129)
<b>Total Equity</b>	<b>496,699</b>	<b>511,626</b>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Loss for the period	(2,212)	(5,299)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(2,212)</b>	<b>(5,299)</b>

#### Guarantees

The parent entity has entered into a Deed of Cross-Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross-Guarantee and the entities subject to the deed are disclosed in note 35.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **37 Significant Accounting Policies**

#### **(a) Principles of Consolidation**

##### **(i) Business combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 37(a)(iii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 37(k)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

##### **(ii) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

##### **(iii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### **(b) Revenue recognition**

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

Revenue comprises daily Government care funding, resident care funding and accommodation funding, all of which are determined in accordance with Government authorised rates. These fees are regulated by the Government and are accrued by the Group during the resident's period of occupancy. Revenue from the rendering of a service or supply of a good is recognised upon the delivery of the service or good to the resident.

Interest revenue is accrued on a daily basis based on the principal amount and prevailing interest rate.

Cash received in advance and goods and services invoiced in advance in relation to unearned income are recognised as deferred revenue.

All revenue is stated net of the amount of GST.

#### **(c) Financing costs**

Financing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of sale.

All other financing costs are recognised in profit or loss in the period in which they are incurred.

#### **(d) Leases**

Leases of fixed assets, including assets acquired under hire purchase agreements, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **37 Significant Accounting Policies continued**

#### **(d) Leases continued**

leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are amortised on a straight-line basis over the life of the lease term.

#### **(e) Financial instruments**

##### **Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset (e.g. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss" in which case transaction costs are expensed to profit or loss immediately.

##### **Classification and subsequent measurement**

Financial instruments are subsequently measured either at fair value, amortised cost using the effective interest rate method or at cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in the Statement of Profit or Loss and Other Comprehensive Income.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

##### *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

##### *Impairment of financial assets*

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

##### *Financial assets at amortised cost*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **37 Significant Accounting Policies continued**

#### **(e) Financial instruments continued**

amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance accounts, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

#### *Available-for-sale financial assets*

A significant or prolonged decline in value of an available-for-sale asset below its cost is objective evidence of impairment, in this case, the cumulative loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to other comprehensive income.

#### **(f) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the Statement of Financial Position.

#### **(g) Trade and other receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

#### **(h) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment of losses.

The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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 Profit or Loss and other comprehensive income during the financial year in which they are incurred.

#### **Capital works in progress**

Capital expenditure incurred in the course of development activities, are carried at cost, less any recognised impairment loss. Cost includes professional fees, internal wage expenses directly attributable to the development activities and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Upon completion the asset is reclassified as property, plant and equipment or leasehold improvements.

#### **Vacant land**

Land held for development and sale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, borrowing costs and holding costs until completion of development. Borrowing costs and holding charges incurred after development is completed, are expensed. Profits are brought to account on the signing of an unconditional contract of sale.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 37 Significant Accounting Policies continued

#### (h) Property, Plant and Equipment continued

##### Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leased plant and equipment and leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the equipment and improvements.

The depreciation rates used for each class of depreciable asset are:

Fixed asset class	Depreciation rate
Freehold land	0.0%
Buildings	2.0%
Plant and equipment	4.0% to 25.0%
Leasehold improvements	Lower of lease term or useful life

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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 proceeds with the carrying amount. These gains or losses are included in the Statement of Profit or Loss and Other Comprehensive Income.

#### (i) Investment property

Investment property is held to generate long-term rental yields and capital growth. Investment property is carried at fair value, determined annually by independent valuers. Changes to fair value are recorded in the Statement of Profit or Loss and Other Comprehensive Income as other income/expenses.

#### (j) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Assets classified as held for sale are not amortised or depreciated.

Non-current assets classified as held for sale and any associated liabilities are presented separately in the Statement of Financial Position.

#### (k) Intangible Assets

##### Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the fair value of the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **37 Significant Accounting Policies continued**

#### **(k) Intangible Assets continued**

##### **Resident places**

Resident places are issued by the Government to Approved Providers, and can also be purchased from third parties. Resident places are stated at cost or fair value at acquisition less any accumulated impairment losses. The resident places are not amortised as the directors believe that they have a long indeterminate life and are not expected to diminish in value over time. Accordingly, no significant depreciable amount exists that requires amortisation.

The carrying amounts of the resident places are reviewed at the end of each reporting period to ensure that they are not valued in excess of their recoverable amounts.

##### **(l) Impairment of non-financial assets**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment testing is performed annually for goodwill and other intangible assets with indefinite useful lives including resident places.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### **(m) Impairment of financial assets other than goodwill**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **37 Significant Accounting Policies continued**

#### **(n) Derecognition of financial assets**

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Group no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

#### **(o) Income Tax**

The charge for current income tax expense/(credit) is based on the profit or loss for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled based on tax rates that have been enacted or substantially enacted by the end of the reporting period. Deferred tax expense/(income) is charged/(credited) in profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The Group and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the Group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The Group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 16 April 2014. The tax consolidated group has entered tax sharing and tax funding agreements whereby each company in the Group contributes to the income tax payable in proportion to their contribution to profit before income tax of the tax consolidated group.

#### **(p) Trade and other payables**

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

#### **(q) Goods and Services Tax (GST)**

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **37 Significant Accounting Policies continued**

#### **(r) Refundable Accommodation Deposit (RAD)/Accommodation Bond liabilities**

RADs/accommodation bonds are non-interest bearing deposits made by aged care facility residents to the Group upon admission. These deposits are liabilities which fall due and payable when the resident leaves the facility. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

RAD/accommodation bond liabilities are recorded at an amount equal to the proceeds received, net of retention and any other amounts deducted from the RAD/accommodation bond in accordance with the Aged Care Act 1997.

#### **(s) Independent Living Unit (ILU) Resident loan liabilities and deferred management fee receivables**

ILU Resident loans are non-interest bearing payments made by retirement village residents to the Group upon signing of a licence agreement to occupy an ILU. These payments are liabilities which fall due and payable upon termination of the licence less the deferred management fee calculated in accordance with the licence. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

ILU Resident loan liabilities are recorded at fair value.

Deferred management fees crystallise upon the termination of the loan licence agreement. As such, the deferred management fee receivables are recorded at present value based upon an expected occupancy period of ten years until termination of the loan licence agreement. Therefore deferred management fees contain both current and non-current elements.

#### **(t) Provisions**

##### **Employee benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy any vesting requirements. Those cash flows are discounted using corporate bond yields with terms to maturity that match the expected timing of cash flows.

##### **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at reporting date.

#### **(u) Share-based payments**

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

#### **(v) Earnings per share**

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period after eliminating treasury shares.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of dilutive ordinary shares.

## Notes to the Financial Statements

For the Year Ended 30 June 2015

### 37 Significant Accounting Policies continued

#### (w) Adoption of new and revised accounting standards

During the current year, the following standards became mandatory and have been adopted retrospectively by the Group:

##### (i) **AASB 2014-1 Amendments to Australian Accounting Standards – Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles**

Amendments to existing accounting standards, particularly in relation to: clarifying share-based payment vesting and non-vesting conditions, operating segment asset disclosures, clarification of current/non-current classification of debt, clarification of KMP when an entity has a management entity/responsible entity (such as a trustee), the meaning of effective IFRSs, exemptions for joint ventures from business combination requirements, clarification of the scope exception for measuring the fair value of financial assets and liabilities on a portfolio basis, and

clarifying the interrelationship between business combinations and investment property when classifying property as investment property or owner-occupied.

##### (ii) **AASB 2014-1 Amendments to Australian Accounting Standards – Part C: Materiality**

Further to AASB 2013-9 Part B (see below), amendments are made to particular Australian Accounting Standards to delete their references to AASB 1031. This is part of the AASB's program to delete references to AASB 1031 in all Australian Accounting Standards prior to final withdrawal of AASB 1031.

##### (iii) **AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (December 2013) – Part B – Materiality**

Guidance on materiality removed from AASB 1031 and cross references inserted to other standards and the Framework for the Preparation and Presentation of Financial Statements where guidance on materiality is located.

##### (iv) **AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets**

Removes extra disclosure requirements with regard to the measurement of the recoverable amount of impaired assets. Introduced by AASB 13. Recommend early adoption with AASB 13.

#### (x) New Accounting Standards and Interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2015 (unless otherwise stated), and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

##### (i) **AASB 2014-1 Amendments to Australian Accounting Standards – Part E: Financial Instruments**

Defers the mandatory application date of AASB 9 *Financial Instruments* to annual reporting periods beginning on or after 1 January 2018. This aligns with the IASB's tentative decision that IFRS 9 will be mandatorily effective for years beginning on or after 1 January 2018.

##### (ii) **AASB 15 Revenue from contracts with customers**

###### **AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15**

AASB 15 (effective on or after 1 January 2017) introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB 15 has not yet been quantified.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2015**

### **37 Significant Accounting Policies continued**

#### **(x) New Accounting Standards and Interpretations continued**

##### **(iii) AASB 9 *Financial Instruments* (December 2010) (includes financial assets and financial liability requirements)**

**AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)**

**AASB 9 *Financial Instruments* (December 2009) (Financial asset requirements only)**

**AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9**

In AASB 9 (December 2010), the AASB added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139 except in respect of the fair value option; and certain derivatives linked to unquoted equity instruments.

The AASB also added the requirements in AASB 139 in relation to the derecognition of financial assets and financial liabilities to AASB 9.

AASB 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

The guidance in AASB 139 on impairment of financial assets. Guidance on hedge accounting continues to apply as long as hedge accounting provisions in AASB 2013-9 not applied.

## Directors' Declaration

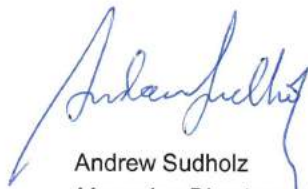
- 1 In the opinion of the directors of Japara Healthcare Limited ('the Company'):
  - (a) the consolidated financial statements and notes to the Consolidated Financial Statements, set out on pages 26 to 68 and the Remuneration Report contained in section 15 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance, for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the Company entities identified in Note 25 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Company entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the period ended 30 June 2015.
- 4 The directors draw attention to Note 2 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 24 August 2015



Linda Bardo Nicholls AO  
Chairman



Andrew Sudholz  
Managing Director and CEO



## **Independent auditor's report to the members of Japara Healthcare Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Japara Healthcare Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2015, and consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 37 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

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### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

### **Report on the remuneration report**

We have audited the Remuneration Report included on pages 17 to 25 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Japara Healthcare Limited for the year ended 30 June 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Darren Scammell  
*Partner*

Melbourne

24 August 2015

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