

# ASX APPENDIX 4E

## Results for Announcement to the Market

### Preliminary final report

### For the year ended 30 June 2018

This Appendix 4E, together with the attached Annual Financial Report for the year ended 30 June 2018 (**Annual Financial Report**), comprise the information required to be given to the ASX in accordance with Listing Rule 4.3A.

#### Reporting period

Reporting period: Year ended 30 June 2018

Previous corresponding reporting period: Year ended 30 June 2017

#### Comparison to previous period

	Increase/ (Decrease)	30 June 2018 \$'000	30 June 2017 \$'000	Change %
Revenue from ordinary activities	Increase	373,188	362,193	3.0
Profit from ordinary activities after tax attributable to members	Decrease	23,327	29,712	(21.5)
Net profit for the year attributable to members	Decrease	23,327	29,712	(21.5)

For an explanation of the figures and changes reported above refer to the Directors' Report included within the Annual Financial Report.

#### Dividends

	Amount per share (cents)	Franked amount per share at 30% tax rate (cents)	Payment Date	Record Date
2018 final dividend	3.75	1.875	30/10/18	28/09/18
2018 interim dividend	4.00	2.60	30/04/18	28/03/18

The 2018 final dividend is franked to 50%. The 2018 interim dividend was franked to 65%.

The Company's dividend reinvestment plan (**DRP**) will operate in respect of the 2018 final dividend. No discount will be applied when determining the price at which shares will be issued under the DRP for this dividend. The last date for receipt of an election notice to participate in the DRP for the 2018 final dividend is 1 October 2018 at 5pm (AEST).

**Net tangible assets per security**

Net tangible assets per ordinary share as at 30 June 2018 were 15.9 cents (2017: 27.2 cents).

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

No entities were acquired or sold during the period. However, the Group did acquire a residential aged care portfolio from Riviera Health effective from 1 April 2018.

**Commentary on the results for the year**

Please refer to the Annual Financial Report for the year ended 30 June 2018 as attached and the related Media Release.

**Status of audit**

The Annual Financial Report for the year ended 30 June 2018 has been audited. The audit opinion is unqualified.

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# JAPARA

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

**Annual Financial Report  
For the year ended 30 June 2018**

## **Annual Financial Report**

### **For the year ended 30 June 2018**

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## CHAIRMAN AND CEO'S REVIEW

Dear Shareholders,

On behalf of the Directors, we are pleased to present the 2018 Annual Report for Japara Healthcare Limited.

### **Our residents**

At Japara we continued to provide excellent care and services to our residents during the year across our extensive network of homes.

We also welcomed over 260 new residents following the opening of our new home, Riverside Views, in Tasmania, completion of significant refurbishment projects and the acquisition of the Riviera Health portfolio in New South Wales on 1 April 2018.

Japara believes deeply in enhancing the health and wellbeing, and respecting the individuality of every resident. This philosophy is central to our care model. We continue to invest in our homes and our people and maintained our 100% accreditation record as an approved provider of residential aged care services during the year. Nineteen of our homes were successfully re-accredited and we continue to have registered nurses on every shift at every one of our homes.

### **Our industry**

The fundamentals underpinning strong demand for aged care services in Australia continue. As a growing number of people are living longer, and healthcare continues to improve, people are increasingly dealing with chronic and complex health conditions. These dynamics are expected to drive further demand for around-the-clock clinical care, specialised dementia care and assisted living services that only residential aged care can provide.

Last year's Chairman's Review noted that there had been a significant level of public scrutiny of the industry with numerous Government reviews being undertaken examining standards of care, regulatory processes and operating practices. While the findings from these and other reviews are still to be worked through by Government, at Japara we continue to plan and develop our business to be a leading provider of aged care services across a continuum of care.

### **Delivering on growth**

Excellent progress continued to be made on our development program during the year with two projects successfully delivered and a further four projects nearing completion. We currently have five brownfield and 12 greenfield projects in progress which are scheduled to deliver more than 1,200 net new places by the end of FY2022. Our significant refurbishment program across many of our existing homes is also delivering upgraded facilities to benefit our residents.

Additionally, we successfully implemented on our strategy to expand our portfolio in the Sydney region with the acquisition of the Riviera Health portfolio comprising four operating homes, surplus bed licences and vacant land. This investment was consistent with our strategy to grow through selective acquisitions that meet our strict investment criteria and provide identifiable improvement opportunities. The homes were acquired at exceptional value as part of a portfolio which also includes a near completed replacement home in Brighton-Le-Sands, 297 surplus bed licenses and other real estate assets. The homes were quickly and seamlessly integrated into Japara's care model and two of the homes were fully re-accredited within three weeks of acquisition which is testament to our respected high care model. In FY2018 total operational places at Japara increased by 6% to 4,069 from the completion of the developments program and the Riviera Health portfolio acquisition.

### **Progress on initiatives**

Over 90% of Japara residents have high clinical care needs and a majority are living with dementia. Dementia is now understood to be the single biggest health issue of the 21<sup>st</sup> century. Japara is responding by investing even further in dementia care through the roll-out of our specialist dementia care model across our homes. We are pleased to report that successful resident outcomes are being achieved delivering greater quality of life for our residents living with advanced dementia.

Our new technology strategy continues to be implemented. This year we advanced the roll-out of Wi-Fi and associated infrastructure across all our homes. This program has been delivered ahead of schedule and provides our residents and visitors with access to Wi-Fi from anywhere within our homes. We plan to leverage this platform in the future for the delivery of care and other services for the benefit of our residents. Other technology initiatives were advanced during the year including completion of the roll-out of our electronic workforce management system and upgrades to our nurse call and other operational support systems. At Japara, our nurse call response time for assisting residents with immediate needs is ahead of the industry average.

## **Financial performance**

Japara delivered earnings before interest, tax, depreciation and amortisation (EBITDA) of \$50.7 million in FY2018 in a challenging operating environment.

Revenue of \$373.2 million was up 3.0% on last year while net profit after tax (NPAT) was \$23.3 million, a decrease of \$6.4 million.

Revenue improvement was achieved during the year through contributions from a greenfield and four brownfield developments completed in the prior year and the Riviera Health homes acquired on 1 April 2018. This was more than offset by the impact of wage rate increases (particularly in the absence of indexation on Federal Government care funding (ACFI)) and occupancy pressures associated with the unusually severe influenza outbreak experienced during the first half of the year. Occupancy has since recovered after this abnormal event to around historical levels albeit at a slower rate than expected. Average occupancy for FY2018 was 93.2% (FY2017: 94.6%) with a stronger second half averaging 94.0%.

A net gain from non-recurring items of \$3.3 million was \$2.7 million less than in FY2017.

NPAT was lower for the year due to the overall decline in earnings and an increase in depreciation.

Total dividends of 7.75 cents per share were determined for the year (11.25 cents per share last year), which includes a 3.75 cents per share final dividend franked to the maximum extent of 50% and payable on 30 October 2018.

Our stated dividend policy is to pay full year dividends of up to 100% of net profit after tax, franked to the maximum extent possible having regard to available franking credits. The dividend payout for the year is 88% and was determined having regard to retaining non-recurring (non-cash) gains and the Company's current significant investment in growth of the business.

## **Well positioned for future growth**

Japara has a sound, diversified growth strategy underpinned by a focus on high quality resident care and services. Its extensive developments program is supported by a strong balance sheet and cash flows.

Net operating cash flows of \$35.5 million plus net cash inflows from Refundable Accommodation Deposits (RADs) of \$41.6 million were delivered during FY2018. Net bank debt was \$116.3 million at 30 June 2018, of which \$30.3 million is considered core net debt and \$86.0 million is development debt. We have available liquidity of circa \$94.0 million and expect development debt to be repaid from RAD inflows received from new residents entering our new or re-developed homes once completed.

## **Outlook**

Looking ahead, Japara expects FY2019 EBITDA to be 5% to 10% up on FY2018, subject to no material changes in market or regulatory conditions, as operational initiatives gain further traction, occupancy continues to normalise, the Riviera Health portfolio acquisition and recently completed developments contribute a full year of earnings and ACFI indexation recommences.

Earnings are projected to be stronger in the second half of FY2019 due to the timing of completed developments and operational initiatives.

Japara will also focus on the continued delivery of its greenfield and brownfield development program (comprising over 300 net new places to be opened in FY2019) and its significant refurbishment program (with the completion of eight additional refurbished homes in FY2019).

## Thank you

We would like to acknowledge and thank our exceptional team of over 5,000 nurses, carers and other support staff for their on-going dedication and commitment to our valued residents and Japara. We are proud to support and partner with our local communities by providing employment and other growth opportunities every year.

We would also like to thank the management team and the Board for their efforts and contributions during the year.

Finally, we would like to thank you, our shareholders, for your on-going support of our Company and high quality residential aged care for Australians.



**Linda Bardo Nicholls AO**

Chairman

27 August 2018



**Andrew Sudholz**

CEO & Managing Director

27 August 2018

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report

For the year ended 30 June 2018

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 2018 and the Independent Auditor's Report thereon.

### 1. Directors

The directors of the Company at any time during the financial year and up to the date of this report were:

#### **Linda Bardo Nicholls AO**

BA (Econ), MBA,  
FAICD (Life)  
Non-Executive Chairman  
*Director since 19 March  
2014*

Linda is a senior executive and company director with more than 30 years experience across Australia, New Zealand and the United States. Presently, Linda has directorships with Fairfax Media, Medibank Private, and Inghams Group. She is also Chairperson of Melbourne Health and a Member of the Museums Board of Victoria.

Previously, Linda has held the position of Chairman at some of Australia's most well-regarded companies, including Healthscope, Australia Post and Yarra Trams, and was a director of Pacific Brands Group, St George Bank and Sigma Pharmaceuticals Group.

She has also been a director of the Olivia Newton John Cancer Research Institute, Low Carbon Australia Limited and the Walter and Eliza Hall Institute of Medical Research.

Linda holds a Master of Business Administration from Harvard Business School, a Bachelor of Arts in Economics from Cornell University and is a Life Fellow of the Australian Institute of Company Directors.

#### **Other current Australian listed company directorships:**

Fairfax Media (appointed 26 February 2010), Medibank Private (appointed 31 March 2014), Inghams Group (appointed 7 October 2016)

#### **Former Australian listed company directorships in last three years:**

Pacific Brands Group (resigned 15 July 2016), Sigma Pharmaceuticals Group (resigned 9 December 2015)

#### **Andrew Sudholz**

FPI, MAICD  
Chief Executive Officer &  
Managing Director  
**(CEO)**  
*Director since 19 March  
2014*

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

Prior to the establishment of the 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 holds an Associate Diploma of Valuations from the Royal Melbourne Institution of Technology.

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



# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued)

For the year ended 30 June 2018

### 1. Directors (continued)

#### **Richard England**

FCA, MAICD

Non-Executive Director

*Director since 19 March 2014*

Chairman of the Audit, Risk and Compliance Committee and member of the Remuneration and Nomination Committee and the Zero Harm 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 Chairman of Qantm Intellectual Property Limited and is a Non-Executive Director of Nanosonics Limited, Atlas Arteria Limited and Bingo Industries Limited.

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.

He is Chairman of Indigenous Art Code Limited, the company administering the Indigenous Australian Art Commercial Code of Conduct.

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

#### **Other current Australian listed company directorships:**

Nanosonics (appointed 5 February 2010), Atlas Arteria Limited (appointed 1 June 2010), Qantm Intellectual Property Limited (appointed 17 May 2016), Bingo Industries Limited (appointed 22 March 2017)

#### **Former Australian listed company directorships in last 3 years:**

Ruralco Holdings (resigned 5 September 2016)

#### **David Blight**

BAppSc

Non-Executive Director

*Director since 19 March 2014*

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

David is the co-founder and CEO of ARA Australia, the Australian business of the Singapore based ARA Group. ARA is an Asia Pacific real estate investment management firm with over \$40 billion in funds under management.

David is also a Non-Executive Director of Cromwell Property Group and Lifestyle Communities Limited.

His previous roles include vice chairman of ING Real Estate and global chairman and CEO of ING Real Estate Investment Management based in The Netherlands. He has also held senior executive positions with Armstrong Jones, Mirvac Group and APN Property Group. David has more than 30 years' experience in the real estate industry, across all major global markets and property sectors.

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).

#### **Other current Australian listed company directorships:**

Cromwell Property Group (appointed 1 June 2018), Lifestyle Communities Limited (appointed 15 June 2018)

#### **Former Australian listed company directorships in last 3 years:**

None

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2018

#### 1. Directors (continued)

**JoAnne Stephenson**  
BComm, LLB, CA,  
MAICD  
Non-executive Director  
*Director since 1  
September 2015*

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

JoAnne holds a Bachelor of Commerce and Bachelor of Laws (Honours) from the University of Queensland and is a member of Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors.

She has over 25 years of extensive experience in financial services having been a partner with KPMG and has key strengths in finance, accounting, risk management and governance.

JoAnne is a Non-Executive Director of Challenger Limited, Asaleo Care Limited and Myer Holdings Limited.

She is also Chair of the Audit and Risk Committee of the Department of Health and Human Services (Victoria), Chair of the Victorian Major Transport Infrastructure Board and Chairman of the Melbourne Chamber Orchestra.

#### **Other current Australian listed company directorships:**

Challenger (appointed 8 October 2012), Asaleo Care (appointed 30 May 2014), Myer Holdings (appointed 28 November 2016)

#### **Former Australian listed company directorships in last 3 years:**

None

#### 2. Company secretaries

##### **Bruce Paterson**

Bruce has over 25 years corporate experience in senior roles with listed and unlisted companies. Prior to joining Japara Healthcare, he was Company Secretary of a Top 200 ASX listed professional services company, Crowe Horwath Australasia Limited for 14 years.

Bruce was appointed as lead Company Secretary of the Company in December 2015.

He has a Bachelor of Business in Accounting and a Graduate Diploma in Company Secretarial Practices. Bruce is a Fellow of the Governance Institute of Australia, the Institute of Chartered Secretaries & Administrators and CPA Australia.

##### **Chris Price**

Chris was appointed as Chief Financial Officer of the Company in June 2015 and as a Company Secretary in July 2015.

Chris has over 25 years experience in the financial services, professional services and manufacturing sectors. Most recently he was Managing Director of ASX listed professional services firm Crowe Horwath Australasia Limited, having previously served as the Company's Chief Financial Officer for seven years.

He is a member of Chartered Accountants Australia and New Zealand and has a Bachelor of Business from RMIT University.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2018

#### 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 & Compliance Committee Meetings		Remuneration & Nomination Committee Meetings		Zero Harm Committee Meetings	
	A	B	A	B	A	B	A	B
Linda Bardo Nicholls AO <sup>1</sup>	11	11	6	6	5	5	4	4
Andrew Sudholz <sup>1</sup>	11	11	6	6	5	5	4	4
Richard England	11	11	6	6	5	5	4	4
David Blight	11	11	6	6	5	5	4	4
JoAnne Stephenson	11	11	6	6	5	5	4	4

A - Number of meetings attended

B - Number of meetings held

1 - Attended Committee meetings by invitation

#### 4. Principal activities

The principal activities of the Group during the financial year was that of owner, operator and developer of residential aged care homes. 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 private sector residential aged care operators in Australia with over 5,400 resident places and approvals for places currently across 48 homes which are located in Victoria, New South Wales, Queensland, South Australia and Tasmania.

In conjunction with the business of providing residential aged care services, the Group also operates 180 Independent Living Units (ILUs) across five retirement villages, located adjacent to its aged care homes. 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:

- developing and expanding existing homes;
- building new homes;
- selectively acquiring of homes; and
- implementing the Group's care and operating model.

In 2014 the Group was restructured resulting in an Initial Public Offering of ordinary shares. Japara Healthcare Limited was admitted to the official list of ASX Limited on 17 April 2014.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2018

#### 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. It specialises in high acuity care including dementia. This operating model is aimed at achieving:

- above industry average occupancy levels through providing a high standard of resident care and wellbeing;
- eligible Federal Government care funding matched to resident acuity; 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 (Federal Government funding, resident contributions and accommodation charges) and capital funding (Refundable Accommodation Deposits (RADs)).

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

As a provider of residential aged care services, approved by the Department of Health (**Department**), each of the Group's homes is eligible to receive funding contributions from the Federal Government. Funding is in the form of subsidies and supplements for approved residents in funded places, on a per resident per day basis. It includes care and accommodation components. The Group derived approximately 73% (2017: 72%) of its revenue from Federal Government care and accommodation 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 Daily Accommodation Payments (**DAPs**). Resident fees made up approximately 27% (2017: 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 2018 financial year, the Group used capital funding received from RADs for the following purposes:

- financing land acquisitions and aged care home capital works for developments and significant refurbishments;
- financing the acquisition of the Riviera Health portfolio of residential aged care homes; and
- repaying bank debt used to finance capital works for aged care homes.

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. It also includes growth capital expenditure comprising brownfield and greenfield development projects and acquisition of aged care homes.

Residents have the option to either pay a RAD, a DAP, or a combination of both. The DAP is calculated on a daily basis and charged monthly and recognised in revenue as a resident contribution. The value of a DAP is calculated with reference to the room value using an interest rate set by the Federal Government.

##### *Bank debt*

The Group borrows money from time to time in order to finance its activities. The Group has banking facilities with a syndicate of lenders which are principally used to finance the Group's developments on a short to medium term basis and the acquisition of homes.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2018

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

##### Key costs

The Group's key cost relates to labour, which was approximately 69% (2017: 68%) of total revenue for the financial year. Other costs include 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 seeks to leverage its ability to achieve cost advantages through internalisation and centralisation of certain functions, economies of scale and group buying power.

##### Review of operations

	2018 \$'000	2017 \$'000	Change %
Revenue and other income	373,188	362,193	3.0
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	50,653	60,160	(15.8)
Net Profit After Tax (NPAT)	23,327	29,712	(21.5)

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

##### Operational results

The Group delivered EBITDA of \$50.7 million for the financial year in a challenging operating environment.

Revenue of \$373.2 million was up 3.0% on last year whilst NPAT was \$23.3 million, a decrease of \$6.4 million.

Revenue improvement was achieved during the year through contributions from a greenfield and four brownfield developments completed in the prior year and the Riviera Health homes acquired on 1 April 2018. This was more than offset by the impact of wage rate increases particularly in the absence of indexation on Federal Government care funding and occupancy pressures associated with the unusually severe influenza outbreak experienced during the first half of the financial year. Occupancy has since recovered after this abnormal event to around historical levels albeit at a slower rate than expected. Average occupancy for the financial year was 93.2% (2017: 94.6%) with a stronger second half averaging 94.0%.

A net gain from non-recurring items of \$3.3 million was \$2.7 million less than in FY2017.

NPAT was lower for the financial year due to the overall decline in earnings and an increase in depreciation. The effective tax rate of 21% was lower than the prior year associated with the acquisition of Riviera Health. The effective tax rate is expected to return to a more normal level (30%) in FY2019.

A summary of the audited Statement of Financial Position is set out below:

	2018 \$'000	2017 \$'000	Change %
Total assets	1,268,606	1,115,568	13.7
Total liabilities	734,828	579,854	26.7
Net assets	533,778	535,714	(0.4)

## **Japara Healthcare Limited and Controlled Entities**

ABN 54 168 631 052

### **Directors' Report (continued)**

**For the year ended 30 June 2018**

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

##### **Review of financial position**

The Group's total assets increased by 13.7% during the financial year mainly due to an increase in property, plant and equipment associated with the acquisition of the Riviera Health portfolio and capital expenditure on the Group's development program in line with its growth strategy.

Total liabilities increased by 26.7%, mainly due to an increase in bank borrowings and RADs, being monies refundable to our residents, to fund the above increase in assets.

During the financial year an additional \$99.5 million of the Group's banking facilities was drawn down primarily to fund developments and the acquisition of the Riviera Health portfolio, with \$15.0 million being repaid from net RAD cash inflows. A total of \$145.5 million was drawn down as at the reporting date.

Net RAD cash inflows for the financial year were \$41.6 million.

The Group's current liabilities exceed current assets by \$558.5 million (2017: \$455.0 million) as at 30 June 2018. This mainly arises because of the requirement to classify the Group's obligations to residents for RADs/accommodation bonds and ILU resident loans as current liabilities, whereas, the property, plant and equipment, investment properties and intangible assets to which such funds 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 the timing of its working capital requirements are generally consistent throughout the course of a financial year with no significant variations. The Group's cash position is expected to provide sufficient liquidity to meet the Group's current anticipated cash requirements.

Over time, the Group may seek additional 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 of homes through organic growth while maintaining a high level of resident care and support in line with its ageing-in-place care model as described earlier in this report.

In addition to organic growth, the Group has an expansion strategy which centres on increasing the size of its aged care home portfolio through developments and selective acquisitions of existing aged care homes.

The Group is a supporter of reform that appropriately balances the community need for high quality residential aged care and the sector's financial sustainability. The Federal Government has identified the importance of the continuum of care model and the goal of enabling a seamless transition between home and residential care for ageing residents. The Group seeks to build on current relationships with complementary businesses and will look to develop relationships and opportunities across the care continuum in the medium term.

##### **Organic growth**

###### **i. Additional services**

The Group has a suite of additional services that are available to its residents. Revenue from additional services continues to grow and is expected to generate further revenue growth from resident contributions as they access these services and new homes open. These services include hairdressing, technology, superior room furnishings, concierge services and various non-clinical therapy services. The majority of the Group's developments are being designed to enhance the level and availability of additional service offerings.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2018

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

##### ii. Cost reduction initiatives

The Group constantly reviews its supply and service contracts seeking improvements including efficiencies and cost savings without compromising quality or service standards. It also continually refines its operations to identify improved and more efficient methods of operating including through the use of technology.

##### iii. Occupancy levels

The Group has historically maintained high occupancy levels and continues to target incremental improvement in occupancy across its portfolio of homes. A dedicated client services team supports the home managers to maintain a close relationship with the Group's resident consumer base and referral network. Benchmarked occupancy levels across the Group and its competitors are used for strategic direction and improvement initiatives.

The Group continues to provide care and services that are closely aligned with consumer demands and is proactive in strategic marketing and refurbishment activities to maintain high occupancy levels. In addition, the Group's development growth strategy is targeted towards undersupplied areas, as identified by its internal research team, which helps support high occupancy levels across the Group.

##### iv. RAD/DAP funding

The Group continued to receive strong net RAD inflows during the year totalling \$41.6 million. Further new capital is anticipated to be received from RADs linked to newly delivered operational places from brownfield and greenfield developments.

#### ***Development program***

The Group's development program is expected to deliver over 1,200 net new places to the market by the end of FY2022. During the year, 88 new places were delivered following the successful completion of Riverside Views, a greenfield project located near Launceston, Tasmania. The Group currently has five brownfield and twelve greenfield projects in progress at various stages of development. The Group owns or has secured land sites for all its projects.

At the date of this report, the Group has 929 un-activated provisional licences issued by the Department for development purposes, with further licenses applied for under the 2018/19 Aged Care Approvals Round. These provisional licenses, along with surplus licenses acquired as part of the Riviera Health acquisition, support the places being built under the Group's current development program. Any shortfall in bed licences is expected to be obtained either through transfer from current homes with non-operational places and from Aged Care Approvals Round allocations or by acquisition.

It is expected that the costs of the Group's developments will, to a large extent, be initially funded from the Group's banking facilities. This debt is expected to be repaid by the RAD inflows received from residents entering the new or re-developed homes post completion.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2018

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

At the date of this report the following development projects are in the construction or planning phases:

- Springvale, Victoria - 68 place extension (56 net new places) expected to be completed in FY2019;
- Glen Waverley, Victoria - 60 place new build expected to be completed in FY2019;
- Rye, Victoria - 99 place new build expected to be completed in FY2019;
- Bendigo, Victoria - 16 place dementia specific extension expected to be completed in FY2019;
- Mirboo North, Victoria - 17 place extension expected to be completed in FY2019;
- Brighton-Le-Sands, New South Wales - 61 place new build expected to be completed in FY2019;
- Newport, Victoria - 120 place new build (60 net new places) expected to be completed in FY2020;
- Mt Waverley, Victoria - 106 place new build expected to be completed in FY2020;
- Robina, Queensland - 106 place new build expected to be completed in FY2020;
- Albury, New South Wales - 29 place dementia specific extension expected to be completed in FY2020;
- Brighton, South Australia - 52 place extension (38 net new places) expected to be completed in FY2020;
- Reservoir, Victoria - 90 place new build expected to be completed in FY2021;
- Mitchelton, Queensland - 106 place new build expected to be completed in FY2021;
- Lysterfield, Victoria - 103 place new build expected to be completed in FY2021;
- Belrose, New South Wales - 104 place new build expected to be completed in FY2022;
- Highton, Victoria - 136 place new build expected to be completed in FY2022; and
- Wyong, New South Wales - 120 place new build (50 net new places) expected to be completed in FY2022.

The Group has a separate significant refurbishment program operating across 14 of its current homes of which six were completed during FY2018, with the balance expected to be completed during FY2019. The Group is entitled to receive additional funding from accommodation supplements which provides up to a potential additional \$19 per day for each concessional resident in newly built or significantly refurbished homes.

#### ***Acquisitions of existing aged care homes***

The Group constantly reviews opportunities to acquire existing aged care homes. The Group targets individual or groups of homes where shareholder value can be enhanced through operational improvements and efficiencies. This may occur through the implementation of the Group's operating model, its buying power and removal of duplicated administration costs. This was demonstrated by the Group's successful acquisition and integration of the Riviera Health portfolio during the financial year (see note G of the financial statements).

#### ***A disciplined and selective approach***

The Group has established policies and procedures for the acquisition of additional aged care homes. As part of the due diligence process, pricing is confirmed by independent valuations for both the business and real estate components. The Group undertakes formal legal, financial, property, operational and compliance due diligence on each target home before committing to an acquisition.

Typically, management targets homes where expertise can be applied in the short-term to improve the performance of the home. The Group utilises its existing infrastructure and compliance platform to execute acquisition transactions 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 2018

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

The Group's key acquisition investment criteria include:

- **Demand:** homes in locations that have unmet demand;
- **Network enhancement:** homes in locations that enhance the Group's national or local presence;
- **Strong care fundamentals:** homes that have strong care fundamentals and accreditation histories, as well as strong governance around care delivery and ACFI assessments;
- **Growth:** operational homes that provide potential for long term growth from income and RADs;
- **Cash flow:** homes that have a substantial income flow; and
- **Value creation:** homes that provide an opportunity for strategic value enhancement and asset management strategies to enhance returns to shareholders through:
  - purchasing undervalued assets which may be mispriced due to complexities of ownership, capital structure, planning controls or ineffective management processes;
  - 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 single aged care homes or multi-home portfolios where the investment criteria are met.

#### Material business risks

##### *Change of regulatory framework*

The Australian aged care industry is highly regulated and significantly funded by the Federal Government. Regulatory and funding changes may have an adverse impact on the way the Group promotes, manages and operates its homes, and its financial performance.

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

The Group has limited control over this area of risk but seeks to influence regulatory decision-making through submissions and consultation at senior Federal Government levels including within Treasury, Health and Aged Care departments. The CEO has direct responsibility for managing regulatory risk and is the Company's delegate on the Aged Care Guild which seeks to support ongoing investment in the industry to meet future demand. The CEO develops strategies, with the support of the Board, in anticipation of and to mitigate risk in regulatory change.

##### *Reduction in occupancy levels*

In the ordinary course of its business, the Group faces the risk that occupancy levels may fall below expectations as occurred during the first half of the financial year associated with the severe influenza outbreak experienced in our community. Reduced occupancy levels adversely affect the Group's financial performance by reducing the amount of Federal Government care and accommodation 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. Such occurrences are likely to lead to a decline in the Group's profitability as was the case during the financial year.

Occupancy levels are monitored daily at a home level and reported to line management weekly. Home managers are responsible for their homes' occupancy levels, which is a KPI for performance assessment purposes. Homes are supported by line management and a dedicated client services team who have access to referrer networks and direct marketing resources. The Group Executive - Care and Commercial has overall responsibility for occupancy levels and reports directly to the CEO. The Board is provided with occupancy data on a monthly basis including trend analysis and action plans to address declines in occupancy. As a further strategy to counter potential reductions in occupancy levels, the Group develops its greenfield projects in undersupplied geographic markets as supported by independent research at the time of planning.

## **Japara Healthcare Limited and Controlled Entities**

ABN 54 168 631 052

### **Directors' Report (continued)**

**For the year ended 30 June 2018**

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

##### ***Health and safety***

The wellbeing, health and safety of residents, home staff and visitors are critical to the Group for its on-going business operations. A poor or unsafe workplace can lead to injuries and discontentment amongst residents, relatives and staff, resulting in adverse financial performance, potential litigation and reputation issues for the Group.

The Group delivers care and services to its residents through a comprehensive and robust process which is supported by policies and procedures which comply with the Aged Care Act 1997. Home staff are under the control and supervision of qualified home managers and receive regular on-going training to safeguard and promote the wellbeing, health and safety of both residents and themselves. Audits and post incident investigations are conducted to identify and address risks of injury or illness. Homes are assisted by a centralised team which provides work, health and safety, human resource and operational support. The Group Executive - Care and Commercial has overall responsibility for resident care services while the Group Executive - People and Infrastructure has overall responsibility for staff wellbeing. Both executives report directly to the CEO and provide monthly reports to the Board on the wellbeing, health and safety of residents and staff. The Board has established a Zero Harm Committee with the objective to ensure that the Company's commitment to Zero Harm is embedded across the Group and policies, procedures and practices for resident safety, clinical care and workplace health and safety are in place and overseen. Statistical reports showing injury frequency rates, near misses and other care and wellbeing indicators are provided to the Committee.

##### ***Loss of 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 homes 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.

The Group has processes in place to manage the potential loss of key personnel. The Board has responsibility for CEO succession planning whilst the CEO has responsibility for succession planning of other key personnel with the support of the executive leadership team. The Board is required to be immediately advised of any resignation or termination of a key person via the Company Secretary or CEO. The Company's remuneration incentive arrangements for key personnel are overseen by the Remuneration and Nomination Committee. These arrangements can assist with retention through their design, including deferral and forfeiture elements. Key personnel also have extended termination of employment notice periods in their employment contracts to allow for an orderly transition of the role.

##### ***Loss of approvals or accreditation***

Aged care homes are required at law 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 homes must be accredited to attract Federal Government care and accommodation funding. If the Group does not comply with regulation and is unable to secure accreditation for the operation of its aged care homes and resident places in the future, or if any of its existing accreditation or approvals are adversely amended or revoked, this is likely to affect Federal Government funding, potentially resulting in the breach of bank financing lending covenants and therefore adversely impacting the financial performance and position and future prospects of the Group.

## **Japara Healthcare Limited and Controlled Entities**

ABN 54 168 631 052

### **Directors' Report (continued)**

**For the year ended 30 June 2018**

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

The Group has robust policies and procedures in place covering all 44 accreditation standards each home must meet. Home staff are educated and regularly trained to ensure these standards are upheld and are supported by a centralised quality control team. When the Group acquires a new home, it undertakes a review of accreditation standards within three months using a gap analysis process to identify risks. New homes are transitioned to Group standards with the support of the quality control team. The Group Executive - Care and Commercial has overall responsibility for ensuring accreditation standards are maintained and reports directly to the CEO. The Board is provided with regular reports on the outcomes of periodic Federal Government agency accreditation audits with learning communicated across the Group. Remuneration incentive arrangements for the executive leadership team, which includes the Group Executive - Care and Commercial and the CEO, have a gateway hurdle that the Group must maintain on-going accreditation and compliance standards.

#### ***Reputational damage***

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. Such publicity may lead to a reduction in the number of existing residents at the Group's homes or the Group's ability to attract new residents to its homes, both of which occurrences may adversely impact the Group's financial performance and position and future prospects.

Robust controls and processes are in place around resident care, health and safety issues. The Group seeks to avoid reputational incidents through a strong operating and control environment. When potential incidents are identified or become known they are promptly reported to the executive leadership team and to the Board (when applicable) in accordance with standing policy. The executive leadership team, under the CEO's direction, is responsible for developing appropriate strategies and responses. The CEO and Chief Financial Officer have authority under the Group's Communication Strategy for commenting externally on reputational related matters. The Group engages external public relations advisors and other experts as required to assist with strategy, response and handling. From an industry perspective, the Company supports and is also supported by the Aged Care Guild of which it is an active member. The Aged Care Guild is proactive in raising concerns and providing positions and responses to industry related matters.

#### **6. Dividends**

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

Final dividend of 3.75 cents per share (2017: 5.75 cents)	\$9,971,000
Interim dividend of 4.00 cents per share (2017: 5.50 cents)	\$10,629,000

The interim dividend paid during FY2018 was franked to 65% (FY2017: fully franked). The final dividend for FY2018 payable on 30 October 2018 will be franked to 50% (FY2017: franked to 70%).

#### **7. Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Group during the year other than as disclosed elsewhere in this report.

#### **8. Events subsequent to reporting date**

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.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2018

#### 9. Likely developments

Information relating to the likely developments in the operations of the Group and the expected results of those operations in future financial years is set out in section 5 and elsewhere in this report.

#### 10. Indemnification and insurance of officers

##### Indemnification

The Company has agreed to indemnify the current and former 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 and officers of the Company and its controlled entities, to the full extent permitted by law. The Company has also agreed to meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to indemnify the current and former directors and officers 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 also 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 current and former directors and officers of the Group against certain liabilities that may be incurred by such directors and officers in the discharge of their duties to the extent permitted by the *Corporations Act 2001*.

Details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' contract of insurance have not been disclosed as this is prohibited under its terms.

The Company has not provided any indemnity or insurance for the auditor of the Company.

#### 11. Non-audit services

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

The directors have considered the other services provided during the year by the auditor and in accordance with written advice provided by the Audit, Risk and Compliance Committee, are satisfied that the provision of those other services during the year is 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.

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

	2018	2017
	\$'000	\$'000
Audit and review services	355	335
Taxation services	150	125
Due diligence services	113	-
Advisory services	81	41
	<b>699</b>	<b>501</b>

## **Japara Healthcare Limited and Controlled Entities**

ABN 54 168 631 052

### **Directors' Report (continued)**

**For the year ended 30 June 2018**

#### **12. Environmental regulation**

The Group's operations have a modest environmental impact and accordingly, are not subject to any particular and significant environmental regulation under either Commonwealth or State legislation.

#### **13. Proceedings on behalf of the Company**

No proceedings have been brought or intervened in on behalf of the Company with leave of Court under section 237 of the *Corporations Act 2001*.

#### **14. Lead Auditor's Independence Declaration**

The Lead Auditor's Independence Declaration is set out on page 20 and forms part of this Directors' Report for the financial year ended 30 June 2018.

#### **15. Rounding off**

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that legislative instrument, 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 16 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 27 August 2018



**Linda Bardo Nicholls AO**  
Chairman



**Andrew Sudholz**  
CEO & Managing Director



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

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To the Directors of Japara Healthcare Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Japara Healthcare Limited for the financial year ended 30 June 2018 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

KPMG

Suzanne Bell

Suzanne Bell

Partner

Melbourne

27 August 2018

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

Dear Shareholders,

On behalf of the Board, I am pleased to present the Japara Healthcare Limited audited Remuneration Report for the year ended 30 June 2018.

### FY2018 summary

As the Directors' Report outlines, Japara delivered a profit after tax of \$23.3 million in a challenging operating environment including the absence of indexation on Federal Government care funding and occupancy pressures associated with the abnormally severe influenza outbreak experienced during the first half of the year.

Japara continued to provide outstanding care and services to residents during the year across its large portfolio of homes. It also continued to make strong progress on its development program with the opening of 'Riverside Views' in Launceston, Tasmania in October 2017 and is nearing completion of three other new homes in Glen Waverley and Rye in Victoria and Brighton-Le-Sands in New South Wales. A further 14 projects are currently in progress, with the Group on track to deliver over 1,200 net new places by the end of FY2022.

Another highlight for the year was the acquisition of the Riviera Health portfolio in New South Wales on 1 April 2018 comprising 4 operating residential aged care homes, a near completed replacement home, surplus bed licenses and other real estate assets. These homes, acquired at exceptional value, are expected to provide an uplift in profit in FY2019.

Japara continued its good record of strong cash generation during the year and with a strong balance sheet and available liquidity, including bank debt facilities, is well positioned to achieve its future growth strategy.

### FY2018 remuneration performance outcomes

- An enhanced performance based incentive framework was adopted in FY2018 which folded existing short term and long term incentive arrangements into a single incentive plan. This framework provides a more focussed and structured incentive arrangement, which is more appropriate to the business, as well as enhancing alignment with the key objectives of the business.
- The earnings gateway for the incentive granted to the CEO & Managing Director and the Chief Financial Officer (the Executives) in FY2018 was not met, resulting in this incentive being forfeited. The maximum incentive forgone at the target performance level totalled \$1,515,000.
- Long term incentive issued to the Executives in FY2016 under the previous incentive arrangements was forfeited in FY2018 as the vesting conditions were not met.

### FY2019 remuneration settings

The Board is committed to ensuring that Group employees are compensated fairly and competitively for their contributions and performance based remuneration arrangements are directly linked to the results and objectives of the business.

The Board has reviewed the performance based incentive framework adopted in FY2018 and is comfortable to keep it in place for FY2019.

Other relevant changes to remuneration settings for FY2019 are:

- 2.5% increase in fixed remuneration for the Executives;
- No change in the incentive opportunities (as a percentage of fixed remuneration) for Executives;
- No increase in non-executive director's fees; and
- No change in the total fee pool from which non-executive directors are remunerated.

The majority of the Group's employees (being nurses and other facility staff) are covered under separately negotiated State based Enterprise Bargaining Agreements.

The Board looks forward to your continuing support of our remuneration policies and practices and recommends this Remuneration Report to you.



**David Blight**

Chairman, Remuneration and Nomination Committee  
 27 August 2018

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued) For the year ended 30 June 2018

### 16. Remuneration Report - Audited

#### Contents

- 16.1 Key management personnel
- 16.2 Remuneration framework and governance
- 16.3 FY2018 remuneration outcomes
- 16.4 Executive remuneration
- 16.5 Non-executive director remuneration
- 16.6 Linking remuneration and performance
- 16.7 Other statutory disclosures

#### 16.1 Key management personnel

This remuneration report sets out the remuneration arrangements of key management personnel (**KMP**) in accordance with the *Corporations Act 2001* and Australian Accounting Standards for the year ended 30 June 2018 (**FY2018**).

For the purposes of this report, KMP is defined as those people who have the authority and responsibility for planning, directing and controlling the Group's activities, either directly or indirectly.

The following non-executive directors of the Company and Group executives were classified as KMP for the entire FY2018 period:

#### Non-executive directors

Linda Bardo Nicholls AO	Chairman
David Blight	Chairman of the Remuneration and Nomination Committee
JoAnne Stephenson	Chairman of the Zero Harm Committee
Richard England	Chairman of the Audit, Risk and Compliance Committee

#### Executives

Andrew Sudholz	CEO & Managing Director ( <b>CEO</b> )
Chris Price	Chief Financial Officer ( <b>CFO</b> )

#### 16.2 Remuneration framework and governance

##### *Remuneration policy*

KMP remuneration is determined in accordance with a documented remuneration policy which has been approved by the board of directors (**Board**). The policy provides a framework governing the Group remuneration arrangements and is underpinned by the principles of fair and responsible compensation.

##### *Remuneration arrangements*

##### i) Executives

The remuneration structure for executives is designed to attract and retain high calibre, exceptionally skilled and experienced candidates, reward them fairly and competitively for their roles and for the achievement of performance targets. In addition, it seeks to strike a balance between improved performance outcomes, regulatory compliance, shareholder aspirations and consumer and community expectations. The remuneration structure specifically takes into account:

- the scope and responsibilities of the executive's role;
- the capability and experience of the executive;



## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2018

#### 16.2 Remuneration framework and governance (continued)

- remuneration of a comparator group comprising ASX 200 companies with similar characteristics to the Group, including industry sector, scale and business complexity;
- shareholder, consumer and community expectations;
- the executive's ability to influence Group performance including profitability and earnings growth; and
- compliance with required clinical, regulatory and other governance standards.

Executive remuneration comprises:

- Fixed remuneration
  - Including base remuneration and employee benefits (on a total cost basis including any related FBT charges), leave entitlements and employer contributions to superannuation.
- Performance based 'at risk' remuneration
  - Including a mixture of cash and equity issued under an equity incentive plan (**EIP**) to reward executives for exceeding targets set by the Board.

Executives are required to own equity in the Company equivalent to at least one year's base salary. This can be acquired over a 5 year period and it is intended that the EIP provides the main conduit for this purpose.

Executives are employed under continuous service agreements which outline remuneration, employment and termination arrangements. The termination notice period has been set at 12 months for the CEO and 6 months for the CFO.

The Group may also terminate an executive's employment by payment in lieu of notice or without notice and payment in lieu for serious misconduct. On termination, executives are entitled to receive their statutory leave entitlements, together with any superannuation benefits.

#### ii) Non-executive directors

Non-executive directors are remunerated for their services to the Group. The maximum aggregate amount of remuneration (**the pool**) payable to non-executive directors is approved by the Company's shareholders. The Board annually determines the fees each non-executive director is entitled to receive from the pool having regard to remuneration benchmarking. The same comparator group used for executive remuneration benchmarking purposes is used for this purpose.

The Board Chairman and the Chair of each standing committee of the Board typically receive fees commensurate with the additional duties and responsibilities of these roles. Non-executive directors do not participate in performance based remuneration and have no retirement benefit schemes other than receiving statutory superannuation contributions.

Non-executive directors are entitled to be reimbursed for reasonable travel and other expenses incurred in discharging their duties including attending Board, committee and general meetings.

The Board has adopted a policy requiring non-executive directors to hold shares in the Company equivalent to at least one year's director's fees which can be acquired over a 5 year period following appointment. This policy seeks to further align the interests of non-executive directors with shareholders more generally. The Company operates a voluntary share purchase plan to assist non-executive directors in building their shareholdings in the Company.

#### *Board & Remuneration and Nomination Committee*

The Board determines KMP remuneration with assistance from the Remuneration and Nomination Committee (**Remuneration Committee**). The Remuneration Committee comprises non-executive directors of the Company who are independent of management and act in accordance with a Board approved charter. The Remuneration Committee seeks to strike an appropriate balance between the Group's various stakeholders in performing its role, as well as mitigating risk wherever possible.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2018

#### 16.2 Remuneration framework and governance (continued)

The Remuneration Committee annually reviews and recommends to the Board:

- arrangements for executives including fixed and performance based 'at risk' remuneration, performance criteria and associated payments and awards; and
- arrangements for non-executive directors including remuneration, travel and other reimbursements.

In making its recommendations to the Board, the Remuneration Committee has particular regard for non-financial metrics including clinical quality, regulatory compliance and ethical standards. The Remuneration Committee monitors any staff and Group compliance breaches, including with assistance from the other Board committees.

Award of performance based remuneration is subject to the Board's final discretion. The Board may seek to exercise such discretion during circumstances where shareholder and other stakeholder expectations have not been met.

#### *Remuneration recommendations*

The Remuneration Committee considers comparator and other remuneration information from independent external providers as required. Such information is used for informed decision making purposes and is not a substitute for detailed consideration and debate of remuneration matters by the Remuneration Committee.

No remuneration recommendations were provided to the Group by external providers for FY2018.

#### 16.3 FY2018 remuneration outcomes

Below is a summary of KMP remuneration outcomes for FY2018 and comparison with FY2017:

	Total fixed remuneration paid \$'000	Total performance based remuneration awarded <sup>1</sup> \$'000	Total fixed and performance based remuneration received \$'000	Percentage of maximum potential performance based remuneration awarded %	Value of long term incentive granted <sup>2</sup> \$'000	Value of long term incentive forfeited <sup>3</sup> \$'000
<b><u>Executives</u></b>						
<b>Andrew Sudholz (CEO)</b>						
FY2018	1,005	-	<b>1,005</b>	-	n/a	n/a
FY2017	1,005	100	<b>1,105</b>	-	<b>990</b>	<b>990</b>
<b>Chris Price (CFO)</b>						
FY2018	540	-	<b>540</b>	-	n/a	n/a
FY2017	540	50	<b>590</b>	-	<b>525</b>	<b>525</b>

1. FY2017 amounts were once only ex-gratia payments awarded in recognition of excellent individual performance.
2. Reflects the dollar value of performance rights granted under former LTI arrangements in place during FY2017. The dollar value was determined using the grant price being the 10 day volume weighted average price of the Company's shares up to 30 June 2016.
3. LTI granted in FY2017 was forfeited in the same year as the EBITDA performance gateway was not met.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2018

#### 16.3 FY2018 remuneration outcomes (continued)

	Board fees earned \$'000	Committee Chairman fees earned \$'000	Total fees earned \$'000
<b><u>Non-executive directors</u></b>			
<b>Linda Bardo Nicholls AO</b>			
FY2018	250	-	<b>250</b>
FY2017	225	-	<b>225</b>
<b>David Blight</b>			
FY2018	105	20	<b>125</b>
FY2017	105	20	<b>125</b>
<b>JoAnne Stephenson</b>			
FY2018	105	20	<b>125</b>
FY2017	105	20	<b>125</b>
<b>Richard England</b>			
FY2018	105	20	<b>125</b>
FY2017	105	20	<b>125</b>

#### 16.4 Executive remuneration

##### 16.4.1 Principles of executive remuneration

Executive remuneration comprises fixed remuneration and performance based 'at risk' remuneration. The Group's remuneration policy was modified in FY2018 to provide an improved performance based incentive framework which folded existing short term incentive (STI) and long term incentive (LTI) arrangements into a single incentive plan.

##### ***Why did the Board make this change and why is it appropriate for the Group?***

In FY2018, the Board redesigned the performance based 'at risk' remuneration framework to more appropriately reflect the environment of constantly changing regulations and uncertainty of funding to the residential aged care sector. This backdrop of constant change undermined the impact and effectiveness of the LTI component of the previous incentive plan, which was measured over a 3 year term.

The 'New' incentive plan, described in the following table, folds the STI and LTI components into one incentive plan, measured over a 12 month period, and uses the levels of the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) growth on the prior year as the basis for the formation of the incentive pool. The greater the EBITDA growth in a particular year, the greater the incentive pool opportunity will become, subject to various checks. The incentive is awarded as a mix of cash and deferred equity, which tilts to a larger component of deferred equity as the pool increases. Each year, the Board will set the required level of EBITDA performance in order for the incentive pool to form.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2018

#### 16.4.1 Principles of executive remuneration (continued)

The existing gateway measures relating to accreditation, compliance and budget have been retained, together with the balanced score card approach to determining individual performance. Finally, the Board has applied a cap to the incentive pool so as not to exceed 30% of the incremental net profit in any given year, together with forfeiture and clawback rights, as well as its final discretion to avoid any anomalies.

The Board is confident this incentive structure, with its potential to reward superior outcomes, and its various safeguards, is appropriate for the Group at this point in its evolution. It aligns senior executives more closely to shareholder value through its focus on EBITDA delivery, with individual balanced scorecards ensuring KPI's are in place for both financial and non-financial performance hurdles.

#### Principles of executive remuneration

Fixed remuneration principles	Performance based remuneration principles
<u>Amount</u>	<u>Amount</u>
<ul style="list-style-type: none"> <li>Mid to upper quartile of a comparator group</li> </ul>	<ul style="list-style-type: none"> <li>Incentive opportunity of between 100% - 200% of fixed remuneration (pre employee benefits): <ul style="list-style-type: none"> <li>- 100% at target level</li> <li>- 150% at stretch level</li> <li>- 200% at exceptional level</li> </ul> </li> <li>Annual pool from which incentives can be awarded is capped at 30% of incremental net profit after tax (<b>NPAT</b>)</li> </ul>
<u>Delivery</u>	<u>Delivery</u>
<ul style="list-style-type: none"> <li>100% cash payment comprising base salary and statutory superannuation contributions</li> <li>Parking and IT/communication related employee benefits are also provided (calculated on a total cost basis including FBT)</li> </ul>	<ul style="list-style-type: none"> <li>Mix of cash and equity in the Company via the EIP</li> <li>Mix is subject to performance level achieved: <ul style="list-style-type: none"> <li>- 50% cash / 50% equity at target level</li> <li>- 40% cash / 60% equity at stretch level</li> <li>- 35% cash / 65% equity at exceptional level</li> </ul> </li> <li>Performance level determined with reference to level of annual growth in the Group's EBITDA for FY2018: <ul style="list-style-type: none"> <li>- 5% growth to achieve target level</li> <li>- 10% growth to achieve stretch level</li> <li>- 15% growth to achieve exceptional level</li> </ul> <p>Where EBITDA growth falls between two levels, the incentive opportunity is determined on a straight line basis between the two levels</p> </li> <li>Cash component payable following release of audited annual financial report, subject to continued employment</li> </ul>

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2018

#### 16.4.1 Principles of executive remuneration (continued)

Fixed remuneration principles	Performance based remuneration principles
<u>Delivery (continued)</u>	<u>Delivery (continued)</u>
	<ul style="list-style-type: none"> <li>Equity component granted as performance rights on or shortly after the date of the Company's next annual general meeting. Rights are subject to a 24 month vesting period from the date of grant and can be converted to the same number of shares in the Company for nil consideration. Vesting is subject to continued employment. Resulting shares are subject to a further 12 month escrow period. Executives will also be allocated additional shares to account for the equivalent value of dividends paid by the Company during the 24 month vesting period.</li> <li>Forfeiture provisions and Board discretion applies to equity component</li> <li>Where there is a change of control event for the Company, the Board may accelerate vesting and lapsing of performance rights and release of shares from escrow. If such an event occurs before the Board has acted, all performance rights will immediately vest, the equivalent value of any dividends paid up to that date will be allocated in shares and escrowed shares will be immediately released.</li> </ul>
<u>Considerations</u>	<u>Performance measures</u>
<ul style="list-style-type: none"> <li>Capability and experience</li> <li>Role scope and responsibilities</li> <li>Comparator group benchmarking</li> </ul>	<ul style="list-style-type: none"> <li>Common gateways requiring achievement of threshold earnings, accreditation and compliance measures and standards to qualify for any performance based remuneration to be awarded</li> <li>Individual financial and non-financial performance hurdles reflecting the executives' position to influence outcomes and the achievement of desired Group outcomes</li> <li>Award of incentive subject to final Board discretion</li> <li>Structured to be earnings accretive, requiring minimum 5% EBITDA growth for FY2018 for award and capped at a maximum of 30% of incremental NPAT</li> <li>Subject to forfeiture and clawback under certain circumstances</li> </ul>

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

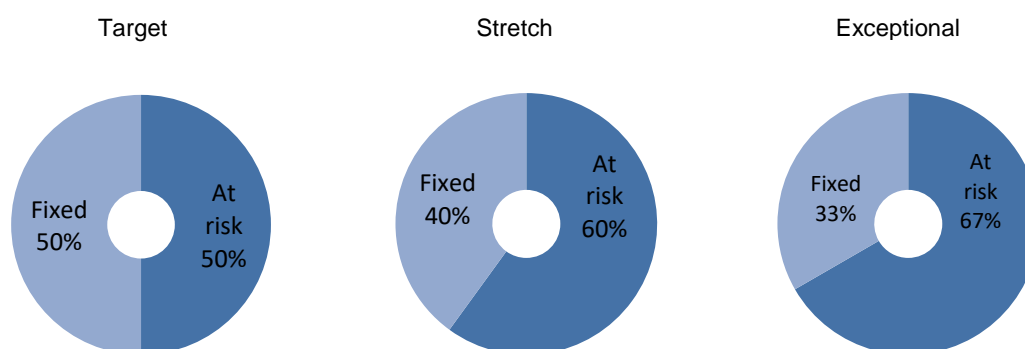
### Remuneration Report (continued)

For the year ended 30 June 2018

#### 16.4.1 Principles of executive remuneration (continued)

Fixed remuneration principles	Performance based remuneration principles
<u>Objectives</u>	<u>Objectives</u>
<ul style="list-style-type: none"> <li>Attract and retain high calibre executives with exceptional skills and experience</li> </ul>	<ul style="list-style-type: none"> <li>Annual performance based incentive to align executives with "stretch" business objectives</li> <li>Encourages performance above and beyond "come-to-work" requirements subject to first achieving minimum 'gateway' standards</li> <li>Incentivises achievement of prioritised and targeted outcomes in key areas including organisation, safety, growth and finance</li> <li>Assists with executive retention through equity vesting arrangements</li> </ul>

Below is the maximum potential remuneration mix for executive KMP in FY2018 showing the fixed and performance based 'at risk' components at the various potential incentive levels.



#### 16.4.2 FY2018 fixed remuneration

The fixed remuneration paid to each executive during the period in which they were KMP is set out below:

	Cash salary <sup>1</sup>	Super-annuation	Other <sup>2</sup>	Total fixed remuneration paid
	\$'000	\$'000	\$'000	\$'000
<b>Andrew Sudholz (CEO)</b>				
FY2018	965	25	15	<b>1,005</b>
FY2017	955	36	14	<b>1,005</b>
<b>Chris Price (CFO)</b>				
FY2018	480	45	15	<b>540</b>
FY2017	480	46	14	<b>540</b>

1. Cash salary includes salary and leave entitlements paid during the year.

2. Other includes parking and IT/communication related employee benefits.

Following its review, the Board determined not to increase executives' fixed remuneration for FY2018.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2018

#### 16.4.3 FY2018 performance based remuneration outcomes

The performance based 'incentive' remuneration arrangements for executives for FY2018 are set out below.

##### Remuneration amounts

	Maximum incentive remuneration achievable at target level \$'000	Incentive remuneration awarded \$'000
Andrew Sudholz (CEO)	990	-
Chris Price (CFO)	525	-

##### Performance criteria

The award of performance based remuneration is subject to the achievement of set performance criteria comprising common gateways and individual hurdles as determined, assessed and recommended by the Remuneration Committee and approved by the Board.

Financial hurdles reflecting returns and the effectiveness of capital management together with non-financial hurdles that are aligned to key business objectives and which, in turn, lead to improved business and shareholder outcomes, are used to assess performance.

Financial hurdles are measured in terms of target returns or cost savings whilst non-financial hurdles are measured in terms of target rates of growth and improvement and key projects delivered. These measures are approved by the Board and chosen for being objective and easily measured.

The following performance criteria applied to FY2018:

##### Gateways

- The Group maintaining ongoing accreditation at all operating homes;
- No material breach of regulatory or compliance guidelines across the Group's business; and
- The Group's EBITDA growth on the prior year meeting or exceeding a threshold target set by the Board (subject to any appropriate adjustments at the Board's discretion).

##### Hurdles

Andrew Sudholz (CEO)		
Target area	Performance requirement	Weighting
Finance	<ul style="list-style-type: none"><li>• Deliver a return on invested capital exceeding targeted rate</li></ul> <i>Rationale: Stretch incentive to increase shareholder returns</i>	30%
	<ul style="list-style-type: none"><li>• Deliver initiatives resulting in operating cost savings at an agreed target</li></ul> <i>Rationale: Incentive to identify and responsibly deliver cost improvements to increase shareholder returns</i>	30%

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2018

#### 16.4.3 FY2018 performance based remuneration outcomes (continued)

Andrew Sudholz (CEO) (continued)		
Target area	Performance requirement	Weighting
<b>Growth</b>	<ul style="list-style-type: none"> <li>Increase available places from completed developments by an agreed target</li> </ul> <p><i>Rationale: Incentive to responsibly grow the business through well occupied and profitable developments to increase shareholder returns</i></p>	30%
<b>Safety</b>	<ul style="list-style-type: none"> <li>Achieve an annual average lost time injury frequency rate below an agreed target</li> </ul> <p><i>Rationale: Incentive to deliver improvement in lost time injuries for the betterment of its workforce and increase shareholder returns over the longer term.</i></p>	10%
		<b>100%</b>

Chris Price (CFO)		
Target area	Performance requirement	Weighting
<b>Finance</b>	<ul style="list-style-type: none"> <li>Deliver a return on invested capital exceeding targeted rate</li> </ul> <p><i>Rationale: Stretch incentive to increase shareholder returns</i></p>	30%
	<ul style="list-style-type: none"> <li>Manage Group costs to deliver improvements</li> </ul> <p><i>Rationale: Incentive to identify and responsibly deliver cost improvements to increase shareholder returns</i></p>	30%
<b>Organisation</b>	<ul style="list-style-type: none"> <li>Implement various agreed ICT systems and initiatives across the Group</li> </ul> <p><i>Rationale: Incentive to deploy ICT systems and other initiatives across the business for efficiency, to support growth, mitigate risk and increase shareholder returns</i></p>	30%
<b>Safety</b>	<ul style="list-style-type: none"> <li>Achieve an annual average lost time injury frequency rate at an agreed target</li> </ul> <p><i>Rationale: Incentive to deliver improvement in lost time injuries for betterment of its workforce and increase shareholder returns over the longer term</i></p>	10%
		<b>100%</b>



## Japania Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2018

#### 16.4.3 FY2018 performance based remuneration outcomes (continued)

##### Performance assessment

The Board determined that while the gateways relating to accreditation, regulatory and compliance guidelines were met, and many of the individual KPI's were achieved, the Group's EBITDA growth for the year did not meet the threshold level. Accordingly, no performance based remuneration was awarded for FY2018.

#### 16.4.4 Prior period LTI performance outcomes

LTI in the form of performance rights were granted to executives in FY2016 under the previous incentive arrangement framework. This LTI was tested in FY2018 at the end of its 3 year performance period. The Board determined that this incentive was forfeited as the vesting conditions were not met.

LTI granted to executives in FY2017 and other years have previously been forfeited. Accordingly, there is no prior LTI on-foot.

#### 16.5 Non-executive director remuneration

##### 16.5.1 Principles of non-executive director remuneration

Non-executive director remuneration comprises only fixed remuneration (including statutory superannuation contributions), with the maximum aggregate amount payable capped at \$1,000,000 as determined by the Company's shareholders on 4 April 2014.

##### 16.5.2 FY2018 remuneration

Total non-executive director fees for FY2018 were \$625,000 as follows:

- \$250,000 to the non-executive chairman (FY2017 \$225,000);
- \$105,000 to each other non-executive director (FY2017 \$105,000); and
- an additional \$20,000 to the chair of each standing committee of the Board (FY2017 \$20,000).

The increase in the non-executive chairman's fees in FY2018 reflected an adjustment toward market levels.

A breakdown of non-executive director remuneration for FY2018 follows:

	Cash fees \$'000	Superannuation \$'000	Total fees \$'000
Linda Bardo Nicholls AO (Chairman)	228	22	250
David Blight	114	11	125
JoAnne Stephenson	114	11	125
Richard England	114	11	125
	570	55	625

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2018

## 16.6 Linking remuneration and performance

### 16.6.1 Executives

Executive remuneration arrangements are in part designed to incentivise senior management to deliver improved earnings and shareholder return outcomes. The Board considers a range of financial and non-financial performance metrics when setting and assessing executive remuneration incentives, which take into consideration such outcomes. The following table summarises earnings and shareholder return metrics for the Group since its listing on the Australian Securities Exchange in April 2014:

Financial measure	FY2018	FY2017	FY2016	FY2015
EBITDA (\$'000)	50,653	60,160	56,102	50,590
NPAT (\$'000)	23,327	29,712	30,375	28,839
EPS (cents)	8.78	11.22	11.54	10.97
Dividends per share (cents)	7.75	11.25	11.50	11.00
Year end share price (\$)	1.81	2.10	2.55	2.57

The Group's financial performance since 2014, measured in terms of earnings and shareholder returns, has been relatively flat or declining. This performance has been significantly impacted by external factors affecting the residential aged care sector including changing regulations and uncertainty of funding. As a result, despite the best efforts of the Executives, it has proved difficult to improve financial performance over recent years.

Following is a table of historical incentive outcomes for executives since FY2015:

	FY2018	FY2017		FY2016		FY2015	
	Incentive <sup>1</sup> forfeited / awarded %	STI forfeited <sup>2</sup> / awarded %	LTI forfeited / awarded %	STI forfeited / awarded %	LTI forfeited / awarded %	STI forfeited <sup>2</sup> / awarded %	LTI forfeited / awarded %
CEO	100 / 0	100 / 0	100 / 0	5 / 95 \$457,000 <sup>3</sup>	100 / 0	100 / 0	100 / 0
CFO <sup>4</sup>	100 / 0	100 / 0	100 / 0	10 / 90 \$225,000 <sup>3</sup>	100 / 0	n/a	n/a

1. New single incentive arrangement in place. Separate STI & LTI arrangements existed pre FY2018.
2. Incentive fully forfeited due to insufficient excess earnings to fund STI payments.
3. Amount of STI received.
4. CFO was appointed on 22 June 2015.

The Board believes that the Group's remuneration policy, as modified in FY2018, continues to be appropriate having regard to the Group's strategy and operating environment and is based on a balanced approach, avoiding under and over rewarding executives for their contributions on an individual and collective basis.

### 16.6.2 Non-executive directors

The Board considers comparator group benchmarking as well as the Group's historical earnings and shareholder outcomes when determining non-executive director remuneration levels. Such factors are balanced against the need to remain competitive on remuneration to attract and retain suitably skilled and experienced directors.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

### For the year ended 30 June 2018

#### 16.7 Other statutory disclosures

#### 16.7.1 Total executive remuneration

The remuneration of executives calculated in accordance with applicable accounting standards for FY2018 follows:

	Short-term benefits		Post-employment benefits				Performance based ('at risk')			
	Salary paid	Non-monetary benefits paid	Superannuation benefits paid	Annual leave entitlements accrued	Long-service leave entitlements accrued	Total fixed remuneration	Payable in cash <sup>1</sup>	Payable in cash deferred for 12 months	Share-based payments accrued <sup>2</sup>	Total fixed and performance based remuneration
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Andrew Sudholz (CEO)</b>										
<b>FY2018</b>	<b>890</b>	<b>15</b>	<b>25</b>	<b>68</b>	<b>14</b>	<b>1,012</b>	-	-	-	<b>1,012</b>
FY2017	777	14	36	68	20	915	100	-	(83)	932
<b>Chris Price (CFO)</b>										
<b>FY2018</b>	<b>443</b>	<b>15</b>	<b>46</b>	<b>36</b>	<b>6</b>	<b>546</b>	-	-	-	<b>546</b>
FY2017	470	14	46	36	-	566	50	-	(43)	573
<b>FY2018</b>	<b>1,333</b>	<b>30</b>	<b>71</b>	<b>104</b>	<b>20</b>	<b>1,558</b>	-	-	-	<b>1,558</b>
FY2017	1,247	28	82	104	20	1,481	150	-	(126)	1,505

1. Includes once only ex-gratia payments for FY2017.

2. Calculated using the Black-Scholes valuation methodology in accordance with AASB 2 *Share-based payments* (see Note C3 to the Company's 2018 Financial Statements).

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

#### Remuneration report (continued)

For the year ended 30 June 2018

#### 16.7.1 Total executive remuneration (continued)

Details of the remuneration of executives, prepared in accordance with statutory obligations and accounting standards, are set out in the preceding table (**Executive Remuneration Table**).

The key difference between executive remuneration amounts presented in section 16.3 of this report and the Executive Remuneration Table is that the former shows actual entitlements received during a year and the latter requires that the movement in leave provisions and forfeited LTI be recognised in the financial statements as part of the executives' employee benefit expense. A reconciliation between the two tables is set out below:

	Total fixed and performance based remuneration received by executives <sup>1</sup> \$'000	Reconciliation to statutory total fixed and performance based remuneration for executives		
		Movement in leave provisions \$'000	Forfeited LTI <sup>2</sup> \$'000	Total fixed and performance based remuneration statutory \$'000
<b>Andrew Sudholz (CEO)</b>				
FY2018	1,005	7	-	1,012
FY2017	1,105	(90)	(83)	932
<b>Chris Price (CFO)</b>				
FY2018	540	6	-	546
FY2017	590	26	(43)	573

1. Reflects fixed remuneration paid, performance based incentive awarded and LTI granted (pre FY2018).

2. LTI granted pre FY2018 which did not vest.

#### 16.7.2 Total non-executive director remuneration

Non-executive director remuneration included within employee benefits expense in the Statement of Profit or Loss and Other Comprehensive Income for FY2018 follows:

	Short-term benefits		Post-employment benefits	Total fees \$'000
	Fees paid \$'000	Non-monetary benefits paid \$'000	Superannuation benefits paid \$'000	
<b>Linda Bardo Nicholls AO (Chairman)</b>				
FY2018	228	-	22	250
FY2017	206	-	19	225
<b>David Blight</b>				
FY2018	114	-	11	125
FY2017	114	-	11	125
<b>JoAnne Stephenson (appointed 1 September 2015)</b>				
FY2018	114	-	11	125
FY2017	114	-	11	125
<b>Richard England</b>				
FY2018	114	-	11	125
FY2017	114	-	11	125
<b>FY2018</b>	<b>570</b>	<b>-</b>	<b>55</b>	<b>625</b>
<b>FY2017</b>	<b>548</b>	<b>-</b>	<b>52</b>	<b>600</b>

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

Remuneration report (continued)

For the year ended 30 June 2018

#### 16.7.3 KMP shareholdings in the Company

The movement during the year in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each KMP, including their related parties, follows:

	Held at 1 July 2017	Acquired during FY2018	Sold during FY2018	Held at 30 June 2018	Nominally held at 30 June 2018
	No. of shares	No. of shares <sup>1</sup>	No. of shares	No. of shares	No. of shares
<b>Executives</b>					
Andrew Sudholz (CEO)	15,757,009	2,997	-	15,760,006	15,760,006
Chris Price (CFO)	-	-	-	-	-
<b>Non-executive directors</b>					
Linda Bardo Nicholls AO	122,787	6,327	-	129,114	112,397
David Blight	90,000	-	-	90,000	90,000
JoAnne Stephenson	11,928	-	-	11,928	-
Richard England	54,009	-	-	54,009	25,000

1. Includes shares issued under the Company's dividend reinvestment plan.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

#### Remuneration report (continued)

For the year ended 30 June 2018

#### 16.7.4 Analysis of movements in equity instruments held by KMP

The movement during the year in the number of rights over ordinary shares in the Company held directly, indirectly or beneficially by each executive KMP, including their related parties, follows:

	Grant date	Vesting date	Held at 1 July 2017 No. of rights <sup>1</sup>	Granted No. of rights	Exercised No. of rights	Forfeited No. of rights <sup>2</sup>	Held at 30 June 2018 No. of rights	Vested during FY2018 No. of rights	Vested and exercisable at 30 June 2018 No. of rights
Andrew Sudholz (CEO)	29/02/16	30/06/18	365,779	-	-	(365,779)	-	-	-
Chris Price (CFO)	29/02/16	30/06/18	190,114	-	-	(190,114)	-	-	-

1. All rights are for ordinary shares of the Company, which are exercisable on a one-for-one basis. They are performance rights granted under the Company's EIP.
2. Rights were forfeited due to the vesting conditions not being met.

Non-executive directors are not entitled to rights over ordinary shares in the Company and therefore have not been included in the above table.

## **Statement of Profit or Loss and Other Comprehensive Income**

**For the Year Ended 30 June 2018**

		<b>2018</b>	<b>2017</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue	B2	<b>361,523</b>	353,998
Other income	B2	<b>11,665</b>	8,195
<b>Total revenue and other income</b>		<b>373,188</b>	362,193
Employee benefits expense	C1	<b>(258,967)</b>	(246,734)
Resident costs		<b>(31,874)</b>	(27,775)
Occupancy costs		<b>(21,284)</b>	(16,791)
Depreciation and amortisation expense	E1	<b>(17,150)</b>	(14,255)
Administrative expenses		<b>(10,410)</b>	(10,733)
<b>Earnings before interest and tax</b>		<b>33,503</b>	45,905
Finance income		<b>678</b>	629
Finance costs	B3	<b>(4,495)</b>	(3,933)
<b>Profit before income tax</b>		<b>29,686</b>	42,601
Income tax expense	B5	<b>(6,359)</b>	(12,889)
<b>Profit for the year</b>		<b>23,327</b>	29,712
Other comprehensive income, net of income tax		-	-
<b>Total comprehensive income for the year</b>		<b>23,327</b>	29,712
<b>Profit attributable to members of the Group</b>		<b>23,327</b>	29,712
<b>Total comprehensive income attributable to members of the Group</b>		<b>23,327</b>	29,712
<b>Earnings per share</b>			
Basic earnings per share (cents)	B4	<b>8.78</b>	11.22
Diluted earnings per share (cents)	B4	<b>8.76</b>	11.18

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Statement of Financial Position

As at 30 June 2018

		2018	2017
	Note	\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	F4	29,158	41,376
Trade and other receivables		9,356	15,838
Current tax receivable	B5	2,629	1,162
Other assets		6,405	6,081
<b>Total current assets</b>		<b>47,548</b>	<b>64,457</b>
<b>Non-current assets</b>			
Trade and other receivables		1,834	2,222
Inventories		-	3,045
Non-current assets held for sale		1,728	1,477
Property, plant and equipment	E1	687,720	541,776
Investment property	E3	38,398	32,972
Deferred tax assets	B5	-	6,161
Intangible assets	E2	491,378	463,458
<b>Total non-current assets</b>		<b>1,221,058</b>	<b>1,051,111</b>
<b>TOTAL ASSETS</b>		<b>1,268,606</b>	<b>1,115,568</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	D1	38,570	18,876
Other liabilities		3,650	11,541
Borrowings	F5	21,000	4,600
Other financial liabilities	F6	509,348	453,103
Employee provisions	C2	33,456	31,338
<b>Total current liabilities</b>		<b>606,024</b>	<b>519,458</b>
<b>Non-current liabilities</b>			
Borrowings	F5	124,500	56,400
Deferred tax liabilities	B5	563	-
Employee provisions	C2	3,741	3,996
<b>Total non-current liabilities</b>		<b>128,804</b>	<b>60,396</b>
<b>TOTAL LIABILITIES</b>		<b>734,828</b>	<b>579,854</b>
<b>NET ASSETS</b>		<b>533,778</b>	<b>535,714</b>
<b>EQUITY</b>			
Issued capital	F8	522,962	522,328
Retained earnings		10,816	13,386
<b>TOTAL EQUITY</b>		<b>533,778</b>	<b>535,714</b>

The accompanying notes form part of these financial statements.



## Statement of Changes in Equity

For the Year Ended 30 June 2018

2018

	Issued capital \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2017</b>	<b>522,328</b>	<b>13,386</b>	<b>535,714</b>
<b>Comprehensive income</b>			
Profit attributable to members of the Group	-	23,327	23,327
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>23,327</b>	<b>23,327</b>
<b>Transactions with owners of the Company</b>			
Shares issued during the year	634	-	634
Dividends	-	(25,897)	(25,897)
<b>Total transactions with owners of the Company</b>	<b>634</b>	<b>(25,897)</b>	<b>(25,263)</b>
<b>Balance at 30 June 2018</b>	<b>522,962</b>	<b>10,816</b>	<b>533,778</b>

2017

	Issued capital \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2016</b>	<b>518,732</b>	<b>13,573</b>	<b>532,305</b>
<b>Comprehensive income</b>			
Profit attributable to members of the Group	-	29,712	29,712
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>29,712</b>	<b>29,712</b>
<b>Transactions with owners of the Company</b>			
Shares issued during the year	3,596	-	3,596
Dividends	-	(29,743)	(29,743)
Equity settled share-based payment	-	(156)	(156)
<b>Total transactions with owners of the Company</b>	<b>3,596</b>	<b>(29,899)</b>	<b>(26,303)</b>
<b>Balance at 30 June 2017</b>	<b>522,328</b>	<b>13,386</b>	<b>535,714</b>

## Statement of Cash Flows

### For the Year Ended 30 June 2018

		2018	2017
	Note	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		361,250	350,544
Payments to suppliers and employees		(315,824)	(306,726)
Income taxes paid		(6,342)	(8,952)
Interest received		674	644
Finance costs paid		(4,263)	(3,710)
<b>Net cash provided by operating activities</b>	I5	<u>35,495</u>	<u>31,800</u>
<b>Cash flows from investing activities</b>			
Purchase of land and buildings		(19,626)	(7,785)
Proceeds from sale of land and buildings		313	9,770
Purchase of plant and equipment		(10,158)	(6,386)
Capital works in progress		(78,753)	(36,250)
Proceeds from sale of surplus resident places		-	3,586
Purchase of aged care businesses	G5	(40,317)	-
Deferred settlement payment for aged care business		-	(9,000)
<b>Net cash used by investing activities</b>		<u>(148,541)</u>	<u>(46,065)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		634	3,596
Dividends paid	F8(b)	(25,897)	(29,743)
Net proceeds from bank borrowings	F5(a)	84,500	1,500
Proceeds from RADs & ILU resident loans		190,185	187,664
Repayment of RADs/accommodation bonds & ILU resident loans		(148,594)	(131,944)
<b>Net cash provided by financing activities</b>		<u>100,828</u>	<u>31,073</u>
<b>Net increase/(decrease) in cash and cash equivalents held</b>		<u>(12,218)</u>	<u>16,808</u>
Cash and cash equivalents at beginning of the year		41,376	24,568
<b>Cash and cash equivalents at end of the year</b>	F4	<u>29,158</u>	<u>41,376</u>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **A About this Report**

#### **A1 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 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 provides residential aged care services throughout Australia (see note B1).

#### **A2 Basis of accounting**

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards 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.

The Group's current liabilities exceed its current assets by \$558,476,000 as at 30 June 2018 (2017: \$455,001,000). This mainly arises because of the requirement to classify obligations relating to refundable accommodation deposits ("RADs"), accommodation bonds and independent living unit ("ILU") resident loans of \$509,348,000 (2017: \$453,103,000) as current liabilities (refer note F6 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 F3(b) 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 RADs and accommodation bonds that are expected to fall due within the next twelve months.

The financial statements were authorised for issue by the Board of Directors on 27 August 2018. Details of the Group's accounting policies are included in their respective notes.

#### **A3 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 26 March 2016 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

#### **A4 Use of estimates and judgements**

In preparing these Financial Statements, management has made estimates, judgements 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.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **A About this Report (continued)**

#### **A4 Use of estimates and judgements (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 (refer below).

The Group's 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 Group's 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 are 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.

Information about estimates, judgements and assumptions that affect the application of the Group's accounting policies within the year ended 30 June 2018 are included in the following notes:

- Note C3 – Share-based payment arrangements: Measurement of fair value;
- Note E2 – Impairment review: Calculation of value-in-use;
- Note E3 – Investment property: Measurement of fair values; and
- Note F2 – Financial instruments: Measurement of fair values.

### **B Business Performance**

#### **B1 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.

#### **B2 Revenue and other income**

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 Federal Government care and accommodation funding and resident fees, the majority of which are determined in accordance with Federal Government authorised rates. These fees are regulated by the Federal Government and are accrued by the Group during the resident's period of occupancy. Revenue from the rendering of a

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### B Business Performance (continued)

#### B2 Revenue and other income (continued)

service or supply of a good is recognised upon the delivery of the service or good to the resident.

Finance income is accrued daily, based on the principal amount and prevailing interest rate.

All revenue is stated net of the amount of GST.

(a) Reconciliation of revenue and other income

		2018	2017
	Note	\$'000	\$'000
<b>Revenue</b>			
Government care and accommodation funding		262,981	253,796
Resident fees		98,542	100,202
<b>Total revenue</b>		<b>361,523</b>	<b>353,998</b>
<b>Other income</b>			
Increase in fair value of investment property	E3(a)	1,743	1,200
Net gain on acquisition	G5	9,568	-
Gain on disposal of non-current assets		40	6,680
Other income		314	315
<b>Total other income</b>		<b>11,665</b>	<b>8,195</b>

#### B3 Expenses

Expenses are recognised in accordance with the basis of accounting outlined in note A2.

Finance costs and staff 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 or sale.

All other financing costs and staff costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they are incurred.

(a) Reconciliation of other expenses and finance costs

	2018	2017
	\$'000	\$'000
<b>Finance costs</b>		
Loan establishment fees	258	258
Loan interest expense	2,262	1,796
RAD/accommodation bond settlement interest expense	1,975	1,712
Increase in fair value of Independent Living Unit liability	-	167
<b>Total finance costs</b>	<b>4,495</b>	<b>3,933</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **B Business Performance (continued)**

#### **B4 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 on issue 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 on issue for the effect of dilutive ordinary shares.

(a) Calculation of earnings per share

(i) Profit attributable to ordinary shareholders

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit for the year attributable to ordinary shareholders</b>	<b>23,327</b>	<b>29,712</b>

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

	<b>2018</b>	<b>2017</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	<b>265,713,146</b>	264,726,342
Weighted average number of dilutive rights outstanding	<b>633,885</b>	1,124,143
<b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b>	<b>266,347,031</b>	<b>265,850,485</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### B Business Performance (continued)

#### B5 Income tax expense

The charge for current income tax expense is based on the profit or loss for the year adjusted for any non-assessable 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 arise where amounts have been fully expensed for accounting purposes 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 head of the tax consolidated Group.

(a) The major components of tax expense comprise:

	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
Current tax expense	B5(e)	4,501	8,547
Deferred tax expense		1,483	4,313
Under provision in respect of prior years		375	29
<b>Income tax expense</b>		<b>6,359</b>	<b>12,889</b>

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

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before income tax	29,686	42,601
Prima facie tax on profit at the statutory tax rate of 30% (2017: 30%)	8,906	12,780
<b>Add/(less):</b>		
<b>Tax effect of:</b>		
- non-deductible tax expenses	70	80
- under provision of income tax in respect of prior years	375	29
- gain on acquisition - non-taxable	(2,992)	-
<b>Income tax expense</b>	<b>6,359</b>	<b>12,889</b>
 Weighted average effective tax rate	 21%	 30%

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **B Business Performance (continued)**

#### **B5 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*

The Group formed a tax consolidated Group which commenced on 16 April 2014.

*Relevance of tax consolidation to the Company*

The Company 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 the Company as an intercompany payable or receivable with the subsidiary.

##### (e) Gross movements in current tax receivable

		<b>2018</b>	<b>2017</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
The overall movement in current tax receivable is as follows:			
Opening balance		<b>1,162</b>	787
Income tax payable charged to profit or loss	B5(a)	<b>(4,501)</b>	(8,547)
Income tax amounts paid during the year		<b>8,458</b>	10,720
Income tax amounts received during the year		<b>(2,115)</b>	(1,769)
Under provision of income tax in respect of prior years		<b>(375)</b>	(29)
<b>Closing balance</b>		<b>2,629</b>	1,162



## Notes to the Financial Statements

For the Year Ended 30 June 2018

### B Business Performance (continued)

#### B5 Income tax expense (continued)

(f) Deferred tax assets/(liabilities)

	Opening balance \$'000	Charged to income \$'000	Charged directly to equity \$'000	Business combinations \$'000	Closing balance \$'000
<b>2018</b>					
Provisions	10,769	676	-	511	11,956
Deferred legal costs	155	(56)	-	-	99
Sundry creditors and accruals	885	117	-	-	1,002
ILU resident loans	452	-	-	-	452
Deferred equity raising costs	1,018	(1,169)	-	-	(151)
Property, plant and equipment	(5,873)	(978)	-	(5,752)	(12,603)
Deferred management fee receivable	(1,245)	(73)	-	-	(1,318)
	<b>6,161</b>	<b>(1,483)</b>	<b>-</b>	<b>(5,241)</b>	<b>(563)</b>
<b>2017</b>					
Provisions	10,600	169	-	-	10,769
Deferred borrowing costs	112	(112)	-	-	-
Deferred legal costs	281	(126)	-	-	155
Sundry creditors and accruals	605	280	-	-	885
ILU resident loans	452	-	-	-	452
Deferred equity raising costs	3,097	(2,084)	5	-	1,018
Property, plant and equipment	(3,541)	(2,332)	-	-	(5,873)
Capital works in progress (interest expense)	(140)	140	-	-	-
Deferred management fee receivable	(997)	(248)	-	-	(1,245)
	<b>10,469</b>	<b>(4,313)</b>	<b>5</b>	<b>-</b>	<b>6,161</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **C Employee Remuneration**

#### **C1 Employee benefits expense**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Wages and leave expenses	<b>215,566</b>	204,013
Superannuation contributions	<b>19,747</b>	19,013
Payroll tax expense	<b>11,723</b>	11,106
Agency staff costs	<b>3,716</b>	4,798
Workcover expense	<b>6,981</b>	6,580
Share-based payment expense	-	(156)
Other staff costs	<b>1,234</b>	1,380
<b>Total employee benefits expense</b>	<b>258,967</b>	246,734

#### **C2 Employee 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.

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.

##### **(a) Reconciliation of employee provisions**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Provision for annual leave	<b>20,545</b>	20,136
Provision for long service leave	<b>12,911</b>	11,202
	<b>33,456</b>	31,338
<b>Non-current</b>		
Provision for long service leave	<b>3,741</b>	3,996

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **C Employee Remuneration (continued)**

#### **C3 Share-based payment arrangements**

The grant-date fair value of equity-settled share-based payment awards granted to employees of the Group 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.

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

During the year ended 30 June 2018, the Group had the following share-based payment arrangements:

##### **(i) Rights Plan**

The Company's Rights Plan is an historical plan under which participating eligible employees of the Group were provided with performance rights. There were 633,885 performance rights on issue at the beginning of the year under the Rights Plan. These were forfeited and cancelled during the year under their grant terms.

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

	<b>Rights Plan</b>		<b>Total</b>	
	<b>Number of rights 2018</b>	<b>Number of rights 2017</b>	<b>Number of rights 2018</b>	<b>Number of rights 2017</b>
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>
Outstanding at the beginning of the year	<b>634</b>	684	<b>634</b>	684
Granted during the year	-	747	-	747
Forfeited during the year	<b>(634)</b>	(797)	<b>(634)</b>	(797)
Exercised during the year	-	-	-	-
<b>Total</b>	-	634	-	634

No outstanding rights were exercisable at the reporting date (2017: Nil). The weighted average exercise price for rights outstanding at 30 June 2018 was \$Nil (2017: \$Nil).

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **C Employee Remuneration (continued)**

#### **C4 Key management personnel**

Key management personnel remuneration included within the Financial Statements for the year is shown below:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Short-term employee benefits	<b>1,903</b>	2,178
Post employment benefits	<b>126</b>	146
Other short-term benefits	<b>134</b>	166
Other long-term benefits	<b>20</b>	22
Share-based payments	<b>-</b>	(126)
<b>Total</b>	<b>2,183</b>	<b>2,386</b>

### **D Trade and Other Payables**

#### **D1 Trade and other payables**

Trade and other payables included within the Financial Statements for the year is shown below:

##### **CURRENT**

Trade payables - operational	<b>9,880</b>	6,106
Trade payables - capital works in progress	<b>6,118</b>	1,549
Accrued wages	<b>5,466</b>	4,587
Accrued capital works in progress	<b>5,926</b>	2,256
Accrued expenses	<b>7,560</b>	4,378
Provision for building remedial works	<b>3,620</b>	-
	<b>38,570</b>	<b>18,876</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **E Asset Management**

#### **E1 Property, plant and equipment**

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

The carrying amount of property, plant and equipment is reviewed annually by the Company's 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 repairs and maintenance costs are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial year in which they are incurred.

#### **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 shown below:

<b>Fixed asset class</b>	<b>Depreciation rate</b>
Freehold land	0.0%
Buildings	2.0%
Plant and equipment	4.0% to 25.0%
Motor vehicles	20%
Property improvements	2.0% to 25.0%

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.

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### E Asset Management (continued)

#### E1 Property, plant and equipment (continued)

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

	Land and Buildings \$'000	Property Improvements \$'000	Plant and Equipment \$'000	Motor Vehicles \$'000	Capital Works in Progress \$'000	Total \$'000
<b>Consolidated</b>						
<b>Year ended 30 June 2018</b>						
Balance at the beginning of the year	474,662	6,139	28,618	92	32,265	541,776
Additions	20,648	179	9,978	21	87,848	118,674
Additions through business combinations	33,470	-	888	-	11,200	45,558
Transfers to investment property	(561)	-	-	-	(77)	(638)
Transfers from capital works in progress	24,687	-	-	-	(24,687)	-
Transfers to assets held for sale	(500)	-	-	-	-	(500)
Depreciation expense	(9,821)	(1,133)	(6,167)	(29)	-	(17,150)
<b>Balance at the end of the year</b>	<b>542,585</b>	<b>5,185</b>	<b>33,317</b>	<b>84</b>	<b>106,549</b>	<b>687,720</b>
<b>Year ended 30 June 2017</b>						
Balance at the beginning of the year	441,791	6,261	21,048	92	43,867	513,059
Additions	6,855	294	6,053	42	37,293	50,537
Disposals - written down value	(4,516)	(4)	-	-	-	(4,520)
Transfers from capital works in progress	41,273	-	6,605	-	(47,878)	-
Transfers to inventories	(2,028)	-	-	-	(1,017)	(3,045)
Depreciation expense	(8,713)	(412)	(5,088)	(42)	-	(14,255)
<b>Balance at the end of the year</b>	<b>474,662</b>	<b>6,139</b>	<b>28,618</b>	<b>92</b>	<b>32,265</b>	<b>541,776</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **E Asset Management (continued)**

#### **E1 Property, plant and equipment (continued)**

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

Capital expenditure incurred in the course of development activities are carried at cost, less any recognised impairment loss. Cost includes construction costs, 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 land and buildings or property improvements.

During the year, the Group completed construction of the Riverside Views aged care home in Tasmania; and the significant refurbishment at the Noosa aged care home in Queensland. Costs totalling \$24,687,000 were reclassified from capital works in progress to land and buildings upon completion of construction of these homes.

#### **E2 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.

##### **Resident places**

Resident places are issued by the Federal Government to Approved Providers and can also be purchased and transferred from third parties with approval from the Department of Health. Resident places are stated at cost or fair value at acquisition less any accumulated impairment losses. The resident places are not amortised as the Company's directors, based on current Government regulations, believe that they have a long indeterminate life and are not expected to diminish in value over time. Accordingly, no 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.

##### **Impairment review 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 Cash Generating Units ("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 of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a post-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; then to reduce the carrying amount of resident places in 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.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### E Asset Management (continued)

#### E2 Intangible assets (continued)

(a) Movements in carrying amounts of intangible assets

	Goodwill \$'000	Resident places \$'000	Total \$'000
<b>Year ended 30 June 2018</b>			
Balance at the beginning of the year	260,746	202,712	463,458
Additions through business combinations	-	27,920	27,920
<b>Closing value at 30 June 2018</b>	<b>260,746</b>	<b>230,632</b>	<b>491,378</b>
<b>Year ended 30 June 2017</b>			
Balance at the beginning of the year	260,746	204,806	465,552
Additions at cost	-	216	216
Disposals	-	(2,310)	(2,310)
<b>Closing value at 30 June 2017</b>	<b>260,746</b>	<b>202,712</b>	<b>463,458</b>

Use of estimates and judgements

Impairment review: Calculation of value-in-use

For the purpose of impairment testing of intangible assets with an indefinite useful life the Group has identified one CGU; this is consistent with the operating segment identified in note B1.

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 8.40% (2017: 8.48%) 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 2.50% (2017: 2.50%), consistent with an assumption a market participant would make.

Budgeted earnings before interest, tax, depreciation and amortisation ("EBITDA") was based upon expectation of future outcomes taking into account past experience, adjusted for anticipated revenue growth and occupancy rates.

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.

	2018 %	2017 %
Change in discount rate	1.43	1.92
Change in long-term growth rate	(1.85)	(2.52)



## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **E Asset Management (continued)**

#### **E3 Investment property**

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

##### **(a) Reconciliation of carrying amount**

Investment property comprises Independent Living Units ("ILUs") located across five retirement villages and land to be developed as retirement villages or held for capital appreciation. Four retirement villages are subject to loan licence agreements which confer the right to occupy 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>2018</b>	<b>2017</b>
<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	<b>32,972</b>	31,669
Additions resulting from capitalised expenditure	-	103
Transfers from inventories	<b>3,683</b>	-
Fair value adjustments	B2(a) <b>1,743</b>	1,200
<b>Balance at end of year</b>	<b>38,398</b>	<b>32,972</b>

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

##### **Investment property: Measurement of fair value**

The fair value of investment property of \$38,398,000 (2017: \$32,972,000) has been categorised as Level 3 based on the inputs to the valuation technique used (see note A4).

Due to the low 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.

### **F Capital structure and financing**

#### **F1 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 of both.

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 F3.

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 homes (funded via equity, borrowings, RAD inflows, operating cash flows or any combination of these, as appropriate).

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **F Capital structure and financing (continued)**

#### **F1 Capital management (continued)**

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

#### **F2 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 item 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 the Statement of Profit or Loss and Other Comprehensive Income 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 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 asset's original effective interest rate.

Impairment on loans and receivables is reduced through the use of a provision account, 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 the relevant expense 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

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **F Capital structure and financing (continued)**

#### **F2 Financial instruments (continued)**

Comprehensive Income.

Use of estimates and judgements

Financial instruments: Measurement of fair value

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 provision 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 provision account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the provision 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.

#### **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.

#### **(a) Financial instruments material to the financial statements**

The following financial instruments are material to the financial statements:

- Note F4 - Cash and cash equivalents;
- Note F5 - Borrowings; and
- Note F6 - Other financial liabilities.

The carrying amounts of financial assets and financial liabilities are a reasonable approximation of fair value.

#### **F3 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 material derivative financial instruments at reporting 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 Company, 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

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### F Capital structure and financing (continued)

#### F3 Financial risk management (continued)

regulations. Information is reported to all relevant parties within the Group on a regular basis including key management personnel, the Company's directors, the Audit, Risk and Compliance Committee and the Zero Harm Committee. Risk management policies are reviewed by the Audit, Risk and Compliance Committee, and approved by the Company's directors on a regular basis.

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

	Weighted average effective interest rate	Floating interest rate	Maturing within one year	Maturing after one year	Non-interest bearing	Total
2018	%	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Cash and cash equivalents	1.15	29,158	-	-	-	29,158
Receivables	-	-	-	-	11,058	11,058
<b>Total financial assets</b>		<b>29,158</b>	<b>-</b>	<b>-</b>	<b>11,058</b>	<b>40,216</b>
<b>Financial liabilities</b>						
Accruals	-	-	-	-	(22,572)	(22,572)
Trade and other payables	-	-	-	-	(19,614)	(19,614)
RADs/bonds and ILU loans	-	-	-	-	(441,376)	(441,376)
RADs/bonds (departed residents)	3.75	-	(45,593)	-	-	(45,593)
Bank loans	3.10	-	(21,000)	(124,500)	-	(145,500)
<b>Total financial liabilities</b>		<b>-</b>	<b>(66,593)</b>	<b>(124,500)</b>	<b>(483,562)</b>	<b>(674,655)</b>
<b>2017</b>						
<b>Financial assets</b>						
Cash and cash equivalents	1.68	41,376	-	-	-	41,376
Receivables	-	-	-	-	18,060	18,060
<b>Total financial assets</b>		<b>41,376</b>	<b>-</b>	<b>-</b>	<b>18,060</b>	<b>59,436</b>
<b>Financial liabilities</b>						
Accruals	-	-	-	-	(11,221)	(11,221)
Trade and other payables	-	-	-	-	(10,993)	(10,993)
RADs/bonds and ILU loans	-	-	-	-	(407,436)	(407,436)
RADs/bonds (departed residents)	3.75	-	(45,667)	-	-	(45,667)
Bank loans	3.18	-	(4,600)	(56,400)	-	(61,000)
<b>Total financial liabilities</b>		<b>-</b>	<b>(50,267)</b>	<b>(56,400)</b>	<b>(429,650)</b>	<b>(536,317)</b>

#### (a) 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 non-related party receivable or group of non-related party receivables under financial instruments entered into by the Group. The Group has identified that

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### F Capital structure and financing (continued)

#### F3 Financial risk management (continued)

##### (a) Credit risk (continued)

its single largest customer is the Commonwealth Department of Health 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 Health calculations of balancing funding amounts. The Group has determined that any credit risk associated with the Department of Health is insignificant. In respect of other customers, mainly being aged care residents, the Group monitors the level of receivables balances on an ongoing 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. The figures below take into account the fact that approximately \$1,915,000 (2017: \$1,948,000) 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 because of the ability to offset any outstanding receivable against the RAD/accommodation bond balance; however a provision for doubtful debts has been raised in the financial statements which at reporting date is \$677,000 (2017: \$406,000).

At 30 June 2018, the ageing analysis of resident debtors is as follows:

	Current	31 - 60 days	61 - 90 days	91+ days	Impaired	Total
<b>Year</b>						
<b>2018 (\$'000)</b>	<b>751</b>	<b>931</b>	<b>358</b>	<b>2,512</b>	<b>(677)</b>	<b>3,875</b>
<b>2018 (%)</b>	<b>19</b>	<b>24</b>	<b>9</b>	<b>65</b>	<b>(17)</b>	<b>100</b>
 2017 (\$'000)	 457	 1,320	 709	 2,959	 (406)	 5,039
2017 (%)	9	26	14	59	(8)	100

##### (b) 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 Fees and Payments Principles 2014 (No. 2) as required under the Aged Care Act 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 to be refunded 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 an aged care home and therefore classified under "current liabilities" in the Statement of Financial Position. However, on average, each resident occupies a place for approximately 26 months (2017: 24 months), resulting in approximately 46.2% (2017: 50.0%) of RADs and accommodation bonds being replaced in any 12 month period. In addition, any RAD or accommodation bond repayable 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.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### F Capital structure and financing (continued)

#### F3 Financial risk management (continued)

##### (c) 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 hedging interest rates or leaving them as floating rates in accordance with its interest rate hedging policy. As at 30 June 2018, the Group has bank borrowings of \$145,500,000 (2017: \$61,000,000).

The Group has hedging arrangements in place to further mitigate interest rate risk. The hedging instruments enforce a cap on the interest rate payable on \$70,000,000 of the Group's bank debt. The hedging arrangements are as follows:

	Notional Amount	Interest rate (BBSY)	Maturity date
Interest rate hedge cap 1	40,000,000	2.89%	10/01/2020
Interest rate hedge cap 2	30,000,000	3.50%	10/09/2020

##### 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 year, based on the floating rate financial assets held at 30 June 2018. The sensitivity has been calculated using a change in interest rates of 100 basis points (1.00%) increase and decrease.

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

	2018		2017	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) after tax	1,134	(1,134)	(457)	457
Equity	1,134	(1,134)	(457)	457

##### Price risk

The Group has assessed that it is materially exposed to the risk that the Federal Government, through the Department of Health, may alter the rate of funding provided to Approved Providers of residential aged care services. As Government funding represents approximately 73% (2017: 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, participate 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.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### F Capital structure and financing (continued)

#### F3 Financial risk management (continued)

##### (c) Market risk (continued)

##### 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 2018. 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 or 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:

	2018		2017	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) after tax	1,841	(1,841)	1,777	(1,777)
Equity	1,841	(1,841)	1,777	(1,777)

#### F4 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.

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 Group's liquidity management strategy. For more information on RAD/accommodation bond liabilities see note F6.

#### F5 Borrowings

	2018	2017
	\$'000	\$'000
<b>Current</b>		
Bank loans	21,000	4,600
<b>Total current borrowings</b>	<b>21,000</b>	<b>4,600</b>
<b>Non-current</b>		
Bank loans	124,500	56,400
<b>Total non-current borrowings</b>	<b>124,500</b>	<b>56,400</b>
<b>Total borrowings</b>	<b>145,500</b>	<b>61,000</b>

##### (a) Bank facility agreements

The Group has a Syndicated Facility Agreement and Multi-Option Facility Agreement (the "Bank Facilities"). These Bank Facilities allow for short to medium term funding of the Group's development program and provide access to bank funding for acquisitions, working capital, bank guarantees and credit facilities. The key features of the Bank Facilities are:

- An expiry date of 30 September 2020;
- A total available facility amount of \$220,000,000; and

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **F Capital structure and financing (continued)**

#### **F5 Borrowings (continued)**

##### **(a) Bank facility agreements (continued)**

- An accordion feature allowing the flexibility to increase the total available facility amounts during the term of the Bank Facilities.

The Bank Facilities are secured by mortgages over the freehold properties owned by the Group and charges over the businesses operated by the Group.

During the year, \$65,000,000 (2017: \$22,850,000) was drawn down to fund developments, \$34,500,000 (2017: \$Nil) was drawn down to fund acquisitions of aged care businesses and; \$15,000,000 (2017: \$21,350,000) was repaid. A total of \$145,500,000 (2017: \$61,000,000) was drawn down against the Bank Facilities as at the reporting date. Subsequent to this date, a further \$12,000,000 (2017: \$16,000,000) has been drawn down to fund developments and the Group's WorkCover and other insurance premiums; and \$5,000,000 has been repaid (2017: \$Nil).

#### **F6 Other financial liabilities**

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

RADs/accommodation bonds are non-interest bearing deposits made by some aged care residents to the Group upon admission. These deposits are liabilities which fall due and payable when the resident leaves the home. 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.

##### **Independent Living Unit ("ILU") Resident loan liabilities**

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 a 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.

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT</b>		
RADs/accommodation bonds	<b>486,969</b>	430,712
ILU resident loans	<b>22,379</b>	22,391
<b>Total</b>	<b>509,348</b>	453,103

##### **(a) RADs/Accommodation bonds**

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.



## Notes to the Financial Statements

For the Year Ended 30 June 2018

### F Capital structure and financing (continued)

#### F7 Reconciliation of liabilities arising from financing activities

	1 July 2017	Cash flows	Business combination	Other non-cash	30 June 2018
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial liabilities</b>					
Borrowings - current	4,600	16,400	-	-	21,000
Borrowings - non-current	56,400	68,100	-	-	124,500
Other financial liabilities	453,103	41,591	13,027	1,627	509,348
<b>Total</b>	<b>514,103</b>	<b>126,091</b>	<b>13,027</b>	<b>1,627</b>	<b>654,848</b>

#### F8 Issued capital

(a) Ordinary shares

	2018 No.	2017 No.
At the beginning of the reporting period	265,545,992	263,689,457
Issued during the period	341,517	1,856,535
<b>At the end of the reporting period</b>	<b>265,887,509</b>	<b>265,545,992</b>

#### Ordinary shares

Holders of these shares are entitled to dividends as determined 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.

During the year, the Company issued 341,517 (2017: 1,856,535) ordinary shares under its Dividend Reinvestment Plan.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **F Capital structure and financing (continued)**

#### **F8 Issued capital (continued)**

##### **(b) Dividends**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
The following dividends were determined and paid:		
2017 Final 70% franked ordinary dividend of 5.75 (2016: 5.75) cents per share	<b>15,268</b>	15,161
2018 Interim 65% franked ordinary dividend of 4.00 (2017: 5.50) cents per share	<b>10,629</b>	14,582
<b>Total</b>	<b>25,897</b>	29,743
Proposed 2018 Final 50% franked ordinary dividend of 3.75 (2017: 5.75) cents per share to be paid on 30 October 2018	<b>9,971</b>	15,268

The proposed final dividend for 2018 was determined 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 2018.

#### **Franking account**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
The franking credits available for subsequent financial years at a tax rate of 30%	<b>61</b>	1,261

The ability to use the franking credits is dependent upon the ability to determine and pay dividends. In accordance with the tax consolidation legislation, the Company as the head entity of the tax consolidated Group has also assumed the benefit of \$61,000 (2017: \$1,261,000) franking credits.

**Notes to the Financial Statements****For the Year Ended 30 June 2018****G Business Combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note E2). Any gain on acquisition is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

**G1 Riviera Health Portfolio**

Effective 1 April 2018, the Group acquired the Riviera Health residential aged care portfolio which consisted of:

- four aged care homes at Brighton-Le-Sands, Chatswood, Doonside and Wyong in New South Wales; all going concerns on freehold land;
- vacant freehold possession of a non-operational aged care home in Toukley, New South Wales;
- 4.3 hectares of development land in Wyong, New South Wales and;
- 507 bed licences, 210 of which are currently operational attaching to the above.

**G2 Consideration transferred**

The purchase price (net of RAD/accommodation bond liabilities, employee entitlements and settlement adjustments) for the Riviera Health portfolio was \$37,745,000, excluding acquisition costs. Of this net consideration, \$34,500,000 was drawn down under the Group's Bank Facility to fund the acquisition and \$3,245,000 funded from cash.

**G3 Identifiable assets and liabilities assumed**

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	<b>2018</b>
	<b>\$'000</b>
<b>Assets and liabilities acquired (at fair value):</b>	
Property, plant and equipment	45,558
Intangible assets - resident places	27,920
Other financial liabilities RADs / accommodation bonds	(13,027)
Provisions - employee entitlements	(1,705)
Provisions - property remedial works	(3,620)
Deferred tax liabilities	(5,241)
<b>Total net identifiable assets</b>	<b>49,885</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **G Business Combinations (continued)**

#### **G4 Use of estimates and judgement**

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.

##### *Intangible assets*

Intangible assets represent resident places valued by an independent expert.

#### **G5 Net gain on acquisition**

A gain 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:

	<b>Fair value</b>
	<b>\$'000</b>
<b>Net gain on acquisition</b>	
Fair value of identifiable net assets	49,885
Consideration	<u>(37,745)</u>
Gain on acquisition	12,140
Less acquisition-related costs	<u>(2,572)</u>
<b>Net gain on acquisition</b>	<b><u>9,568</u></b>

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### H Group structure

#### H1 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.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

#### (a) List of subsidiaries

Name of entity	Ownership	Equity holding 2018
Japara Holdings Pty Ltd	Direct	100%
Japara Property Holdings Pty Ltd	Direct	100%
Japara Aged Care Property Trust	Direct	100%
Japara Administration 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%
Japara Aged Care Services Pty Ltd	Indirect	100%
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%

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

# Notes to the Financial Statements

For the Year Ended 30 June 2018

## H Group structure (continued)

### H1 Subsidiaries (continued)

(a) List of subsidiaries (continued)

Name of entity	Ownership	Equity holding 2018
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 (Noosa) Pty Ltd	Indirect	100%
Aged Care Services 40 (Coffs Harbour) Pty Ltd	Indirect	100%
Aged Care Services 41 (South West Rocks) Pty Ltd	Indirect	100%
Aged Care Services 42 (Gympie) Pty Ltd	Indirect	100%
Aged Care Services 43 (Glen Waverley) Pty Ltd	Indirect	100%
Aged Care Services 44 (Rye) Pty Ltd	Indirect	100%
Aged Care Services 45 (Woodend) Pty Ltd	Indirect	100%
Aged Care Services 46 (Riverside) Pty Ltd	Indirect	100%
Japara Home Care Pty Ltd	Indirect	100%
Aged Care Services 48 Pty Ltd	Indirect	100%
Aged Care Services 49 Pty Ltd	Indirect	100%
Aged Care Services 50 Pty Ltd	Indirect	100%
Aged Care Services 51 Pty Ltd	Indirect	100%
Aged Care Services 52 Pty Ltd	Indirect	100%
Aged Care Services 53 Pty Ltd	Indirect	100%
Aged Care Services 54 Pty Ltd	Indirect	100%
Aged Care Services 55 Pty Ltd	Indirect	100%
Aged Care Services 56 Pty Ltd	Indirect	100%
Oakleigh Glen Pty. Ltd	Indirect	100%
Bacaal Pty Ltd	Indirect	100%
Japara Property Management Pty Ltd	Indirect	100%
Japara Developments 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%

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **H Group structure (continued)**

#### **H2 Deed of Cross-Guarantee**

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated 28 September 2016, the wholly-owned subsidiaries listed in note H1 are entitled to relief from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, Directors' reports and auditor's reports as they are part of a Closed Group as defined by the Corporations Act 2001.

Pursuant to the abovementioned legislative instrument, 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 and 24 June 2016. The effect of the Deed of Cross Guarantee 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 are the same as the financial statements for Japara Healthcare Limited and its controlled entities.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **H Group structure (continued)**

#### **H3 Parent entity**

As at, and throughout, the year ended 30 June 2018, the parent entity of the Group was Japara Healthcare Limited.

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Statement of Financial Position</b>		
<b>Assets</b>		
Current assets	<b>6,177</b>	3,435
Non-current assets	<b>685,913</b>	615,446
<b>Total Assets</b>	<b>692,090</b>	618,881
<b>Liabilities</b>		
Current liabilities	<b>22,176</b>	5,863
Non-current liabilities	<b>124,500</b>	56,400
<b>Total Liabilities</b>	<b>146,676</b>	62,263
<b>Equity</b>		
Issued capital	<b>522,962</b>	522,328
Retained earnings	<b>22,453</b>	34,290
<b>Total Equity</b>	<b>545,415</b>	556,618
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Total profit or loss for the year	<b>14,056</b>	27,588
<b>Total comprehensive income</b>	<b>14,056</b>	27,588

#### **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 entity subject to the deed are disclosed in note H2.

### **I Other Information**

#### **I1 Commitments**

As at the reporting date, the Group had entered into contracts relating to capital expenditure and is committed to incur:

- \$44,198,000 (2017: \$53,746,000) in relation to various construction contracts expected to be completed over the course of the next two years; and
- \$10,125,000 (2017: \$22,324,000) in relation to two land purchases expected to complete in FY2019.



## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **I Other Information (continued)**

#### **I2 Operating leases**

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.

##### **(a) Operating lease commitments**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	<b>2,245</b>	1,877
- between one year and five years	<b>4,839</b>	3,652
- later than five years	<b>654</b>	119
	<b>7,738</b>	5,648

The above amounts relate primarily to property leases for certain business premises of the Group which are non-cancellable leases with terms between 2 and 6 years, with rent payable monthly in advance.

#### **I3 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 totaling \$854,000 (2017: \$854,000). This is secured against the Multi-Option Facility Agreement (see note F5(a)). At the date of signing this financial report, the Company's directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented to the banks.

#### **I4 Subsequent events**

Other than mentioned elsewhere in the financial statements, 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 2018

### I Other Information (continued)

#### I5 Cash Flow Information

Reconciliation of result for the year to cashflows from operating activities:

		2018	2017
	Note	\$'000	\$'000
Profit for the year		23,327	29,712
Cash flows excluded from profit attributable to operating activities:			
- Equity raising costs		(7)	(16)
Non-cash flows in profit:			
- depreciation	E1	17,150	14,255
- gain on acquisition	G5	(12,140)	-
- straight lining of rental expense		(13)	8
- net profit on disposal of non-current assets		(40)	(6,680)
- non-cash movement in RADs/accommodation bonds		2,181	(3,224)
- deferred management fee income		(663)	(1,542)
- increase in fair value of investment property		(1,743)	(1,200)
- ILU loan finance charge		-	167
- equity settled share based payment transactions		-	(156)
Changes in assets and liabilities:			
- (increase)/decrease in trade and other receivables		4,658	(4,458)
- (increase)/decrease in other assets		(1,700)	2,592
- decrease in deferred tax assets		7,242	4,558
- decrease in trade and other payables		(836)	(3,054)
- increase in current tax receivables		(2,082)	(622)
- increase in provisions		161	1,460
<b>Net cash provided from operating activities</b>		<b>35,495</b>	<b>31,800</b>

#### I6 Remuneration of auditors

	2018	2017
	\$	\$
Audit and review services:		
- auditing or reviewing the financial statements	354,400	335,000
Other services:		
- taxation services	150,200	125,000
- due diligence services	113,100	-
- advisory services	81,300	40,750
<b>Total</b>	<b>699,000</b>	<b>500,750</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **I Other Information (continued)**

#### **17 New accounting standards adopted during the year**

During the year, there were no new standards adopted by the Group that represent a material impact on the consolidated financial statements.

#### **18 New accounting standards for application in future periods**

A number of new standards and amendments to the standards are effective for annual periods beginning after 1 July 2018. The Group has considered the impact of these changes and their application in the preparation of these consolidated financial statements.

<b>New/amended standard</b>	<b>Summary of requirements</b>	<b>Possible impact in consolidated financial statements</b>
AASB 15 - Revenue from contracts with customers	AASB 15 (effective for the financial year ended 30 June 2019) 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 Group has considered the impact of AASB 15 on the consolidated financial statements and determined that it will not have a material impact on the results.
AASB 16 - Leases	AASB 16 (effective for the financial year ended 30 June 2020) reforms are to be implemented around the change in accounting for leases whereby operating leases will be recorded on the balance sheet as a right to use asset and a corresponding financial liability, with a subsequent recording of amortisation and finance charges through profit or loss. Currently the expense relating to operating leases is only recognised in the Statement of Profit or Loss and Other Comprehensive Income as a rental expense.	The Group is in the process of considering the impact on the consolidated financial statements.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

### **I Other Information (continued)**

#### **I8 New accounting standards for application in future periods (continued)**

<b>New/amended standard</b>	<b>Summary of requirements</b>	<b>Possible impact in consolidated financial statements</b>
AASB 9 - Financial Instruments	<p>In AASB 9 (effective for the financial year ended 30 June 2019), 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.</p> <p>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.</p> <p>The guidance on hedge accounting in AASB 139 on impairment of financial assets continues to apply as long as hedge accounting provisions in AASB 2013-9 are not applied.</p>	<p>The Group has considered the impact of AASB 9 on the consolidated financial statements and determined that it will not have a material impact on the results.</p>

## **Directors' Declaration**

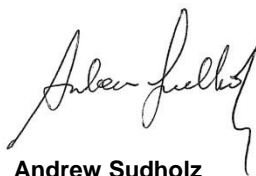
- 1 In the opinion of the directors of Japara Healthcare Limited ('the Company'):
  - (a) the consolidated financial statements and notes to the consolidated financial statements, set out on pages 37 to 74 and the Remuneration Report contained in section 16 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Company's financial position as at 30 June 2018 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 H2 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 Corporations (Wholly-owned Companies) Instrument 2016/785.
- 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 2018.
- 4 The directors draw attention to Note A2 to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 27 August 2018



**Linda Bardo Nicholls AO**  
Chairman



**Andrew Sudholz**  
CEO & Managing Director



# Independent Auditor's Report

To the shareholders of Japara Healthcare Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Japara Healthcare Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

### Key Audit Matters

The **Key Audit Matters** we identified are:

- Recoverable amount of goodwill and resident places
- Gain on purchase of Riviera facilities

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverable amount of goodwill and resident places (\$491 million)	
Refer to Note E2 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>The recoverable amount of goodwill and resident places is a Key Audit Matter due to:</p> <ul style="list-style-type: none"> <li>the size of the balance (being 39% of total assets); and</li> <li>the level of judgment required by us in evaluating the Group's assessment of recoverability as contained in their value in use model.</li> </ul> <p>We used a high degree of judgement to assess the Group's impairment testing. Specifically we considered:</p> <ul style="list-style-type: none"> <li>the forecast cash flows, in particular assumptions regarding occupancy and mix of resident care;</li> <li>the key assumptions in the Group's value in use model, including discount rates and growth rates; and</li> <li>the treatment of resident places intangible asset as an indefinite life intangible asset based on the potential Aged Care industry reforms.</li> </ul> <p>In addressing this key audit matter, we involved senior audit team members and valuation specialists, who collectively understand the Group's business, the Aged Care industry and the economic environment it operates in.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>Assessing the historical accuracy of forecasting by the Group to consider the accuracy of the forecasting process and to identify areas to focus on in the current year audit;</li> <li>Considering the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill and resident places for impairment against the requirements of the accounting standards;</li> <li>Challenging the Group's assumptions and forecast cash flows used in their value in use model, including occupancy, mix of resident care and growth rates by comparing to known market comparators and analysing industry trends. This also included the following procedures: <ul style="list-style-type: none"> <li>Comparing the forecast cash flows contained in the value in use model to Board approved forecasts;</li> <li>Checking the consistency of occupancy, mix of resident care and growth rates to the Group's strategy, past performance, and our experience regarding the feasibility of these in the economic environment in which they operate;</li> <li>Working with our Corporate Finance valuation specialists, we analysed the discount rates and terminal growth rates against publicly available data of a group of comparable entities.</li> </ul> </li> <li>Performing sensitivity analysis by varying key assumptions including occupancy rates, discount rates and growth rates, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application, and to focus our procedures;</li> <li>Assessing the Group's determination of resident places as indefinite life intangible assets against criteria contained in the relevant</li> </ul>

	<p>accounting standards. We did this by considering whether there were changes in characteristics of the resident places intangible asset from the previous year including the accreditation requirements and the impact of potential Aged Care industry reforms; and</p> <ul style="list-style-type: none"> <li>Assessing the disclosures in the financial report using our understanding of the key audit matter obtained from our testing and against the requirements of the accounting standards.</li> </ul>
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Net Gain on purchase of Riviera facilities (\$9.6 million)	
Refer to Note G to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>The Group acquired the Riviera Health residential Aged Care portfolio (Riviera facilities) for \$37.7m (net of RAD and employee liabilities) on 1 April 2018. The Group assessed the acquisition in accordance with AASB 3 <i>Business Combinations</i>, and the resultant valuation of the net assets acquired resulted in a gain on purchase of \$9.6m, net of transaction costs</p> <p>This net gain on purchase is a Key Audit Matter due to:</p> <ul style="list-style-type: none"> <li>Its relative impact on profit; and</li> <li>The level of judgement required by us in assessing the Group's determination of the fair value of the Riviera facilities acquired, driving the measurement of the gain.</li> </ul> <p>The Group engaged an external expert to value the Riviera facilities. We focussed our work on the key assumptions in the valuations including whether the capitalisation and discount rates used were in line with comparable businesses and assessing the accuracy of capital expenditure allowances.</p> <p>In addressing this Key Audit Matter, we involved senior audit team members and Property Valuation specialists, who collectively understand the Group's business, the Aged Care industry and the economic environment it operates in.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>Checking the mathematical accuracy of the calculation of the net gain on purchase in accordance with AASB 3 <i>Business Combinations</i>;</li> <li>Reading acquisition agreements to understand the key terms and conditions of the transaction relating to the identification of the assets and liabilities acquired against the criteria of the accounting standards;</li> <li>We considered the appropriateness of the valuation methodology model applied by the Group in the calculation of the net gain on purchase against the requirements of the accounting standards and industry practice. Working with our Property Valuations specialists, we assessed the integrity of the model used, including the accuracy of the underlying calculation formulas. This included: <ul style="list-style-type: none"> <li>Comparing the value of land and surplus resident places assumptions used by the external expert to comparable external sales information;</li> <li>Assessing the discount rate and capitalisation rates applied by the Group using our knowledge of the Group, its industry and comparable entities;</li> <li>Comparing committed capital expenditure allowances against budgets and forecasts approved by the Board; and</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>- Assessing the competence, objectivity and scope of the external expert engaged by the Group.</li> <li>• Assessing the disclosures in the financial report using our understanding of the key audit matter obtained from our testing and against the requirements of the accounting standards.</li> </ul>
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## Other Information

Other Information is financial and non-financial information in Japara Healthcare Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Company Overview, Chairman and CEO's Review, Directors' Report and Remuneration Report. The Environmental, Social and Governance Statement is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it



exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Japara Healthcare Limited for the year ended 30 June 2018, complies with Section 300A of the Corporations Act 2001.

### Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 22 to 36 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Suzanne Bell

Partner

Melbourne

27 August 2018

## Additional information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report follows. This information is current as at 16 August 2018.

### (a) Distribution of Shareholders – Ordinary Shares

Range	Ordinary shares	%	No of holders	%
100,001 and Over	207,085,765	77.89	99	1.17
10,001 to 100,000	34,966,698	13.15	1,474	17.32
5,001 to 10,000	12,779,992	4.80	1,673	19.66
1,001 to 5,000	10,133,551	3.81	3,596	42.26
1 to 1,000	921,503	0.35	1,667	19.59
<b>Total</b>	<b>265,887,509</b>	<b>100.00</b>	<b>8,509</b>	<b>100.00</b>

### (b) Less than marketable parcels of ordinary shares

There are 363 shareholders holding less than a marketable parcel of ordinary shares (i.e. less than \$500 per parcel of shares).

### (c) 20 Largest Shareholders – Ordinary Shares

Name	Number of fully paid ordinary shares	% of issued capital
1 HSBC Custody Nominees (Australia) Limited	48,919,938	18.40
2 National Nominees Limited	21,772,997	8.19
3 Pershing Australia Nominees Pty Ltd (Ynominee A/C)	20,553,335	7.73
4 J P Morgan Nominees Australia Limited	16,145,539	6.07
5 Citicorp Nominees Pty Limited	15,264,793	5.74
6 Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,127,179	5.69
7 Moelis Australia Asset Management Ltd (Moelis Aus Partners A/C)	14,984,821	5.64
8 UBS Nominees Pty Ltd	9,709,019	3.65
9 Australian Shareholder Nominees Pty Ltd	6,776,392	2.55
10 BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	5,746,998	2.16
11 Samraj Pty Ltd (Reid Family No 2 A/C)	3,200,000	1.20
12 BNP Paribas Noms (NZ) Ltd (DRP)	2,623,000	0.99
13 Naze Nominees Pty Ltd (The Klempfner Family A/C)	1,839,195	0.69
14 BNP Paribas Nominees Pty Ltd (DRP)	1,567,138	0.59
15 Colman Foundation Limited (Colman Foundation A/C)	1,108,711	0.42
16 The Cass Foundation Limited	1,048,293	0.39
17 Ecapital Nominees Pty Limited (Accumulation A/C)	1,039,042	0.39
18 Bundarra Trading Company Pty Ltd (Thomas Emery Kennedy A/C)	1,000,000	0.38
19 Charnley Park Pty Ltd	817,400	0.31
20 Darrell James Pty Ltd (Investment A/C)	800,000	0.30
<b>TOTAL</b>	<b>190,043,790</b>	<b>71.48</b>

## (d) Substantial Shareholders

A substantial shareholder is one who has a relevant interest in 5% or more of the total issued shares in the Company. Following are the substantial shareholders in the Company based on notifications provided to the Company under the Corporations Act 2001:

Shareholder	Number of fully paid ordinary shares	% of issued capital
Moelis Australia Limited and its associated entities	35,421,025	13.33%
Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,700,000	5.90%
Pendal Group Limited	15,321,360	5.76%
Naos Asset Management Limited	13,324,708	5.01%
Dimensional Entities	13,307,351	5.00%

## (e) Securities subject to voluntary escrow

There are no securities on issue subject to voluntary escrow.

## (f) Voting Rights

In accordance with the Company's Constitution, each member present at a meeting, whether in person, by proxy, by power of attorney or by a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands and one vote for each fully paid ordinary share on a poll.

## (g) On-Market-Buy-Backs

There is no current on-market-buy-back in relation to the Company's securities.

## (h) On-Market Share Acquisitions

The Company operates an Equity Incentive Plan (**Plan**) for Group employees. No ordinary shares were acquired during the financial year ended 30 June 2018 by the Plan trustee for allocation under the Plan.