

# ASX APPENDIX 4E

## Results for Announcement to the Market

### Preliminary final report For the year ended 30 June 2019

This Appendix 4E, together with the attached Annual Financial Report for the year ended 30 June 2019 (**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 2019

Previous corresponding reporting period: Year ended 30 June 2018

**Comparison to previous period**

	<b>Increase/ Decrease</b>	<b>30 June 2019 \$'000</b>	<b>30 June 2018 \$'000</b>	<b>Change %</b>
Revenue from ordinary activities	Increase	399,768	373,188	7.1
Profit from ordinary activities after tax attributable to members	Decrease	16,433	23,327	29.6
Net profit for the year attributable to members	Decrease	16,433	23,327	29.6

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

<b>Dividends</b>	<b>Amount per share (cents)</b>	<b>Franked amount per share at 30% tax rate (cents)</b>	<b>Payment Date</b>	<b>Record Date</b>
2019 final dividend	3.35	1.675	30/10/19	27/09/19
2019 interim dividend	2.80	nil	30/04/19	28/03/19

The 2019 final dividend is franked to 50%. The 2019 interim dividend was unfranked.

The Board has today suspended the Company's dividend reinvestment plan and will therefore not operate in respect of the 2019 final dividend.

**Net tangible assets per security**

Net tangible assets per ordinary share as at 30 June 2019 were 14.0 cents (2018: 15.9 cents).

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

No entities were acquired or sold during the period.

## **Commentary on the results for the year**

Please refer to the Annual Financial Report for the year ended 30 June 2019 as attached and the related Media Release.

## **Status of audit**

The Annual Financial Report for the year ended 30 June 2019 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 2019**

# **Annual Financial Report**

## **For the year ended 30 June 2019**

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## CHAIRMAN AND CEO'S REVIEW

Dear Shareholders,

On behalf of the Directors, we are pleased to present the 2019 Annual Report for Japara Healthcare Limited.

### **Caring for our residents**

Our vision at Japara is to enrich every life that we touch. We welcome the special opportunity we have to share in and nurture the lives of our almost four thousand valued residents under a model centered on providing excellent care and services with dignity and respect.

We now operate a portfolio of 50 homes throughout Australia, having opened our newest home in Robina on the Gold Coast in July 2019. Our high calibre and dedicated employees across all of our homes support our residents, the majority of whom have high acuity and include many living with dementia, and we are appreciative of their dedication and effort. Their ongoing commitment to excellence in care saw 10 of Japara's homes re-accredited by the Federal Government regulator during the year in addition to 57 unannounced assessment contact audits undertaken. We have maintained full accreditation across our entire portfolio and continue to have registered nurses on every shift at all of our homes.

### **Our industry**

Australia has a growing elderly population, a result of people living longer and the significant increase in births in the post-war era. Such growth requires delivery of a large volume of new places to the residential aged care sector over the next 10 years. This is positive for the sector which continues to face a number of challenges. Changes to aged care funding implemented in 2017 have unfavourably impacted revenue growth. It is now harder to qualify for acute aged care funding under a revised scoring system. Additionally, our largest expense categories, including staff and utility costs, continue to increase faster than revenue. The majority of staff costs are set under state-based enterprise bargaining agreements (EBAs) that typically contain fixed annual increases which are higher than the aged care funding instrument (ACFI) increases set by the Federal Government.

The industry also continues to experience near-term softening occupancy rates as places from the large number of aged care licenses issued by the Federal Government in anticipation of the 'baby boomer generation's' needs are activated at levels in excess of current demand.

### **Royal Commission into Aged Care Quality and Safety**

The Royal Commission into Aged Care Quality and Safety commenced in February 2019. The Royal Commission has held numerous hearings and community forums across Australia to hear evidence and receive feedback as part of a thorough and wide-ranging review of the aged care sector. Japara was called to give evidence at the Perth hearing in June 2019. This evidence was largely centred around a case study from 2015 focusing on the delivery of person-centred care at our Mitcham home in South Australia. The Royal Commission also inquired into Japara's compulsory reporting processes. We envisage that any findings relating to Japara will be considered in the Royal Commission's interim report which is due at the end of October 2019, noting that its final report is expected in April 2020.

### **Delivering on growth**

We made excellent progress with our greenfield and brownfield developments and significant refurbishment program during FY2019. Three new greenfield developments were completed and opened in Glen Waverley (Vic), Rye (Vic) and Brighton-Le-Sands (NSW) adding 219 new places to the Company's portfolio. Additionally, two brownfield extensions at our Kingston Gardens (Vic) and Mirridong (Vic) homes were opened providing a further 84 new places and six homes underwent significant refurbishment during the year. In all, 33 of our homes, including our new Robina Rise home in Queensland, now qualify for the maximum accommodation supplement associated with their refurbishment or high amenity levels.

Japara recently received planning approval for greenfield developments in Belrose (NSW) and Lysterfield (Vic) which together will add a further 192 places to our portfolio once completed. During the year we also secured vacant land adjacent to homes in Victoria and South Australia for future development purposes.

During July 2019 we completed and opened our newest home in Robina (Qld). This six-level home comprises 106 places including an area dedicated to specialised dementia care and is Japara's 50<sup>th</sup> home. Thoughtfully designed to include smaller hubs which create a home-like environment, residents are able to enjoy the luxuries of an on-site café, beauty salon, bar and theatre as well as a rooftop garden and entertainment space.

We currently have seven brownfield and eight greenfield projects in progress which are scheduled to deliver over 1,100 net new places by the end of FY2022. The significant refurbishment program underway for our existing homes continues with a further six scheduled for renovation works during FY2020 for the benefit of our residents.

## **Progress on initiatives**

We are pleased to report on the progress of new and on-going business initiatives during FY2019.

We continued the roll-out of our specialist dementia care model across a number of our new and re-developed homes. The small home concept has been adapted to reflect optimal design and living principles for residents living with dementia. This model of support promotes independence, personal choices and quality of life. Residents are encouraged to live actively and purposefully in a home environment, where resident choice is paramount reflecting our philosophy of residents being able to "live life as usual". "Living life as usual" is enabled by our dedicated and passionate support team who are committed to understanding each resident's life story, their personal choices, values and beliefs. Resident outcomes are overwhelmingly positive including reduced and better managed interventions and improved lifestyle and behaviours.

We further invested in new technology to support our care and business operations over the year. This included a new financial reporting system and a third-party whistle-blower service, "Your Call". We are also commencing pilots of a new IT-based clinical and medical management system for deployment across all homes once tested.

Dining with dignity continues to be a focus across all Japara homes. Our Head Chefs create appetising meals served fresh to the table in intimate dining spaces. Attention to table settings, customer service and overall ambience adds to the dining experience ensuring meal times are a highlight for our residents. We were delighted our Yarra West home was awarded Chef of the Year at the 2018 Oscar Hospitality Awards.

We continue to invest to support and improve our leadership and governance and were pleased to announce Professor Leanne Rowe AM was appointed to the Board on 1 July 2019. As a Clinical Professor and Medical Practitioner, Leanne has over 30 years of clinical experience across acute care, aged care, mental health and community health, and brings valuable insight to Japara during challenging times for the sector. We also made several senior executive appointments during the year to improve consumer engagement and the development of, and returns on, our property portfolio.

There has been a significant focus over the last year on preparing for the introduction of the new Aged Care Quality Standards which came into effect on 1 July 2019. Japara implemented an innovative, digital program in the form of a gamified application to help train our home staff in delivering care in line with the new Standards. The Board, Executive Leadership Team and support office staff also participated in this unique form of training which we intend to use more extensively in the future for other training and education purposes.

## **Financial performance**

Japara delivered earnings before interest, tax, depreciation and amortisation (EBITDA) of \$49.6 million in FY2019 despite the challenging operating environment.

Total revenue of \$399.8 million was up 7.1% on last year while net profit after tax (NPAT)<sup>1</sup> was \$16.4 million, a decrease of \$6.9 million.

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1. Profit attributable to members of the Group

Revenue improvement was achieved through contributions from greenfield and brownfield developments completed during the year and throughout last year, by a full year contribution from the Riviera Health portfolio which was acquired in April 2018, and the Federal Government's temporary subsidy increase. Revenue growth was more than offset by the impact of wage rate increases from state-based EBA's, which exceeded increases received in Federal Government care funding, and increases in other items such as utility expenses and additional costs incurred relating to the Royal Commission. Average occupancy for FY2019 was 93.0% compared with 93.2% in the prior financial year.

NPAT<sup>1</sup> was lower for the year due to the overall decline in EBITDA, increased interest expense as we invest in our development pipeline to underpin future growth and increased depreciation attributable to new and re-developed homes.

Net operating cash flows of \$34.0 million plus net cash inflows from Refundable Accommodation Deposits (RADs) of \$44.7 million were delivered during FY2019.

Total dividends of 6.15 cents per share were determined for the year (7.75 cents per share last year), which includes a 3.35 cents per share final dividend which is franked to 50% and payable on 30 October 2019.

Our stated dividend policy is to pay full-year dividends of up to 100% of NPAT<sup>1</sup>, franked to the maximum extent possible having regard to available franking credits. The dividend payout for the year is 100% compared with 88% last year, that reflected a non-cash gain on the acquisition of the Riviera Health portfolio of \$9.6 million.

The Board has suspended the Company's dividend reinvestment plan due to the recent low take-up rate and weaker share price.

## **Committed to future growth**

Japara remains committed to delivering additional capacity to meet the expected future demand for residential aged care services. We are well positioned to do so with a sound, diversified growth strategy bolstered by a focus on high quality resident care and services. Our extensive developments program is supported by a strong balance sheet and cash flows. A new \$345 million syndicated loan facility with our relationship banks, the Commonwealth Bank of Australia, National Australia Bank and ANZ Banking Group, was secured during FY2019, extending the facility availability date to September 2023. The new facility has similar terms to the previous facility and provides financial certainty that aligns to Japara's business strategy including funding for the developments program as well as for general purpose requirements.

Net bank debt was \$179.0 million at 30 June 2019, of which \$44.5 million is considered core net debt and \$134.5 million is development debt. We have available liquidity of circa \$166.0 million with development debt expected to be repaid over time from RAD inflows received from new residents entering our new or re-developed homes once completed.

## **Outlook**

Looking ahead, Japara expects FY2020 EBITDA to be 5% to 10% lower than FY2019, mainly as a result of the removal of the Government's temporary subsidy increase that applied from 20 March 2019 to 30 June 2019 and as the funding environment continues to present challenges and occupancy remains below historic levels. This outlook is subject to no further material changes in market or regulatory conditions. Recently completed developments are expected to help mitigate industry headwinds as they contribute a full year of earnings and annual ACFI indexation, whilst modest, is expected to partially offset wage rate increases.

Japara continues to focus on the delivery of its development program with over 300 net new places expected to be opened in FY2020 following completion of existing greenfield and brownfield projects.

## **Thank you**

We would like to acknowledge and thank our extraordinary team of over 5,600 nurses, carers and other home and support office staff who provide a vital service in supporting elderly Australians to continue to live meaningful lives with purpose, dignity and respect. Their dedication and commitment to our valued residents and contributions to their local communities is appreciated.

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

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1. Profit attributable to members of the Group

Finally, we would like to thank you, our shareholders, for your on-going support of our Company and its vision during these challenging times.



**Linda Bardo Nicholls AO**

Chairman

26 August 2019



**Andrew Sudholz**

CEO & Managing Director

26 August 2019

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report

For the year ended 30 June 2019

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 2019 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** Linda is a senior executive and company director with more than 30 years experience across Australia, New Zealand and the United States. In addition to her BA (Econ), MBA, FAICD (Life) current Australian listed company directorships, she is Chairperson of Melbourne Non-Executive Chairman Health and a Member of the Museums Board of Victoria. *Director since 19 March 2014*

Previously, Linda has held the position of Chairman at some of Australia's most well-regarded companies including Healthscope, Australia Post and Yarra Trams.

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:**

Medibank Private (appointed 31 March 2014), Inghams Group (appointed 7 October 2016)

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

Fairfax Media (resigned 7 December 2018), Pacific Brands Group (resigned 15 July 2016)

**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 2019

### 1. Directors (continued)

#### **Richard England**

FCA, MAICD

Non-Executive Director

*Director since 19 March 2014*

Chairman of the Audit, Risk and Compliance Committee and a 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 and Automotive Holdings Group and a Non-Executive Director of other Australian listed companies. He is also Chairman of Indigenous Art Code Limited, the company administering the Indigenous Australian Art Commercial Code of Conduct.

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

Richard is a fellow of 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), Qantm Intellectual Property (appointed 17 May 2016), Bingo Industries (appointed 22 March 2017), Automotive Holdings Group (appointed 26 April 2019)

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

Atlas Arteria (resigned 30 November 2018), Ruralco Holdings (resigned 5 September 2016)

#### **David Blight**

BAppSc PRM (Val)

Non-Executive Director

*Director since 19 March 2014*

Chairman of the Remuneration and Nomination Committee (to 30 June 2019) 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 \$50 billion in funds under management.

David is also a Non-Executive Director of 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.

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

Lifestyle Communities Limited (appointed 15 June 2018)

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

Cromwell Property Group (resigned 19 July 2019)

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued)

For the year ended 30 June 2019

### 1. Directors (continued)

**JoAnne Stephenson** Chairman of the Remuneration and Nomination Committee (from 1 July 2019) and a member of the Zero Harm Committee (Chairman to 30 June 2019) and the Audit, Risk and Compliance Committee.  
BComm, LLB, CA,  
MAICD

Non-Executive Director  
*Director since 1  
September 2015*  
JoAnne 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.

In addition to her current Australian listed company directorships, she is Chair of the Victorian Major Transport Infrastructure Board and Chairman of the Melbourne Chamber Orchestra.

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.

#### **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

**Leanne Rowe AM**  
Doctor of Medicine  
(MD), MB BS,  
FRACGP, Dip RACOG,  
FAICD, HonLLD  
(Monash)

Non-Executive Director  
*Appointed as a Director  
on 1 July 2019*

Chairman of the Zero Harm Committee and a member of the Audit, Risk and Compliance Committee and the Remuneration and Nomination Committee (from 1 July 2019).

Leanne is a Clinical Professor and Medical Practitioner with over 30 years of clinical experience in the public and private health systems across acute care, aged care, mental health and community health.

She is currently a Non-Executive Director of the Medical Indemnity Protection Society and MIPS Insurance. Previously she was Chairman of the Royal Australian College of General Practitioners and a Non-Executive Director of I-MED Radiology Network, Medibank Private, GMHBA, Australian Health Management, Barwon Health and Beyond Blue.

Leanne is a former Deputy Chancellor of Monash University and has been awarded a Doctor of Laws (honoris causa) for her services. She has also received a Member of the Order of Australia for her services to medicine and is a Fellow of the Royal Australian College of General Practitioners and the Australian Institute of Company Directors.

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

None

#### **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 2019

#### 2. Company secretaries

##### Bruce Paterson

Bruce has over 25 years corporate experience in senior roles with listed and unlisted companies. Prior to joining the Company, 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.

#### 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	5	5	3	3	4	4
Andrew Sudholz <sup>1</sup>	10	11	4	5	3	3	3	4
Richard England	11	11	5	5	3	3	4	4
David Blight	11	11	5	5	3	3	4	4
JoAnne Stephenson	11	11	5	5	3	3	4	4
Leanne Rowe <sup>2</sup>	-	-	-	-	-	-	-	-

A - Number of meetings attended

B - Number of meetings held

1 - Attended Committee meetings by invitation

2 - Appointed 1 July 2019

#### 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.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2019

#### 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 5,750 resident places and approvals for places currently across 50 homes located in Victoria, New South Wales, Queensland, South Australia and Tasmania.

The Group's core business is providing residential aged care services. It also operates 180 Independent Living Units (**ILUs**) across five retirement villages, located adjacent to its residential care homes. Retirement village revenue accounts for less than 1% of the Group's operations by revenue.

Since its inception in 2005, the Group has successfully expanded its business by developing and expanding its existing homes, building new homes and selectively acquiring other homes.

The Group's parent company, Japara Healthcare Limited, was admitted to the official list of ASX Limited on 17 April 2014.

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, wellbeing and amenity;
- eligible Federal Government care funding matched to resident acuity; and
- cash flow generation to meet working capital requirements, facilitate 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 an approved provider of residential aged care services 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% (2018: 73%) 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 residential aged care services, optional additional services and Daily Accommodation Payments (**DAPs**). Resident fees made up approximately 27% (2018: 27%) 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 2019 financial year, the Group used capital funding received from RADs for the following purposes:

- financing land acquisitions, residential aged care home capital works for developments and significant refurbishments and associated expenditure on fit-out and new equipment;
- repaying bank debt used to finance capital works for residential aged care homes; and
- refunding RADs when due and payable.

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 residential care homes.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2019

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

Residents that have been assessed as having the financial means have the option to either pay a RAD, a DAP, or a combination of both. A 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 residential aged care homes.

##### **Key costs**

The Group's key cost relates to staffing, which was approximately 69% (2018: 69%) 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**

	2019	2018	Change
	\$'000	\$'000	%
Revenue and other income	399,768	373,188	7.1
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	49,553	50,653	(2.2)
Profit attributable to members of the Group (NPAT)	16,433	23,327	(29.6)
Total comprehensive income attributable to members of the Group	14,021	23,327	(39.9)

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

##### **Operational results**

The Group delivered EBITDA of \$49,553,000 for the financial year in a challenging operating environment.

Revenue and other income of \$399,768,000 was up 7.1% on last year while NPAT was \$16,433,000, a decrease of \$6,894,000.

Revenue improvement was achieved through contributions from greenfield and brownfield developments completed during the financial year and throughout the previous financial year, by a full year contribution from the Riviera Health portfolio acquired on 1 April 2018 and the Federal Government's temporary subsidy increase from 20 March 2019 to 30 June 2019 which amounted to \$7,900,000. Revenue growth was more than offset by the impact of wage rate increases, which exceeded the indexation increases received in Federal Government care funding, increases in other items such as utility expenses and additional costs incurred in respect of information provision in support of the Royal Commission into Aged Care Quality and Safety (**Royal Commission**). Average occupancy for the financial year was 93.0% compared with 93.2% in the previous financial year.

NPAT was lower for the financial year due to the overall decline in EBITDA and due to increased interest expense as we invest in our development pipeline to underpin future growth and due to increased depreciation attributable to new and re-developed homes. The effective tax rate for the financial year was 30% compared with 21% in the prior year which was lower than normal due to the non-taxable gain associated with the acquisition of the Riviera Health portfolio.

A non-cash fair value charge through other comprehensive income occurred during the year amounting to \$2,412,000 (2018: \$Nil) net of income tax as a result of the Group entering into interest rate swaps during the year. Further details are disclosed in Note G3(c) to the financial statements.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2019

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

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

	2019	2018	Change
	\$'000	\$'000	%
Total assets	1,378,635	1,268,606	8.7
Total liabilities	846,551	734,828	15.2
Net assets	532,084	533,778	(0.3)

#### Review of financial position

The Group's total assets increased by 8.7% during the financial year mainly due to an increase in property, plant and equipment associated with capital expenditure on the Group's development program in line with its growth strategy.

Total liabilities increased by 15.2%, 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 \$70,000,000 of the Group's banking facilities was drawn down primarily to fund developments, with \$5,000,000 being repaid from net RAD cash inflows. A total of \$210,500,000 was drawn down as at the reporting date. Together with the Group's cash balances of \$31,472,000, the Group's net debt as at the reporting date amounted to \$179,028,000 (2018: \$116,342,000), of which \$44,528,000 is considered core net debt and \$134,500,000 is development debt.

Net RAD and ILU resident loan cash inflows for the financial year were \$44,729,000 (2018: \$41,591,000), the increase reflecting the Group's completion of developments and significant refurbishments during the year.

The Group's current liabilities exceed current assets by \$615,666,000 (2018: \$558,476,000) as at 30 June 2019. 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 of 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.

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

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2019

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

##### **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 more 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.

###### 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 higher than industry average 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 achieve higher 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 higher occupancy levels across the Group.

###### iv. RAD/DAP funding

The Group continued to receive strong net RAD inflows during the year totalling \$44,729,000. Further new capital is anticipated to be received from RADs linked to newly delivered operational places from brownfield and greenfield developments and existing beds on significantly refurbished homes.

##### **Development program**

The Group's development program is expected to deliver over 1,100 net new places to the market by the end of FY2022. During the year, three new greenfield developments were completed and opened in Glen Waverley (Vic), Rye (Vic) and Brighton-Le-Sands (NSW) adding 219 new places to the portfolio. Additionally, two brownfield extensions at our Kingston Gardens and Mirridong homes (Vic) were opened providing a further 84 new places. During July 2019, we completed and opened our newest and 50<sup>th</sup> home in Robina (Qld) delivering a further 106 new places.

The Group currently has seven brownfield and eight greenfield projects in progress at various stages of development. The Group owns or has secured land sites for all these projects.

At the date of this report, the Group has 867 un-activated provisional licences issued by the Department for development purposes, which includes 387 provisional licenses received during the 2018/19 Aged Care Approvals Round. These provisional licenses, along with 299 of other surplus licenses held, support the places being built under the Group's current development program. Any shortfall in licences is expected to be obtained either through transfer from current homes with non-operational places and from future 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 2019

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

The Group has a separate significant refurbishment program currently operating across six of its homes. Six other homes were significantly refurbished during the financial year. The Group is entitled to receive additional Federal Government 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. In all, at the date of this report, 33 of the 50 homes in the Group now qualify for this additional supplement.

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

The Group constantly reviews opportunities to acquire existing residential 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.

The Group has established policies and procedures for the acquisition of additional residential 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 assess acquisition opportunities, subject to market conditions and availability of capital.

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 residential aged care homes or multi-home portfolios where the investment criteria are met.

#### **Material business risks**

##### **Change of regulatory framework**

The Australian residential 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. To this end, the Royal Commission commenced in February 2019 whose interim report is due at the end of October 2019 and final report expected by 30 April 2020. It is anticipated that the Royal Commission's findings will be significant for the future structure and workings of the industry.

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

ABN 54 168 631 052

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

**For the year ended 30 June 2019**

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

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, primarily through the Aged Care Guild. Additionally, both the Group and the Aged Care Guild have provided submissions and direct evidence to the Royal Commission.

The CEO has responsibility for managing regulatory risk and is the Company's delegate on the Aged Care Guild which seeks to support sustainability and 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.

##### ***Staff cost increases***

The majority of the Group's staff costs are set under state-based enterprise bargaining agreements which contain fixed increases over the term of the enterprise agreement. Whilst the Group negotiates with employees, through union representation, for wage increases for a future period of time, this is undertaken without knowing the future annual increases in Federal Government funding through indexation. There is a risk that future increases in staff costs are higher than the increase in Federal Government funding. As staff costs as a percentage of total revenue for the financial year was approximately 69% (2018: 69%), an increase in staff costs in excess of the increase in Federal Government funding may adversely affect the Group's financial performance.

The Group manages its wage costs to revenue ratio to mitigate a decline in profitability while ensuring that the care needs of all residents are met. The Group seeks to implement information technology solutions to create efficiencies in its workforce by minimising administration and maximising care, while also enhancing its overall level of revenue through optimising occupancy.

##### ***Reduction in occupancy levels***

In the ordinary course of its business, the Group faces the risk that occupancy levels may fall below expectations, for example, with a nationwide severe influenza outbreak or an excess supply of places in the market. 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 where a large number of aged care licenses issued by the Federal Government were activated at levels in excess of current demand in anticipation of future needs of the "baby boomer" generation.

Occupancy levels are monitored daily at a home and line management level. 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.

##### ***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.

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

ABN 54 168 631 052

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

**For the year ended 30 June 2019**

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

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 Development 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 and reviewed by the Committee.

##### ***Loss of key personnel***

The Group relies on a high quality management team with significant residential 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 residential 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 while 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***

Residential 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. Residential 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 residential 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.

The Group has robust policies and procedures in place covering all required 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.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2019

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

##### *Reputational damage*

The Group operates in a commercially sensitive industry in which its reputation could be adversely impacted should it, or the residential 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 which 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 3.35 cents per share (2018: 3.75 cents)	\$8,953,000
Interim dividend of 2.80 cents per share (2018: 4.00 cents)	\$7,478,000

The interim dividend paid during the financial year was unfranked (FY2018: franked to 65%). The final dividend for this period is payable on 30 October 2019 and will be franked to 50% (FY2018: franked to 50%).

#### 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.

#### 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.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2019

#### 10. Indemnification and insurance of officers (continued)

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:

	2019	2018
	\$'000	\$'000
Audit and review services	275	355
Taxation services	112	150
Due diligence services	-	113
Advisory services	50	81
	<b>437</b>	<b>699</b>

#### 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 21 and forms part of this Directors' Report for the financial year ended 30 June 2019.

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

ABN 54 168 631 052

### **Directors' Report (continued) For the year ended 30 June 2019**

#### **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 26 August 2019



**Linda Bardo Nicholls AO**  
Chairman



**Andrew Sudholz**  
CEO & Managing Director



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

To the Directors of Japara Healthcare Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Japara Healthcare Limited for the financial year ended 30 June 2019 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

*Partner*

Melbourne

26 August 2019

## 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 2019.

### **FY2019 performance**

Japara delivered a profit after tax of \$16.4 million for FY2019, down \$6.9 million on the FY2018 result. While revenue increased by 7.1% on FY2018, this growth was more than offset by staff wage rate increases, which exceeded the rises in Federal Government care funding, and increases in other items such as utility expenses and additional costs incurred relating to the Aged Care Royal Commission.

Japara is responsible for almost four thousand valued residents under a model centred on providing excellent care and services with dignity and respect. The ongoing commitment by staff to excellence in care saw 10 of our homes re-accredited by the Federal Government regulator during FY2019 in addition to 57 unannounced assessment contacts audits undertaken. Japara has maintained full accreditation across its entire portfolio and continues to have registered nurses on every shift at every one of its homes.

Excellent progress was made with our developments program during FY2019. Three new greenfield developments and two brownfield extensions were completed and opened adding 303 new places to the Company's portfolio. We also recently completed and opened our newest and 50<sup>th</sup> home in Robina on the Gold Coast. With a further 15 projects currently in progress, Japara expects to deliver over 1,100 net new places by the end of FY2022.

Japara maintained a strong balance sheet and cash flows during FY2019. A new \$345 million syndicated loan facility was also secured through to September 2023, providing financial certainty that aligns to Japara's business strategy including funding for its developments program as well as for general purpose requirements.

### **FY2019 remuneration outcomes**

Despite the above achievements, no Executive incentives vested in FY2019.

The earnings gateway for the FY2019 Executive Incentive Plan was not met, resulting in this incentive being forfeited. The FY2017 long term incentive grant, eligible for vesting at 30 June 2019, also did not vest.

As outlined in table 16.4.4 of the Remuneration Report, this is the third successive year where zero incentives have vested for our Executives. We see this as a reflection of the external factors that have impacted the business over this period, and believe that we have an excellent Executive team in place that will lead Japara strongly into the future.

Fixed remuneration for the Executives was increased by 2.5% for FY2019 after taking into account that there had been no change since FY2017.

### **FY2020 remuneration framework changes**

Following external stakeholder feedback from the 2018 AGM and in recognition of the difficult operating environment, and Japara's financial and current share price performance, there are a number of substantial remuneration framework changes in FY2020.

In designing the new framework, the Board has sought to balance the position of shareholders with the need to both retain and reward Executives appropriately for their contributions, taking into account the complexity, effort and outcomes required by the business in context of the sectoral factors including the focus of the Aged Care Royal Commission and residential aged care specific funding issues.

Key changes to the FY2020 Executive remuneration framework include:

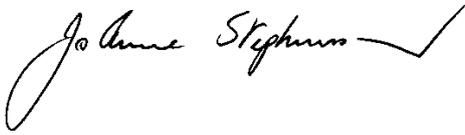
- The CEO (Andrew Sudholz) has volunteered to reduce his ongoing fixed remuneration. From 26 August 2019, his fixed remuneration will be reduced from \$1,015,000 to \$800,000 and be accompanied by a one-off grant of equity equivalent to the pro-rata amount of the reduction, being \$182,000. Any incentive opportunities will be based off the reduced fixed remuneration; and

- The removal of the FY2019 Executive Incentive Plan and replacing it with separate short-term incentive and long-term incentive plans.

More detail on the above changes has been provided in section 16.3 of the Remuneration Report.

With respect to remuneration arrangements for other Group employees, the majority of these (being nurses and other home staff) are covered under separately negotiated Enterprise Bargaining Agreements. These EBAs are set at a State level and typically contain fixed annual increases which are higher than aged care funding instrument (ACFI) increases set by the Federal Government.

The Board looks forward to your continuing support of our remuneration policies and practices and recommends this Remuneration Report and changes to the performance based incentive framework for FY2020 to you.



**JoAnne Stephenson**  
Chairman, Remuneration and Nomination Committee  
26 August 2019

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued) For the year ended 30 June 2019

### 16. Remuneration Report - Audited

#### Contents

- 16.1 Key management personnel
- 16.2 Executive remuneration principles
- 16.3 FY2020 executive remuneration framework changes
- 16.4 FY2019 executive remuneration outcomes
- 16.5 FY2019 executive remuneration framework
- 16.6 Remuneration governance
- 16.7 Non-executive director remuneration
- 16.8 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 2019 (**FY2019**).

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 FY2019 period:

#### **Non-executive directors**

Linda Bardo Nicholls AO	Chairman
David Blight	Former Chairman of the Remuneration and Nomination Committee (to 30 June 2019)
JoAnne Stephenson	Chairman of the Remuneration and Nomination Committee (from 1 July 2019) and former Chairman of the Zero Harm Committee (to 30 June 2019)
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> )

Leanne Rowe AM was appointed a non-executive director of the Company effective from 1 July 2019 and was therefore not a KMP for the FY2019 period. Leanne is now Chairman of the Zero Harm Committee.

#### 16.2 Executive remuneration principles

##### 16.2.1 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.

##### 16.2.2 Executive remuneration arrangements

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.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.2.2 Executive remuneration arrangements (continued)

The remuneration structure specifically takes into account:

- the scope and responsibilities of the executive's role;
- the capability and experience of the executive;
- remuneration of a comparator group comprising ASX 300 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.

#### 16.3 FY2020 executive remuneration framework changes

In light of feedback received at the 2018 AGM, the Board reviewed the Group's remuneration framework having regard to strategy and the external operating environment, and made a number of adjustments to the performance based component of executive remuneration. Below is a summary of the changes to the FY2020 executive remuneration framework and accompanying rationale:

<b>FY2020 framework change</b>	<b>Further detail</b>	<b>Rationale</b>
<b>Voluntary reduction in fixed remuneration - CEO</b>	<p>In FY2019, the CEO's fixed remuneration was \$1,015,000.</p> <p>From 26 August 2019, the CEO's fixed remuneration will be reduced to \$800,000 and he will receive a one-off grant of equity with a face value of \$182,000, equivalent to the pro-rata amount of the reduction, which will vest on 30 June 2020 subject to his continued employment with the Company.</p> <p>All incentives in FY2020 will be based off his reduced fixed remuneration.</p>	<p>In recognition of the difficult operating environment and Japara's financial and current share price performance, the CEO has voluntarily reduced his fixed remuneration.</p> <p>This reduction will also reduce the level of incentives that he can earn in FY2020 (and beyond), which are expressed as a percentage of fixed remuneration.</p> <p>The one-off equity grant is a transitional arrangement applying only for one year. All incentives in FY2020 (and beyond) will be based off the reduced fixed remuneration.</p>
<b>One-off retention incentive - CFO</b>	<p>The CFO will receive a one-off retention incentive, which will be granted in performance rights that vest on 30 June 2020 subject to satisfactory performance and continued employment with the Company.</p> <p>The face value of this one-off equity incentive is \$135,000.</p>	<p>This is in recognition of broader business responsibilities carried out by the CFO through the Aged Care Royal Commission.</p>

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.3 FY2020 executive remuneration framework changes (continued)

FY2020 framework change	Further detail	Rationale
<b>Replacing the FY2019 Executive Incentive Plan with a new incentive framework</b>	The FY2019 Executive Incentive Plan (EIP) will be replaced with a traditional short-term incentive (STI) plan and long-term incentive (LTI) plan.	Significant stakeholder feedback was received at the 2018 AGM regarding Japara's EIP. The Company has acted on this feedback, following engagement with shareholders and proxy advisors.
<b>Reduction in opportunity levels under the new framework</b>	Maximum opportunity levels will decrease from 200% of fixed remuneration under the EIP to 150% under the FY2020 framework. Specifically, maximum STI will be 50% of fixed remuneration and maximum LTI will be up to 100%.	As above.
<b>Extension of performance period under the new framework</b>	The new LTI plan will have a four-year performance period.	Greater alignment with the long-term interests of shareholders.
<b>Greater equity-based element under the new framework</b>	50% of the STI will be delivered in equity and subject to deferral for 12 months. The remaining 50% will be delivered as cash following the end of the performance period.  All of the LTI will be delivered via equity (performance rights).	As above.

#### 16.4 FY2019 executive remuneration outcomes

##### 16.4.1 Company performance

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 over the last five years:

Financial measure	FY2019	FY2018	FY2017	FY2016	FY2015
EBITDA (\$'000)	49,553	50,653	60,160	56,102	50,590
NPAT (\$'000)	16,433	23,327	29,712	30,375	28,839
EPS (cents)	6.16	8.78	11.22	11.54	10.97
Dividends per share (cents)	6.15	7.75	11.25	11.50	11.00
Year end share price (\$)	1.13	1.81	2.10	2.55	2.57

The Group's financial performance since 1 July 2014, measured in terms of earnings and shareholder returns, has been relatively flat and more recently declining. This performance has been significantly impacted by external factors affecting the residential aged care sector including changing regulations and cost inflation relative to available funding.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.4.2 Performance assessment – FY2019

The Board determined that while the gateways relating to accreditation, regulatory and compliance guidelines were met, and a number 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 under the EIP was awarded for FY2019.

The performance based 'incentive' remuneration arrangements for executives for FY2019 are set out below:

#### Remuneration amounts

	Maximum incentive remuneration achievable at target level \$'000	Incentive remuneration awarded \$'000
Andrew Sudholz (CEO)	1,015	0
Chris Price (CFO)	538	0

#### Performance criteria

The award of performance based remuneration is subject to the achievement of set performance criteria comprised of 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, operational 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 FY2019:

#### Gateways

- The Group maintaining ongoing accreditation at all operating homes (*achieved*);
- No material breach of regulatory or compliance guidelines across the Group's business (*achieved*); 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 (*not achieved*).

Notwithstanding that no incentives will be paid for FY2019, an outline of the key performance metrics and what the outcome would have otherwise been are set out below:

#### Hurdles

Andrew Sudholz (CEO)			
Target area	Performance requirement	Weighting	Outcome
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%	Not achieved

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.4.2 Performance assessment – FY2019 (continued)

Andrew Sudholz (CEO) (continued)			
Target area	Performance requirement	Weighting	Outcome
<b>Finance</b>	<ul style="list-style-type: none"> <li>Deliver operating improvements resulting in cost savings at a minimum targeted rate</li> </ul> <p><i>Rationale: Incentive to identify and responsibly deliver operating and cost improvements to increase shareholder returns</i></p>	30%	Partly achieved
<b>Growth</b>	<ul style="list-style-type: none"> <li>Achieve a minimum targeted average occupancy rate on available beds</li> </ul> <p><i>Rationale: Incentive to grow revenue through improved occupancy to increase shareholder returns</i></p>	30%	Not achieved
<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 the workforce and to increase shareholder returns over the longer term</i></p>	10%	Achieved
		<b>100%</b>	

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.4.2 Performance assessment – FY2019 (continued)

Chris Price (CFO)			
Target area	Performance requirement	Weighting	Outcome
Finance	<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%	Not achieved
	<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%	Not achieved
Organisation	<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%	Achieved
Safety	<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 betterment of the workforce and to increase shareholder returns over the longer term</i></p>	10%	Achieved
		<b>100%</b>	

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.4.3 Actual executive remuneration outcomes

Below is a summary of KMP remuneration outcomes for FY2019 and comparison with FY2018:

	Total fixed remuneration paid \$'000	Total performance based remuneration awarded \$'000	Total fixed and performance based remuneration received \$'000	Percentage of maximum potential performance based remuneration awarded %
<b>Executives</b>				
<b>Andrew Sudholz (CEO)</b>				
FY2019	1,032	0	<b>1,032</b>	<b>0</b>
FY2018	1,005	0	<b>1,005</b>	<b>0</b>
<b>Chris Price (CFO)</b>				
FY2019	555	0	<b>555</b>	<b>0</b>
FY2018	540	0	<b>540</b>	<b>0</b>

#### 16.4.4 5 year historical executive remuneration outcomes

Following is a table of historical incentive outcomes for executives over the last five years:

	FY2019	FY2018	FY2017		FY2016		FY2015	
	Incentive <sup>1</sup>	Incentive <sup>1</sup>	Short-term incentive	Long-term incentive	Short-term incentive	Long-term incentive	Short-term incentive	Long-term incentive
<b>CEO</b>								
Awarded	0%	0%	0%	0%	95%	0%	0%	0%
Forfeited	100%	100%	100%	100%	\$457,000 <sup>2</sup> 5%	100%	100%	100%
<b>CFO<sup>3</sup></b>								
Awarded	0%	0%	0%	0%	90%	0%	0%	0%
Forfeited	100%	100%	100%	100%	\$225,000 <sup>2</sup> 10%	100%	100%	100%

1. Single incentive arrangement. Separate short-term and long-term incentive arrangements existed pre FY2018.
2. Amount received.
3. CFO was appointed on 22 June 2015.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

### For the year ended 30 June 2019

#### 16.5 FY2019 executive remuneration framework

In FY2019, executive remuneration comprised:

- 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, to reward executives for exceeding targets set by the Board.

From FY2020, executive performance based remuneration will be based on a more traditional approach comprising separate STI and LTI components.

Executives are required to own equity in the Company equivalent to at least one year's base salary. This can be acquired over a five year period and it is intended that equity incentives be 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.

#### 16.5.1 FY2019 fixed remuneration

Executives' fixed remuneration was increased by 2.5% for FY2019 as determined by the Board, taking into account that there had been no change since FY2017.

The total fixed remuneration paid to each executive for FY2019 and in the prior year is set out below:

	Cash salary <sup>1</sup> \$'000	Super-annuation \$'000	Fixed remuneration \$'000	Other <sup>2</sup> \$'000	Total fixed remuneration paid \$'000
<b>Andrew Sudholz (CEO)</b>					
FY2019	990	25	1,015	17	<b>1,032</b>
FY2018	965	25	990	15	<b>1,005</b>
<b>Chris Price (CFO)</b>					
FY2019	501	37	538	17	<b>555</b>
FY2018	480	45	525	15	<b>540</b>

1. Cash salary includes salary and leave entitlements paid during the year.
2. Other includes parking and other work related employee benefits.

#### 16.5.2 FY2019 Executive Incentive Plan

Under the EIP applying to FY2019, performance is 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, the greater the incentive pool opportunity becomes, subject to various checks and capped upper limits. 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. The Board annually sets the required level of EBITDA performance in order for the incentive pool to form.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.5.2 FY2019 Executive Incentive Plan (continued)

Gateway measures are used relating to accreditation, compliance and budget, together with a balanced score card approach to determining individual performance. A cap is applied to the incentive pool. In addition, forfeiture and clawback rights are incorporated in the plan and the Board retains a final discretion to avoid any anomalies.

Details of the performance based incentive plan are described in the table below. The plan aligns executives closely to shareholder value through its focus on EBITDA delivery, with individual balanced scorecards ensuring KPIs are in place for both financial and non-financial performance hurdles.

#### 16.5.3 Further detail on FY2019 executive remuneration framework

<b>Fixed remuneration principles</b>	<b>Performance based remuneration principles</b>
<i>Amount</i>	<i>Amount</i>
<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; and</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>). No pool forms until NPAT exceeds prior year outcome.</li> </ul>
<i>Delivery</i>	<i>Delivery</i>
<ul style="list-style-type: none"> <li>100% cash payment comprising base salary and statutory superannuation contributions</li> <li>Parking and other work 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 an equity incentive plan.</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; and</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 FY2019:               <ul style="list-style-type: none"> <li>- 10% growth to achieve target level;</li> <li>- 12.5% growth to achieve stretch level; and</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 until this date.</li> </ul>

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.5.3 Further detail on FY2019 executive remuneration framework (continued)

Fixed remuneration principles	Performance based remuneration principles
<u>Delivery</u>	<u>Delivery</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>• Board discretion applies to vesting of equity component. Such discretion may include certain decisions upon cessation of employment due to personal circumstances as a 'good leaver'.</li> <li>• Remuneration is subject to forfeiture and clawback under the following circumstances:               <ul style="list-style-type: none"> <li>- material misstatement or omission in the Group's financial statements;</li> <li>- fraud, dishonesty or gross misconduct;</li> <li>- breach of obligations;</li> <li>- an act bringing disrepute to the Group; and/or</li> <li>- conviction or judgement connected with the Group's affairs.</li> </ul> </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>

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

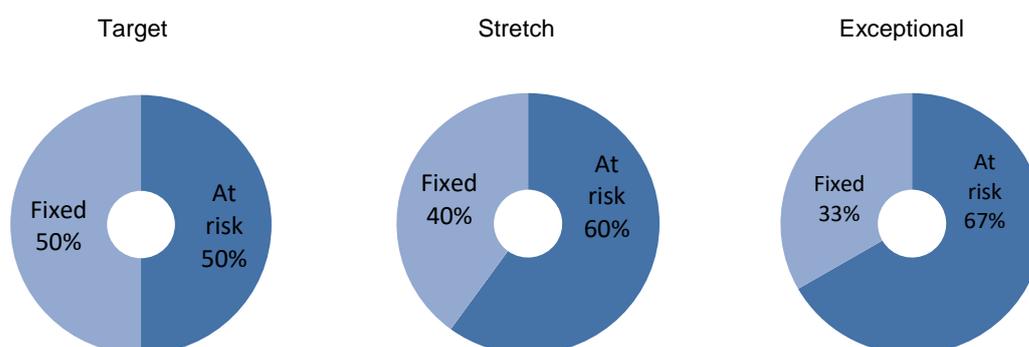
For the year ended 30 June 2019

#### 16.5.3 Further detail on FY2019 executive remuneration framework (continued)

Fixed remuneration principles	Performance based remuneration principles
<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 10% EBITDA growth for FY2019 for award and capped at a maximum of 30% of incremental NPAT.</li> </ul>
<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>

#### 16.5.3 FY2019 remuneration mix

Below is the maximum potential remuneration mix for executive KMP in FY2019 showing the fixed and performance based 'at risk' components at the various potential incentive levels.



## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.6 Remuneration governance

##### 16.6.1 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.

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.

##### 16.6.2 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 FY2019.

#### 16.7 Non-executive director remuneration

##### 16.7.1 Non-executive director remuneration principles

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. 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.

The Board annually determines the fees each non-executive director is entitled to receive from the pool having regard to remuneration 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. The same comparator group used for executive remuneration benchmarking purposes is used for benchmarking non-executive director fees.

The Board Chairman and the chairman 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.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.7.1 Non-executive director remuneration principles (continued)

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 five 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.

#### 16.7.2 FY2019 non-executive director remuneration

Total non-executive director fees for FY2019 were \$625,000 as follows:

- \$250,000 to the non-executive chairman (FY2018 \$250,000);
- \$105,000 to each other non-executive director (FY2018 \$105,000); and
- an additional \$20,000 to the chairman of each standing committee of the Board (FY2018 \$20,000).

There will be no changes to non-executive director fees or the fee pool for FY2020.

	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>			
FY2019	250	-	<b>250</b>
FY2018	250	-	<b>250</b>
<b>David Blight</b>			
FY2019	105	20	<b>125</b>
FY2018	105	20	<b>125</b>
<b>JoAnne Stephenson</b>			
FY2019	105	20	<b>125</b>
FY2018	105	20	<b>125</b>
<b>Richard England</b>			
FY2019	105	20	<b>125</b>
FY2018	105	20	<b>125</b>

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### Directors' Report (continued)

Remuneration Report (continued)

For the year ended 30 June 2019

#### 16.7.3 Statutory disclosure of non-executive director remuneration outcomes

Non-executive director remuneration included within employee benefits expense in the Statement of Profit or Loss and Other Comprehensive Income for FY2019 follows:

	Short-term benefits		Post- employment benefits	Total fees \$'000
	Fees paid	Non-monetary benefits paid	Superannuation benefits paid	
	\$'000	\$'000	\$'000	
<b>Linda Bardo Nicholls AO (Chairman)</b>				
<b>FY2019</b>	<b>228</b>	-	<b>22</b>	<b>250</b>
FY2018	228	-	22	250
<b>David Blight</b>				
<b>FY2019</b>	<b>114</b>	-	<b>11</b>	<b>125</b>
FY2018	114	-	11	125
<b>JoAnne Stephenson</b>				
<b>FY2019</b>	<b>114</b>	-	<b>11</b>	<b>125</b>
FY2018	114	-	11	125
<b>Richard England</b>				
<b>FY2019</b>	<b>114</b>	-	<b>11</b>	<b>125</b>
FY2018	114	-	11	125
<b>Total</b>				
<b>FY2019</b>	<b>570</b>	-	<b>55</b>	<b>625</b>
FY2018	570	-	55	625

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

### For the year ended 30 June 2019

#### 16.8 Other statutory disclosures

#### 16.8.1 Total executive remuneration

The remuneration of executives calculated in accordance with applicable accounting standards for FY2019 follows:

	Short-term benefits		Post-employment benefits			Total fixed remuneration	Performance based ('at risk')			Total fixed and performance based remuneration
	Salary paid	Non-monetary benefits paid	Superannuation benefits paid	Annual leave entitlements accrued	Long-service leave entitlements accrued		Payable in cash	Payable in cash deferred for 12 months	Share-based payments accrued <sup>1</sup>	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Andrew Sudholz (CEO)</b>										
<b>FY2019</b>	<b>981</b>	<b>17</b>	<b>25</b>	<b>70</b>	<b>(69)</b>	<b>1,024</b>	-	-	-	<b>1,024</b>
FY2018	890	15	25	68	14	1,012	-	-	-	1,012
<b>Chris Price (CFO)</b>										
<b>FY2019</b>	<b>488</b>	<b>17</b>	<b>37</b>	<b>37</b>	<b>11</b>	<b>590</b>	-	-	-	<b>590</b>
FY2018	443	15	46	36	6	546	-	-	-	546
<b>Total</b>										
<b>FY2019</b>	<b>1,469</b>	<b>34</b>	<b>62</b>	<b>107</b>	<b>(58)</b>	<b>1,614</b>	-	-	-	<b>1,614</b>
FY2018	1,333	30	71	104	20	1,558	-	-	-	1,558

1. Calculated using the Black-Scholes valuation methodology in accordance with AASB 2 *Share-based payments* (see Note D3 to the Company's 2019 Financial Statements).

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration report (continued)

For the year ended 30 June 2019

#### 16.8.1 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 16.4.3 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 to 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	Total fixed and performance based remuneration statutory \$'000
<b>Andrew Sudholz (CEO)</b>			
FY2019	1,032	(8)	1,024
FY2018	1,005	7	1,012
<b>Chris Price (CFO)</b>			
FY2019	555	45	590
FY2018	540	6	546

1. Reflects fixed remuneration paid and performance based incentive awarded.

#### 16.8.2 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 2018 No. of shares	Acquired during FY2019 No. of shares <sup>1</sup>	Sold during FY2019 No. of shares	Held at 30 June 2019 No. of shares	Nominally held at 30 June 2019 No. of shares
<b>Executives</b>					
Andrew Sudholz (CEO)	15,760,006	2,972	-	15,762,978	15,762,978
Chris Price (CFO)	-	-	-	-	-
<b>Non-executive directors</b>					
Linda Bardo Nicholls AO	129,114	72,487	-	201,601	149,873
David Blight	90,000	-	-	90,000	90,000
JoAnne Stephenson	11,928	25,334	-	37,262	12,000
Richard England	54,009	7,023	-	61,032	-

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

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

The executive KMP, including their related parties, did not receive or hold (either directly, indirectly or beneficially) any equity instruments in the Company during the year.

Non-executive directors, including their related parties, are not entitled to receive equity instruments from the Company.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 30 June 2019

		2019	2018
	Note	\$'000	\$'000
Revenue	B2	394,937	361,523
Other income	B2	4,831	11,665
<b>Total revenue and other income</b>		<b>399,768</b>	<b>373,188</b>
Employee benefits expense	D1	(277,563)	(258,967)
Resident costs		(34,225)	(31,874)
Occupancy costs		(22,607)	(21,284)
Depreciation and amortisation expense	F1	(19,995)	(17,150)
Administrative expenses		(15,820)	(10,410)
<b>Earnings before interest and tax</b>		<b>29,558</b>	<b>33,503</b>
Finance income		425	678
Finance costs	B3	(6,339)	(4,495)
<b>Profit before income tax</b>		<b>23,644</b>	<b>29,686</b>
Income tax expense	B5	(7,211)	(6,359)
<b>Profit for the year</b>		<b>16,433</b>	<b>23,327</b>
Other comprehensive income, net of income tax	G2	(2,412)	-
<b>Total comprehensive income for the year</b>		<b>14,021</b>	<b>23,327</b>
<b>Profit attributable to members of the Group</b>		<b>16,433</b>	<b>23,327</b>
<b>Total comprehensive income attributable to members of the Group</b>		<b>14,021</b>	<b>23,327</b>
<b>Earnings per share</b>			
Basic earnings per share (cents)	B4	6.16	8.78
Diluted earnings per share (cents)	B4	6.16	8.76

The accompanying notes form part of these financial statements.

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Statement of Financial Position

As at 30 June 2019

	Note	2019 \$'000	2018 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	G4	31,472	29,158
Trade and other receivables	C1	14,640	9,356
Current tax receivable	B5	-	2,629
Other assets		6,216	6,405
<b>Total current assets</b>		<b>52,328</b>	<b>47,548</b>
<b>Non-current assets</b>			
Trade and other receivables	C2	2,347	1,834
Non-current assets held for sale		2,192	1,728
Property, plant and equipment	F1	787,767	687,720
Investment property	F3	39,200	38,398
Intangible assets	F2	494,801	491,378
<b>Total non-current assets</b>		<b>1,326,307</b>	<b>1,221,058</b>
<b>TOTAL ASSETS</b>		<b>1,378,635</b>	<b>1,268,606</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	E1	27,005	38,570
Other liabilities		8,568	3,650
Borrowings	G5	40,750	21,000
Current tax payable	B5	377	-
Other financial liabilities	G6	554,649	509,348
Employee provisions	D2	36,645	33,456
<b>Total current liabilities</b>		<b>667,994</b>	<b>606,024</b>
<b>Non-current liabilities</b>			
Borrowings	G5	169,750	124,500
Deferred tax liabilities	B5	2,420	563
Employee provisions	D2	3,975	3,741
Other financial liabilities	G6	2,412	-
<b>Total non-current liabilities</b>		<b>178,557</b>	<b>128,804</b>
<b>TOTAL LIABILITIES</b>		<b>846,551</b>	<b>734,828</b>
<b>NET ASSETS</b>		<b>532,084</b>	<b>533,778</b>
<b>EQUITY</b>			
Issued capital	G8	524,695	522,962
Hedging reserve		(2,412)	-
Retained earnings		9,801	10,816
<b>TOTAL EQUITY</b>		<b>532,084</b>	<b>533,778</b>

The accompanying notes form part of these financial statements.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Statement of Changes in Equity

For the Year Ended 30 June 2019

2019

	Issued Capital	Hedging Reserve	Retained Earnings	Total
Note	\$'000	\$'000	\$'000	\$'000
<b>Balance at July 1, 2018</b>	<b>522,962</b>	-	<b>10,816</b>	<b>533,778</b>
Profit attributable to members of the Group	-	-	<b>16,433</b>	<b>16,433</b>
<b>Transactions with owners of the Company</b>				
Shares issued during the year	<b>1,733</b>	-	-	<b>1,733</b>
Cash flow hedges - effective portion of changes in fair value	G2	<b>(2,412)</b>	-	<b>(2,412)</b>
Dividends paid	-	-	<b>(17,448)</b>	<b>(17,448)</b>
<b>Balance at 30 June 2019</b>	<b>524,695</b>	<b>(2,412)</b>	<b>9,801</b>	<b>532,084</b>

2018

	Ordinary Shares	Hedging Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000
<b>Balance at July 1, 2017</b>	<b>522,328</b>	-	<b>13,386</b>	<b>535,714</b>
Profit attributable to members of the Group	-	-	<b>23,327</b>	<b>23,327</b>
<b>Transactions with owners of the Company</b>				
Shares issued during the year	<b>634</b>	-	-	<b>634</b>
Dividends paid	-	-	<b>(25,897)</b>	<b>(25,897)</b>
<b>Balance at 30 June 2018</b>	<b>522,962</b>	-	<b>10,816</b>	<b>533,778</b>

The accompanying notes form part of these financial statements.

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Statement of Cash Flows For the Year Ended 30 June 2019

	2019	2018
Note	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	389,844	361,250
Payments to suppliers and employees	(347,515)	(315,824)
Income taxes paid	(2,348)	(6,342)
Interest received	414	674
Finance costs paid	(6,436)	(4,263)
<b>Net cash provided by operating activities</b>	<b>33,959</b>	<b>35,495</b>
	15	
<b>Cash flows from investing activities</b>		
Purchase of land and buildings	(18,289)	(19,626)
Proceeds from sale of land and buildings	1,671	313
Purchase of plant and equipment	(29,687)	(10,158)
Capital works in progress	(78,387)	(78,753)
Proceeds from sale of surplus resident places	3,416	-
Purchase of resident places	(3,423)	-
Deposits paid under land contracts	(960)	-
Purchase of aged care businesses	-	(40,317)
<b>Net cash used by investing activities</b>	<b>(125,659)</b>	<b>(148,541)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	1,733	634
Dividends paid	(17,448)	(25,897)
Net proceeds from bank borrowings	65,000	84,500
Proceeds from RADs & ILU resident loans	183,262	190,185
Repayment of RADs/accommodation bonds & ILU resident loans	(138,533)	(148,594)
<b>Net cash provided by financing activities</b>	<b>94,014</b>	<b>100,828</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>		
Cash and cash equivalents at beginning of the year	29,158	41,376
<b>Cash and cash equivalents at end of the year</b>	<b>31,472</b>	<b>29,158</b>
	G4	

The accompanying notes form part of these financial statements.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

# Notes to the Financial Statements

For the Year Ended 30 June 2019

## 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").

This is the first set of the Group's financial statements in which AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note A5.

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 \$615,666,000 as at 30 June 2019 (2018: \$558,476,000). 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 \$554,649,000 (2018: \$509,348,000) as current liabilities (refer note G6 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 G3(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 26 August 2019. 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.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

#### **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.

##### *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 observable market 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 2019 are included in the following notes:

- Note D3 – Share-based payment arrangements: Measurement of fair value;
- Note F2 – Impairment review: Calculation of value-in-use;
- Note F3 – Investment property: Measurement of fair values; and
- Note G2 – Financial instruments: Measurement of fair values.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

#### **A5 Changes in significant accounting policies**

The Group has initially applied AASB 9 and AASB 15 from 1 July 2018. A number of other new standards are also effective from 1 July 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements have not been restated to reflect the requirements of the new standards.

#### **AASB 9 Financial Instruments**

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

##### **(a) Classification and measurement of financial assets and financial liabilities**

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. AASB 9 eliminates the previous AASB 139 categories of held to maturity, loans and receivables and available for sale. Under AASB 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities.

The impact of AASB 9 on the classification and measurement of financial assets is set out below.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVTOCI are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The following accounting policies apply to the subsequent measurement of financial assets held by the Group:

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

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

##### **Financial assets at FVTPL**

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. The Group does not have any debt or equity investments at FVTOCI.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

#### **A5 Changes in significant accounting policies (continued)**

##### **AASB 9 Financial Instruments (continued)**

###### **(b) Measurement categories of financial assets**

Cash and cash equivalents, trade and other receivables, and loans and receivables are now classified at amortised cost.

###### **Modifications of financial assets and financial liabilities**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. The original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset are not substantially different, the Group recalculates the gross carrying amount of the financial asset and recognises the derecognition as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, the gain or loss is presented together with impairment losses.

###### **(c) Impairment of financial assets**

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVTOCI, but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139.

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset will increase if it is more than 60 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

###### **Presentation of allowance for ECL in the statement of financial position**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

###### **Write-off**

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### A About this Report (continued)

#### A5 Changes in significant accounting policies (continued)

#### AASB 9 Financial Instruments (continued)

##### (d) Transition

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively, except as described below:

- the Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements.
- the following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - the determination of the business model within which a financial asset is held;
  - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
  - the Group has elected to adopt AASB 139 for hedge accounting. Refer to Note G2.

The following table and the accompanying notes below explain the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets and financial liabilities as at 30 June 2019:

	Classification under AASB 139	Classification under AASB 9	Carrying amount under AASB 139 \$'000	Carrying amount under AASB 9 \$'000
<b>Financial assets</b>				
Trade and other receivables	Loans and receivables	Amortised cost	16,987	16,987
Cash and cash equivalents	Loans and receivables	Amortised cost	31,472	31,472
<b>Total financial assets</b>			<b>48,459</b>	<b>48,459</b>
<b>Financial liabilities</b>				
Secured bank loans	Other financial liabilities	Other financial liabilities	(210,500)	(210,500)
Trade payables	Other financial liabilities	Other financial liabilities	(27,005)	(27,005)
Interest rate swaps used for cash flow hedging	Fair value hedge instrument	Fair value hedge instrument	(2,412)	(2,412)
<b>Total financial liabilities</b>			<b>(239,917)</b>	<b>(239,917)</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

#### **A5 Changes in significant accounting policies (continued)**

##### **Derivatives and hedge accounting**

The Group has elected to use AASB 139 for hedge accounting purposes. The Group uses interest rate swaps to hedge the Group's exposure to fluctuations in interest rates on borrowings.

##### **Cash flow hedges**

The fair value of the variable element of the interest rate swaps are recognised directly in equity (FVTOCI) to the extent that the hedges are effective. To the extent hedges are ineffective, changes in the fair value are recognised in the profit or loss. Hedge effectiveness is tested at each reporting date and is calculated using the cumulative dollar offset method. Effectiveness will be assessed on a cumulative basis by calculating the change in fair value of the interest rate swaps as a percentage of the change in fair value of the designated hedge item. If the ratio change in the fair value is within the 80%-125% range, the hedge is deemed to be effective.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge relationship is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains until the forecast transaction occurs.

When a forecasted hedged transaction is no longer expected to occur, the amount deferred in the cash flow hedge reserve is recognised immediately in the profit or loss.

##### **AASB 15 Revenue from Contracts with Customers**

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted AASB 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations. Additionally, the disclosure requirements in AASB 15 have not generally been applied to comparative information.

AASB 15 did not have a significant impact on the Group's accounting policies with respect to revenue streams. The Group has disaggregated revenue based on the funding source and nature of the revenue stream.

##### **Government revenue**

The Federal Government assesses the Group's entitlement to revenue in accordance with the provisions of the Aged Care Act 1997. The subsidy received is based on the Aged Care Funding Instrument ("ACFI") assessment and recognised on an ongoing daily basis. The Federal Government also calculates certain accommodation supplements and other supplements on a per resident per day basis. The amount of Government revenue received is determined by Federal Government regulation rather than a contract with a customer. The funding is determined by a range of factors, including the residents care needs; whether the home has been significantly refurbished; levels of supported resident ratios at the home; and the financial means of the resident.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

**A About this Report (continued)**

**A5 Changes in significant accounting policies (continued)**

**AASB 15 Revenue from Contracts with Customers (continued)**

**Other Government funding**

Payment for the provision of transitional care under the Federal Government's Transitional Care Program ("TCP"). This is for the provision of time-limited, goal-oriented and therapy-focused packages of services to older people after a hospital stay.

**Basic daily fee**

The basic daily fee is a daily living expense paid by all residents as a contribution towards the provision of care and accommodation in accordance with the Aged Care Act 1997. This fee is calculated daily in accordance with the rates set by Federal Government, and invoiced on a monthly basis. In addition to the basic daily fee, if the resident has been assessed by the Federal Government as having the financial means, an additional means tested care fee is payable by the resident as a contribution to their care fees. This is also calculated on a daily basis and invoiced monthly.

**Other resident fees**

These include fees recognised by the Group for the provision of accommodation and additional services to residents, charged to residents under mutually agreed terms and conditions, depending upon the agreed room price and additional services requested.

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 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 the same as information provided in this financial report.

#### B2 Revenue and other income

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. .

All revenue is stated net of GST.

(a) Reconciliation of revenue and other income

	Note	2019 \$'000	2018 \$'000
<b>Government income</b>			
Department of Health funding		286,248	260,622
Other Government funding		1,487	2,359
<b>Total Government income</b>		<u>287,735</u>	<u>262,981</u>
<b>Resident income</b>			
Basic daily fees		83,432	77,290
Other resident fees		23,770	21,252
<b>Total resident income</b>		<u>107,202</u>	<u>98,542</u>
<b>Total revenue</b>		<u>394,937</u>	<u>361,523</u>
<b>Other income</b>			
Increase in fair value of investment property	F3(a)	802	1,743
Net gain on acquisition of aged care business		-	9,568
Gain on disposal of non-current assets		3,801	40
Other income		228	314
<b>Total other income</b>		<u>4,831</u>	<u>11,665</u>
<b>Total revenue and other income</b>		<u>399,768</u>	<u>373,188</u>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

#### **B3 Finance costs**

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 finance costs

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Finance costs</b>		
Loan establishment fees	372	258
Total loan interest costs	6,161	3,564
Loan interest costs capitalised	(2,385)	(1,302)
RAD/accommodation bond settlement interest expense	1,764	1,975
Increase in fair value of Independent Living Unit loan liability	427	-
<b>Total finance costs</b>	<b>6,339</b>	<b>4,495</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 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>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit for the year attributable to ordinary shareholders</b>	<b>16,433</b>	<b>23,327</b>

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

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	<b>266,740,654</b>	265,713,146
Weighted average number of dilutive rights outstanding	-	633,885
<b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b>	<b>266,740,654</b>	<b>266,347,031</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 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:

	Note	2019 \$'000	2018 \$'000
Current tax expense	B5(e)	5,200	4,501
Deferred tax expense		1,857	1,483
Under provision in respect of prior years		154	375
<b>Income tax expense</b>		<b>7,211</b>	<b>6,359</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:

	2019 \$'000	2018 \$'000
Profit before income tax	23,644	29,686
Prima facie tax on profit at the statutory tax rate of 30% (2018: 30%)	7,093	8,906
<b>Add/(less):</b>		
<b>Tax effect of:</b>		
- non-deductible tax expenses	118	70
- under provision of income tax in respect of prior years	-	375
- gain on acquisition - non-taxable	-	(2,992)
<b>Income tax expense</b>	<b>7,211</b>	<b>6,359</b>
Weighted average effective tax rate	30%	21%

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### 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/(payable)

	<b>Note</b>	<b>2019</b>	<b>2018</b>
		<b>\$'000</b>	<b>\$'000</b>
The overall movement in current tax receivable is as follows:			
Opening balance		<b>2,629</b>	1,162
Income tax payable charged to profit or loss	B5(a)	<b>(5,200)</b>	(4,501)
Income tax amounts paid during the year		<b>7,468</b>	8,458
Income tax amounts received during the year		<b>(5,120)</b>	(2,115)
Under provision of income tax in respect of prior years		<b>(154)</b>	(375)
<b>Closing balance</b>		<b>(377)</b>	2,629

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### B Business Performance (continued)

#### B5 Income tax expense (continued)

(f) Deferred tax assets/(liabilities)

	Opening balance	Charged to income	Business combinations	Closing balance
	\$'000	\$'000	\$'000	\$'000
<b>2019</b>				
Provisions	11,956	1,174	-	13,130
Deferred legal costs	99	(130)	-	(31)
Sundry creditors and accruals	1,002	(1)	-	1,001
ILU resident loans	452	-	-	452
Deferred equity raising costs	(151)	-	-	(151)
Property, plant and equipment	(12,603)	(2,785)	-	(15,388)
Deferred management fee receivable	(1,318)	(115)	-	(1,433)
	<u>(563)</u>	<u>(1,857)</u>	<u>-</u>	<u>(2,420)</u>
<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)
	<u>6,161</u>	<u>(1,483)</u>	<u>(5,241)</u>	<u>(563)</u>

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Notes to the Financial Statements

For the Year Ended 30 June 2019

#### C Trade and Other Receivables

##### C1 Trade and other receivables - current

	2019	2018
	\$'000	\$'000
<b>CURRENT</b>		
Resident debtors	9,999	6,486
Provision for doubtful debt	(1,013)	(677)
<b>Total resident debtors</b>	<b>8,986</b>	5,809
Deferred management fees receivable	2,430	2,561
Other receivables	3,224	986
<b>Total current trade and other receivables</b>	<b>14,640</b>	9,356

##### C2 Trade and other receivables - non-current

	2019	2018
	\$'000	\$'000
<b>NON-CURRENT</b>		
Deferred management fees receivable	2,347	1,834
<b>Total non-current trade and other receivables</b>	<b>2,347</b>	1,834

#### D Employee Remuneration

##### D1 Employee benefits expense

	2019	2018
	\$'000	\$'000
Wages and leave expenses	228,583	215,566
Superannuation contributions	21,006	19,747
Payroll tax expense	12,726	11,723
Agency staff costs	5,510	3,716
Workcover expense	7,226	6,981
Other staff costs	2,512	1,234
<b>Total employee benefits expense</b>	<b>277,563</b>	258,967

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### D Employee Remuneration (continued)

#### D2 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>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Provision for annual leave	21,060	20,545
Provision for long service leave	15,585	12,911
	<u>36,645</u>	<u>33,456</u>
<b>Non-current</b>		
Provision for long service leave	<u>3,975</u>	<u>3,741</u>

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### D Employee Remuneration (continued)

#### D3 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 2019, 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 1 July 2017 under the Rights Plan. These were forfeited and cancelled during FY 2018 under their grant terms.

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

	Rights Plan		Total	
	Number of rights 2019 '000	Number of rights 2018 '000	Number of rights 2019 '000	Number of rights 2018 '000
Outstanding at the beginning of the year	-	634	-	634
Forfeited during the year	-	(634)	-	(634)
Exercised during the year	-	-	-	-

No outstanding rights were exercisable at the reporting date (2018: Nil). The weighted average exercise price for rights outstanding at 30 June 2019 was \$Nil (2018: \$Nil).

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Notes to the Financial Statements

For the Year Ended 30 June 2019

#### D Employee Remuneration (continued)

##### D4 Key management personnel

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

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Short-term employee benefits	2,043	1,903
Post-employment benefits	115	126
Other short-term benefits	141	134
Other long-term benefits	(58)	20
<b>Total</b>	<b>2,241</b>	<b>2,183</b>

#### E Trade and Other Payables

##### E1 Trade and other payables

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

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT</b>		
Trade payables - operational	9,133	9,880
Trade payables - capital works in progress	2,296	6,118
Accrued wages	2,618	5,466
Accrued capital works in progress	5,552	5,926
Accrued expenses	5,127	7,560
Provision for building remedial works	2,279	3,620
	<b>27,005</b>	<b>38,570</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **F Asset Management**

#### **F1 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% to 4.0%
Plant and equipment and computer software	4.0% to 25.0%
Motor vehicles	20.0%
Property improvements	2.0% to 25.0%

Asset 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 2019

#### F Asset Management (continued)

##### F1 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 2019</b>						
Balance at the beginning of the year	542,585	5,185	33,317	84	106,549	687,720
Additions	14,299	3,951	30,147	-	73,995	122,392
Disposals	(550)	-	-	-	-	(550)
Transfers from capital works in progress	63,801	32,496	-	-	(96,297)	-
Transfers to assets held for sale	(1,800)	-	-	-	-	(1,800)
Depreciation expense	(11,467)	(227)	(8,263)	(38)	-	(19,995)
<b>Balance at the end of the year</b>	<b>606,868</b>	<b>41,405</b>	<b>55,201</b>	<b>46</b>	<b>84,247</b>	<b>787,767</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 inventories	(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>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **F Asset Management (continued)**

#### **F1 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 3 aged care homes - The Highbury in Victoria; Rye Sands in Victoria; and Brighton-Le-Sands in New South Wales. Significant refurbishment and brownfield extensions have also been completed. Costs totalling \$96,297,000 were reclassified from capital works in progress to land and buildings and property improvements upon completion of construction of these homes.

#### **F2 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 any 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 other third party Approved Providers 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 2019

### F Asset Management (continued)

#### F2 Intangible assets (continued)

(a) Movements in carrying amounts of intangible assets

	Goodwill \$'000	Resident places \$'000	Total \$'000
<b>Year ended 30 June 2019</b>			
Balance at the beginning of the year	260,746	230,632	491,378
Additions at cost	-	3,518	3,518
Disposals	-	(95)	(95)
<b>Closing value at 30 June 2019</b>	<b>260,746</b>	<b>234,055</b>	<b>494,801</b>
<b>Year ended 30 June 2018</b>			
Balance at the beginning of the year	260,746	204,806	465,552
Additions at cost	-	216	216
Additions through business combinations	-	27,920	27,920
Disposals	-	(2,310)	(2,310)
<b>Closing value at 30 June 2018</b>	<b>260,746</b>	<b>230,632</b>	<b>491,378</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### F Asset Management (continued)

#### F2 Intangible assets (continued)

##### *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 8.16% (2018: 8.40%) 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% (2018: 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 through increases in Aged Care Funding Instrument ("ACFI") and occupancy rates. Whilst current industry average occupancy rates are likely to remain lower than the long-term average in the short-term, management has assessed that the use of Japara's long-term average rate of occupancy in year five of the cash flows and into perpetuity is reasonable based upon current known conditions and forecast outcomes.

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

	<b>2019</b>	<b>2018</b>
	%	%
Change in discount rate	<b>0.76</b>	1.43
Change in long-term growth rate	<b>(0.96)</b>	(1.85)
Change in occupancy rate	<b>(1.70)</b>	(2.20)
Change in ACFI rate	<b>(0.80)</b>	(1.60)

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### F Asset Management (continued)

#### F3 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 independent valuations.

	<b>2019</b>	<b>2018</b>
<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	<b>38,398</b>	32,972
Transfers from land and buildings	-	3,683
Fair value adjustments	B2(a) <b>802</b>	1,743
<b>Balance at end of year</b>	<b>39,200</b>	<b>38,398</b>

#### Use of estimates and judgements

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

The fair value of investment property of \$39,200,000 (2018: \$38,398,000) has been categorised as Level 3 based on the inputs to the valuation technique used (see note A4).

Investment property has been valued by external independent valuation experts, using a combination of direct comparison and capitalisation approaches.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **G Capital structure and financing**

#### **G1 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, 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 G3.

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 brownfield and greenfield development projects and acquisition of aged care homes (funded via equity, borrowings, RAD inflows, operating cash flows or any combination of these, as appropriate).

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

#### **G2 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.

##### **Hedging**

All of the Group's derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained in AASB 139 are accounted for at fair value through profit or loss.

##### **Hedging**

On initial recognition of the hedge, documentation is prepared which shows the relationship between the hedged item and the hedging instrument, the risk management plan for the hedge and the methods for testing prospective and retrospective effectiveness.

##### **Cash flow hedges**

Where the risk management plan is to reduce variability in cashflows for a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the hedge is deemed to be a cash flow hedge.

The effective portion of the change in the fair value of the derivative is taken to other comprehensive income until the period in which the non-financial asset affects profit or loss. Any ineffective portion of the change in fair value of the derivative is taken immediately to profit or loss.

##### **Fair value hedges**

Changes in the fair value of derivatives and the hedged item where the hedge has been designated as a fair value hedge are taken to profit or loss.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

#### **G2 Financial instruments (continued)**

##### **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.

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.

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### G Capital structure and financing (continued)

#### G2 Financial instruments (continued)

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

Financial instruments: Measurement of fair value

For financial assets carried at amortised cost, 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.

The effects of initially applying AASB 9 on the Group's financial instrument A5.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

	<b>FVTOCI - hedging instrument</b>	<b>Financial assets at amortised cost</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial instruments not measured at fair value</b>			
Cash and cash equivalents	-	31,472	<b>31,472</b>
Trade and other receivables	-	16,987	<b>16,987</b>
Trade and other payables	-	(27,005)	<b>(27,005)</b>
	-	21,454	<b>21,454</b>
<b>Financial instruments measured at fair value</b>			
Interest rate swap used for hedging	(2,412)	-	<b>(2,412)</b>
<b>Total</b>	<b>(2,412)</b>	<b>21,454</b>	<b>19,042</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

#### **G2 Financial instruments (continued)**

##### **Derivatives**

The fair value of interest rate swaps is based on a mark-to-market model with reference to prevailing fixed and floating interest rates. These quotes are tested for reasonableness by discounting estimated future cash flows based on term to maturity of each contract and using market interest rates for a similar instrument at the measurement date.

##### **Derecognition of financial instruments**

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 G4 - Cash and cash equivalents;
- Note C - Trade and other receivables;
- Note E1 - Trade and other payables;
- Note G5 - Borrowings; and
- Note G6 - Other financial liabilities.

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

#### **G3 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 and derivatives. 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 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.

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### G Capital structure and financing (continued)

#### G3 Financial risk management (continued)

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
2019	%	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Cash and cash equivalents	1.09	31,472	-	-	-	31,472
Receivables	-	-	-	-	16,987	16,987
<b>Total financial assets</b>		<b>31,472</b>	<b>-</b>	<b>-</b>	<b>16,987</b>	<b>48,459</b>
<b>Financial liabilities</b>						
Accruals	-	-	-	-	(13,297)	(13,297)
Trade and other payables	-	-	-	-	(13,708)	(13,708)
RADs/bonds and ILU loans	-	-	-	-	(496,135)	(496,135)
RADs/bonds (departed residents)	3.75	-	(58,514)	-	-	(58,514)
Bank loans	3.07	-	(40,750)	(169,750)	-	(210,500)
Interest rate swaps	-	-	-	-	(2,412)	(2,412)
<b>Total financial liabilities</b>		<b>-</b>	<b>(99,264)</b>	<b>(169,750)</b>	<b>(525,552)</b>	<b>(794,566)</b>
<b>2018</b>						
<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	-	(45,539)	-	-	(45,539)
Bank loans	3.10	-	(21,000)	(124,500)	-	(145,500)
<b>Total financial liabilities</b>		<b>-</b>	<b>(66,539)</b>	<b>(124,500)</b>	<b>(483,562)</b>	<b>(674,601)</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 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

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### G Capital structure and financing (continued)

#### G3 Financial risk management (continued)

risk associated with the Department of Health is insignificant. In respect of other customers, mainly being aged care home residents, the Group monitors the level of receivables balances on an ongoing basis and any associated combined 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, resulting in contributions to their care and accommodation. The figures below do not take into account that approximately \$3,310,000 (2018: \$1,915,000) 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. While the Group's overall exposure to bad debts is significantly mitigated because of the ability to offset any outstanding receivable against the RAD/accommodation bond balance, this can only occur with the resident's written agreement or at the point of refund of the RAD. A resident also has up to six months from the date of entry to pay any agreed RAD to the Group. This timeframe enables the resident to collate the liquid funds required to pay the RAD. The payment of the resident's monthly fees, which would include interest charges on the unpaid RAD equivalent to the daily accommodation payment, may be delayed until the RAD has been paid to the Group. To protect the interests of the Group and to mitigate any underpayment of accumulated resident fees, various actions can be taken including: registering a caveat, with the resident's permission, on property owned by the resident; lodging claims with the Estate of the resident should they pass with unpaid fees; and seeking other forms of legal redress. Notwithstanding this, the Group has reviewed its expected credit loss and a provision for doubtful debts has been raised in the financial statements which at reporting date is \$1,013,000 (2018: \$677,000).

At 30 June 2019, the ageing analysis of resident debtors is as follows:

	Current	31 - 60 days	61 - 90 days	91+ days	Total \$'000
Gross carrying amount (\$'000)	730	745	977	7,547	9,999
Expected credit loss (%)	2	5	8	12	
Expected credit loss (\$'000)	17	35	83	878	1,013
2018 (\$'000)	751	931	358	2,512	4,552

The movements in the allowance for impairment in respect of trade receivables during the year are set out below. Comparative amounts for 2018 represent the allowance for impairment losses under AASB 139

	2019 \$'000	2018 \$'000
Balance at 30 June under AASB 139	1,013	677
Adjustment on initial application of AASB 9	-	-
<b>Balance at 1 July under AASB 9</b>	<b>1,013</b>	<b>677</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

#### **G3 Financial risk management (continued)**

##### **(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 30 months (2018: 26 months), resulting in approximately 40.0% (2018: 46.2%) 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.

##### **(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 and derivatives. 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 2019, the Group has bank borrowings of \$210,500,000 (2018: \$145,500,000).

The Group has hedging arrangements in place to further mitigate interest rate risk. Two hedging instruments enforce a cap on the interest rate payable on \$70,000,000 of the Group's bank debt; two further hedging instruments are interest rate swaps to fix the interest rate payable on up to \$125,000,000 of the Group's bank debt.

Changes in fair value are monitored on a six-monthly basis. Changes in fair value of the derivative hedging instrument are recognised directly in equity to the extent that the hedge is effective. To the extent the hedge is ineffective, changes in the fair value are recognised in the profit or loss. The interest rate swaps are Level 2 and carrying value of financial instruments are deemed to be a reasonable approximation of fair value due to their short term nature. The fair values have been determined through valuation techniques incorporating units (other than quoted prices) that are observable for a similar financial asset or liability, either directly or indirectly.

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### G Capital structure and financing (continued)

#### G3 Financial risk management (continued)

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

The hedging arrangements are as follows:

	Notional Amount	Interest rate (BBSY)	Commencement Date	Maturity date
Interest rate cap 1	\$ 40,000,000	2.89%	21/10/2016	1/01/2020
Interest rate cap 2	\$ 30,000,000	3.50%	03/01/2018	10/09/2020
Interest rate swap 1	\$ 75,000,000	1.65%	02/04/2019	10/10/2022
Interest rate swap 2	\$ 50,000,000	1.69%	10/01/2020	29/09/2023

##### *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 2019. 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:

	2019		2018	
	+1.00% \$'000	-1.00% \$'000	+1.00% \$'000	-1.00% \$'000
Profit/(loss) after tax	1,659	(1,659)	1,134	(1,134)
Equity	1,659	(1,659)	1,134	(1,134)

##### **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% (2018: 73%) 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.

The Group has also assessed that it is materially exposed to the risk that increases in state based Enterprise Bargaining Agreements ("EBAs") may exceed the increases in Federal Government Funding. Whilst the Group negotiates with its employees through a trade union, in good faith, it is not able to necessarily negotiate wage increases that are the same as or lower than the increase in Federal Government Funding

##### *Price risk sensitivity analysis - Government funding*

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 2019. The sensitivity has been calculated using a change in the level of Government funding of 1.00% increase and decrease.

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### G Capital structure and financing (continued)

#### G3 Financial risk management (continued)

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

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:

	2019		2018	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) after tax	2,014	(2,014)	1,841	(1,841)
Equity	2,014	(2,014)	1,841	(1,841)

##### Price risk sensitivity analysis - EBA wage rate increases

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 EBA wage rate increases compared to Federal Government funding increases, with all other variables remaining 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 change in EBA wage rate increases on the expenses of the Group, based on the amount of employee benefits expense for the year ended 30 June 2019. The sensitivity has been calculated using a change in the level of employee benefits expense of 1% increase and decrease.

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

	2019		2018	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) after tax	(1,943)	1,943	(1,813)	1,813
Equity	(1,943)	1,943	(1,813)	1,813

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### G Capital structure and financing (continued)

#### G4 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 G6.

#### G5 Borrowings

	2019 \$'000	2018 \$'000
<b>Current</b>		
Bank loans	40,750	21,000
<b>Total current borrowings</b>	<b>40,750</b>	<b>21,000</b>
<b>Non-current</b>		
Bank loans	169,750	124,500
<b>Total non-current borrowings</b>	<b>169,750</b>	<b>124,500</b>
<b>Total borrowings</b>	<b>210,500</b>	<b>145,500</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

#### **G5 Borrowings (continued)**

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

On 21 December 2018, the Group and its existing lenders, executed a new Syndicated Facility Agreement and Multi-Option Facility Agreement (the "Bank Facilities"). These Bank Facilities have been negotiated to fund the Group's greenfield and brownfield developments as well as acquisitions and other general purposes. The new Bank Facilities are an amendment and restatement of the pre-existing agreements with the following key amendments:

- an increase in the expiry date of the Bank Facilities from September 2020 to September 2023;
- an increase in the total available facility amounts from \$220,000,000 to \$345,000,000; and
- some minor changes to reflect the increase in size of the Group compared to the time when the previous banking agreements were negotiated.

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, \$70,000,000 (2018: \$65,000,000) was drawn down to fund developments, \$Nil (2018: \$34,500,000) was drawn down to fund acquisitions of aged care businesses and; \$5,000,000 (2018: \$15,000,000) was repaid. Additionally \$6,000,000 was drawn down to fund the Group's FY2019 workcover and general insurance premium expenses. This amount was repaid in full prior to 30 June 2019. A total of \$210,500,000 (2018: \$145,500,000) was drawn down against the Bank Facilities as at the reporting date. Subsequent to this date, a further \$16,000,000 (2018: \$12,000,000) has been drawn down to fund developments and the Group's FY2020 workcover and general insurance premium expenses; and \$Nil has been repaid (2018: \$5,000,000).

#### **G6 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.

## Notes to the Financial Statements

For the Year Ended 30 June 2019

### G Capital structure and financing (continued)

#### G6 Other financial liabilities (continued)

##### Cash flow hedge

The cash flow hedges are interest rate swaps used for hedging. The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.

	2019	2018
	\$'000	\$'000
<b>CURRENT</b>		
RADs/accommodation bonds	530,629	486,969
ILU resident loans	24,020	22,379
<b>Total other financial liabilities - current</b>	<b>554,649</b>	<b>509,348</b>
<b>NON-CURRENT</b>		
Interest rate swaps	2,412	-
<b>Total other financial liabilities - non-current</b>	<b>2,412</b>	<b>-</b>
<b>Total other financial liabilities</b>	<b>557,061</b>	<b>509,348</b>

##### (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 2019

### G Capital structure and financing (continued)

#### G7 Reconciliation of liabilities arising from financing activities

	1 July 2018	Cash flows	Other	30 June 2019
	\$'000	\$'000	non-cash \$'000	\$'000
Borrowings - current	21,000	19,750	-	40,750
Borrowings - non-current	124,500	45,250	-	169,750
Other financial liabilities - current	509,348	44,726	730	554,804
Other financial liabilities - non-current	-	-	2,412	2,412
<b>Total</b>	<b>654,848</b>	<b>109,726</b>	<b>3,142</b>	<b>767,716</b>

#### G8 Issued capital

##### (a) Ordinary shares

	2019	2018
	No.	No.
At the beginning of the reporting period	265,887,509	265,545,992
Issued during the period	1,359,819	341,517
<b>At the end of the reporting period</b>	<b>267,247,328</b>	<b>265,887,509</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 1,359,819 (2018: 341,517) ordinary shares under its Dividend Reinvestment Plan.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Notes to the Financial Statements

For the Year Ended 30 June 2019

#### G Capital structure and financing (continued)

##### G8 Issued capital (continued)

###### (b) Dividends

	2019	2018
	\$'000	\$'000
The following dividends were determined and paid:		
2018 Final 50% franked ordinary dividend of 3.75 (2017: 5.75) cents per share	9,970	15,268
2019 Interim unfranked ordinary dividend of 2.80 (2018: 4.00) cents per share	7,478	10,629
<b>Total</b>	<b>17,448</b>	<b>25,897</b>
Proposed 2019 Final 50% franked ordinary dividend of 3.35 (2018: 3.75) cents per share to be paid on 30 October 2019	<b>8,953</b>	9,971

The proposed final dividend for 2019 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 2019.

##### Franking account

	2019	2018
	\$'000	\$'000
Franking credits available for subsequent financial years at a tax rate of 30%	<b>269</b>	61

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 assumed the benefit of \$269,000 (2018: \$61,000) franking credits.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

# Notes to the Financial Statements

For the Year Ended 30 June 2019

## 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 2019
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 2019

H Group structure (continued)

### H1 Subsidiaries (continued)

(a) List of subsidiaries (continued)

Name of entity	Ownership	Equity holding 2019
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%

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

# Notes to the Financial Statements

For the Year Ended 30 June 2019

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.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

# Notes to the Financial Statements

## For the Year Ended 30 June 2019

H Group structure (continued)

### H3 Parent entity

As at, and throughout, the year ended 30 June 2019, the parent entity of the Group was Japara Healthcare Limited.

	2019	2018
	\$'000	\$'000
<b>Statement of Financial Position</b>		
Assets		
Current assets	1,660	6,177
Non-current assets	<u>778,392</u>	685,913
Total Assets	<u>780,052</u>	692,090
Liabilities		
Current liabilities	(55,377)	(22,175)
Non-current liabilities	<u>(172,162)</u>	(124,500)
Total Liabilities	<u>(227,539)</u>	(146,675)
<b>Net assets</b>	<u>552,513</u>	545,415
Equity		
Issued capital	524,695	522,962
Hedging reserve	(2,412)	-
Retained earnings	<u>30,230</u>	22,453
<b>Total equity</b>	<u>552,513</u>	545,415
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Total profit or loss for the year	25,225	14,056
Other comprehensive income	<u>(2,412)</u>	-
<b>Total comprehensive income</b>	<u>22,813</u>	14,056

### 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:

- \$19,618,000 (2018: \$44,198,000) in relation to various construction contracts expected to be completed over the course of the next two years; and
- \$8,975,000 (2018: \$10,125,000) in relation to four land purchases expected to complete in FY2020.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

### **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>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	<b>2,378</b>	2,245
- between one year and five years	<b>7,613</b>	4,839
- later than five years	<u>-</u>	<u>654</u>
	<b><u>9,991</u></b>	<b><u>7,738</u></b>

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 5 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 totalling \$2,066,000 (2018: \$854,000). This is secured against the Multi-Option Facility Agreement (see note G5(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.

##### Property lease guarantee

During the year the Group entered into a property lease to secure new head office premises. Subsequent to the period end, the Group transferred the lease to another third party lessee on arm's length terms. Whilst the deed of transfer of lease was executed on 4 July 2019, the Group remains as guarantor under the lease assignment.

The Group has noted that a possible future outflow may present itself if the new tenant was to default under the lease. Further to a financial assessment of the new tenant, the possibility of any future outflow has been assessed to be remote and not calculable and as such, no provision has been made at 30 June 2019

#### **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 2019

### I Other Information (continued)

#### I5 Cash Flow Information

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

	2019	2018
Note	\$'000	\$'000
Profit for the year	16,433	23,327
Cash flows excluded from profit attributable to operating activities:		
- Equity raising costs	-	(7)
Non-cash flows in profit:		
- depreciation	F1 19,995	17,150
- gain on acquisition	-	(12,140)
- straight-lining of rental expense	-	(13)
- net profit on disposal of non-current assets	B2 (3,801)	(40)
- non-cash movement in RADs/accommodation bonds	(230)	2,181
- deferred management fee income	(920)	(663)
- increase in fair value of investment property	B2 (802)	(1,743)
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	(3,865)	4,658
- (increase)/decrease in other assets	(939)	(1,700)
- increase/(decrease) in deferred tax liabilities	1,858	7,242
- increase/(decrease) in trade and other payables	(199)	(836)
- increase/(decrease) in current tax liabilities	3,006	(2,082)
- increase/(decrease) in provisions	3,423	161
<b>Net cash provided from operating activities</b>	<b>33,959</b>	<b>35,495</b>

#### I6 Remuneration of auditors

	2019	2018
	\$	\$
Audit and review services:		
- auditing or reviewing the financial statements	275,600	354,400
Other services:		
- taxation services	111,700	150,200
- due diligence services	-	113,100
- advisory services	49,700	81,300
<b>Total</b>	<b>437,000</b>	<b>699,000</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

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

The Group has consistently applied the new accounting standards to all periods presented in these consolidated financial statements (see also Note A5).

#### **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 January 2019 and earlier application is permitted; however the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The Group has considered the impact of these new or amended standards and the potential changes to the financial statements in the period of initial application.

#### **AASB 16 Leases (effective for the Group from 1 July 2019)**

AASB 16 *Leases* ("AASB 16") introduces a single, on-balance sheet lease accounting model for lessees, in a similar way to the accounting treatment for finance leases under AASB 117 *Leases*. Under AASB 16, a lessee recognises a right-of-use asset representing its right-to-use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, that is, lessors continue to classify leases as finance or operating leases.

The Group has considered the impact of implementing AASB 16 in relation to the following:

- leasehold property and equipment where it is a lessee; and
- agreements which provide a resident with a right to occupy a room.

#### **Property and equipment leases**

The Group will recognise new assets and liabilities for its leasehold aged care homes and head office premises and certain minor equipment leases that are not exempt under AASB 16. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge in respect of the right-to-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group will apply AASB 16 initially on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

Based on preliminary calculations, the Group estimates that the adoption of AASB 16 will result in the recognition on 1 July 2019 of right-to-use assets of approximately \$26,500,000 and lease liabilities of \$26,500,000 in the Statement of Financial Position. The Group estimates that expenses in respect of these leases will include depreciation of the right-to-use assets of approximately \$2,000,000 and an interest expense of approximately \$800,000. These expenses will replace rent and operating lease expenses, based upon FY2019 figures, of approximately \$2,500,000.

The exact impact of the adoption of AASB 16 is subject to finalisation of any negotiations for lease extensions and the assessment of the likelihood of exercising lease extension options. The Group does not expect the adoption of AASB 16 to impact its ability to meet its financial bank loan covenant obligations under its syndicated facility agreement

#### **Resident agreements**

The Group has assessed the impact of AASB 16 in respect of its resident agreements, specifically due to the security of tenure and right to occupy a room that these offer the Group's residents. The Group has undertaken a review of the resident agreements and determined that whilst the contractual arrangements will result in the resident agreement being deemed a lease under AASB 16, the impact of treating the Group as a lessor and recording revenue and a finance charge under AASB 16 is immaterial. For those residents that have the financial means to do so, they may elect to pay the room price as a Daily Accommodation Payment ("DAP"), lump sum Refundable Accommodation Deposit ("RAD"), or a combination of the two. For those residents that have opted to pay a DAP, adopting AASB 16 will not result in a change in accounting treatment. For those residents that have opted to pay a RAD, whilst AASB 16 would regard there being a non-cash

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2019**

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

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

consideration for accommodation, the following criteria have led to the Group's conclusion that no material changes to the current accounting treatment will arise:

- There is no economic incentive for the resident to stay at any specific home as the resident agreement only requires seven days written notice to vacate and there are comparable alternative homes available to residents;
- As no economic incentive exists to stay, the lease term can only be for a maximum of seven days, being the notice term;
- The repayment of the RAD is ultimately guaranteed by the Federal Government such that there is no credit risk rate to include in the discount rate which results in the appropriate rate being the risk free overnight cash rate; and
- Given the non-cancellable period of the lease term is seven days, the difference between the fair value of the RAD determined based upon AASB 9 *Financial Instruments* and the nominal amount of the RAD would be negligible.

#### **ILU resident loan/license agreements**

The Group is in the process of finalising its evaluation of the potential impact of AASB 16 on its ILU residents. The license agreements that Independent Living Units ("ILU") residents enter with the Group confer the right to occupy a unit, with an obligation on the Group to refund the ILU loan within six months of the ILU resident's departure, interest free. The outcome of the Group's evaluation is expected to be immaterial and have no net impact on profit or loss.

#### **Other standards**

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 17 Insurance Contracts – effective for annual reporting periods beginning on or after 1 January 2021
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2017-1 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-Term Interest in Associates and joint Ventures – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2018-1 Annual Improvements to IFRS Standards 2015-2017 Cycle – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework – effective for annual reporting periods beginning on or after 1 January 2020
- Interpretation 23 Uncertainty Over Income Tax Treatments - effective for annual reporting periods beginning on or after 1 January 2019

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### 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 40 to 88 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 2019 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 H1 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 2019.
- 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 26 August 2019



**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 2019 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 2019
- 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 Japara Healthcare Limited (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

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.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### Recoverable amount of goodwill and resident places (\$495 million)

Refer to Note F2 of 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 36% of total assets); and</li> <li>the level of judgement required by us in evaluating the Group's assessment of recoverability as contained in their value in use model.</li> </ul> <p>We use 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.</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 obtained 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; and</li> <li>working with our 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,</li> </ul>

	<p>and to focus our procedures;</p> <ul style="list-style-type: none"> <li>• assessing the Group’s determination of resident places as indefinite life intangible assets against criteria contained in the relevant accounting standards. We did this by considering whether there were changes in characteristics of the resident places intangible asset from the previous year including accreditation requirements; and</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.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do 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 and Company'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 and Company 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 2019, 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 24 to 39 of the Directors' report for the year ended 30 June 2019.

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

26 August 2019

## 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 12 August 2019.

### (a) Distribution of shareholders – ordinary shares

Range	Ordinary shares	%	No of holders	%
100,001 and Over	207,429,163	77.62	117	1.54
10,001 to 100,000	39,027,857	14.60	1,504	19.81
5,001 to 10,000	11,425,984	4.28	1,486	19.58
1,001 to 5,000	8,542,451	3.20	2,975	39.19
1 to 1,000	821,873	0.30	1,509	19.88
<b>Total</b>	<b>267,247,328</b>	<b>100.00</b>	<b>7,591</b>	<b>100.00</b>

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

There are 665 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	41,969,535	15.70
2 Citicorp Nominees Pty Limited	31,244,735	11.69
3 J P Morgan Nominees Australia Pty Limited	29,332,209	10.98
4 The Trust Company (Australia) Limited (A/C 4)	19,361,813	7.25
5 Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,127,179	5.66
6 Moelis Australia Asset Management Ltd (Moelis Aus Partners A/C)	14,984,821	5.61
7 Australian Shareholder Nominees Pty Ltd	6,776,392	2.54
8 Aged Services Victoria Pty Ltd (The Heritage Lakes A/C)	6,508,348	2.44
9 BNP Paribas Noms Pty Ltd (DRP)	3,111,190	1.16
10 Samraj Pty Ltd (Reid Family No 2 A/C)	2,787,630	1.04
11 National Nominees Limited	2,539,314	0.95
12 Jenny Lynn Properties Pty Ltd (Manken Family A/C)	2,166,928	0.81
13 BNP Paribas Nominees Pty Ltd (DRP)	1,860,144	0.70
14 Naze Nominees Pty Ltd (The Klempfner Family A/C)	1,839,195	0.69
15 Bundarra Trading Company Pty Ltd (Thomas Emery Kennedy A/C)	1,500,000	0.56
16 Ecapital Nominees Pty Limited (Accumulation A/C)	1,189,079	0.44
17 Colman Foundation Limited (Colman Foundation A/C)	1,108,711	0.41
18 The Cass Foundation Limited	1,048,293	0.39
19 Narra Holdings Pty Ltd (Lawrence Narra Family A/C)	856,636	0.32
20 Charnley Park Pty Ltd	817,400	0.31
<b>TOTAL</b>	<b>186,129,552</b>	<b>69.65</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	13.25%
Pendal Group Limited	27,977,370	10.47%
Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,700,000	5.87%

**(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 2019 by the Plan trustee for allocation under the Plan.