JAPARA

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ASX APPENDIX 4D
Half year report for the six months ended 31 December 2019

This Appendix 4D, together with the attached Interim Financial Report for the half year ended 31 December 2019 (**Interim Financial Report**), comprise the information required to be given to the ASX in accordance with Listing Rule 4.2A.

This Appendix 4D and the Interim Financial Report should be read in conjunction with the Company's most recent Annual Financial Report.

Reporting period
Reporting period: The half year ended 31 December 2019
Previous corresponding reporting period: The half year ended 31 December 2018

Results for announcement to the market

Financials	Increase/ Decrease	31 Dec 2019 $'000	31 Dec 2018 $'000	Change %
Revenue from ordinary activities	Increase	207,036	193,331	7.1
Profit from ordinary activities after tax attributable to members	Decrease	5,424	7,551	28.2
Net profit for the period attributable to members	Decrease	5,424	7,551	28.2

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

Dividends	Amount per share (cents)	Franked amount per share at 30% tax rate (cents)	Payment Date	Record Date
2020 interim dividend	2.00	1.00	30/04/20	27/03/20
2019 final dividend	3.35	1.675	30/10/19	27/09/19

The 2020 interim dividend is franked to 50%. The 2019 final dividend was franked to 50%.

The Company's dividend reinvestment plan remains suspended and will therefore not operate in respect of the 2020 interim dividend.

Net tangible assets per security
Net tangible assets per ordinary share as at 31 December 2019: 12.4 cents (2018: 15.6 cents).

Entities over which control has been gained or lost during the period
No entities were acquired or sold during the period.

This document was authorised for release by the Board of Japara Healthcare Limited.

Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

Consolidated Interim Financial Report

For the Half Year Ended 31 December 2019

Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

Contents

For the Half Year Ended 31 December 2019

Directors' Report
For the Half Year Ended 31 December 2019

The directors present their report together with the condensed consolidated interim financial statements of Japara Healthcare Limited (the "Company") and its controlled entities (the "Group") for the half year ended 31 December 2019 ("Interim Financial Report").

(a) Directors

The names and special responsibilities of each person who has been a director during the half year and to the date of this report are:

Linda Bardo Nicholls AO - Non-Executive Chairman
Andrew Sudholz - CEO and Managing Director
Richard England - Non-Executive Director
David Blight - Non-Executive Director
JoAnne Stephenson - Non-Executive Director
Leanne Rowe AM - Non-Executive Director (appointed 1 July 2019)

(b) Operating results and review of operations for the half year ended 31 December

	2019	2018
	$'000	$'000
Revenue and other income	**212,600**	193,484
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**24,323**	22,105
Earnings before interest and tax (EBIT)	**11,612**	13,025
Net profit after tax (NPAT)	**5,424**	7,551
Total comprehensive income attributable to members of the parent entity	**5,147**	7,551

Financial highlights

Total revenue and other income for the half year of $212,600,000 was up by $19,116,000 on the prior comparative period. Overall revenue growth was achieved from an increase in operational places through the Group's strategy of developing new homes (greenfields), building extensions to existing homes (brownfields) and realising the value from its real estate portfolio and non-operational assets.

EBITDA increased to $24,323,000 for the half year, up $2,218,000 on the prior comparative period. This included a $1,339,000 benefit to EBITDA due to the Group's adoption of AASB 16 *Leases* from 1 July 2019.

EBIT and NPAT were $11,612,000 and $5,424,000 respectively.

The Group continued to deliver high quality care to its residents during the half year and maintained its 100% accreditation record.

The Group also continued to deliver on its development strategy during the half year which will provide a significant uplift in new places to cater for the growing demand for residential aged care from Australia’s ageing population. During the year the Group opened its new 106 place Robina Rise, QLD home and completed extentions at Kingston Gardens, VIC; Mirboo North, VIC; and Brighton-Le-Sands, NSW; adding 103 net new operational places to its portfolio.

Directors' Report

For the Half Year Ended 31 December 2019

Cash flow management

The Group’s principal sources of funds continue to be cash flows from operations including Refundable Accommodation Deposits ("RADs"). Net cash provided by operating activities of $59,707,000 (2018: $59,398,000) was inclusive of $24,354,000 (2018: $22,489,000) of January Government Funding received in advance in December. Net RAD inflows amounted to $33,404,000 (2018: $28,945,000).

During the half year bank debt of $46,000,000 was drawn down and $20,750,000 was repaid. A total of $235,750,000 (30 June 2019: $210,500,000) was drawn down against the bank facilities as at the reporting date. Cash held at the reporting date was $50,492,000 (30 June 2019: $31,472,000); this includes $24,354,000 (30 June 2019: $Nil) relating to January 2020 Government funding received in December 2019.

Other

The Royal Commission into Aged Care Quality and Safety ("Royal Commission") has continued through the reporting period, with an interim report issued on 31 October 2019. Whilst the interim report contained no specific recommendations, these being withheld until the final report, some of the findings in the interim report have had a negative impact on the overall industry occupancy levels. The Group's occupancy levels have also been impacted to a certain extent, however pleasingly, they have continued to stay above the industry average. The Group will continue to fully co-opoerate with all requests received from the Royal Commission, with the date for the final report revised to 12 November 2020.

(c) Events after the reporting date

No matters or circumstances, other than those disclosed elsewhere in the Interim Financial Report, have arisen since the end of the financial half year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Directors' Report

For the Half Year Ended 31 December 2019

(d) Dividends

A final dividend for the year ended 30 June 2019 of 3.35 cents per share, franked to 50%, was paid on 30 October 2019. The final dividend amount of $8,952,000 was fully paid in cash following the suspension of the Group's Dividend Reinvestment Plan.

An interim dividend for the half year ended 31 December 2019 of 2.00 cents per share, franked to 50%, has been determined and is payable on 30 April 2020. The interim dividend amount of $5,345,000 is based on the number of shares on issue at the date of this report. This amount has not been recognised in the Interim Financial Report as it was determined subsequent to the half year end.

(e) Lead auditor's independence declaration

The lead auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2019 has been received. A copy of this declaration can be found on page 4 of the Interim Financial Report and forms part of this report.

(f) ASIC Corporations Instrument 2016/191 - Rounding of amounts

The Company is a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and, accordingly, amounts in the Interim Financial Report and the Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of Directors:

Director:	Director: ....
Linda Bardo Nicholls AO - Chairman	Andrew Sudholz - CEO and Managing Director

Signed and dated at Melbourne on 28 February 2020

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 review for the half-year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

S E Bell

Suzanne Bell

Partner

Melbourne

28 February 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 31 December 2019

	Note	2019* $'000	2018 $'000
Revenue from contracts with customers		**184,267**	193,331
Other income		**28,333**	153
Total revenue and other income	5	**212,600**	193,484
Employee benefits expense		**(150,792)**	(136,160)
Resident costs		**(18,584)**	(17,099)
Occupancy costs		**(10,465)**	(10,788)
Depreciation and amortisation expense		**(12,711)**	(9,080)
Administrative expenses		**(8,436)**	(7,332)
Earnings before interest and tax		**11,612**	13,025
Finance income		**143**	202
Finance costs		**(3,923)**	(2,555)
Profit before income tax		**7,832**	10,672
Income tax expense		**(2,408)**	(3,121)
Net profit after tax		**5,424**	7,551
Other comprehensive income, net of tax		**(277)**	-
Other comprehensive income for the year, net of tax		**(277)**	-
Total comprehensive income for the half year		**5,147**	7,551
Profit attributable to:			
Members of the parent entity		**5,424**	7,551
Total comprehensive income attributable to:			
Members of the parent entity		**5,147**	7,551
Earnings per share			
Basic earnings per share (cents)		**2.0**	2.8
Diluted earnings per share (cents)		**2.0**	2.8

**The Group has adopted AASB 16 Leases from 1 July 2019, using the modified retrospective transition approach. Under this approach, prior year comparatives have not been restated. Under previous standards occupancy costs would be $1,339,000 higher, depreciation and amortisation would be $1,142,000 lower and finance costs would be $430,000 lower. There has also been a re-classifcation of income from revenue from contracts with customers to other income relating to income received in exchange for providing accommodation to residents (See Note 5).*

The accompanying notes form part of these financial statements.

Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	31 December 2019 $'000	30 June 2019 $'000
ASSETS			
Current assets			
Cash		**50,492**	31,472
Trade and other receivables		**17,999**	14,640
Current tax receivable		**1,762**	-
Other assets		**11,002**	6,216
Total current assets		**81,255**	52,328
Non-current assets			
Trade and other receivables		**2,402**	2,347
Non-current assets held for sale		**-**	2,192
Property, plant and equipment	6	**822,326**	787,767
Right-of-use assets	3(c)	**28,421**	-
Investment property		**49,672**	39,200
Intangible assets	7	**494,743**	494,801
Total non-current assets		**1,397,564**	1,326,307
Total assets		**1,478,819**	1,378,635
LIABILITIES			
Current liabilities			
Trade and other payables		**21,415**	27,005
Other deferred income		**24,354**	-
Other liabilities		**5,269**	8,568
Loans and borrowings	10	**20,000**	40,750
Current tax payable		**-**	377
Other financial liabilities	8	**588,000**	554,649
Employee provisions		**38,305**	36,645
Lease liability	3(c)	**1,694**	-
Total current liabilities		**699,037**	667,994
Non-current liabilities			
Loans and borrowings	10	**215,750**	169,750
Deferred tax liabilities		**2,873**	2,420
Employee provisions		**3,761**	3,975
Other financial liabilties	8	**2,917**	2,412
Lease liability	3(c)	**26,532**	-
Total non-current liabilities		**251,833**	178,557
Total liabilities		**950,870**	846,551
NET ASSETS		**527,949**	532,084
EQUITY			
Issued capital		**524,078**	524,695
Hedging reserve		**(2,689)**	(2,412)
Share based payment reserve		**287**	-
Retained earnings		**6,273**	9,801
TOTAL EQUITY		**527,949**	532,084

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the Half Year Ended 31 December 2019

	Issued capital $'000	Hedging reserve $'000	Share based payment reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2019	**524,695**	**(2,412)**	**-**	**9,801**	**532,084**
Comprehensive income					
Profit attributable to members of the Group	**-**	**-**	**-**	**5,424**	**5,424**
Cash flow hedges effective portion of changes in fair value	**-**	**(277)**	**-**	**-**	**(277)**
Total comprehensive income	**-**	**(277)**	**-**	**5,424**	**5,147**
Dividends	**-**	**-**	**-**	**(8,952)**	**(8,952)**
Share based payment	**-**	**-**	**287**	**-**	**287**
Shares bought back during the year	**(617)**	**-**	**-**	**-**	**(617)**
Total transactions with owners of the Company	**(617)**	**-**	**287**	**(8,952)**	**(9,282)**
Balance at 31 December 2019	**524,078**	**(2,689)**	**287**	**6,273**	**527,949**

	Issued capital $'000	Hedging reserve $'000	Share based payment reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2018	522,962	-	-	10,816	533,778
Comprehensive income					
Profit attributable to members of the Group	-	-	-	7,551	7,551
Total comprehensive income	-	-	-	7,551	7,551
Shares issued during the year	1,578	-	-	-	1,578
Dividends	-	-	-	(9,972)	(9,972)
Total transactions with owners of the Company	1,578	-	-	(9,972)	(8,394)
Balance at 31 December 2018	524,540	-	-	8,395	532,935

Consolidated Statement of Cash Flows

For the Half Year Ended 31 December 2019

	2019	2018
	$'000	$'000
Cash flows from operating activities:		
Receipts from customers	**230,575**	215,528
Payments to suppliers and employees	**(196,363)**	(178,465)
Income taxes paid	**(4,113)**	(3,508)
Interest received	**166**	225
Finance costs paid	**(3,962)**	(3,327)
Proceeds from RADs/accommodation bonds & ILU resident loans*	**120,895**	96,510
Repayment of RADs/accommodation bonds & ILU resident loans*	**(87,491)**	(67,565)
Net cash provided by operating activities	**59,707**	59,398
Cash flows from investing activities:		
Purchase of land & buildings	**(16,611)**	(7,865)
Proceeds from sale of land & buildings	**2,007**	578
Purchase of plant and equipment	**(4,008)**	(5,738)
Capital works in progress	**(37,034)**	(53,492)
Net cash used in investing activities	**(55,646)**	(66,517)
Cash flows from financing activities:		
Proceeds from issue of share capital under DRP	**-**	1,578
Dividends paid	**(8,952)**	(9,972)
Proceeds from bank borrowings	**46,000**	37,000
Repayment of bank borrowings	**(20,750)**	(5,000)
Repayment of lease liabilities	**(1,339)**	-
Net cash provided by financing activities	**14,959**	23,606
Net increase in cash and cash equivalents held	**19,020**	16,487
Cash and cash equivalents at beginning of the half year	**31,472**	29,158
Cash and cash equivalents at end of the half year	**50,492**	45,645

**In the current period the Group has changed the classification of cash flows arising in relation to the proceeds from, and repayments of, RADs, accommodation bonds and ILU resident loans from "Cash flows from investing activities" to "Cash flows from operating activities". Please see Note 2 for further details*

Notes to the Interim Financial Statements

For the Half Year Ended 31 December 2019

Note 1 Reporting entity

Japara Healthcare Limited (the "Company") is a company domiciled in Australia. These condensed consolidated interim financial statements ("interim financial report") as at and for the half year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

The principal activity of the Group during the reporting period was that of owner, operator and developer of residential aged care homes. The Group operates predominantly in one business and geographical segment being the provision of residential aged care services throughout Australia. Segment information reported to key management personnel is substantially similar to information provided in this interim financial report.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2019 are available upon request from the Company's registered office at Q1 Building Level 4, 1 Southbank Boulevard, Southbank, Victoria or on the Company's investor centre website at https://investor.japara.com.au/investor-centre/.

Note 2 Basis of preparation

This interim financial report is a general purpose report and has been prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting, and with IAS 34 Interim Financial Reporting.

The interim financial report is intended to provide users with an update on the latest financial results and position of the Group. As such it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. This interim financial report does not include all the notes normally included in an annual financial report. It is therefore recommended that this interim financial report be read in conjunction with the consolidated annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the half year and up to the date of this interim financial report in accordance with the continuous disclosure obligations of the ASX listing rules.

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 $617,782,000 as at 31 December 2019 (30 June 2019: $615,666,000). This mainly arises because of the requirement to classify obligations relating to refundable accommodation deposits ("RADs"), accomodation bonds and independent living unit ("ILU") resident loans of $588,000,000 (30 June 2019: $554,649,000) as current liabilities (refer Note 8 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.

In the current period the Group has changed the classification of cash flows arising in relation to the proceeds from, and repayments of, RADs, accommodation bonds and ILU resident loans from “Cash flows from investing activities” to “Cash flows from operating activities”. The reason for the change in classification is that the Group is of the view that this better reflects RADs, accommodation bonds and ILU resident loans as being part of the principal revenue-producing activities of the business and are utilised at the discretion of the Group within the guidelines set out by the Prudential Compliance Standards. The prior period comparatives have also been restated to reflect this change in classifications.

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and, accordingly, amounts in the Interim Financial Report and the Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Other than described elsewhere in this report, the same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

This interim financial report was authorised for issue by the Board of Directors on 28 February 2020.

Note 3 Changes in significant accounting policies

Except as described below, the accounting policies applied by the Group in the condensed consolidated interim financial report are consistent with those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2019.

The changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as at and for the year ending 30 June 2020.

The Group has initially adopted AASB 16 Leases from 1 July 2019. A number of other new standards are effective from 1 July 2019 but they do not have a material impact on the Group's financial statements.

AASB 16 Leases

AASB 16 supersedes AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. However, due to the changes in AASB 16 of how a lease is identified, resident agreements will be considered a lease under AASB 16. The Group has concluded that the lease term for these arrangements is 7 days (being the notice period required from a resident upon departure), and therefore the application of AASB 16 to these agreements does not have a material impact on the recognition or measurement of revenue. The Group now discloses this revenue separately from revenue from contracts with customers (See Note 5).

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to apply the practical expedient that allows the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’) and lease contracts for which the underlying asset is of low value (‘low-value assets’).

(a) Nature of the effect of adoption of AASB 16

The Group has lease contracts for various items of property, equipment and motor vehicles. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. At transition, the Group did not have any finance leases recognised. For the Group’s operating leases, the leased assets were not capitalised, and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and trade and other payables, respectively. Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Notes to the Interim Financial Statements
For the Half Year Ended 31 December 2019

Note 3 Changes in significant accounting policies (continued)

(a) Nature of the effect of adoption of AASB 16 (continued)

The effect at 1 July 2019 of adopting AASB 16 is as follows:

Impact on the statement of financial position as at 1 July 2019:

	2019 $'000
Assets	
Right-of-use assets	**29,041**
Prepayments	**(211)**
Liabilities	
Lease liabilities	**28,613**

The Group also applied the available practical expedients, wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the short-term leases exemption to leases with a lease term that ends within 12 months of the date of initial application.
- Excluded intial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the foregoing, as at 1 July 2019:

- Right-of-use assets of $29,041,000 were recognised and presented separately in the statement of financial position.
- Prepaid rent of $211,000 was de-recognised and included as part of the right-of-use asset.
- Lease liabilities of $28,613,000 were recongised and presented separately in the statement of financial position.

	2019 $'000
Operating lease commitments at 30 June 2019	**9,992**
Change in determination of lease term	26,348
Change in measurement of lease payments	(414)
Items not previously classified as a lease	961
Gross lease liability at 1 July 2019	**36,887**
Weighted average incremental borrowing rate as at 1 July 2019	3 %
Discounted lease liability at 1 July 2019	**28,613**

Notes to the Interim Financial Statements
For the Half Year Ended 31 December 2019

Note 3 Changes in significant accounting policies (continued)
(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of a leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short term leases and low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. $7,500 or less). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has the option, under some of its leases, to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Group includes the renewal period as part of the lease term for leases of property and equipment due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e. three to five years) and there may be a significant effect on occupancy if a replacement is not readily available.

Notes to the Interim Financial Statements

For the Half Year Ended 31 December 2019

Note 3 Changes in significant accounting policies (continued)
(c) Amounts recognised in the statement of financial position and profit or loss

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period.

	Right-of-use assets				
	Land and buildings	**Motor vehicles**	**Other equipment**	**Total**	**Lease liability**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
As at 1 July 2019	28,859	95	87	29,041	28,613
Additions	-	-	522	522	522
Depreciation expense	(1,087)	(16)	(39)	(1,142)	-
Interest expense	-	-	-	-	430
Payments	-	-	-	-	(1,339)
As at 31 December 2019	**27,772**	**79**	**570**	**28,421**	**28,226**

The Group recognised rent expense from short-term leases of $199,000, low-value assets of $Nil and variable lease payments of $234,000 for the half year ended 31 December 2019.

Note 4 Use of estimates and judgements

In preparing this interim financial report, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key estimates were the same as those that applied to the consolidated annual financial statements as at and for the year ended 30 June 2019.

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 where applicable.

Management 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 management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of International Financial Reporting Standards ("IFRS"), including the level in the fair value hierarchy in which such valuations should be classified.

Note 4 Use of estimates and judgements (continued)

Significant valuation issues are reported to the Group's Audit, Risk and Compliance Committee.

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

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

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

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

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

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

Notes to the Interim Financial Statements

For the Half Year Ended 31 December 2019

Note 5 Revenue and Other Income

	2019 $'000	2018 $'000
Revenue from contracts with customers		
Government income		
Department of Health funding	**135,798**	139,859
Other government funding	**655**	793
Total government income	**136,453**	140,652
Resident income		
Basic daily fees	**44,069**	40,918
Other resident fees	**3,745**	11,761
Total resident income	**47,814**	52,679
Total revenue from contracts with customers	**184,267**	193,331
Other income		
Accommodation income - Government*	**13,643**	-
Accommodation income - Resident*	**9,126**	-
Gain on disposal of non-current, non-operational assets	**5,359**	-
Other income	**205**	153
Total other income	**28,333**	153
Total revenue and other income	**212,600**	193,484

** After transition to AASB 16, the Group now discloses income received under AASB 16 separately from revenue from contracts with customers. These amounts relate to income received in relation to the provision of accommodation to residents. In the prior period, Accommodation income - Government was $11,144,000 and Accommodation income - Resident was $8,234,000.*

Notes to the Interim Financial Statements

For the Half Year Ended 31 December 2019

Note 6 Property, plant and equipment

Consolidated	Land and buildings $'000	Property improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Capital works in progress $'000	Total $'000
Half year ended 31 December 2019						
Balance as at 1 July 2019	**606,868**	**41,405**	**55,201**	**46**	**84,247**	**787,767**
Additions	**4,668**	**1,485**	**5,307**	**-**	**34,703**	**46,163**
Disposals - written down value	**(16)**	**-**	**-**	**(8)**	**-**	**(24)**
Transfers from capital works in progress	**1,103**	**6,170**	**240**	**-**	**(7,513)**	**-**
Depreciation expense	**(5,890)**	**(920)**	**(4,753)**	**(17)**	**-**	**(11,580)**
Balance as at 31 December 2019	**606,733**	**48,140**	**55,995**	**21**	**111,437**	**822,326**

Consolidated	Land and buildings $'000	Property improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Capital works in progress $'000	Total $'000
Year ended 30 June 2019						
Balance at 1 July 2018	542,585	5,185	33,317	84	106,549	687,720
Additions	14,299	3,951	30,147	-	73,995	122,392
Disposals - written down value	(550)	-	-	-	-	(550)
Transfers from capital works in progress	63,801	32,496	-	-	(96,297)	-
Transfers to assets held for resale	(1,800)	-	-	-	-	(1,800)
Depreciation expense	(11,467)	(227)	(8,263)	(38)	-	(19,995)
Balance as at 30 June 2019	606,868	41,405	55,201	46	84,247	787,767

Notes to the Interim Financial Statements

For the Half Year Ended 31 December 2019

Note 7 Intangible assets

	Goodwill $'000	Resident places $'000	Total $'000
Half year ended 31 December 2019			
Balance as at 1 July 2019	**260,746**	**234,055**	**494,801**
Disposals	**-**	**(58)**	**(58)**
Additions	**-**	**-**	**-**
Balance as at 31 December 2019	**260,746**	**233,997**	**494,743**
Year ended 30 June 2019			
Balance as at 1 July 2018	260,746	230,632	491,378
Disposals	-	(95)	(95)
Additions	-	3,518	3,518
Balance as at 30 June 2019	260,746	234,055	494,801

Recoverable amount testing for goodwill and resident places (indefinite life intangibles)

For the purpose of impairment testing of intangible assets with an indefinite useful life the Group has identified one cash generating unit ("CGU"), which is consistent with the operating segment identified in Note 1.

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 8.32% (30 June 2019: 8.16%) was determined based on the cash rate target adjusted for a risk premium.

Five years of cash flows together with a terminal value were included in the discounted cash flow model. The cash flows include both capital expenditure based on the committed development programme, forecast maintenance and asset replacement cycle as well as net RAD flows based on anticipated accommodation pricing growth and resident mix.

A long-term growth rate into perpetuity has been determined at 2.50% (30 June 2019: 2.50%), consistent with an assumption a market participant would make.

Forecast earnings before interest, tax, depreciation and amortisation ("EBITDA") was based upon expectation of future outcomes taking into account past experience, adjusted for anticipated revenue growth and occupancy rates. The assessment at this stage only includes known events and reasonably possible outcomes.

Note 7 Intangible assets (continued)

Recoverable amount testing for goodwill and resident places (indefinite life intangibles) (continued)

The estimated recoverable amount of the CGU exceeded its carrying amount. The following table shows the amount by which these four key assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	31 December 2019 bps	30 June 2019 bps
Change in discount rate	**102**	76
Change in long-term growth rate	**(116)**	(96)
Change in occupancy rate	**(170)**	(170)
Change in ACFI rate	**(100)**	(80)

Note 8 Other financial liabilities

	Note	31 December 2019 $'000	30 June 2019 $'000
Current			
Refundable Accommodation Deposits (RADs)/accommodation bonds	8(a)	**564,500**	530,629
Independent Living Unit (ILU) resident loans	8(b)	**23,500**	24,020
Total		**588,000**	554,649
Non-current			
Interest rate swaps	8(c)	**2,689**	2,412
Other financial liabilities - make good provision		**228**	-
Total		**2,917**	2,412

(a) RADs/accommodation bonds

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

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

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 resident agreement and in compliance with the prudential requirements set out under the Aged Care Act 1997.

Note 8 Other financial liabilities (continued)

(b) ILU resident loans

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

ILU resident loans are liabilities which fall due and payable when a resident leaves the unit. They are held at fair value in the financial statements and as there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current.

(c) Interest rate swaps
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 relevent 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.

The interest rate swaps are Level 2 and the carrying value of the 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.

Note 9 Share-based payments

Long term incentive plan

In November 2019, 1,836,621 performance rights were granted to senior executives under the Company's Equity Incentive Plan for long-term incentive purposes.

The performance rights are subject to a four year performance period to 30 June 2023 for vesting purposes. As vesting gateways, the Group must maintain ongoing aged care accreditation for all its homes and have no material breach of regulatory or compliance guidelines across its business operations over the performance period. The Group uses a combination of the Compound Annual Growth Rate ("CAGR") of Earnings per Share ("EPS") (60%) and the increase in Total Shareholder Returns ("TSR") (40%) over the performance period as performance measures.

The fair value of the performance rights is estimated at the grant date. For the EPS component, a discounted cash flow methodology is applied, and for the TSR component a Monte-Carlo simulation is performed. A probability weighting is applied in respect of the likelihood of achieving the required performance measures.

Dividend Yield:	5.00%
Expected Volatility:	34.00%
Risk-free interest rate:	0.75% - 0.85%
Initial TSR:	1.90%

An expense of $30,000 was recognised for the half year ended 31 December 2019

Short term incentive plan

In addition to the above, a one-off incentive plan to grant performance rights to senior executives was established. Shares were acquired by the Group on-market during September 2019 and held in trust, and will vest with the participating executives upon successful completion of the determined service period.

The acquisition of shares has been treated as a reduction in issued capital equal to the price paid to acquire the shares. An expense has been recognised by determining the fair value of the shares at the grant date and expensing this on a straight line basis over the vesting period. Fair value was determined using the discounted cash flow method, applying the same

Note 9 Share-based payments (continued)
relevant assumptions as above.

An expense of $257,000 was recognised for the half year ended 31 December 2019.

Note 10 Loans and borrowings

		31 December 2019 $'000	30 June 2019 $'000
Current			
Bank loan	10(a)	**20,000**	40,750
		20,000	40,750
Non-current			
Bank loan	10(a)	**215,750**	169,750
Total non-current borrowings		**215,750**	169,750
Total borrowings		**235,750**	210,500

(a) Bank loan facilities

Bank Facilities

The Group has a Syndicated Facility Agreement and a Multi-Option Facility Agreement ("'Bank Facilities"). The total available facility amounts are $345,000,000 and the expiry date of the Bank Facilities is 30 September 2023.

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 half year, debt of $46,000,000 was drawn down from the Bank Facilities and $20,750,000 was repaid. A total of $235,750,000 (30 June 2019: $210,500,000) was drawn down against the Bank Facilities as at the reporting date. Subsequent to the reporting date, a further net $2,500,000 has been drawn down to fund the Group's development program.

Note 11 Commitments

As at the reporting date, the Group had entered into contracts relating to capital expenditure for its development program and is committed to incur $34,683,000 for various construction contracts expected to be completed over the course of the current and following financial years.

Note 12 Events occurring after the reporting date

No matters or circumstances, other than those disclosed elsewhere in this interim financial report, have arisen since the end of the financial half year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 5 to 20 are in accordance with the *Corporations Act 2001*, including:

    (a) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

    (b) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half year ended on that date.

2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director: ....
Linda Bardo Nicholls AO - Chairman

Director: ....
Andrew Sudholz - CEO and Managing Director

Signed and dated at Melbourne on 28 February 2020

Independent Auditor's Review Report

To the shareholders of Japara Healthcare Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Japara Healthcare Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Japara Healthcare Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2019 and of its performance for the ***Interim Period*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 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 Interim Period ended on that date;
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information
- Directors' Declaration.

The ***Group*** comprises, Japara Healthcare Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The ***Interim Period*** is the 6 months ended on 31 December 2019.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001.*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Japara Healthcare Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

KPMG

Suzanne Bell

Partner

Melbourne

28 February 2020