

## ASX APPENDIX 4D

### Half year report for the six months ended 31 December 2020

This Appendix 4D, together with the attached Interim Financial Report for the half year ended 31 December 2020 (**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 2020

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

#### Results for announcement to the market

##### Financials

	<b>Increase/ Decrease</b>	<b>31 Dec 2020 \$'000</b>	<b>31 Dec 2019 \$'000</b>	<b>Change %</b>
Revenue from ordinary activities	Increase	220,300	212,600	3.6
Profit/(loss) from ordinary activities after tax attributable to members	Decrease	(9,513)	5,424	275.4
Net profit/(loss) for the period attributable to members	Decrease	(9,513)	5,424	275.4

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

##### Dividends

	<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>
2021 interim dividend	Nil	Nil	n/a	n/a
2020 final dividend	Nil	Nil	n/a	n/a

The Board has determined not to pay an interim dividend for 2021.

The Company's dividend reinvestment plan remains suspended.

#### Net tangible assets per security

Net tangible assets were negative 19.4 cents per ordinary share at 31 December 2020 (2019: positive 12.4 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 2020**

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

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# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report

### For the Half Year Ended 31 December 2020

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 2020 ("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  
Chris Price - CEO and Managing Director  
Richard England - Non-Executive Director (resigned 1 September 2020)  
David Blight - Non-Executive Director  
JoAnne Stephenson - Non-Executive Director  
Leanne Rowe AM - Non-Executive Director

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

	2020	2019
	\$'000	\$'000
Revenue and other income	220,300	212,600
Earnings before interest, tax, depreciation and amortisation (EBITDA) <sup>1</sup>	8,021	24,323
(Loss) / profit attributable to members of the Group	(9,513)	5,424
Total comprehensive income attributable to members of the Group	(9,040)	5,147

<sup>1</sup>EBITDA is non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 - Disclosing non-IFRS financial information. EBITDA is a measure consisting of earnings before interest, tax, depreciation and amortisation and impairment of non-current assets and has been adjusted from the reported information to assist readers to better understand the financial performance of the business. This non-IFRS financial information, while not subject to audit, has been extracted from the financial statements, which have been subject to a review by the external auditor.

#### Financial highlights

Total revenue and other income for the half year of \$220,300,000 was up by \$7,700,000 on the prior comparative period. Revenue from ongoing operations was significantly impacted by COVID-19 outbreaks during the period, which impacted on the occupancy levels at homes within the Group, especially those located in Victoria. This was offset by receipt of additional COVID-19 Federal Government support funding of \$4,473,000, government grant income of \$2,910,000 (\$2,794,000 of which has been recognised in income but has not yet been received) and aged care workforce retention bonus funding of \$4,449,000 (all of which was paid to eligible staff).

EBITDA decreased to \$8,021,000 for the half year, down \$16,302,000 on the prior comparative period. This resulted from the significant additional costs incurred by the Group in responding to COVID-19 and its impact on occupancy.

Whilst a number of development projects have been put on hold, the Group has continued with the development of projects that had been scheduled for completion during the year ending 30 June 2021. This includes continued development of two greenfield sites, being Trugo Place, Newport VIC (new resident admissions commenced 23 February 2021), adding 120 new beds and Corymbia, Belrose NSW (forecast new resident admissions from May 2021) adding 102 new beds. A brownfield site extension was also completed in September 2020 at Albury, adding 25 new beds.

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

ABN 54 168 631 052

### **Directors' Report**

#### **For the Half Year Ended 31 December 2020**

##### **Cash flow management**

The Group's principal source of funds continues to be cash flows from operations including Refundable Accommodation Deposits ("RADs"). Net cash provided by operating activities of \$24,720,000 (2019: \$59,707,000) was inclusive of \$24,112,000 (2019: \$24,354,000) of January Government funding received in advance in December. Net RAD and ILU loan inflows amounted to \$2,448,000 (2019: \$33,404,000).

During the half year, bank debt of \$50,000,000 was drawn down and \$29,500,000 was repaid. A total of \$259,500,000 (30 June 2020: \$239,000,000) was drawn down against the bank facilities as at the reporting date. Cash held at the reporting date was \$51,492,000 (30 June 2020: \$48,286,000); this includes \$24,112,000 (30 June 2020: \$Nil) relating to January 2021 Government funding received in December 2020.

Cash flows to the Group during the period were significantly impacted by COVID-19 outbreaks in Victoria during the period. Please refer to Note 2 to the Interim Financial Statements for details.

##### **Other**

The Royal Commission into Aged Care Quality and Safety ("Royal Commission") has been delayed as a result of COVID-19 and is now due to issue its final report to Government on 26 February 2021. Its recommendations are expected to shape the direction and design of the aged care sector moving forward if adopted by the Federal Government.

##### **(c) Events after the reporting date**

On 22 February 2021 the Group exchanged contracts to sell the vacant site in Mardi, NSW that used to operate as the Japara Wyong home – this home was closed in August 2020. The contract price, net of GST, amounts to \$1,641,000. The carrying amount at 31 December 2020 of \$1,154,000 relating to this vacant site is included in the Statement of Financial Position as part of non-current assets held for sale.

No further 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.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report

For the Half Year Ended 31 December 2020

#### (d) Dividends

No final dividend for the year ended 30 June 2020 was paid.

No dividends were paid or declared since the start of the financial half year. No recommendation for payment of an interim dividend has been made for the half year ended 31 December 2020.

#### (e) Lead auditor's independence declaration

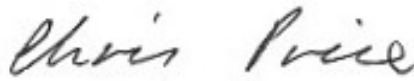
The lead auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2020 has been received. A copy of this declaration can be found on page 4 of the Interim Financial Report and forms part of this report.

#### (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: .....  
Linda Bardo Nicholls AO - Chairman

  
Director: .....  
Chris Price - CEO and Managing Director

Signed and dated at Melbourne on 24 February 2021



# 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 of Japara Healthcare Limited for the half-year ended 31 December 2020 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 contravention of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Suzanne Bell

*Partner*

Melbourne

24 February 2021

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

For the Half Year Ended 31 December 2020

		2020	2019
	Note	\$'000	\$'000
Revenue		212,687	207,036
Other income		7,613	5,564
<b>Total revenue and other income</b>	5	<b>220,300</b>	212,600
Employee benefits expense		(170,685)	(150,792)
Resident costs		(21,639)	(18,584)
Occupancy costs		(12,724)	(10,465)
Depreciation and amortisation expense		(13,558)	(12,711)
Administrative expenses		(7,231)	(8,436)
<b>Earnings before interest and tax</b>		<b>(5,537)</b>	11,612
Finance income		-	143
Finance costs		(4,062)	(3,923)
<b>(Loss) / profit before income tax</b>		<b>(9,599)</b>	7,832
Income tax credit / (expense)	6	86	(2,408)
<b>Net (loss) / profit after tax</b>		<b>(9,513)</b>	5,424
Other comprehensive income, net of tax		473	(277)
<b>Total comprehensive income for the half year</b>		<b>(9,040)</b>	5,147
(Loss) / profit attributable to members of the Group		(9,513)	5,424
Total comprehensive income attributable to members of the Group		(9,040)	5,147
<b>Earnings per share</b>			
Basic (loss) / earnings per share (cents)		(3.6)	2.0
Diluted (loss) / earnings per share (cents)		(3.6)	2.0



# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Consolidated Statement of Financial Position

As at 31 December 2020

		31 December 2020	30 June 2020
	Note	\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		51,492	48,286
Trade and other receivables		13,094	15,326
Non-current assets held for sale		2,512	2,261
Current tax receivable		2,263	1,860
Other assets		13,104	3,681
<b>Total current assets</b>		<b>82,465</b>	<b>71,414</b>
<b>Non-current assets</b>			
Trade and other receivables		2,492	2,574
Property, plant and equipment	7	863,147	833,202
Right-of-use assets	8	28,741	30,140
Investment property		48,925	48,925
Intangible assets	9	265,761	265,761
<b>Total non-current assets</b>		<b>1,209,066</b>	<b>1,180,602</b>
<b>TOTAL ASSETS</b>		<b>1,291,531</b>	<b>1,252,016</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables and other liabilities		35,142	34,104
Deferred income		24,112	-
Borrowings	12	57,500	58,250
Other financial liabilities	10	612,157	609,526
Employee provisions		44,378	42,954
Lease liabilities	8	2,502	2,338
<b>Total current liabilities</b>		<b>775,791</b>	<b>747,172</b>
<b>Non-current liabilities</b>			
Borrowings	12	202,000	180,750
Deferred tax liabilities		60,612	61,090
Employee provisions		6,129	5,608
Other financial liabilities	10	4,833	5,039
Lease liabilities	8	28,142	29,390
<b>Total non-current liabilities</b>		<b>301,716</b>	<b>281,877</b>
<b>TOTAL LIABILITIES</b>		<b>1,077,507</b>	<b>1,029,049</b>
<b>NET ASSETS</b>		<b>214,024</b>	<b>222,967</b>
<b>EQUITY</b>			
Issued capital		524,658	524,285
Hedging reserve		(4,566)	(5,039)
Share-based payment reserve		28	304
Retained earnings		(306,096)	(296,583)
<b>TOTAL EQUITY</b>		<b>214,024</b>	<b>222,967</b>

The accompanying notes form part of these consolidated interim financial statements.

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Consolidated Statement of Changes in Equity For the Half Year Ended 31 December 2020

	Issued capital \$'000	Hedging reserve \$'000	Share-based payment reserve \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2020</b>	524,285	(5,039)	304	(296,583)	222,967
<b>Comprehensive income</b>					
Loss attributable to members of the Group	-	-	-	(9,513)	(9,513)
Other comprehensive income	-	473	-	-	473
<b>Total comprehensive income</b>	-	473	-	(9,513)	(9,040)
Share based payment transactions	-	-	97	-	97
Treasury shares issued as performance rights	373	-	(373)	-	-
<b>Total transactions with owners of the Company</b>	373	-	(276)	-	97
<b>Balance at 31 December 2020</b>	524,658	(4,566)	28	(306,096)	214,024

	Issued capital \$'000	Hedging reserve \$'000	Share-based payment reserve \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2019</b>	524,695	(2,412)	-	9,801	532,084
<b>Comprehensive income</b>					
Profit attributable to members of the Group	-	-	-	5,424	5,424
Other comprehensive income	-	(277)	-	-	(277)
<b>Total comprehensive income</b>	-	(277)	-	5,424	5,147
Dividends	-	-	-	(8,952)	(8,952)
Share based payment transactions	-	-	287	-	287
Shares bought back during the period	(617)	-	-	-	(617)
<b>Total transactions with owners of the Company</b>	(617)	-	287	(8,952)	(9,282)
<b>Balance at 31 December 2019</b>	524,078	(2,689)	287	6,273	527,949

The accompanying notes form part of these consolidated interim financial statements.

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Consolidated Statement of Cash Flows For the Half Year Ended 31 December 2020

	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities:</b>		
Receipts from residents and Government funding	220,811	206,221
Government funding received in advance	24,112	24,354
Payments to suppliers and employees	(219,252)	(196,363)
Income taxes paid	(793)	(4,113)
Interest received	-	166
Finance costs paid	(2,606)	(3,962)
Proceeds from RADs & ILU resident loans	95,045	120,895
Repayment of RADs/accommodation bonds & ILU resident loans	(92,597)	(87,491)
<b>Net cash provided by operating activities</b>	<b>24,720</b>	<b>59,707</b>
<b>Cash flows from investing activities:</b>		
Purchase of land & buildings	(436)	(16,611)
Proceeds from sale of land & buildings	920	2,007
Purchase of plant and equipment	(2,988)	(4,008)
Capital works in progress	(38,426)	(37,034)
<b>Net cash used in investing activities</b>	<b>(40,930)</b>	<b>(55,646)</b>
<b>Cash flows from financing activities:</b>		
Dividends paid	-	(8,952)
Net proceeds from bank borrowings	20,500	25,250
Repayment of lease liabilities	(1,084)	(1,339)
<b>Net cash provided by financing activities</b>	<b>19,416</b>	<b>14,959</b>
<b>Net increase in cash and cash equivalents held</b>	<b>3,206</b>	<b>19,020</b>
Cash and cash equivalents at beginning of the half year	48,286	31,472
<b>Cash and cash equivalents at end of the half year</b>	<b>51,492</b>	<b>50,492</b>

The accompanying notes form part of these consolidated interim financial statements.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

# Notes to the Interim Financial Statements

## For the Half Year Ended 31 December 2020

### 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 2020 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 2020 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 2020, 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 \$693,326,000 as at 31 December 2020 (30 June 2020: \$675,758,000). 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 \$612,157,000 (30 June 2020: \$609,526,000) as current liabilities (refer Note 10 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.

The COVID-19 pandemic has had a significant impact on the residential aged care sector in the half year ended 31 December 2020, especially in Victoria where the majority of the Group's homes are located (33 homes in Victoria out of a total 50 homes across Australia as at 31 December 2020). The Group has not been eligible to enrol in the JobKeeper Federal Government assistance programme, however the Federal Government has provided additional one-off and temporary funding to the aged care sector, of which the Group has received and recognised as income in the period an amount of \$4,473,000. COVID-19 aged care workforce retention bonus payments of \$4,449,000 were received from the Government during the period, all of which has been paid to qualifying employees. Further funding is expected to be received in relation to Government grant schemes, with claims of \$7,012,000 submitted awaiting approval, \$1,606,000 of which has been recognised in income in the half year ended 31 December 2020. Further claims of around \$2,000,000 are yet to be submitted.

COVID-19 has had a significant impact on the Group during the period and will continue to bring uncertainty for the foreseeable future. In light of this, the directors have carefully reviewed their assessment of going concern.

The main financial risks associated with COVID-19 are from the impacts of reduced occupancy levels, mix of RAD and Daily Accommodation Payments ("DAP"), increased costs and sustained periods of negative RAD cash flows as a result of residents leaving and not being replaced. Each of the above is described further below:

## **Notes to the Interim Financial Statements**

### **For the Half Year Ended 31 December 2020**

#### **Note 2 Basis of preparation (continued)**

- Occupancy consequences arising from COVID-19 outbreaks in residential care settings include the passing of residents or leaving the home to be cared for in hospital, at another aged care facility or at a relative's home. During Victorian outbreaks and lockdowns between July 2020 and October 2020, occupancy dropped across a number of our Victoria based homes and was at a portfolio average of 87.1% at 31 December 2020. Given the easing of restrictions and current low numbers of COVID-19 infections in Victoria (and very low rates of infection in other jurisdictions in which the Group operates), combined with the imminent commencement of vaccinations in Australia, management remains confident that occupancy will increase in the second half of the year and beyond as confidence and normality returns to the sector.
- At 30 June 2020, management noted that the mix of how residents choose to pay for their accommodation (through a RAD, a DAP, or a combination of the two), can have an impact on the timing of cash flows to the Group. RAD payers provide upfront lump sum cash flows to the Group, whereas DAP payers spread these cash flows out over the duration of their stay. The receipt of a RAD is refundable to the resident upon their departure; the receipt of a DAP is non-refundable. A significant shift from RAD payers to DAP payers may have a negative impact on the Group's cash flows in the short term. A fall in the residential property market may drive such a transition from RAD to DAP payers, as residents may be slower to sell their homes and therefore not have the funds available to pay a full RAD. In the period since 30 June 2020, management has not noted any significant changes in the RAD/DAP mix of the Group's residents. The outlook for the housing market appears positive for the remainder of the financial year, and therefore management believes this no longer poses a threat to the going concern of the business. However, should any further significant economic decline occur in the coming months, this risk may increase.
- As COVID-19 outbreaks occur at a residential aged care home, staff costs increase as a result of additional care and cleaning hours, increased personal leave, overtime costs and use of higher cost agency staff to fill vacant shifts due to staff sickness and isolation. Non-staff costs also increase through increased use of personal protective equipment ("PPE") and cleaning supplies. Whilst the Group saw significant increases in these costs between July 2020 and October 2020, as noted above the Group expects to recover a large portion of these costs through Government grant schemes. PPE and staff costs have begun returning to more normal levels, but may spike again in the event of further outbreaks.
- RAD cash flows have historically remained stable with net RAD cash inflows generated every month from February 2020 up to and including July 2020. With Victorian COVID-19 outbreaks, this trend was broken with net RAD outflows in August 2020 and December 2020, however, the Group maintained overall net RAD inflows for the period. Management is aware that due to the probate process there can be a lag in RAD refunds of up to 6 months, and therefore there may be further RAD outflows during the second half of the year. Management is confident that the Group maintains sufficient liquidity and access to funds to manage these outflows, as discussed below.

The Group has a sound liquidity position at 31 December 2020 with available cash of \$51,492,000 (30 June 2020: \$48,286,000) and undrawn bank debt facilities of \$83,500,000 (30 June 2020: \$106,000,000). The Group expects to remain compliant with its bank covenant requirements. The Group's forecasts demonstrate that it will continue to be able to meet its obligations associated with all financial liabilities as and when they are expected to fall due. Any significant changes in the assumptions around the ongoing containment and management of COVID-19 within Australia will potentially result in changes in occupancy, and therefore cash flows to the Group.

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 24 February 2021.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Notes to the Interim Financial Statements For the Half Year Ended 31 December 2020

#### Note 3 Changes in significant accounting policies

A number of new standards are effective from 1 July 2020, but they do not have a material impact on the Group's financial statements.

#### 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 in the most recent consolidated annual financial statements as at and for the year ended 30 June 2020.

#### Note 5 Revenue and other income

	2020 \$'000	2019 \$'000
<b>Care income</b>		
Department of Health funding	142,130	135,798
Other government funding	735	655
Resident basic daily fees	44,623	44,069
Other resident fees	3,202	3,745
<b>Total care income</b>	<b>190,690</b>	<b>184,267</b>
<b>Accommodation income</b>		
Department of Health funding	13,592	13,643
Resident fees	8,405	9,126
<b>Total accommodation income</b>	<b>21,997</b>	<b>22,769</b>
<b>Total revenue</b>	<b>212,687</b>	<b>207,036</b>
<b>Other income</b>		
Gain on disposal of non-current assets	20	5,359
COVID-19 Government grant income	7,359	-
Other income	234	205
<b>Total other income</b>	<b>7,613</b>	<b>5,564</b>
<b>Total revenue and other income</b>	<b>220,300</b>	<b>212,600</b>

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Notes to the Interim Financial Statements For the Half Year Ended 31 December 2020

#### Note 6 Income tax expense

The major components of tax credit / (expense) comprise:

	2020	2019
	\$'000	\$'000
Current tax credit / (expense)	2,308	(1,983)
Tax provision - franking deficit tax	(2,700)	-
Deferred tax credit / (expense)	478	(425)
<b>Income tax credit / (expense)</b>	<b>86</b>	<b>(2,408)</b>

As a result of the loss made for the year ended 30 June 2020 and the forecast tax loss for the year ending 30 June 2021, the Group's franking credit account is forecast to be in deficit as at 30 June 2021. In line with the ATO's requirements, the Group will be required to file a Franking Deficit Tax return by 31 July 2021 and pay a tax instalment to remove this deficit. The Group has estimated this deficit to be \$2,700,000 at 30 June 2021, and a full provision for this payment has been made at 31 December 2020 and recognised as a current tax expense. The Group expects to be able to offset the Franking Deficit Tax against future income tax liabilities.

**ABN 54 168 631 052**

## For the Half Year Ended 31 December 2020

**Consolidated**

Balance as at 1 July 2020

## Additions

## Disposals

Transfers from capital works in progress

Transfers to assets held for sale

Depreciation expense

**Balance as at 31 December 2020**

Land and buildings	Property improvements	Plant and equipment	Motor vehicles	Capital works in progress	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
652,928	60,867	54,240	11	65,156	833,202
383	53	2,980	-	39,844	43,260
-	(2)	(34)	-	-	(36)
-	12,141	-	-	(12,141)	-
(1,000)	-	(154)	-	-	(1,154)
(5,950)	(1,138)	(5,029)	(8)	-	(12,125)
646,361	71,921	52,003	3	92,859	863,147

## Balance as at 1 July 2019

## Additions

## Disposals

Transfers from capital works in progress

Transfers to investment property

Transfers to assets held for sale

Depreciation expense

Impairment

**Balance as at 30 June 2020**

Land and buildings	Property improvements	Plant and equipment	Motor vehicles	Capital works in progress	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
606,868	41,405	55,201	46	84,247	787,767
15,624	2,398	8,817	-	71,531	98,370
(9,422)	(2,697)	(46)	(8)	-	(12,173)
68,493	21,889	240	-	(90,622)	-
(12,163)	-	-	-	-	(12,163)
(2,100)	-	-	-	-	(2,100)
(12,482)	(2,087)	(9,480)	(27)	-	(24,076)
(1,890)	(41)	(492)	-	-	(2,423)
652,928	60,867	54,240	11	65,156	833,202



## Notes to the Interim Financial Statements

### For the Half Year Ended 31 December 2020

#### Note 8 Leases

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

	<b>Right-of-use assets</b>				<b>Lease liability</b>
	<b>Land and buildings</b>	<b>Motor vehicles</b>	<b>Other equipment</b>	<b>Total</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>As at 1 July 2020</b>	29,519	125	496	30,140	31,728
Additions	34	-	-	34	-
Depreciation expense	(1,332)	(27)	(74)	(1,433)	-
Interest expense	-	-	-	-	567
Payments	-	-	-	-	(1,651)
<b>As at 31 December 2020</b>	<b>28,221</b>	<b>98</b>	<b>422</b>	<b>28,741</b>	<b>30,644</b>

The Group recognised rent expense from short-term leases of \$nil, low-value assets of \$nil and variable lease payments of \$234,000 for the half year ended 31 December 2020.

#### Note 9 Intangible assets

	<b>Goodwill</b>	<b>Resident places</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Half year ended 31 December 2020</b>			
Balance as at 1 July 2020	31,764	233,997	265,761
Additions	-	-	-
<b>Balance as at 31 December 2020</b>	<b>31,764</b>	<b>233,997</b>	<b>265,761</b>
<b>Year ended 30 June 2020</b>			
Balance as at 1 July 2019	321,264	234,055	555,319
Disposals	-	(58)	(58)
Additions	-	-	-
Impairment	(289,500)	-	(289,500)
<b>Balance as at 30 June 2020</b>	<b>31,764</b>	<b>233,997</b>	<b>265,761</b>

#### 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 fair value less cost of disposal (FVLCoD), determined using an income based approach to derive the price that would be received to sell the CGU in an orderly transaction with a market participant, less the costs of disposal. The recoverable amount was determined to be in excess of the carrying amount and therefore no impairment loss was recognised. This approach has been determined to be Level 3 within the fair value hierarchy.

## **Notes to the Interim Financial Statements**

### **For the Half Year Ended 31 December 2020**

#### **Note 9 Intangible assets (continued)**

The post-tax discount rate of 9.73% (30 June 2020: 10.00%) 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, with specific regard to the increased risk associated with an aged care operator.

Five years of cash flows together with a terminal value were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined at 2.50% (30 June 2020: 2.50%).

Significant uncertainty has been created as a result of COVID-19 and the ongoing Royal Commission, which management has considered in the determination of the FVLCoD of the CGU. It is extremely challenging to predict the full extent and duration of the impact of COVID-19 on the Group, and management has therefore considered a number of possible scenarios within the forecast cash flows. Equally, unknown outcomes from the Royal Commission create uncertainty around the future funding of the sector.

Management has applied significant judgement in determining and applying the assumptions within the model, taking into account past experience as well as reasonable expectations for the impacts of COVID-19, based upon best available data. The model is sensitive to key assumptions being occupancy rates, Aged Care Funding Instrument Government funding and cash flows relating to RADs, as well as the discount rate and terminal growth rate as noted above.

The resulting calculation of FVLCoD indicated that the recoverable amount of the CGU was marginally greater than its carrying amount, and therefore any negative change in the assumptions is likely to result in impairment of the CGU.

As at 30 June 2020, the FVLCoD calculations resulted in the Group recording an impairment charge to goodwill of \$289,500,000, reducing the carrying amount of the CGU to its recoverable amount. Therefore, any changes to the assumptions within the FVLCoD model would have resulted in a change to the impairment charge

#### **Note 10 Other financial liabilities**

		<b>31 December</b>	<b>30 June</b>
		<b>2020</b>	<b>2020</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>			
RADs / accommodation bonds	10(a)	<b>588,947</b>	584,506
ILU resident loans	10(b)	<b>23,210</b>	25,020
<b>Total</b>		<b>612,157</b>	609,526
<b>Non-current</b>			
Interest rate swaps	10(c)	<b>4,566</b>	5,039
Other financial liabilities - make good provision		<b>267</b>	219
<b>Total</b>		<b>4,833</b>	5,258

(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.

## **Notes to the Interim Financial Statements**

### **For the Half Year Ended 31 December 2020**

#### **Note 10 Other financial liabilities (continued)**

##### **(a) RADs/accommodation bonds (continued)**

RAD/accommodation bond liabilities are recorded at an amount equal to the proceeds received, net of any other amounts deducted from the RADs/accommodation bonds 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.

##### **(b) ILU resident loans**

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 are 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.

##### **(c) Cash flow hedges**

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.

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.

## **Notes to the Interim Financial Statements**

### **For the Half Year Ended 31 December 2020**

#### **Note 11 Share-based payments**

##### ***Long-term incentive***

In December 2020, 3,855,538 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 2024 for vesting purposes. As a vesting gateway, there must be no material breach of regulatory or compliance guidelines across the Group's business operations over the performance period. The Group uses a combination of growth in Earnings per Share ("EPS") (60%) and 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:	2.0%
Expected Volatility:	51.0%
Risk-free interest rate:	0.095% - 0.345%
Initial TSR:	37.9%

No expense has been recognised in the period ended 31 December 2020.

##### ***Short-term incentive***

A one-off grant of performance rights was made to senior executives in 2019 for short-term incentive purposes. Shares were acquired by the Group on-market during September 2019 and held in trust, to 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.

At 31 December 2020, the majority of shares acquired were allocated to the participating executives upon vesting of the performance rights, with the balance being forfeited and held in the trust. An expense of \$97,000 was recognised for the half year ended 31 December 2020.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Notes to the Interim Financial Statements For the Half Year Ended 31 December 2020

#### Note 12 Borrowings

		31 December 2020 \$'000	30 June 2020 \$'000
<b>Current</b>			
Bank loan	12(a)	<u>57,500</u>	58,250
		<u>57,500</u>	58,250
<b>Non-current</b>			
Bank loan	12(a)	<u>202,000</u>	180,750
<b>Total non-current borrowings</b>		<u>202,000</u>	180,750
<b>Total borrowings</b>		<u>259,500</u>	239,000

(a) Bank loan 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 \$50,000,000 was drawn down from the Bank Facilities and \$29,500,000 was repaid. A total of \$259,500,000 (30 June 2020: \$239,000,000) was drawn down against the Bank Facilities as at the reporting date. Subsequent to the reporting date, a further net \$2,000,000 has been drawn down to fund the Group's development program.

#### Note 13 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 \$8,909,000 for various construction contracts expected to be completed over the course of the current and following financial years.

#### Note 14 Events occurring after the reporting date

On 22 February 2021 the Group exchanged contracts to sell the vacant site in Mardi, NSW that used to operate as the Japara Wyong home – this home was closed in August 2020. The contract price, net of GST, amounts to \$1,641,000. The carrying amount at 31 December 2020 of \$1,154,000 relating to this vacant site is included in the Statement of Financial Position as part of non-current assets held for sale.

No further 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.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Declaration

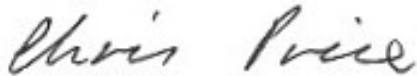
The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 5 to 18 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 2020 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: .....  
Chris Price - CEO and Managing Director

Signed and dated at Melbourne on 24 February 2021

# 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 does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2020 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 2020
- 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 14 comprising a summary of significant accounting policies and other explanatory information
- The 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 2020.

### Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



## 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

## Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

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.

KPMG

Suzanne Bell

*Partner*

Melbourne

24 February 2021