Fairway Investment Holdings Pty Limited

ABN 11 125 203 054

Annual Financial Report

for the year ended 30 June 2013

Contents

Corporate Information

This financial report covers the consolidated entity comprising Fairway Investment Holdings Pty Limited ("Company") ACN 125 203 054 and its subsidiaries ("Group").

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report. The Directors' Report is not part of the Financial Report.

Fairway Investment Holdings Pty Limited is incorporated in Australia

Directors
Mr Bryan A Dorman (Chairman)
Mr Ian G Roberts
Mr Rees Wegenaar
Mr Hugh W FitzSimons (appointed 30 August 2012)
Mr Leigh P Harrison (resigned 30 August 2012)
Mr Michael W Cook - (alternate for Mr Wegenaar)
Mr Mark D Allan - (alternate for Ian Roberts, appointed 29 November 2012)
Mr Nicholas S Dorman - (alternate for Bryan Dorman, appointed 9 November 2012)

Company Secretary
Mr Martin Bede

Registered Office
Level 2, 615 Dandenong Road,
Armadale Vic 3143

Principal Place of Business
Level 2, 615 Dandenong Road
Armadale Vic 3143

Solicitors
King & Wood Mallesons

Bankers
ANZ Bank
Bank of Melbourne

Auditors
Ernst & Young Australia

DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities for the financial year ended 30 June 2013.

Directors

The names of directors in office at any time during or since the end of the year are:

Mr Bryan A Dorman (Chairman)
Mr Ian G Roberts
Mr Rees Wegenaar
Mr Hugh W FitzSimons (appointed 30 August 2012)
Mr Leigh P Harrison (resigned 30 August 2012)
Mr Michael W Cook - (alternate for Mr Wegenaar)
Mr Mark D Allan - (alternate for Ian Roberts, appointed 29 November 2012)
Mr Nicholas S Dorman - (alternate for Bryan Dorman, appointed 9 November 2012)

Principal Activities

The Company is the ultimate holding company of a group of controlled entities that own and operate residential aged care facilities and retirement villages.

Operating Result

The group result for the year after income tax was a profit of $17,090,000 (2012: $1,634,000).

Review of Operations

The Company continued to monitor the operations of its controlled entities and the management of the aged care services and retirement villages together with the development and maintenance of those properties under its control. During the period, upgrade and/or refurbishment was undertaken at various properties housing aged care and retirement residences operated by the Group. The results of those operations are set out in the accompanying financial report.

Significant Changes in State of Affairs

On 27 November 2012 a general meeting of shareholders resolved to reduce the company's share capital by a return to shareholders of 42.2 cents per ordinary share, achieved through an equal capital reduction, and pay an unfranked dividend of 1.9 cents per ordinary share. This was part of a broader restructure designed to simplify the group structure and make the Company more attractive to investors by rebalancing the debt/equity mix.

Part (31.3 cents per share) of the capital reduction proceeds received by the non employee shareholders were applied to acquire units in the newly established RAC trust, an investment trust. RAC Fiduciary Pty Ltd is the corporate trustee of this trust. The RAC Trust has lent back to the company the proceeds of subscriptions for B Class Units. The balance of the funds to effect the capital return were funded by bank debt.

DIRECTORS' REPORT (continued)

Significant Changes in State of Affairs, continued

A summary of the above transactions is as follows-

	$'000
Capital return - 42.2 cents per share on 345,324,972 ordinary share (note 1)	145,727
Dividend - 1.9 cents per share on 345,324,972 ordinary shares (note 1)	6,561
	152,288
less applied by non employee shareholders to acquire B Class units in RAC Trust	(102,817)
less applied to repay current employee share scheme loans	(4,643)
less applied to repay former employee share scheme loans	(1,233)
Increase in bank debt	43,595

Note 1 - excludes 6,109,624 shares owned by Fairway Nominated Entity Pty Ltd

Fairway Nominated Entity Pty Ltd and RAC Trust are both considered to be special purpose entities and hence form part of the consolidated group.

No other matters or circumstances have arisen since the end of the financial year that have significantly or may significantly affect the operations of the Group.

Dividends

Dividends paid or declared for payment since the start of the financial year are as follows:

Ordinary shares
An unfranked dividend of $6,561,174 was declared on 27 November 2012 and paid on 4 December 2012.

Special shares
No dividends were paid on special shares during the year as shareholder agreements are currently the subject of negotiation. Special shares are treated as debt for accounting purposes and dividends are accounted for as a finance cost.

Significant Events after Balance Sheet date

On 1 July 2013 the settlement of the acquisition of Playford Village was completed. Playford Village, to be renamed Regis Playford, is a 125 bed aged care facility located in the Adelaide suburb of Davoren Park.

The consolidated entity is defending a claim for damages brought by the landlord of the premises in which a retirement facility was formerly housed. The matter was heard in the Supreme Court of Victoria in February/March 2013. On 30 August 2013, the Court issued reasons for judgement in the matter which found that there is liability in relation to the landlord's claim. The court has not yet made final orders or assessed damages in the case. There is an appeal right in relation to final orders once made and, at this stage, it is not possible to predict the final outcome of this litigation.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

DIRECTORS' REPORT (continued)

Likely Developments and Expected Results

Reforms to the age care sector in the Living Better Living Longer reform package announced in April 2012 are being implemented over a two year period as part of a longer term reform program for the aged care sector. The timing and quantum of many of the proposed changes are still being evaluated by government in consultation with stakeholders. Regis has conducted a range of scenario analyses incorporating the full impact of most of the changes proposed. The analyses indicate that the impact if implemented may materially increase profitability, while at least initially reduce resident bond holdings. To the best of our knowledge this impact will not be so serious as to cause a material issue from a banking covenant or going concern basis.

Environmental Regulations and Performance

The consolidated group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Indemnification and Insurance of Directors and officers

The constitution of the Company provides for the Company to indemnify the directors and secretary of the Company against liability incurred in their capacity as directors and secretary, except as may be prohibited by law.

Premiums have been paid by Regis Aged Care Pty Ltd, a 100% owned subsidiary company, with regard to directors' and officers' liability insurance to insure each of the directors and officers of the Company against certain liabilities incurred by them arising out of their conduct whilst acting in the capacity of directors or officers of the Company. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premiums.

Options

No options over issued shares or interests in the company or a controlled entity were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Proceedings on behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Auditor's Independent Declaration

The auditor's independence declaration for the year ended 30 June 2013 has been received and can be found on page 56.

DIRECTORS' REPORT (continued)

Rounding of Amounts

The amounts contained in the report and in the financial report have been rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

Signed this 26th day of September 2013 in accordance with a resolution of the Board of Directors.

....

B A Dorman - Director

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Consolidated Group	
		2013	2012
		$'000	$'000
Revenue	5	353,603	323,604
Other income	5	104	4,203
Rent		(865)	(1,049)
Employee benefits expense		(203,980)	(198,692)
Payroll tax expense		(10,100)	(9,462)
Other staff costs		(3,032)	(3,016)
Agency expenses		(2,879)	(4,368)
Catering expenses		(11,445)	(10,575)
Professional services		(4,798)	(5,194)
Insurance		(8,224)	(8,149)
Repairs and maintenance		(4,686)	(4,093)
Advertising & marketing		(1,555)	(1,735)
External contracts		(14,660)	(10,578)
Depreciation	6	(21,254)	(19,204)
Impairment of bed licences		-	(3,711)
Loss on disposal of property, plant & equipment		-	(521)
Minor equipment		(1,494)	(1,527)
Rates and utilities		(9,819)	(8,658)
Travel and accommodation expenses		(1,140)	(1,191)
Other expenses		(10,937)	(9,873)
Profit before income tax and finance costs		42,839	26,211
Finance costs	6	(18,594)	(21,607)
Profit before income tax		24,245	4,604
Income tax expense	7	(7,155)	(2,970)
Profit for the year		17,090	1,634
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss		-	-
Income tax on items that will not be reclassified to profit or loss		-	-
Income tax on items of other comprehensive income		-	-
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		17,090	1,634
Total comprehensive income attributable to:			
Owners of the parent		17,090	1,634

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2013

	Notes	Consolidated Group	
		2013	2012
		$'000	$'000
ASSETS			
Current Assets			
Cash and cash equivalents	9	51,518	13,776
Trade and other receivables	10	2,987	2,175
Inventories	11	412	429
Other current assets	12	14,850	4,133
Total Current Assets		69,767	20,513
Non-Current Assets			
Receivables	13	16,031	17,264
Property, plant and equipment	15	568,421	541,503
Deferred tax assets	7	19,915	24,852
Intangible assets	16	236,038	233,578
Total Non-Current Assets		840,405	817,197
TOTAL ASSETS		910,172	837,710
LIABILITIES			
Current Liabilities			
Trade and other payables	17	30,005	25,432
Provisions	18	26,141	22,818
Derivative financial instrument	21	2,055	2,933
Interest-bearing loans and borrowings	19	-	30,849
Income tax payable	7	2,111	600
Accommodation bonds and entry contributions	20	558,504	503,310
Total Current Liabilities		618,816	585,942
Non-Current Liabilities			
Interest-bearing loans and borrowings	19	374,991	205,288
Deferred tax liabilities	7	5,502	5,502
Provisions	18	3,560	3,120
Total Non-Current Liabilities		384,053	213,910
TOTAL LIABILITIES		1,002,869	799,852
NET ASSETS		(92,697)	37,858
EQUITY			
Equity attributable to equity holders of the parent:-			
Issued Capital	22	59	141,143
Retained earnings/(accumulated losses)		(23,425)	(33,954)
Reserves	23	(69,331)	(69,331)
TOTAL EQUITY		(92,697)	37,858

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2013

	Issued capital	Retained earnings/ (accumulated losses)	Asset revaluation reserve	Acquisition reserve	Total equity
	$'000	$'000	$'000	$'000	$'000
CONSOLIDATED GROUP					
At 1 July 2011	141,143	(35,588)	30,093	(99,424)	36,224
Profit for the period	-	1,634	-	-	1,634
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	1,634	-	-	1,634
Transactions with owners in their capacity as owners:	-	-	-	-	-
At 30 June 2012	141,143	(33,954)	30,093	(99,424)	37,858
At 1 July 2012	141,143	(33,954)	30,093	(99,424)	37,858
Profit for the period	-	17,090	-	-	17,090
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	17,090	-	-	17,090
Transactions with owners in their capacity as owners:					
Return of capital	(145,727)	-	-	-	(145,727)
Shares issued to employees in prior years brought to account as issued capital upon repayment of non-recourse employee share scheme loans	4,643	-	-	-	4,643
Dividends paid or provided for	-	(6,561)	-	-	(6,561)
At 30 June 2013	59	(23,425)	30,093	(99,424)	(92,697)

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Consolidated Group	
		2013	2012
		$'000	$'000
Cash flows from operating activities			
Receipts from residents and government subsidies		352,105	323,294
Payments to suppliers and employees		(282,378)	(286,560)
Interest received		1,093	1,537
Finance costs		(18,184)	(20,103)
Net receipts from accommodation bonds		49,323	64,424
Income tax paid		(600)	(600)
Net cash flows from operating activities	9(a)	101,359	81,992
Cash flows from investing activities			
Proceeds of sale of property, plant and equipment		-	-
Purchase of property, plant and equipment		(37,932)	(37,640)
Purchase of bed licences		-	(5)
Purchase of businesses		(6,474)	(7,234)
Advance payment on business purchase		(11,653)	-
Net cash flows used in investing activities		(56,059)	(44,879)
Cash flows from financing activities			
Proceeds from borrowings - bank debt		61,247	278,401
Repayment of bank debt		(25,210)	(342,971)
Proceeds of loan from director related entities		102,817	(5,283)
Dividend paid on ordinary shares		(6,561)	-
Capital return		(145,727)	-
Proceeds of repayment of employee share scheme loans		5,876	-
Net cash flows used in financing activities		(7,558)	(69,853)
Net decrease in cash held		37,742	(32,740)
Cash at the beginning of the year		13,776	46,516
Cash at the end of the year	9(b)	51,518	13,776

This statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

1 CORPORATE INFORMATION

Fairway Investment Holdings Pty Limited (the "Company") is a company limited by shares domiciled in Australia.

This financial report includes the consolidated financial statements and notes for the consolidated entity consisting of Paragon Group Investments Pty Ltd, as the accounting parent under the reverse acquisition, and its deemed subsidiaries and the separate financial statements and notes. The financial report was authorised for issue in accordance with a resolution of the directors on 26th September 2013.

The nature of the operations and principal activities of the Group are described in the directors' report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for land and buildings and derivative financial instruments which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board.

(c) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2012:

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (Applies annual reporting periods beginning on or after 1 July 2012)

(ii) Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ending 30 June 2013, outlined in the table below:

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard *	Impact on Group financial report	Application date for Group *
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2015 **	The Group has not yet determined the extent of the impact of these amendments if any.	1 July 2015

* Designates the beginning of the application annual reporting period unless otherwise stated

** AASB ED 215 Mandatory effective date of IFRS 9 proposes to defer the mandatory effective date of AASB 9 from annual periods beginning 1 January 2012 to annual periods beginning on or after 1 January 2015, with early application permitted. At the time of preparation, finalisation of ED 215 is still pending by the AASB. However, the IASB has deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with early application permitted.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard *	Impact on Group financial report	Application date for Group *
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards; and (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements. Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and (b) the Australian Government and State, Territory and Local Governments. The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) for-profit private sector entities that do not have public accountability; (b) all not-for-profit private sector entities; and (c) public sector entities other than the Australian Government and State, Territory and Local Governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.	1 July 2013	The impact of this standard is on presentation of the disclosures in the financial report	1 July 2013
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7 and AASB 2012-10.	1 January 2013		1 July 2013

* Designates the beginning of the application annual reporting period unless otherwise stated

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard *	Impact on Group financial report	Application date for Group *
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	This standard is not expected to significantly impact the Group's financial report.	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	This standard are expected to result in more detailed fair value disclosures but are not expected to significantly impact the amounts recognised in the Group's financial report.	1 July 2013
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	The Group does not have any defined benefit plans and so is not impacted by these amendments. Changes to the definition of short term employee benefits are not expected to significantly impact the Groups financial report.	1 July 2013

* Designates the beginning of the application annual reporting period unless otherwise stated

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard *	Impact on Group financial report	Application date for Group *
AASB 2012-2	Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position, when all of the offsetting criteria of AASB 132 are not met.	1 January 2013	These amendments will affect the presentation of the Group's financial report only and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle; and	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1); and • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements)	1 January 2013	These amendments will affect the presentation of the Group's financial report only and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	These amendments will affect the presentation of the Group's financial report only and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report	1 July 2014

* Designates the beginning of the application annual reporting period unless otherwise stated

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Fairway Investment Holdings Pty Ltd and its deemed subsidiaries and special purposes entities (as outlined in Note 26) as at and for the period ended 30 June each year (the Group). Refer Note 1 for the impact of the reverse acquisition.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Fairway Investment Holdings Pty Limited has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

(ii) Property, plant and equipment

Land is measured at fair value. Buildings are measured at fair value less accumulated depreciation and any impairment in value.

Plant and equipment is stated at historical cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:
Buildings – over 50 years
Plant and equipment – over 3 to 10 years

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses. Newly constructed and substantially upgraded facilities are carried at cost for the first three years after the commencement of initial operations or enhanced services, to allow external valuations to reflect normalised operations.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Property, plant and equipment, (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognised.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in other comprehensive income. Decreases that offset previous increases of the same asset are charged against revaluation surpluses directly in other comprehensive income; all other decreases are charged to the statement of comprehensive income.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(iii) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(iv) Intangible assets

Bed Licences

Bed licences for aged care facilities are initially carried at historical cost.

Bed licences acquired through a business combination are revalued to fair value at the date of acquisition in accordance with *AASB 3 Business Combinations* in the consolidated accounts. The bed licences continue to be carried at cost in the accounts of the individual acquired entities within the Group.

Bed licences are assessed as having an indefinite useful life as they are issued for an unlimited period and therefore are not amortised.

In accordance with the requirements of AASB 136 *Impairment of Assets*, the recoverable amount of bed licences is assessed each year.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Intangible assets (continued)

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired. Costs of acquisition including stamp duty, due diligence costs, and fees paid to facilitate the transaction are expensed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised but is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. When the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognised.

(v) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined on a group portfolio basis based on market based evidence between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction for a Aged Care Portfolio of assets plus the value of any surplus assets that could be realised.

(vi) Investments

All other non-current investments are carried at the lower of cost and recoverable amount.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the reporting date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(vii) Inventories

Inventories are valued at the lower of cost and net realisable value based on year to date expenditure for the following items:

Food - 7 days
Continence Supplies - 14 days
Medical supplies & toiletries - 30 days

(viii) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

(ix) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised and as well as through the amortisation process.

(x) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised and as well as through the amortisation process.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xi) Derivatives

The Group uses derivative financial instruments to hedge its risks associated with interest rate fluctuations. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item hedged. The Group designates certain derivatives as either;

(i) fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability.

(ii) cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

The fair values of interest rate swap contracts are determined by reference to market values for similar instruments and any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit and loss for the year.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) changes in the fair value of derivatives that are designated as fair value hedges are recognised in the profit and loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
(ii) the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in a hedging reserve. The gain or loss relating to the ineffective position is recognised in the statement of comprehensive income.

Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction (finance costs or inventory purchases) when the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to the statement of comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked due to it being ineffective, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

(xii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xiii) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases
The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item are recognised as an expense on a straight line basis.

(xiv) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services
Revenue from the rendering of a service is recognised upon the delivery of the service to the residents.

Interest
Revenue is recognised when the Group controls the right to receive the interest payment.

Dividends
Revenue is recognised when the Group's right to receive the payment is established.

(xv) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

(xvi) Income tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xvi) Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are shown as other comprehensive income in the statement of comprehensive income.

Tax consolidation

Effective 3 July 2007, for the purpose of income taxation, Fairway Investment Holdings Pty Limited and its 100% owned subsidiaries formed a tax consolidated group. All members of the group, excluding the RAC Trust, have entered into a tax funding arrangement therefore the income tax expense of the consolidated group is borne by each respective member of the consolidated group on a stand alone notional basis.

Tax effect accounting by members of the tax consolidated group

Measurement method adopted under UIG 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes.*

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xvi) Income tax (continued)

The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the group is based on the group allocation. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xvii) Trade and Other Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xviii) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction cost arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Mandatorily redeemable preference shares are classified as liabilities.

Special Shares are classified as liabilities. Dividends paid on special shares are accounted for as either a reduction to the liability or as interest costs as appropriate.

(xix) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:
- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and
- other types of employee benefits are charged against profits on a net basis in their respective categories.

Senior Executive Employee Share Plan

Under a share plan for senior executives, certain senior executives may, at the discretion of the directors, be offered to acquire shares in Fairway Investment Holdings Pty Limited financed by way of a non-recourse loan. When issues relating to this plan are made, non-recourse loans to assist in the purchase of the shares are classified against share capital. The issues are accounted for as an option and the fair value at grant date is independently determined using an appropriate options pricing model that takes into account the discount to market price at grant date, the expected life/term of the interest free loan and its non-recourse nature, the vesting terms, the expected price volatility, the expected dividend yield and the risk-free interest rate for the term. The fair value has been fully recognised in the accounts of the Consolidated Entity.

(xx) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognised in the statement of comprehensive income.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

3 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Management bases its judgements and estimates on historical experience and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and from within the Group.

Material adjustments to future financial results or financial position may be required where the actual results and outcomes differ from the estimates and assumptions made.

Key estimates

Impairment of non-financial assets

The Group tests annually whether goodwill and intangible assets with indefinite lives have suffered any impairment, in accordance with the accounting policy stated in note 2(d)(v). The recoverable amounts of the cash-generating units have been determined in fair value less costs to sell.

Land and building

Refer to Note 2(d)(ii) for the accounting policy on revaluation of land and building.

4 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loans, finance leases, accommodation bonds, derivatives and cash.

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy.

The Group enters into derivative transactions, principally interest rate swaps to manage the risk arising from the Group's sources of finance. Detail of interest rate swap entered into by the Group are disclosed note 21 (a). The borrowings subject to interest rate swap are disclosed in note 19 (b).

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group has no foreign currency risk because it has no dealings with foreign countries. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessments of market forecasts for future interest rates. Liquidity risk is monitored through rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

4 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Risk Exposure and Responses

Interest rate risk

The Group's exposure to interest rate risks and the effective interest rate of financial assets and liabilities both recognised and unrecognised at the reporting date are as follows:

The details of debt are disclosed in note 19 to the financial statements.

	Weighted average effective interest rates		**Fixed or floating**
	2013 %	**2012** %	
Cash and liquid assets	2.75	3.50	Floating
Bank loans	5.01	6.88	Floating
Bank loans	4.21	5.89	Fixed
B Class units in RAC Trust	5.51	n/a	Floating

All other financial assets and liabilities are non-interest bearing.

At reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Consolidated Group	
	2013 $'000	2012 $'000
Financial Assets		
Cash and cash equivalents	51,434	13,696
Receivables	14,426	14,518
	65,860	28,214
Financial Liabilities		
Derivative financial instrument	(2,055)	(2,933)
Bank debt	(121,000)	(98,963)
B Class units in RAC Trust	(102,817)	-
	(225,872)	(101,896)
Net exposure	(160,012)	(73,682)

At 30 June 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)		Other comprehensive income Higher/(Lower)	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Consolidated				
+1% (100 basis points)	1,120	(516)	1,120	(516)
-1% (100 basis points)	(1,120)	516	(1,120)	516

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

4 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Risk Exposure and Responses (continued)

Price risk

The Group has no exposure to equity security price risk as it has no equity securities.

Credit risk

Credit risk arises from the financial assets of the Group, which comprises cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of the asset.

The Group does not hold any credit derivatives to offset its credit exposure.

Approximately 70% of the revenue of the Group is obtained through Commonwealth Government funding by way of payments for residential aged care residents. This funding is maintained for providers as long as they continue to comply with Accreditation standards and other requirements of the *Aged Care Act 1997* .

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Economic market condition risk

The Group receives accommodation bonds and receipt may be delayed or impacted by the state of residential market in Australia.

Fair value risk

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 2 - the fair value is estimated using inputs other than quoted prices that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). The derivative financial instrument falls within this method of determining fair value.

Liquidity risk

The following table reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities, including derivative financial instruments as of 30 June 2013. The undiscounted cash flows for the respective upcoming financial years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on conditions existing at 30 June 2013.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

4 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

Risk Exposure and Responses (continued)

Liquidity risk (continued)

Maturity analysis of financial assets and liabilities are as follows -

	1 - 12 months $'000	1- 5 years $'000	>5 years $'000	Total $'000
Consolidated Group				
Year ended 30 June 2013				
Financial assets				
Cash and cash equivalents	51,518	-	-	51,518
Trade and other receivables	2,987	-	-	2,987
Non current receivables	-	16,031	-	16,031
Other current assets	766	-	-	766
	55,272	16,031	-	71,303
Financial liabilities				
Trade and other payables	(30,005)	-	-	(30,005)
Derivative financial instrument	(2,055)	-	-	(2,055)
Interest bearing loans and borrowings	-	(374,991)	-	(374,991)
Accommodation bonds	(558,504)	-	-	(558,504)
	(590,564)	(374,991)	-	(965,555)
Net maturity	(535,293)	(358,960)	-	(894,253)
Year ended 30 June 2012				
Financial assets				
Cash and cash equivalents	13,776	-	-	13,776
Trade and other receivables	2,175	-	-	2,175
Non current receivables	-	17,264	-	17,264
Other current assets	781	-	-	781
	16,732	17,264	-	33,996
Financial liabilities				
Trade and other payables	(25,432)	-	-	(25,432)
Derivative financial instrument	(2,933)	-	-	(2,933)
Interest bearing loans and borrowings	(30,849)	(205,288)	-	(236,137)
Accommodation bonds	(503,310)	-	-	(503,310)
	(562,524)	(205,288)	-	(767,812)
Net maturity	(545,792)	(188,024)	-	(733,816)

(a) Cash flows from accommodation bonds are not expected to result in a net outflow because historically as bonds are settled they are generally replaced by new bonds of similar or greater amounts.

The Group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow.

At reporting date, the Group had available $101,032,068 of unused credit facilities.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Consolidated Group 2013 $'000	2012 $'000
5 REVENUE AND OTHER INCOME			
Revenue			
Government funding		230,547	211,558
Resident fees		85,127	78,227
Interest		1,093	1,537
Other operating revenue		36,836	32,282
Total revenues		353,603	323,604
Other income			
Gain on disposal of property, plant and equipment		-	-
Gain on bargain purchase	31	104	4,203
Total other income		104	4,203
6 EXPENSES AND LOSSES/(GAINS)			
Expenses			
Depreciation of property, plant & equipment	15	21,254	19,204
Finance costs			
Interest expense:			
- Bank loans and overdrafts		13,980	16,972
- Related parties		3,358	1,400
- Net (gain)/loss from revaluation of interest rate swap		(878)	1,504
Other		2,134	2,021
Total finance costs		18,594	21,897
Less finance charges capitalised		-	(290)
Total finance costs expensed		18,594	21,607

Finance charges were capitalised to land and buildings at a weighted average interest rate of nil % (2012: 6.87%)

Allowance for impairment loss - trade receivables	10	-	215

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

	Consolidated Group	
	2013	2012
	$'000	$'000
7 INCOME TAX		
Major components of income tax (benefit)/expense are:		
Current income tax		
Current income tax charge	2,111	180
Adjustments in respect of current income tax of previous years	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	5,044	2,790
Income tax expense reported in statement of comprehensive income	7,155	2,970
Deferred tax assets		
Deferred tax assets	19,915	24,852
Taxation liabilities		
Current income tax liability	(2,111)	(600)
Deferred tax liabilities		
Deferred tax liabilities	(5,502)	(5,502)

A reconciliation of income tax expense/(benefit) and the product of accounting profit/(loss) before tax multiplied by the applicable income tax rate is as follows:

	2013	2012
Accounting profit/(loss) before tax	24,245	4,604
At the statutory income tax rate of 30% (2012: 30%)	7,273	1,381
Adjustments in respect of current income tax of previous years	(448)	(82)
Employee share option expense	328	(6)
Deferred tax asset in relation to indefinite life intangible assets not recognised.	-	1,113
Franking deficit tax	-	180
Non deductible finance costs	-	420
Other	2	(36)
Income tax reported in the statement of comprehensive income	7,155	2,970

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

7 INCOME TAX (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Deferred tax assets and liabilities				
CONSOLIDATED GROUP				
Deferred tax liabilities				
Revaluations of property to fair value	(5,502)	(5,502)	-	-
Others	-	-	-	-
Gross deferred tax liabilities	(5,502)	(5,502)		
Deferred tax assets				
Employee benefits	8,325	7,221	(1,104)	(1,001)
Losses available for offset against future taxable income	7,244	10,641	3,397	4,606
Accelerated depreciation for accounting purposes	2,332	2,533	201	426
Derivatives	-	880	880	(451)
Other	2,014	3,577	1,563	(1,319)
Gross deferred tax assets	19,915	24,852		
Acquisition of businesses			107	109
Other			-	420
Deferred income tax charge			5,044	2,790

Tax consolidation

Effective 3 July 2007, for the purpose of income taxation, Fairway Investment Holdings Pty Limited and its 100% owned subsidiaries formed a tax consolidated group. Members of the group have entered into a tax funding arrangement therefore the income tax expense of the consolidated group is borne by each respective member of the consolidated group on a stand alone notional basis. RAC Trust is not a part of the consolidated tax group.

Refer the accounting policy on note 2(d)(xvi) for further detail.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

7 INCOME TAX (continued)

Tax effect accounting by members of the tax consolidated group.

Measurement method adopted under *UIG 1052 Tax Consolidation Accounting.*

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes* .

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Nature of the tax funding agreement.

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the group is based on the group allocation. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

	Consolidated	
	2013	2012
	$'000	$'000
8 DIVIDENDS		
Unfranked dividend of 1.9 cents per ordinary share paid 4 December 2012	6,561	-

Dividends totalling $nil (2011: $1,400,000) are recorded in the statement of comprehensive income as a finance cost. Dividends paid under Special Shares are disclosed as a financing activity in the statement of cash flows.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

	Consolidated Group	
	2013	2012
	$'000	$'000
9 CASH AND CASH EQUIVALENTS		
(a) Reconciliation of the net profit/(loss) after tax to the net cash flows from operations		
Net profit	17,090	1,634
Non-Cash Items		
Depreciation and impairment of non-current assets	21,254	22,915
Fair value loss/(gain) on derivative	(878)	1,504
Gain on bargain purchase	(104)	(4,203)
Other non cash items	-	715
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(812)	642
(Increase)/decrease in inventory	17	(57)
(Increase)/decrease in other current assets	936	(2,362)
(Increase)/decrease in non current receivables	0	(14,426)
(Increase)/decrease in deferred taxes	5,044	2,370
(Decrease)/increase in tax provision	1,511	-
(Decrease)/increase in trade and other payables	4,573	4,505
(Decrease)/increase in accommodation bonds	49,323	64,424
(Decrease)/increase in restructuring provision	(464)	809
(Decrease)/increase in provisions	3,868	3,522
Net cash flow from operating activities	101,359	81,992
(b) Reconciliation of cash		
Cash balance comprises:		
- cash at bank	51,434	13,696
- cash on hand	84	80
Closing cash balance	51,518	13,776

(c) Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	2013	2012
Total facilities		
- approved by ANZ syndicated borrowing facility	365,000	365,000
- Asset facility NAB	-	92
Facilities used at reporting date		
- approved by ANZ syndicated borrowing facility	263,968	224,101
- Asset facility NAB	-	92
Facilities unused at reporting date		
- approved by ANZ syndicated borrowing facility	101,032	140,899
- Asset facility NAB	-	-

(d) Disposal of Controlled Entity

There were no disposals in the 2013 and 2012 financial years

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

		Notes	Consolidated Group 2013 $'000	2012 $'000
10	**TRADE AND OTHER RECEIVABLES (CURRENT)**			
	Trade receivables		1,954	1,810
	Allowance for impairment loss	(a)	(229)	(229)
		(b)(i)	1,725	1,581
	Sundry debtors	(b)(ii)	470	418
	Other receivables - government funding	(b)(ii)	792	176
			2,987	2,175

(a) Allowance for impairment loss

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

The movement in the allowance for impairment loss was as follows -

	Notes	2013	2012
At 1 July		229	54
Charge for the year	6	-	215
Amounts written off		-	(40)
At 30 June		229	229

At 30 June 2013, the ageing analysis of trade receivables is as follows:

	Total	**30**	**31-60 days**	**61-90 days PDNI ***	**61-90 days CI ***	**91+ days PDNI ***	**91+ days CI ***
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'001*	*$'000*
2013	1,954	1,294	232	133	-	66	229
2012	1,810	1,202	210	101	-	67	230

* Past due not impaired ("PDNI")
* Considered impaired ("CI")

Receivables past due but not considered impaired are $199,000 (2012: $168,000). Based on the past experience and customer knowledge, management have concluded that the trade debtors are recoverable and therefore no further allowance is necessary over and above the allowance for impairment loss held.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) Terms and conditions and allowance for impairment loss

(i) Trade debtors are non-interest bearing and generally on 30 day terms.
(ii) Sundry debtors and other receivables are non-interest bearing.

(c) Fair value and credit risk

Due to the short term nature of current trade and other receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to the credit risk is the fair value of receivables. There is no concentration of credit risk with respect to these debtors.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

			Consolidated Group	
			2013	2012
			$'000	$'000
11	**INVENTORIES**			
	Medical, food and other supplies (at cost)		412	429
12	**OTHER CURRENT ASSETS**			
	Prepayments		2,431	3,353
	Deposits		-	92
	GST recoverable		766	688
	Advance payment on aged care facility purchase settlement	(a)	11,653	-
			14,850	4,133

(a) On 1 July 2013 the settlement of the acquisition of Playford Village was completed. Playford Village, renamed Regis Playford, is a 125 bed aged care facility located in the Adelaide suburb of Davoren Park. An advance payment was required to be paid in June 2013.

13	**RECEIVABLES (NON CURRENT)**			
	Employee share scheme loans - former employees	(a)	1,605	2,838
	Other non current receivables	(b)	14,426	14,426
			16,031	17,264

(a) Employee share scheme loans to former employees are interest free and secured by a charge over the underlying shares.

(b) In September 2011 State Revenue Office Victoria issued an assessment for stamp duty payable in respect of the July 2007 merger. The company believes the State Revenue Office erred in issuing this assessment. The company elected to pay the assessed amount (paid in December 2011) and seek recovery through the lodgement of an objection. The State Revenue Office did not respond to the objection and the company lodged an appeal to the Supreme Court on the basis of a ‘deemed’ rejection of the objection. A directions hearing has been scheduled to be held in late September 2013 and it is also anticipated that the matter will be heard by the court by no later than 30 June 2014.
Refer note 25 Contingencies

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

14 SUBSIDIARIES

The consolidated financial statements include the parent and the subsidiaries listed as follows

	Country of incorporation	Percentage of equity interest held by the consolidated entity 2013 %	2012 %
Regis Aged Care Pty Ltd	Australia	100.00	100.00
Paragon Group Investments Proprietary Ltd	Australia	100.00	100.00
Regis Group Proprietary Ltd	Australia	100.00	100.00
Regis Allora Pty Ltd ATF Allora Lodge Unit Trust	Australia	100.00	100.00
Regis Amaroo Pty Ltd	Australia	100.00	100.00
Regis Blue Waters Pty Ltd (in members voluntary liquidation)	Australia	100.00	100.00
Bon Heights Pty Ltd	Australia	100.00	100.00
Regis Care Pty Ltd (in members voluntary liquidation)	Australia	100.00	100.00
Regis Caboolture Pty Ltd	Australia	100.00	100.00
Regis Corinya Pty Ltd	Australia	100.00	100.00
Regis Crana Pty Ltd	Australia	100.00	100.00
Regis Gatton Pty Ltd	Australia	100.00	100.00
Regis Grange - Rosebud Pty Ltd	Australia	100.00	100.00
Regis Grange - Wellington Point Pty Ltd	Australia	100.00	100.00
Regis Group Properties Pty Ltd	Australia	100.00	100.00
Regis Health Care Pty Ltd (in members voluntary liquidation)	Australia	100.00	100.00
Herstonville Pty Ltd (deregistered 26/12/12)	Australia	-	100.00
Regis Bench Pty Ltd (in members voluntary liquidation)	Australia	100.00	100.00
Regis Ferny Grove Pty Ltd	Australia	100.00	100.00
Regis Investments Pty Ltd ATF Regis Investments Trust	Australia	100.00	100.00
Regis Karingal Manor Pty Ltd ATF Karingal Manor Unit Trust	Australia	100.00	100.00
Regis Lake Park Pty Ltd	Australia	100.00	100.00
Regis Lakeside Pty Ltd	Australia	100.00	100.00
Regis Management Pty Ltd	Australia	100.00	100.00
Regis Reserve Pty Ltd (in members voluntary liquidation)	Australia	100.00	100.00
Regis Macleod Pty Ltd	Australia	100.00	100.00
Regis Salisbury Pty Ltd	Australia	100.00	100.00
Regis Shelf Pty Ltd	Australia	100.00	100.00
Regis Como House Pty Ltd	Australia	100.00	100.00
Regis Sheraton Pty Ltd (in members voluntary liquidation)	Australia	100.00	100.00
Regis Barrington Manor Pty Ltd (deregistered 26/12/12)	Australia	-	100.00
Regis Sherwood Park Pty Ltd	Australia	100.00	100.00
Regis Sunraysia Pty Ltd ATF Sunraysia Unit Trust	Australia	100.00	100.00
Regatta Green Pty Ltd ATF Moomba Street Unit Trust ^	Australia	100.00	100.00
Bayley Walk Pty Ltd ATF Bayley Walk Unit Trust ^	Australia	100.00	100.00
Retirement Properties of Australia Proprietary Limited ^	Australia	100.00	100.00
Allora Drive Pty Ltd Allora Drive Unit Trust^^	Australia	100.00	100.00
Ashleigh Avenue Pty Ltd (in members voluntary liquidation) ^^	Australia	100.00	100.00
Bakers Road Pty Ltd ATF Bakers Road Unit Trust^^	Australia	100.00	100.00
Braeside Pty Ltd ATF Braeside Unit Trust^^	Australia	100.00	100.00
Clover Brae Pty Ltd ATF Clover Brae Unit Trust ^^	Australia	100.00	100.00
Clover Side Pty Ltd ATF Clover Side Unit Trust ^^	Australia	100.00	100.00
Dawson Drive Pty Ltd ATF Dawson Drive Unit Trust^^	Australia	100.00	100.00
Fiocchi Pty Ltd ATF Fiocchi Unit Trust^^	Australia	100.00	100.00
Lakeside Way Pty Ltd ATF Lakeside Way Unit Trust^^	Australia	100.00	100.00

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

14 SUBSIDIARIES (continued)

	Country of incorporation	Percentage of equity interest held by the consolidated entity	
		2013	2012
		%	%
Lanita Road Pty Ltd ATF Lanita Unit Trust	Australia	100.00	100.00
Lillian Avenue Ltd ATF Lillian Avenue Trust^^	Australia	100.00	100.00
MacGregor Drive Pty Ltd ATF MacGregor Unit Trust^^	Australia	100.00	100.00
Major Road Pty Ltd ATF Major Road Property Trust^^	Australia	100.00	100.00
Mewetts Road Pty Ltd ATF Mewetts Road Unit Trust^^	Australia	100.00	100.00
Naree Pty Ltd (deregistered 26/12/12)^^	Australia	-	100.00
A.C.N. 114 771 658 (deregistered 26/12/12)	Australia	-	100.00
CarersConnect Pty Ltd	Australia	100.00	-
Settlement Road Pty Ltd ATF Settlement Road Unit Trust^^	Australia	100.00	100.00
Sherwood Road Pty Ltd ATF Sherwood Road Unit Trust^^	Australia	100.00	100.00
Tenth Street Pty Ltd ATF Tenth Street Unit Trust^^	Australia	100.00	100.00
Wyuna Street Pty Ltd ATF Wyuna Street Unit Trust^^	Australia	100.00	100.00
Zarah Pty Ltd (deregistered 26/12/12)^^	Australia	-	100.00
Retirement Care Australia Holdings Pty Ltd	Australia	100.00	100.00
Retirement Care Australia Operations Pty Ltd <	Australia	100.00	100.00
Retirement Care Australia (Bethany) Pty Ltd >	Australia	100.00	100.00
Retirement Care Australia (Hillcrest) Pty Ltd >	Australia	100.00	100.00
Retirement Care Australia (Hollywood) Pty Ltd >	Australia	100.00	100.00
Retirement Care Australia (Inala) Pty Ltd >	Australia	100.00	100.00
Retirement Care Australia (Parklyn) Pty Ltd >	Australia	100.00	100.00
Retirement Care Australia (Sunset) Pty Ltd >	Australia	100.00	100.00
Retirement Care Australia (Weeroona) Pty Ltd >	Australia	100.00	100.00
Retirement Care Australia (Darwin) Pty Ltd >	Australia	100.00	100.00
Retirement Care Australia (Hayville) Pty Ltd >	Australia	100.00	100.00
Retirement Care Australia Operations (2) Pty Ltd <	Australia	100.00	100.00
Retirement Care Australia (Belmore) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Brighton Gardens) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Forrest Gardens) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Greenmount Gardens) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Hurstville Gardens) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Preston) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Port Stephens Gardens) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Port Macquarie Gardens) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Ku-ring-gai Gardens) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Logan) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Rose Bay) Pty Ltd >>	Australia	100.00	100.00
Retirement Care Australia (Sandringham Gardens) Pty Ltd >>	Australia	100.00	100.00

^ Investments are held by Regis Investments Pty Ltd ATF Regis Investment Trust

^^ Investments are held by Retirement Properties of Australia Proprietary Limited

> Investments are held by Retirement Care Australia Operations Pty Ltd

>> Investments are held by Retirement Care Australia Operations (2) Pty Ltd

< Investments are held by Retirement Care Australia Holdings Pty Ltd

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

15 PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	
	2013	2012
	$'000	$'000
Freehold land and buildings		
At fair value	527,519	510,628
Accumulated depreciation and impairment	(52,706)	(43,735)
	474,813	466,893
Plant and machinery		
At cost	85,690	76,330
Accumulated depreciation and impairment	(41,065)	(30,759)
	44,625	45,571
Motor vehicles		
At cost	625	435
Accumulated depreciation and impairment	(374)	(353)
	251	82
Furniture, fixtures and fittings		
At cost	26,112	24,752
Accumulated depreciation and impairment	(12,189)	(10,235)
	13,923	14,517
Leasehold improvements		
At cost	67	67
Accumulated depreciation and impairment	(40)	(38)
	27	29
Development cost		
At cost	34,782	14,411
Accumulated depreciation and impairment	-	-
	34,782	14,411
Total cost	674,795	626,623
Total accumulated depreciation and impairment	(106,374)	(85,120)
Total written down value	568,421	541,503

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

15 PROPERTY, PLANT AND EQUIPMENT (continued)

	Notes	Consolidated Group 2013 $'000	Consolidated Group 2012 $'000
Reconciliations			
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.			
Freehold land and buildings			
Carrying amount at beginning		466,893	430,720
Additions		2,282	4,413
Transfers from development cost		5,309	32,354
Disposals		-	(144)
Acquisition of businesses		9,300	8,200
Depreciation expense		(8,971)	(8,650)
		474,813	466,893
Plant and machinery			
Carrying amount at beginning		45,571	32,318
Additions		6,799	14,762
Transfers from development cost		1,938	7,171
Disposals		-	(269)
Acquisition of businesses		623	260
Depreciation expense		(10,306)	(8,671)
		44,625	45,571
Motor vehicles			
Carrying amount at beginning		82	99
Additions		-	1
Disposals		-	-
Acquisition of businesses		190	
Depreciation expense		(21)	(18)
		251	82
Furniture, fixtures and fittings			
Carrying amount at beginning		14,517	12,154
Additions		1,031	2,656
Transfers from development cost		202	1,638
Acquisition of businesses		127	40
Disposals		-	(108)
Depreciation expense		(1,954)	(1,863)
		13,923	14,517
Leasehold improvements			
Carrying amount at beginning		29	31
Additions		-	-
Disposals		-	-
Depreciation expense		(2)	(2)
		27	29
Development cost			
Carrying amount at beginning		14,411	39,766
Additions		27,820	15,808
Transfers to buildings on completion		(5,309)	(32,354)
Transfers to plant & machinery on completion		(1,938)	(7,171)
Transfers to fixtures and fittings on completion		(202)	(1,638)
		34,782	14,411
Totals			
Carrying amount at beginning		541,503	515,088
Additions		37,932	37,640
Disposals		-	(521)
Acquisition of businesses		10,240	8,500
Depreciation expense	6	(21,254)	(19,204)
		568,421	541,503

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

15 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Revaluation of freehold land and buildings

Independent valuations of land and buildings are undertaken at all sites at least once every three years. The independent valuations value each site on a stand alone basis and attribute appropriate valuations to the various asset components such as land, buildings, plant & equipment and business value. Land and buildings were valued on a group enterprise basis by the Group's directors at 30 June 2013. In determining the fair value (the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction), the directors take into consideration valuation models prepared by the company, external market valuations and other market based evidence. No revaluation was made at 30 June 2013 (2012: nil).

(b) Property, Plant and equipment pledged as security

The bank loans (see Note 19(b)) are secured by a floating charge over non-current assets of the Company and the subsidiaries (the carrying value of the secured property at 30 June 2013 is $568,421,000 (2012: $541,503,000)). The bank loans are also secured by registered first mortgage debentures and first registered mortgage over certain freehold properties.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

16 INTANGIBLE ASSETS

	Consolidated Group		
	Bed Licences $'000	Goodwill $'000	Total $'000
Year ended 30 June 2013			
Balance at beginning of year	152,617	80,961	233,578
Acquired from third parties	-	-	-
Acquisition from business combinations	2,460	-	2,460
Impairment of bed licences	-	-	-
Balance at end of year	155,077	80,961	236,038
Year ended 30 June 2012			
Balance at beginning of year	149,498	80,961	230,459
Acquired from third parties	5	-	5
Acquisition from business combinations	6,825	-	6,825
Impairment of bed licences	(3,711)	-	(3,711)
Balance at end of year	152,617	80,961	233,578

Bed licences

Bed licences for aged care facilities are carried at historical cost less any accumulated impairment losses. Bed licences acquired through a business combination are assessed at fair value at the date of acquisition in accordance with AASB 3 *Business Combinations* in the consolidated accounts. The bed licences continue to be carried at cost in the individual accounts of the acquired entities within the Group.

Bed licences are assessed as having an indefinite useful life as they are issued for an unlimited period and therefore are not amortised.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is stated at cost less any accumulated impairment losses. In 2012 and prior years, goodwill was allocated to the individual facilities (treated as individual cash generating units) however with the legal entity reconstruction and change in senior management and board focus away from individual facilities to managing the overall business, the decision was made to reallocate the goodwill to the overall aged care business segment.

Impairment testing

The recoverable amount of land and buildings, plant and equipment, bed licences and goodwill is based on market evidence of fair value less cost to sell of the aged care business segment. In the past impairment was considered at facility level however with the legal entity reconstruction and change in senior management and board focus away from individual facilities to the overall business impairment is now assessed at aged care business segment level.

The impairment testing revealed there was no impairment of bed licences and goodwill at balance date. In 2012 an impairment charge on bed licences of $3,711,000 was brought to account.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

		Notes	Consolidated Group 2013 $'000	Consolidated Group 2012 $'000
17	**TRADE AND OTHER PAYABLES**			
	Current			
	Trade payables	(a)(i)	6,340	5,812
	Sundry creditors & accrued expenses	(a)(ii)	22,095	17,683
	Fees received in advance		1,570	1,937
			30,005	25,432

(a) Terms and conditions

(i) Trade creditors are non interest bearing and are normally settled on 30 day terms.

(ii) Other creditors are non interest bearing and have an average term of 30 days

(b) Fair values

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

		2013 $'000	2012 $'000
18	**PROVISIONS**		
	Current		
	Annual leave	16,637	14,865
	Long service leave	7,553	6,492
	Cash-settled employee share-based payment transactions	1,606	652
	Restructuring	345	809
		26,141	22,818
	Non-current		
	Long service leave	3,560	3,120
		3,560	3,120
	Number of employees at year end based on full time equivalents	3,289	3,160

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Consolidated Group 2013 $'000	Consolidated Group 2012 $'000
19 INTEREST-BEARING LOANS AND BORROWINGS			
Current			
Borrowings secured by mortgage			
- bank loans	(a)	-	30,849
		-	30,849
Non-current			
Borrowings secured by mortgage			
- bank loans	(a)	260,000	193,114
Unsecured loans from related parties			
- liability under Special Shares	(d)	12,174	12,174
- B Class units in RAC Trust	(e)	102,817	-
		374,991	205,288

(a) Bank loans

The bank loans are secured by a floating charge over non-current assets of the Company and the subsidiaries (the carrying value of the secured property at 30 June 2013 is $568,421,000 (2012: $541,500,000)). The bank loans are also secured by registered first mortgage debentures and first registered mortgage over certain freehold properties.

The Company has been compliant with banking covenants throughout the year.

(b) Fair value

The fair value has been calculated by reference to the amount repayable at the reporting date net of the value of the interest rate swap contract as determined at the reporting date.

	Consolidated Group 2013		Consolidated Group 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Bank loans	260,000	262,055	223,963	226,896

(c) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

(d) Other financial liabilities

The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in note 25. However the directors do not expect those potential financial liabilities to crystallise into obligations and therefore financial liabilities disclosed in the above table are the directors estimate of amounts that will be payable by the Group. No material losses are expected and as such, the fair values disclosed are the directors estimate of amounts that will be payable by the Group.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

19 INTEREST-BEARING LOANS AND BORROWINGS (continued)

(d) Liability under Special Shares

100 special shares were issued on 2 July 2007 and no voting rights are attached to these special shares.

The terms of these shares, currently under review as part of the renegotiation of shareholder agreements, are as follows:

- Fixed cumulative annual preferential dividend of $1,400,000 payable in quarterly instalments
- Cumulative annual preferential dividend up to $ 3,750,000 or such amount as the Board determines from time to time payable annually on or before 30th June each year.
- Unpaid preferential dividends accrue interest at the five year bond rate.
- Any return on capital in respect of special shares (whether on winding-up of the company or otherwise) will not exceed (in aggregate) $1 per special share.

The special share shareholders agreed to forgo their right to the fixed dividend in 2013 as part of the shareholder negotiations.

(e) B Class units in RAC Trust

B Class units were issued in November 2012 at the time of the capital return. The terms of these units are as follows-

- entitlement to interest and principal amounts received from Fairway Investment Holdings Pty Ltd under the terms of the loan agreement between the company and RAC Trust (Fairway Loan Agreement).
- The Fairway Loan Agreement provides that interest is payable at a rate 0.5% above the rate payable on the bank debt.
- Interest to be paid six monthly.
- Fairway Investment Holdings Pty Ltd has the right to repay the loan to RAC Trust at any time.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

20 ACCOMMODATION BONDS AND ENTRY CONTRIBUTIONS

	Consolidated Group	
	2013	2012
	$'000	$'000
Accommodation bonds	549,059	491,916
Entry contributions	9,445	11,394
	558,504	503,310

Terms and conditions relating to accommodation bonds and entry contributions

Accommodation bonds are non-interest bearing and are settled after a resident vacates the property in accordance with the *Aged Care Act, 1997*. Accommodation bond balances are reduced by annual retention fees charged in accordance with the *Aged Care Act, 1997*.

Accommodation bonds are non interest bearing deposits made by residents upon their admission to low care and extra service accommodation facilities. They are in effect an interest free loan. Providers must pay a base interest rate on all refunds on accommodation bonds within legislated time frames and must pay a penalty on refunds made outside legislated time frames.

Accommodation bond refunds are guaranteed by the government under the prudential standards legislation.

Providers are required to have sufficient liquidity to ensure they can refund bond balances as they fall due in the following twelve months. Providers are also required to implement and maintain a liquidity management strategy. This is updated on a quarterly basis.

While accommodation bonds are classified as a current liability given the possible timeframe for repayment of an individual accommodation bond, it is unlikely that the accommodation bond liability will be significantly reduced over the next twelve months. However, as the entity does not have an unconditional right to defer settlement for at least twelve months after reporting date, it is classified as a current liability in accordance with the accounting standard AASB 101 *Presentation of Financial Statements*.

The accommodation bond liability is spread across a large portion of the Regis resident population and therefore the repayment of individual balances that make up the current balance will be dependent upon the actual tenure of individual residents. Tenure can be more than ten years but averages approximately 2.5 years. Usually (but not always), when an existing accommodation bond is repaid it is replaced by a new accommodation bond paid by the new incoming resident. Since the introduction of accommodation bonds in 1997 the trend within Regis and the aged care industry has been that the cash received in relation to the new accommodation bond has been greater than the cash paid out in relation to the previous accommodation bond.

The Living Longer Living Better reform package proposed by the previous government announced in April 2012, if implemented, will give residents entering aged care facilities from 1 July 2014 more flexibility and choice about how they pay for their accommodation. This may impact on the number and level of accommodation bonds for new residents.

Entry contributions are also non-interest bearing and relate to Independent Living Unit residents. Entry contributions are settled after a resident vacates the property and the terms and conditions are governed by various state based Retirement Village Acts.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

21 DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated Group	
	2013	2012
	$'000	$'000
Current Assets/(Liabilities)		
Interest rate swap contracts	(2,055)	(2,933)

(a) Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest rates.

(i) Interest rate swaps

Interest bearing loans of the Group currently bear an interest rate calculated by reference to BBSY plus a margin between 1.0% and 2.0%. In order to protect against rising interest rates, the Group has entered into three separate interest rate swap contracts. Two with ANZ and one with Bank of Melbourne. The 2012 contracts have a fixed interest rate of 4.265%, cover for these contracts extends through until 25 June 2015. A second swap contract was entered into with the ANZ in June 2013 with a fixed interest rate of 2.87%, cover for this contract extends to June 2014. The cover for the three contracts, equate to a minimum of 50% of group's forecast borrowings.

(b) Interest rate risk

Information regarding interest rate risk is set out in note 4.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

	Consolidated Group 2013 $'000	Consolidated Group 2012 $'000
22 ISSUED CAPITAL		
Issued and fully paid		
Ordinary shares	9,652	155,379
Employee share plan shares	(9,593)	(14,236)
	59	141,143

(a) Movements in ordinary shares on issue

CONSOLIDATED GROUP	2013 Number of Shares	2013 $'000	2012 Number of Shares	2012 $'000
Beginning of the financial year	351,434,596	141,143	349,524,596	141,143
Share issue	-	-	1,910,000	1,986
Movement in employee share plan loans	-	4,643	-	(1,986)
Capital return	-	(145,727)	-	-
End of the financial year	351,434,596	59	351,434,596	141,143

The amount of the issued and paid up equity in these consolidated financial statements is the issued equity of the legal subsidiary, Paragon Group Investments Proprietary Ltd, immediately before the merger plus subsequent issues of shares by the legal parent, Fairway Investment Holdings Pty Limited. However, the equity structure (i.e. the number and type of equity instruments issued) reflects the equity structure of the legal parent, including the shares issued by the legal parent to effect the merger.

A capital return of 42.2 cents per share was made in early December 2012 pursuant to a resolution passed at a meeting of shareholders held on 28 November 2012

	2013 $'000	2012 $'000
Movement in employee share plan loans		
Balance at beginning of year	14,236	12,250
Loans made in respect of shares issued during the year	-	1,986
Repayments from proceeds of capital return and dividend	(4,643)	-
Balance at end of year	9,593	14,236

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on shares held.

(b) Capital Management

When managing capital, management's objective is to ensure the Group continues as a going concern and provides an optimal return to shareholders and other stakeholders. Management also aims to maintain a capital structure that allows funds for capital expenditure and growth strategies.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Consolidated Group 2013 $'000	Consolidated Group 2012 $'000
23 RESERVES			
Asset revaluation reserve	(a)	30,093	30,093
Acquisition reserve	(b)	(99,424)	(99,424)
		(69,331)	(69,331)

(a) Asset revaluation reserve

(i) Nature and purpose of reserve

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The reserve can only be used to pay dividends in limited circumstances.

(ii) Movements in reserve

	2013	2012
Balance at beginning and end of year	30,093	30,093

(b) Acquisition reserve

The reserve is used to accumulate the difference on cost of shares issued by the company. In 2008, the difference arose because of the reverse acquisition, valuing the net asset at the fair value on the day of transaction versus the cost of the shares as agreed per shareholder agreement.

(ii) Movements in reserve

	2013	2012
Balance at beginning and end of year	(99,424)	(99,424)

24 COMMITMENTS

Capital expenditure commitments

	2013	2012
Contractual commitments for building works at aged care facilities	4,317	9,812

Lease expenditure commitments

(i) Operating leases (non-cancellable)

	2013	2012
Minimum lease payments		
- not later than one year	710	411
- later than one year and not later than five years	2,669	41
- later than five years	2,678	-
Aggregate lease expenditure contracted for at reporting date	6,057	452

Operating leases have an average lease term of 7 years. Assets that are the subject of operating leases are office premises and office equipments.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

	Consolidated Group	
	2013	2012
	$'000	$'000
25 CONTINGENCIES		
Estimates of the maximum amounts of contingent liabilities, that may become payable:		
(a) Bank guarantees	3,968	150

(b) Legal claims and disputes

The consolidated entity is defending a claim for damages brought by the landlord of the premises in which a retirement facility was formerly housed. The matter was heard in the Supreme Court of Victoria in February/March 2013. On 30 August 2013, the Court issued reasons for judgement in the matter which found that there is liability in relation to the landlord's claim. The court has not yet made final orders or assessed damages in the case. There is an appeal right in relation to final orders once made and, at this stage, it is not possible to predict the final outcome of this litigation.

In April 2012 the Supreme Court of Victoria held that an assessment of $1.7m issued by State Revenue Office of Victoria for stamp duty on transactions in the period 2004 to 2007 should be set aside. The State Revenue Office lodged an appeal of the decision to the Full Court of the Supreme Court. This appeal was subsequently abandoned by the State Revenue Office and the original decision to set aside the judgement stands.

In September 2011 State Revenue Office Victoria issued an assessment for stamp duty payable of $12,325,500 in respect of the July 2007 merger. The State Revenue Office Victoria has taken the position that Paragon Group Investments Pty Ltd was a land rich entity at the time of the merger. A penalty of $616,275 and interest of $1,484,750 were also assessed. The company believes the State Revenue Office erred in issuing this assessment. The company elected to pay the assessed amount of $14,426,525 (paid in December 2011) and seek recovery through the lodgement of an objection. The State Revenue Office did not respond to the objection and the company lodged an appeal to the Supreme Court on the basis of a ‘deemed’ rejection of the objection. The company is currently pursuing the appeal but as the appeal is opposed by the State Revenue Office, timing of the resolution remains unknown. The company will vigorously pursue the appeal. If in the unlikely event that the appeal is unsuccessful, the company is strongly of the opinion that the final amended assessment would be of an amount significantly less than the current amount assessed.

A directions hearing is scheduled to be held soon and it is also anticipated that the matter will be heard by the court by no later than 30 June 2014.

26 RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statement includes the financial statements of Fairway Investment Holdings Pty Limited and the subsidiaries as listed in Note 14 to the financial statements.

(b) Ultimate parent

Fairway Investment Holdings Pty Limited is the ultimate Australian parent entity.

(c) Special purpose entities

Fairway Nominated Entity Pty Ltd was established in November 2010. This entity was used to acquire shares in Fairway Investment Holdings Pty Ltd from former employees.

RAC Trust was established in November 2012 by the founding shareholders. The corporate trustee of this trust is RAC Fiduciary Pty Ltd. The founding shareholders subscribed for B Class units in this trust. These funds were lent back to Fairway Investment Holdings Pty Ltd - refer note 19.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

27 EVENTS AFTER THE BALANCE SHEET DATE

On 1 July 2013 the settlement of the acquisition of Playford Village was completed. Playford village, renamed Regis Playford, is a 125 bed aged care facility located in the Adelaide suburb of Davoren Park.
No other matters or circumstances have arisen since the end of the financial year that have significantly or may significantly affect the operations of the Group.

The consolidated entity is defending a claim for damages brought by the landlord of the premises in which a retirement facility was formerly housed. The matter was heard in the Supreme Court of Victoria in February/March 2013. On 30 August 2013, the Court issued reasons for judgement in the matter which found that there is liability in relation to the landlord's claim. The court has not yet made final orders or assessed damages in the case. There is an appeal right in relation to final orders once made and, at this stage, it is not possible to predict the final outcome of this litigation.

28 AUDITORS' REMUNERATION

	Consolidated Group	
	2013	2012
	$'000	$'000
Amounts received or due and receivable by Ernst & Young for:		
• audit or review of the financial report of the entity and any other entity in the consolidated entity	327	316
• other services in relation to the entity and any other entity in the consolidated entity		
- tax compliance	158	238
- other services	261	361
	746	915

29 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) *Specified directors*

Mr Bryan A Dorman (Chairman)
Mr Ian G Roberts
Mr Rees Wegenaar
Mr Leigh P Harrison (resigned 30 August 2012)
Mr Hugh W FitzSimons (appointed 30 August 2012)

(i) *Specified executives*
Mr Ross Johnston

(b) Compensation of Key Management Personnel of the Group

	Consolidated Group	
	2013	2012
	$'000	$'000
Short-Term		
Salary and fees	1,407	1,627
Post-Employment		
Superannuation, retirement benefits	16	47
	1,423	1,674

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

	Consolidated Group	
	2013	2012
	$'000	$'000

30 SHARE -BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

Expense/(gain) arising from fair value revaluation of cash settled options	1,095	(21)

(b) Types of share-based payment plans

Senior Executive Employee Share Plan

Under senior executive share purchase plan (refer note 2(xix)), non-recourse loans are provided to selected senior executives to assist in the purchase of company shares. These loans are made based on the fair value at the grant date.

(c) Summary of shares issued under non-recourse loan arrangements

	Parent Entity	
	2013	2012
	$	$
Outstanding at beginning of the year	14,236,060	12,249,660
Issued during the year	-	1,986,400
Loan repayments from capital return and dividends applied in accordance with plan rules	(4,643,490)	-
Outstanding at the end of the year	9,592,570	14,236,060

(d) Recognised cash settled share based payment liability

The carrying amount of the liability relating to cash settled share based payment at 30 June 2013 is $1,606,341 (2012: $652,084).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

31 BUSINESS COMBINATIONS

Acquisition of Regis Embleton Facility

On 1 April 2013, Regis Aged Care Pty Ltd, a subsidiary of the Company, acquired the Embleton Care aged care facility located in Perth WA. The land and buildings were acquired from Kostera Nominees Pty Ltd and the business and other assets were acquired from Anastas Investments Pty Ltd.

The cash consideration transferred was $6,474,018. Acquisition related costs of $496,964 incurred as part of this transaction included professional fees and stamp duty. These have been expensed and recognised within other expenses in the consolidated statement of profit or loss and other comprehensive income.

The fair value of the identifiable assets and liabilities as at the dates of the acquisitions were:

	Consolidated Fair value at acquisition date 2013 $'000
Property, plant & equipment	10,240
Bed licences	2,460
Deferred tax assets	107
	12,807
Accommodation bonds	(5,871)
Provisions	(358)
	(6,229)
Fair value of identifiable net assets	6,578
Cost	(6,474)
Gain on bargain purchase (note 5)	104
Cost of the combination:	
Cash paid	6,474
Other	-
Total cost of the combination	6,474
Direct costs relating to the acquisition (included in other expenses)	497

The consolidated statement of comprehensive income includes revenue and net profit for the year ended 30 June 2013 of $1,692,571 and $392,276 respectively, as a result of the acquisition. Had the acquisition occurred at the beginning of the reporting period, the consolidated statement of comprehensive income would have included revenue and profit of $6,766,284 and $1,569,104 respectively.

The gain on bargain purchase of $104,000 has been recognised as other income in the consolidated statement of profit or loss and other comprehensive income. The gain on bargain purchase represents the sum of differences between the fair value of assets and liabilities acquired and the contract amounts.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

32 PARENT ENTITY INFORMATION

	2013 $'000	2012 $'000
The following information has been extracted from the books and records of the parent and has been prepared in accordance with the accounting standards.		
Information relating to Fairway Investment Holdings Pty Limited		
ASSETS		
Current Assets	122	122
Non current assets	380,468	384,822
TOTAL ASSETS	380,590	384,944
LIABILITIES		
Current Liabilities	57,356	11,071
Non current liabilities	114,991	12,174
TOTAL LIABILITIES	172,347	23,245
EQUITY		
Issued Capital	204,892	348,554
Retained earnings	3,351	13,145
TOTAL EQUITY	208,243	361,699
Profit/(loss) of the parent entity	(3,117)	(160)
Total comprehensive income of the parent entity	(3,117)	(160)

Guarantees

Details of bank guarantees are set out in note 25

Contingent Liabilities

Details of contingent liabilities are set out in note 25

Contractual Commitments

Details of contractual commitments are set out in note 24

Directors' Declaration

In accordance with a resolution of the directors of Fairway Investment Holdings Pty Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001* , including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the board

Mr Bryan A Dorman
Director

Dated this 26th day of September 2013

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com

Independent auditor's report to the members of Fairway Investment Holdings Pty Ltd

We have audited the accompanying financial report of Fairway Investment Holdings Pty Ltd, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com

Building a better working world

Independent auditor's report to the members of Fairway Investment Holdings Pty Ltd

We have audited the accompanying financial report of Fairway Investment Holdings Pty Ltd, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Building a better
working world

Opinion

In our opinion, the financial report of Fairway Investment Holdings Pty Ltd is in accordance with the *Corporations Act 2001*, including:

i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

Ernst + Young

Ernst & Young

Don Brumley
Partner
Melbourne
26 September 2013

Building a better
working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com

Auditor's Independence Declaration to the Directors of Fairway Investment Holdings Pty Ltd

In relation to our audit of the financial report of Fairway Investment Holdings Pty Ltd for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Brumley

Don Brumley
Partner
26 September 2013