

Estia Health Ltd
(Formerly Estia Health Pty Ltd)

ABN: 37 160 986 201

**Annual Financial Report for
the year ended 30 June 2014**

Estia Health Ltd (Formerly Estia Health Pty Ltd)

ABN: 37 160 986 201

For the Year Ended 30 June 2014

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Corporate information

ABN 37 160 986 201

Directors

Marcus Darville, Chairman – appointed 8 November 2013

Peter Arvanitis, Chief Executive Officer (resigned as CEO – 31 August 2014) – appointed 29 October 2012

Chris Hadley – appointed 8 November 2013

Jonathan Pearce – appointed 8 November 2013

Nick Yannopoulos – appointed 29 October 2012

Clark Perkins – appointed 30 July 2014

Company Secretary

Nick Yannopoulos – appointed 29 October 2012, resigned 2 April 2014, reappointed 26 September 2014

Stuart Whipp – appointed 2 April 2014, resigned 26 September 2014

Registered office

357 Camberwell Road

Camberwell VIC 3124

Principal place of business

357 Camberwell Road

Camberwell VIC 3124

Solicitors

King & Wood Mallesons

Governor Phillip Tower

1 Farrer Place

Sydney NSW 2000

Bankers

Westpac Banking Corporation

275 Kent Street

Sydney NSW 2000

Auditors

Ernst & Young

Australia

Directors' report

Your directors submit their report for the year ended 30 June 2014.

Directors

The names and details of the Group's directors in office during the financial year and until the date of this report are as follows.

Marcus Darville (Non-executive Chairman)

Marcus is a director of Quadrant Private Equity joining in March 2006. Marcus has over 20 years private equity experience starting in the UK with NatWest Ventures (now Bridgepoint). Marcus is a member of the Quadrant Investment Committee and is also a Director of Quadrant investees Super A-Mart/Barbeques Galore and ICON Cancer Care.

Peter Arvanitis (Director and Chief Executive Officer)

Peter is the founding director of Estia Health Group, with over 30 years' experience in business leadership and customer service. Peter's practical experience in the aged services industry and involvement at a resident-level has given him a personal and genuine understanding of residents' needs and an ability to respond to industry trends.

Chris Hadley (Non-executive Director)

Chris is the Managing Director of Quadrant Private Equity. He is one of the longest serving executives in the Australian Private Equity industry and was one of the founding council members of AVCAL. Chris has led and managed a number of Quadrant investments and has been a director on many investee boards. Chris is a director of Quadrant investee companies Seniors Money International, iSentia, APN Outdoor, CQMS Razer, Super A-Mart/Barbeques Galore, City Farmers and Zip Industries.

Jonathan Pearce (Non-executive Director)

Jonathon joined Quadrant Private Equity in January 2012 as an Investment Director. Prior to this Jonathon was an Investment Director of CVC Capital Partners, a global private equity firm. Before joining CVC Capital Partners, Jonathon was a Director of PricewaterhouseCoopers, which he joined in January 2000, where he was responsible for advising on private equity and corporate mergers and acquisitions across Europe, the US and Asia. Jonathon is also a Director of Quadrant investee company City Farmers.

Clark Perkins (Non-executive Director)

Clark has over 25 years' experience in the investment banking, private equity and financial services industry. He is currently Chairman of Mercury Capital and Healthstrong Australia, and Director of Novotech, Bluestar Print Group (NZ) and Hexagon Holdings. Clark was previously Head of the Merchant Banking Division of Goldman Sachs JBWere, and Chairman of Goldman Sachs JBWere's Private Equity Investment Funds.

Nick Yannopoulos (Executive Director and Company Secretary)

Nick joined Estia Health Group from a background in sales, property and management roles. This expertise gives him a unique ability to identify key areas of growth in the sector, while never losing sight of the needs of residents and staff. Nick has played an integral part in improving and developing new systems and processes throughout the group. He also played a major role in the group's recent expansion and in particular ensuring that all acquisitions have transitioned smoothly into the Estia Health Group.

Company Secretary

Stuart Whipp – resigned 26 September 2014

Stuart was the Company Secretary of Estia Health Ltd as well as the Chief Financial Officer of the Group. Stuart is an experienced finance executive with over 20 years in leadership roles in the UK and the Asia Pacific region.

Directors' report (continued)

Interests in the shares of the Company

As at the date of this report, the interests of the directors in the shares of Estia Health Ltd were:

	No. of ordinary shares
Peter Arvanitis	22,500,000
Nick Yannopoulos	1,390,000

Principal activities

The principal activities of the Estia Health Group during the year ended 30 June 2014 included the operating and developing of owned and leased residential aged care facilities throughout Victoria.

Operating and financial review

During the period ended 30 June 2014, the Estia Health Group successfully expanded operations throughout Victoria increasing the number of aged care facilities from 10 to 14 and licenced beds from 819 to 1,142. This growth continued post 30 June 2014 with the acquisition of the Padman and Cook Care Groups expanding Estia Health Group's operations into South Australia, New South Wales and Queensland and increasing the number of aged care facilities to 36 and licenced beds to almost 3,000.

Strong demand for the Estia Health Group's facilities resulted in high occupancy at all facilities with occupancy of greater than 95% as at 30 June 2014. Adjusting for acquisition costs incurred in forming the Estia Health Group and in purchasing additional facilities throughout the period, the Estia Health Group achieved an EBITDA for the period ended 30 June 2014 of \$9,368,802.

In addition to the strong financial result, the Estia Health Group maintained accreditations at all of its facilities and invested in capital works to improve the standard of each facility operated by the Group.

Future strategic initiatives for the Estia Health Group include the following:

- Continued growth through acquisitions, brownfield and greenfield developments and partnering with suitable organisations to provide aged care services;
- Maintaining and enhancing the skills and expertise of Estia Health Group's employees to enhance the services provided to residents; and
- Introducing uniform procedures, software systems and infrastructure across the Estia Health Group to underpin the continued growth of the Group and to enhance the financial performance of the Estia Health Group.

Significant changes in the state of affairs

There are no significant changes in the state of affairs.

Significant events after the balance date

Since the end of the financial year the Estia Health Group has acquired the aged care business and assets (including the aged care facilities and associated land) of the Padman Health Care Group and the Cook Care Aged Care Group. Under both acquisitions, the Estia Health Group assumed the trade debtors, trade creditors, bond liabilities and the employee entitlement liabilities as at the acquisition date which was the 1 August 2014. The acquisition of the Padman Aged Care Group business and assets consisted of the acquisition of 13 aged care facilities with 12 located in South Australia and 1 located in Queensland. All facilities were acquired outright with no facilities being subject to a lease.

The acquisition of the Cook Care Aged Care Group business and assets consisted of the acquisition of 9 aged care facilities with 6 located in NSW and 3 located in Queensland. All facilities were acquired outright with no facilities being subject to a lease.

The net proceeds paid for the acquisition of the Padman and the Cook Care Aged Care Groups excluding transaction costs was approximately \$315.4m. The acquisition of the Padman and Cook Care Aged Care Groups was funded by a mixture of equity, vendor loans and bank debt with the bank debt being drawn under a loan facility with UBS and under the Syndicated Loan Facility held by the Estia Health Group with Westpac Banking Corporation acting as the lead banker.

The Estia Health Group has also acquired 2 lots of residential land, the freehold to an aged care facility which is continuing to be operated by a non-related accredited provider and a further 3 aged care facilities with 2 located in Victoria and 1 in NSW. The Estia Health Group acquired these aged care facilities outright with no facilities being subject to a lease and has assumed the accommodation bond liabilities and the employee entitlement liabilities as at the respective acquisition dates. These acquisitions were funded by bank debt drawn under the Syndicated Loan Facility held by the Estia Health Group with Westpac Banking Corporation acting as the lead banker.

Directors' report (continued)

Likely developments and expected results

As at the date of signing of the Financial Statements, there are no matters or circumstances that have arisen or are expected to arise that may significantly impact the operations of the Group, the state of the affairs and/or the results of the Group in future years.

Environmental regulation and performance

The Group is not subject to significant environmental legislation under either Commonwealth or State legislation.

Indemnification and insurance of directors and officers

The Group has agreed to indemnify all the directors and executive officers for any breach of environmental or discrimination laws by the Group for which they may be held personally liable. The agreement provides for the Group to pay an amount provided that:

- (a) The liability does not arise out of conduct involving a lack of good faith
- (b) The liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted

During or since the financial year, the Group has paid premiums in respect of a contract insuring all the directors of Estia Health Ltd against legal costs incurred in defending proceedings for conduct other than:

- (a) A wilful breach of duty
- (b) A contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*

The total amount of insurance contract premiums paid was \$17,847.

Indemnification of auditors

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Directors' meetings

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

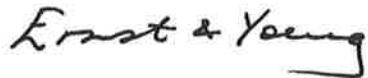
Directors' meetings	
No. of meetings held:	7
No. of meetings attended:	
Marcus Darville	7
Peter Arvanitis	7
Chris Hadley	1
Jonathan Pearce	7
Clark Perkins	-
Nick Yannopoulos	7

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1 (where rounding is applicable) and where noted (\$) under the option available to the Group under ASIC CO 98/0100. Estia Health Ltd is an entity to which the class order applies.

Auditor's Independence Declaration to the Directors of Estia Health Ltd

In relation to our audit of the financial report of Estia Health Ltd for the financial year ended 30 June 2014, 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



Rodney Piltz

Partner

Melbourne

9 October 2014

Consolidated statement of comprehensive income

For the year ended 30 June 2014

	Note	2014 \$	2013 \$
Revenues	6	66,737,061	-
Other income		91,334	-
Expenses			
Administrative expenses	7	1,894,053	-
Acquisition transaction costs		11,448,167	-
Depreciation and amortisation expenses	8	1,121,281	-
Employee benefits expenses	9	43,263,777	-
Finance costs	10	12,610,204	-
Health consultants expenses		1,334,008	-
Occupancy expenses	11	4,099,475	-
Resident expenses		5,284,381	-
Repairs and maintenance expenses		1,583,899	-
Loss before income tax		(15,810,850)	-
Income tax benefit	12	1,342,415	-
Loss for the year		(14,468,435)	-
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Total comprehensive loss for the year		(14,468,435)	-
Earnings per share			
Basic, loss for the year attributable to ordinary equity holders of the Parent		(0.28)	-
Diluted, loss for the year attributable to ordinary equity holders of the Parent		(0.28)	-

The accompanying notes form part of these financial statements

Consolidated statement of financial position

As at 30 June 2014

	Notes	2014 \$	2013 \$
Current assets			
Cash and cash equivalents	13	3,571,341	4
Trade and other receivables	14	1,370,946	-
Prepayments and other assets	15	2,382,181	-
Other current financial assets	16	801,835	-
Total current assets		8,126,303	4
Non-current assets			
Property, plant and equipment	17	76,052,294	-
Intangible assets	18	178,385,694	-
Deferred tax assets	12	3,754,365	-
Total non-current assets		258,192,353	-
Total assets		266,318,656	4
Current liabilities			
Trade and other payables	19	8,939,752	-
Loans and borrowings	20	2,746,442	-
Derivative financial instrument	21	1,301,608	-
Accommodation bonds	22	77,625,576	-
Provisions	23	6,438,354	-
Total current liabilities		97,051,732	-
Non-current liabilities			
Loans and borrowings	20	112,763,080	-
Deferred tax liabilities	12	772,427	-
Provisions	23	1,949,852	-
Total non-current liabilities		115,485,359	-
Total liabilities		212,537,091	-
Net assets		53,781,565	4
Equity			
Issued capital	24	68,250,000	4
Accumulated losses		(14,468,435)	-
Total equity		53,781,565	4

The accompanying notes form part of these financial statements

Consolidated statement of changes in equity

For the year ended 30 June 2014

	Notes	Issued capital \$	Accumulated losses \$	Total equity \$
At 29 October 2012				
Profit for the period		-	-	-
Other comprehensive income		-	-	-
Total comprehensive income		-	-	-
Transactions with owners in their capacity as owners:				
Issue of share capital	24	4	-	4
At 30 June 2013		4	-	4
Loss for the year		-	(14,468,435)	(14,468,435)
Other comprehensive income		-	-	-
Total comprehensive loss		-	(14,468,435)	(14,468,435)
Transactions with owners in their capacity as owners:				
Issue of share capital	24	68,249,996	-	68,249,996
At 30 June 2014		68,250,000	(14,468,435)	53,781,565

The accompanying notes form part of these financial statements

Consolidated statement of cash flows

For the year ended 30 June 2014

	Notes	2014 \$	2013 \$
Cash flows from operating activities			
Receipts from residents		15,871,676	-
Receipts from government		49,172,740	-
Payments to suppliers and employees		(57,588,357)	-
Receipts from accommodation bonds		15,718,876	-
Payments of accommodation bonds		(14,693,615)	-
Interest received		236,697	-
Finance costs paid		(11,333,690)	-
Income tax paid		-	-
Net cash flows from operating activities	13	(2,615,673)	-
Cash flows from investing activities			
Purchase of business combinations	4	(148,368,940)	-
Purchase of intangible assets	18	(713,707)	-
Proceeds from sale of property, plant and equipment		17,009	-
Purchase of property, plant and equipment	17	(2,594,350)	-
Net cash flows used in investing activities		(151,659,988)	-
Cash flows from financing activities			
Proceeds from bank borrowings	20	70,850,000	-
Repayment of bank borrowings		(6,905,848)	-
Loans to related parties	25	(801,835)	-
Proceeds from shareholder loans	20	52,841,884	-
Proceeds from issue of ordinary shares		44,415,825	4
Net cash flows from in financing activities		157,846,998	4
Net increase in cash and cash equivalents		3,571,337	4
Cash and cash equivalents at the beginning of the year		4	-
Cash and cash equivalents at the end of the year	13	3,571,341	4

The accompanying notes form part of these financial statements

Notes to the Financial Statements

For the year ended 30 June 2014

1. Corporate Information

The consolidated financial statements of Estia Health Ltd and its subsidiaries (collectively, the Group) for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of directors on 9 October 2014.

Estia Health Ltd (the Company or the parent) is a for profit company limited by shares incorporated in Australia on 29 October 2012 and as a result the comparative period represents the 8 month period to 30 June 2013. The operations of the Company were acquired on 1 October 2013 therefore the current period includes 9 months of operations.

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 also been prepared on a historical cost basis, except for derivative financial instrument which have been measured at fair value.

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

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group's current liabilities exceed current assets by \$88,925,429 as at 30 June 2014. This mainly arises because of the requirement to classify accommodation bonds of \$77,625,576 as current liabilities (refer note 22 for further details).

(b) Statement of compliance

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) New accounting standards and interpretations

(i) Changes in accounting policy, disclosures, standards and interpretations

New and amended standards and interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2013:

AASB 10 *Consolidated Financial Statements*, AASB 127 *Separate Financial Statements*

AASB 13 *Fair Value Measurement*

AASB 119 *Employee Benefits*

- *Improvements to AASBs 2009-2011 Cycle*

Given that the operations of the Group commenced on 1 October 2013 there has been no change in accounting policies with respect to these accounting standards.

(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 Group for the annual reporting period ending 30 June 2014, are outlined in the table below:

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

Reference	Title	Impact on Group financial report	Application date of standard	Application date for Group
AASB 2012-3	Amendments to Australian Accounting Standards - <i>Offsetting Financial Assets and Financial Liabilities</i>	AASB 2012-3 adds application guidance to AASB 132 <i>Financial Instruments: Presentation</i> to address inconsistencies in applying some of the offsetting criteria of AASB 132. These amendments have not yet been assessed by the Group.	1 January 2014	1 July 2014
AASB 9 / IFRS 9	Financial Instruments	<p>On 24 July 2014 The IASB issued the final version of IFRS 9 which replaces IAS 39 and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.</p> <p>The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>The AASB is yet to issue the final version of AASB 9. A revised version of AASB 9 (AASB 2013-9) was issued in December 2013 which included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>AASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The main changes are described below.</p> <ol style="list-style-type: none"> 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. 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. 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. 	1 January 2018	1 July 2018

Reference	Title	Impact on Group financial report	Application date of standard	Application date for Group
AASB 9 / IFRS 9 (continued)	Financial Instruments	<p>d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.</p> <p>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, AASB 2010-10 and AASB 2014-1 – Part E.</p>	1 January 2018	1 July 2018
Interpretation 21	Levies	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation. This interpretation is not expected to have an impact on the Group.	1 January 2014	1 July 2014
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 <i>Impairment of Assets</i> . The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The impact of these amendments has not yet been assessed by the Group.	1 January 2014	1 July 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. These amendments are unlikely to have an impact on the Group.	1 January 2014	1 July 2014
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]	These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 <i>Business Combinations</i> when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127. These amendments are unlikely to have an impact on the Group.	1 January 2014	1 July 2014

Reference	Title	Impact on Group financial report	Application date of standard	Application date for Group
Annual Improvements 2010–2012 Cycle	Annual Improvements to IFRSs 2010–2012 Cycle	<p>This standard sets out amendments to International Financial Reporting Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.</p> <p>The following items are addressed by this standard:</p> <ul style="list-style-type: none"> ▶ IFRS 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. ▶ IFRS 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to IAS 37. ▶ IFRS 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets. ▶ IAS 16 & IAS 38 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. ▶ IAS 24 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed. 	1 July 2014	1 July 2014
Annual Improvements 2011–2013 Cycle	Annual Improvements to IFRSs 2011–2013 Cycle	<p>This standard sets out amendments to International Financial Reporting Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.</p> <p>The following items are addressed by this standard:</p> <ul style="list-style-type: none"> ▶ IFRS 13 - Clarifies that the portfolio exception in paragraph 52 of IFRS 13 applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. ▶ IAS 40 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgment is based on guidance in IFRS 3. <p>These amendments are unlikely to have an impact on the Group.</p>	1 July 2014	1 July 2014
AASB 1031	Materiality	<p>The revised AASB 1031 is an interim standard that cross-references to other Standards and the <i>Framework</i> (issued December 2013) that contain guidance on materiality.</p> <p>AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.</p>	1 January 2014	1 July 2014

Reference	Title	Impact on Group financial report	Application date of standard	Application date for Group
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	<p>IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The impact of these amendments has not yet been assessed by the Group.</p>	1 January 2016	1 July 2016
IFRS 15	Revenue from Contracts with Customers	<p>IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.</p> <p>IFRS 15 supersedes:</p> <ul style="list-style-type: none"> (a) IAS 11 Construction Contracts (b) IAS 18 Revenue (c) IFRIC 13 Customer Loyalty Programmes (d) IFRIC 15 Agreements for the Construction of Real Estate (e) IFRIC 18 Transfers of Assets from Customers (f) SIC-31 Revenue—Barter Transactions Involving Advertising Services <p>The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation <p>Early application of this standard is permitted.</p> <p>The impact of these amendments has not yet been assessed by the Group.</p>	1 January 2017	1 July 2017

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2014. Control is achieved when the Group is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposures, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if fact and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

(e) Business combinations and goodwill

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 and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to Other Comprehensive Income (OCI). If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate AASB. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(e) Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(f) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/ non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(g) Revenue recognition

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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Rendering of services

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

Interest income

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(h) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

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

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

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when 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, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 credits and unused tax losses can be utilised, except:

- When 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.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only 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 tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income (OCI) or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(h) Taxes (continued)

Tax consolidation legislation

Estia Health Ltd and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 19 June 2013.

The head entity, Estia Health Ltd 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.

In addition to its own current and deferred tax amounts, Estia Health Ltd also recognises the 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.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in Note 12.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Goods and services tax (GST)

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

- When the GST incurred on a purchase of assets or 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
- When 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 is classified as part of operating cash flows.

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

(i) 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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(j) Trade and other receivables

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

An estimate of 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(k) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on either a straight-line or written down value basis over the estimated useful lives of the asset as follows:

- | | |
|---------------------------------------|--------------|
| • Buildings and building improvements | 60 years |
| • Plant and equipment | 5 - 20 years |
| • Office equipment | 2 - 10 years |
| • Furniture and Fittings | 3 - 10 years |
| • Motor Vehicles | 4 years |

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if required.

(l) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of 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 the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(n) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected as a profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Bed Licences

Bed licences for the Group's aged care facilities are initially carried at historical cost.

Bed licences acquired through a business combination are valued 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 accounts of the individual acquired entities within the Group.

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

No amortisation has been provided as the Group believes the useful lives of these assets are indefinite.

Goodwill

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit (CGU) (or group of CGU's) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(o) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(o) Financial instruments (continued)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The measurement of financial assets depends on their classification, as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit and loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognised (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(o) Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings, including bank overdrafts, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. AASB 139.55(a) Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 139 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are de-recognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information refer Note 20.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(p) Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss. No derivative financial instruments were designated for hedge accounting.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(q) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(r) Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. Due to the short term nature of trade and other payables, their carrying values are assumed to approximate their fair value.

(s) Provisions

General

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. When 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 a provision is presented in the statement of profit or loss net of any reimbursement.

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

(s) Provisions (continued)

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(t) Fair value measurement

The Group measures financial instruments, such as, derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 21.

Fair value is the price that would be received upon selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(u) Operating Cash flow

Daily inflows and outflows of accommodation bonds are considered by the Group to be a normal part of the operations of the business and are utilised at the discretion of the Group within the guidelines set out by the Prudential Compliance Standards and therefore classified as an operating activity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

3. Significant accounting judgements, estimates 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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Use of judgements, estimates and assumptions

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Information about critical judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ended 30 June 2014 are included in the following notes:

Note 4 – Business Combinations: fair value measured on a provisional basis

Note 12 – Income Taxes recognition of deferred tax assets: availability of future taxable profit;

Note 18 – Intangible assets impairment test: key assumptions underlying recoverable amounts;

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

4. Business combinations

Acquisitions in 2014

During the period from 1 October 2013 to 30 June 2014, the Group acquired 14 facilities from various trusts and companies and details listed as below. Acquisition related costs equating to \$11,448,167 were incurred in total relating to all acquisitions to 30 June 2014. These have been expensed and are presented as transaction costs in the Consolidated statement of comprehensive income.

On 1 October 2013, Estia Investments Pty Ltd, a subsidiary of the Company, acquired the aged care business and net assets of the following facilities Bentleigh Manor, Grace Gardens, Knoxville, Waldreas Village, Werribee Terrace, Grandview Garden, Trinity Gardens, Yarra Valley, Victoria Manor and Heritage Lakes.

The provisional fair values of the identifiable assets and liabilities at the date of acquisition were:

	Provisional accounting Fair value recognised on acquisition
Assets	
Land and buildings	42,336,350
Plant and equipment	2,521,815
Bed licenses	19,896,000
Other	2,420,432
Deferred tax asset	<u>1,772,899</u>
	68,947,496
Liabilities	
Accommodation bonds	64,915,734
Employee entitlements	4,675,277
Deferred tax liability	<u>774,105</u>
	70,365,116
Total fair value of net assets acquired	(1,417,620)
Goodwill on acquisition	131,167,619
Purchase consideration transferred	<u>129,749,999</u>
Cost of acquisition	
Shares issued	23,834,171
Cash paid	<u>105,915,828</u>
	129,749,999
	Cash flow on acquisition
Net cash acquired with the subsidiary (included in cash flow from investing activities)	-
Cash paid	<u>(105,915,828)</u>
Net Cash Outflow	<u>(105,915,828)</u>

The consolidated statement of comprehensive income includes revenue and net loss for the year ended 30 June 2014 of \$53,293,988 and \$16,364,480 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 loss of \$69,903,608 and \$14,847,529, respectively.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

4. Business combinations (continued)

During the period to 30 June 2014, Estia Investments Pty Ltd, a subsidiary of the Company, acquired the aged care business and net assets for the following facilities:

Ardeer – 21 October 2013

Oakleigh East – 1 November 2013

Altona Meadows – 1 February 2014

Plenty Valley – 1 June 2014

The provisional fair values of the identifiable assets and liabilities at the date of acquisition were:

	Provisional accounting Fair value recognised on acquisition
Assets	
Land and buildings	28,982,000
Plant and equipment	752,822
Bed licenses	7,752,000
Deferred tax asset	643,906
	<u>38,130,728</u>
Liabilities	
Accommodation bonds	11,684,581
Employee entitlements	2,540,879
Other	313,435
	<u>14,538,895</u>
Total fair value of net assets acquired	23,591,833
Goodwill on acquisition	18,861,279
Purchase consideration transferred	42,453,112
	Cash flow on acquisition
Net cash acquired with the subsidiary (included in cash flow from investing activities)	-
Cash paid	(42,453,112)
Net Cash Outflow	(42,453,112)

The consolidated statement of comprehensive income includes revenue and net profit for the year ended 30 June 2014 of \$13,534,406 and \$1,896,045 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 \$26,654,723 and \$3,600,577, respectively.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

5. Information relating to subsidiaries

The consolidated financial statements of the Group include:

Name	Principal Activities	Country of Incorporation	% Equity Interest 2014	% Equity Interest 2013
Estia Finance Pty Ltd	Employer of key management personnel and borrower of bank loans	Australia	100%	100%
Estia Investments Pty Ltd	Accredited provider of aged care facilities	Australia	100%	100%

6. Revenues

	2014 \$	2013 \$
Government funding	50,064,998	-
Resident funding	13,016,471	-
Accommodation funding	3,418,895	-
Finance income	236,697	-
Total revenues	66,737,061	-

7. Administrative expenses

	2014 \$	2013 \$
Printing and stationery	274,610	-
Telephone	189,701	-
Professional services	535,900	-
Doubtful debts	178,000	-
Other administrative expenses	715,842	-
Total administrative expenses	1,894,053	-

8. Depreciation and amortisation expense

		2014 \$	2013 \$
Depreciation expense	17	1,116,370	-
Amortisation	18	4,911	-
Total depreciation and amortisation expenses		1,121,281	-

9. Employee benefits expenses

	2014 \$	2013 \$
Wages and salaries	33,368,301	-
Employee leave entitlements	3,277,034	-
Employment on-costs	5,450,957	-
Payments to agencies for casual staff	627,077	-
Other employment expenses	540,408	-
Total employee benefits expenses	43,263,777	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

10. Finance costs

	2014 \$	2013 \$
Interest expense		
Bank loans	4,773,188	-
Shareholder loans	5,341,884	-
Net loss from revaluation of interest rate swap	1,276,514	-
Borrowing costs	1,218,618	-
Total finance costs	12,610,204	-

11. Occupancy expenses

	2014 \$	2013 \$
Rents and outgoings	3,944,878	-
Other occupancy expenses	154,597	-
Total occupancy expenses	4,099,475	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

12. Income Tax

The major components of income tax benefit for the years ended 30 June 2014 and 2013 are:

Consolidated statement of comprehensive income

	2014 \$	2013 \$
<i>Current income tax:</i>		
Current income tax charge / (benefit)	(2,209,930)	-
Adjustments in respect of current income tax of previous year	-	-
<i>Deferred income tax:</i>		
Relating to origination and reversal of temporary differences	867,515	-
Income tax benefit reported in the Consolidated statement of comprehensive income	(1,342,415)	-

Reconciliation of income tax benefit and the accounting loss:

	2014 \$	2013 \$
Accounting loss before income tax	(15,810,850)	-
At the Australian statutory income tax rate of 30% (2013: 30%)	(4,743,255)	-
Adjustments in respect of current income tax of previous year	-	-
Expenditure not allowable for income tax purposes	3,400,840	-
Income tax benefit	(1,342,415)	-

Deferred taxes relate to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	2014 \$	2013 \$	2014 \$	2013 \$
Accelerated depreciation	(772,427)	-	1,256	-
Other	(20,479)	-	(20,479)	-
Tax losses	504,901	-	-	-
Derivatives	382,954	-	382,954	-
Provisions and accruals	2,886,989	-	503,784	-
Deferred tax expense			867,515	-
Deferred tax assets, net	2,981,938	-		

Reflected in the statement of financial position as follows:

Deferred tax assets	3,754,365	-
Deferred tax liabilities	(772,427)	-
Deferred tax assets, net	2,981,938	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

Income Tax (continued)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The Group has tax losses which arose in Australia of \$1,683,003 (2013: \$nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Tax consolidation

(i) Members of the income tax consolidated group and the tax sharing arrangement

Estia Health Ltd and its subsidiaries formed an income tax consolidated group with effect from 19 June 2013. Estia Health Ltd is the head entity of the income tax consolidated group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

(ii) Tax effect accounting by members of the income tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the income 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 income 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*. 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 income tax consolidated group.

Nature of the tax funding agreement

Members of the income tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the Group is based on accounting profit, which is not an acceptable method of allocation under AASB Interpretation 1052. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries.

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.

The benefit of the tax losses is recognised on the basis that the Company to which it relates will generate taxable income within the next four years, against which the tax losses will be utilised.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

13. Cash and cash equivalents

(a) Reconciliation of cash

	2014 \$	2013 \$
Cash balance comprises:		
Cash at banks	3,567,681	-
Cash on hand	3,660	4
	3,571,341	4

Cash at banks earns interest at floating rates based on daily bank deposit rates.

At 30 June 2014, the Group had available \$114,150,000 (2013: nil) of undrawn committed borrowing facilities.

(b) Cash flow reconciliation

Reconciliation of net loss after income tax to net cash flows from operations:

Loss after income tax	(14,468,435)	-
Adjustments to reconcile loss before income tax to net cash flows:		
Depreciation of property, plant and equipment	1,116,370	-
Amortisation of intangibles	4,911	-
Net loss on disposal of property, plant and equipment	1,664	-
Doubtful debts	178,000	-
Stepped lease costs	322,003	-
Fair value loss of derivative financial instrument	1,276,514	-
Changes in assets and liabilities		
Increase in trade and other receivables	(1,548,946)	-
Increase in prepayments and other assets	(2,382,181)	-
Increase in trade and other payables	10,756,566	-
Increase in provisions	1,102,600	-
Increase in accommodation bonds	1,025,261	-
	(2,615,673)	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

14. Trade and other receivables

	2014 \$	2013 \$
Trade receivables	773,277	-
Other receivables	597,669	-
	1,370,946	-

Trade receivables are generally non-interest bearing and are generally on terms of 30 days.

(a) Allowance for impairment loss

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. As at 30 June 2014, trade receivables of an initial value of \$178,000 (2013: \$nil) were impaired and fully provided for. The movements in the allowance for impairment loss was as follows:

	\$
At 29 October 2012	
Charge for the year	-
Utilised	-
Unused amounts reversed	-
At 30 June 2013	-
Charge for the year	178,000
Utilised	-
Unused amounts reversed	-
At 30 June 2014	178,000

As at 30 June, the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				Past due and impaired
			<30 days	30-60 days	61-90 days	> 90 days	
2014	951,277	746,299	132,246	72,732	-	-	178,000
2013	-	-	-	-	-	-	-

See Note 28 on credit risk which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

(b) Terms and conditions and allowances 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 2014

15. Prepayments and other assets

	2014 \$	2013 \$
Deposits	2,081,117	-
Prepayments	301,064	-
	2,382,181	-

16. Other current financial assets

	2014 \$	2013 \$
Loans to related parties	801,835	-

For terms and conditions relating to related party loans, refer to Note 26.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

17. Property, plant and equipment

Reconciliation of property, plant and equipment

Cost	Note	Land \$	Buildings \$	Property Improvements \$	Furniture & Fixtures \$	Office Equipment \$	Plant & Equipment \$	Motor Vehicles \$	Total \$
Balance at 29 October 2012		-	-	-	-	-	-	-	-
Additions		-	-	-	-	-	-	-	-
Disposals		-	-	-	-	-	-	-	-
Balance at 30 June 2013		-	-	-	-	-	-	-	-
Additions		995,000	-	329,103	189,583	128,817	946,997	4,850	2,594,350
Disposals		-	-	-	-	-	(15,921)	(3,229)	(19,150)
Acquisitions through business combinations	4	18,763,000	52,555,350	-	658,622	205,782	2,377,330	32,903	74,592,987
Balance at 30 June 2014		19,758,000	52,555,350	329,103	848,205	334,599	3,308,406	34,524	77,168,187
Accumulated depreciation									
Balance at 29 October 2012		-	-	-	-	-	-	-	-
Depreciation expense		-	-	-	-	-	-	-	-
Disposals		-	-	-	-	-	-	-	-
Balance at 30 June 2013		-	-	-	-	-	-	-	-
Depreciation expense	8	-	542,606	9,921	105,725	39,262	412,544	6,312	1,116,370
Disposal		-	-	-	-	-	(112)	(365)	(477)
Balance at 30 June 2014		-	542,606	9,921	105,725	39,262	412,432	5,947	1,115,893
Net book value									
As at 30 June 2013		-	-	-	-	-	-	-	-
As at 30 June 2014		19,758,000	52,012,744	319,182	742,480	295,337	2,895,974	28,577	76,052,294

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

18. Intangible assets

	Goodwill \$	Bed licences \$	Software Costs \$	Total \$
Cost				
Balance at 29 October 2012	-	-	-	-
Additions	-	-	-	-
Balance at 30 June 2013	-	-	-	-
Additions	-	-	713,707	713,707
Acquisitions through business combinations	150,028,898	27,648,000	-	177,676,898
Balance at 30 June 2014	150,028,898	27,648,000	713,707	178,390,605
Accumulated amortisation				
Balance at 29 October 2012	-	-	-	-
Amortisation expense	-	-	-	-
Balance at 30 June 2013	-	-	-	-
Amortisation expense	-	-	(4,911)	(4,911)
Impairment	-	-	-	-
Balance at 30 June 2014	-	-	(4,911)	(4,911)
Net book value				
As at 30 June 2013	-	-	-	-
As at 30 June 2014	150,028,898	27,648,000	708,796	178,385,694

(a) Bed Licences

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

(b) Impairment of intangible assets

In accordance with the requirements of AASB 136 *Impairment of Assets*, management has tested goodwill and bed licences for impairment. At reporting date, the directors of the company assessed the recoverable amount of goodwill and determined that goodwill was not impaired. The recoverable amount of the cash generating unit was assessed by reference to the cash generating unit's value in use based on financial forecasts covering a five year period (2015 to 2019) and a terminal value. A discount factor of 10.5% was applied in the value in use model. The cash flow projections assumed a growth rate of 7.5% between financial years 2015 to 2019 on revenue remaining stable over the projected period and a terminal value growth rate of 2.5% has been applied.

No amortisation has been provided as the Group believes the useful lives of these assets are indefinite.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

19. Trade and other payables

	2014	2013
	\$	\$
Trade creditors	1,370,407	-
Payroll liabilities	1,387,644	-
Sundry creditors and accruals	6,134,885	-
Deferred income	46,816	-
	8,939,752	-

(a) Terms and conditions

- (i) Trade payables are non-interest bearing and are normally settled within 60-day terms.
- (ii) Other payables are non-interest bearing and are normally settled within 60 day terms

(b) Fair values

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

For explanation on the Group's credit risk management procedures, refer to Note 27.

20. Loans and borrowings

	Interest rate	Maturity	2014	2013
Current loans and borrowings				
Bank loans, secured	6.24%	Oct 2018	2,585,742	-
Bank loans, secured	6.50%	Oct 2018	160,700	-
Total current loans and borrowings			2,746,442	-
Non-current loans and borrowings				
Bank loans, secured	6.24%	Oct 2018	10,808,161	-
Bank loans, secured	6.50%	Oct 2018	49,113,035	-
Shareholder loans, unsecured	15.00%	Oct 2022	52,841,884	-
Total non-current loans and borrowings			112,763,080	-
Total loans and borrowings			115,509,522	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

21. Derivative financial instrument

	2014	2013
	\$	\$
Interest rate swap contracts	1,301,608	-

(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 4.0%. In order to protect against rising interest rates, the Group has entered into three separate interest rate swap contracts. One with NAB, one with Westpac and the other with Investec. The 2014 contracts have a fixed interest rate of 3.58%. Cover for the interest rate swap contracts extends through until October 2018 for varying amounts originally determined to equate to a minimum of 75% of group's forecast borrowings.

(b) Interest rate risk

Information regarding interest rate risk is set out in note 28.

22. Accommodation bonds

	2014	2013
	\$	\$
Accommodation bonds – amounts received	77,625,576	-

Terms and conditions relating to accommodation bonds

Accommodation bonds are paid by residents upon their admission to facilities. Accommodation bonds are settled after a resident vacates the premises in accordance with the *Aged Care Act 1997*. 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 balances are reduced by annual retention fees charged in accordance with the *Aged Care Act 1997*.

Accommodation bond refunds are guaranteed by the Government under the prudential standards legislation. Providers are required to have sufficient liquidity to ensure that 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 the 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 Group's 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 the Group 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

23. Provisions

	Annual leave \$	Long service leave \$	Stepped lease costs \$	Total \$
Balance at 29 October 2012	-	-	-	-
Arising during the year	-	-	-	-
Balance at 30 June 2013	-	-	-	-
Acquisitions through business combinations	3,819,517	3,010,351	-	6,829,868
Arising during the year	2,858,957	745,362	322,003	3,926,322
Utilised	(2,246,991)	(120,993)	-	(2,367,984)
Balance at 30 June 2014	4,431,483	3,634,720	322,003	8,388,206
Current	4,431,483	1,684,868	322,003	6,438,354
Non – current	-	1,949,852	-	1,949,852
Balance at 30 June 2014	4,431,483	3,634,720	322,003	8,388,206

24. Issued capital

	2014 \$	2013 \$
Issued and fully paid Ordinary shares	68,250,000	4
	68,250,000	4

Movements in ordinary shares on issue

	2014		2013	
	Number of shares	\$	Number of shares	\$
Beginning of the financial year	4	4	-	-
Share issue	68,249,996	68,249,996	4	4
End of the financial year	68,250,000	68,250,000	4	4

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

25. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the loss for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential original shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS calculation:

	2014 \$	2013 \$
Loss attributable to ordinary equity holders of the Parent for basic earnings	14,468,435	-
Effect of dilution	-	-
Loss attributable to ordinary equity holders of the Parent for dilutive earnings	14,468,435	-
	2014	2013
Weighted average number of ordinary shares for basic EPS	51,187,497	4
Effect of dilution	-	-
Weighted average number of ordinary shares for the effect of dilution	51,187,497	4

26. Related party disclosures

Note 5 provides the information about the Group's structure including the details of the subsidiaries and the holding company. The following table provides the total amount of transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

		Sales to related parties	Purchases from related parties	Amounts owed by related parties*	Amounts owed to related parties*
		\$	\$	\$	\$
<i>Key management personnel of the Group:</i>					
Other directors' interests	2014	-	-	-	-
	2013	-	-	-	-

* The amounts are classified as trade receivables and trade payables, respectively.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

26. Related party disclosures (continued)

		Interest received	Amounts owed by related parties
		\$	\$
<i>Key management personnel of the Group:</i>			
Directors' loans	2014	-	-
	2013	-	-

Transactions with related parties

Loans to related parties

	2014 \$	2013 \$
Midsummer House Trust	250,000	-
Green Hills Trust	253,383	-
Lasting Changes Trust	298,452	-
Total loans to related parties	801,835	-

The loans to Midsummer House Trust and Lasting Changes Trust are interest free. The loan to Green Hills Trust is charged interest at 5.95% pa. The Midsummer House Trust loan and Green Hills Trust loan are repayable at the earlier of an exit event or on the 10 year anniversary of the loan, being March and April 2024, respectively. The Lasting Changes loan is repayable at call.

Compensation of key management personnel of the Group

	2014 \$	2013 \$
Short-term employee benefits	1,070,873	-
Post-employment benefits	99,895	-
Other long-term benefits	-	-
Termination benefits	-	-
Total compensation	1,170,768	-

27. Commitments and contingencies

Operating lease commitments — Group as lessee

The Group has entered into commercial property leases for the Head Office and four of the aged care facilities. These non-cancellable leases have remaining terms of between 5 and 20 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	2014 \$	2013 \$
Within one year	3,263,915	-
After one year but not more than five years	11,205,308	-
More than five years	7,852,878	-
	22,322,101	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

28. Financial Risk Management Objectives and Policies

The Group's principal financial liabilities, other than derivatives, comprise of interest-bearing loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Risk exposure and responses

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 30 June in 2014 and 2013.

The sensitivity analyses have been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt and derivatives are all constant and on the basis of the hedge designations in place at 30 June in 2014.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives
- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June in 2014 and 2013 including the effect of hedge accounting
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges for the effects of the assumed changes of the underlying risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's policy is to keep between a minimum of 75% of its borrowings at fixed rates of interest, excluding borrowings that relate to discontinued operations. To manage this, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

28. Financial Risk Management Objectives and Policies (continued)

The details of debt are disclosed in note 20 to the financial statements.

	Weighted average effective interest rates		Fixed or Floating
	2014 %	2013 %	
Cash and liquid assets	2.5	-	Floating
Bank loans	6.4	-	Floating
Shareholder loans	15.0	-	Fixed

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:

	2014 \$	2013 \$
Financial assets		
Cash and cash equivalents	3,571,341	-
	3,571,341	-
Financial liabilities		
Derivative financial instrument	1,301,608	-
Bank and shareholder loans	122,167,566	-
	123,469,174	-
Net exposure	(119,897,833)	-

At 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit/(Loss)		Other comprehensive income	
	Higher/(lower)		Higher/(lower)	
	2014	2013	2014	2013
+ 0.25% (25 basis points)	(299,745)	-	(299,745)	-
-0.25% (25 basis points)	299,745	-	299,745	-

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group does not carry out any transactions or business that would give rise to foreign currency risk.

Credit risk

Credit risk arises from the financial assets of the Group, which comprises cash and cash equivalents and trade and other receivables. 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 assets.

Approximately 75% of the revenue of the Group is obtained from 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 per the *Aged Care Act 1997*.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

28. Financial Risk Management Objectives and Policies (continued)

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 management

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 2014. 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 2014.

Maturity analysis of financial assets and liabilities are as follows:

	0-12 months \$	1-5 years \$	5+ years \$	Total \$
Year ended 30 June 2014				
Financial assets				
Cash and cash equivalents	3,571,341	-	-	3,571,341
Trade and other receivables	1,370,946	-	-	1,370,946
Other current assets	3,184,016	-	-	3,184,016
	<u>8,126,303</u>	<u>-</u>	<u>-</u>	<u>8,126,303</u>
Financial liabilities				
Trade and other payables	8,939,752	322,003	-	9,261,755
Derivatives financial instrument	1,301,608	-	-	1,301,608
Loans and borrowings	4,329,864	64,995,819	52,841,884	122,167,567
Accommodation bonds	77,625,576	-	-	77,625,576
	<u>92,196,800</u>	<u>65,317,822</u>	<u>52,841,884</u>	<u>210,356,506</u>
Net maturity	(84,070,497)	(65,317,822)	(52,841,884)	(202,230,203)

29. Remuneration of auditors

Audit of the financial report
Tax compliance services
Due diligence services

2014 \$	2013 \$
404,400	-
100,000	-
1,308,880	-
<u>1,813,280</u>	<u>-</u>

The auditor of Estia Health Ltd and its subsidiaries is Ernst & Young.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

30. Subsequent events

Since the end of the financial year the Estia Health Group has acquired the aged care business and assets (including the aged care facilities and associated land) of the Padman Health Care Group and the Cook Care Aged Care Group. Under both acquisitions, the Estia Health Group assumed the trade debtors, trade creditors, bond liabilities and the employee entitlement liabilities as at the acquisition date which was 1 August 2014.

The acquisition of the Padman Aged Care Group business and assets consisted of the acquisition of 13 aged care facilities with 12 located in South Australia and 1 located in Queensland. All facilities were acquired outright with no facilities being subject to a lease.

The acquisition of the Cook Care Aged Care Group business and assets consisted of the acquisition of 9 aged care facilities with 6 located in NSW and 3 located in Queensland. All facilities were acquired outright with no facilities being subject to a lease.

The net proceeds paid for the acquisition of the Padman and the Cook Care Aged Care Groups excluding transaction costs was approximately \$315.4m.

The acquisition of the Padman and Cook Care Aged Care Groups was funded by a mixture of equity, vendor loans and bank debt with the bank debt being drawn under a loan facility with UBS and under the Syndicated Loan Facility held by the Estia Health Group with Westpac acting as the lead banker.

The provisional fair values of the identifiable assets and liabilities at the date of acquisition were:

	Provisional accounting Fair value recognised on acquisition of Padman Group	Provisional accounting Fair value recognised on acquisition of Cook Care Group
Assets		
Land and buildings	112,350,000	73,262,720
Plant and equipment	6,065,849	4,949,510
Bed licenses	25,680,000	22,090,000
Other	211,229	7,633,482
Deferred tax asset	<u>1,374,498</u>	<u>855,438</u>
	145,681,576	108,791,150
Liabilities		
Accommodation bonds	98,393,090	99,586,084
Employee entitlements	4,581,659	2,851,460
Other	3,856,855	2,894,178
Deferred tax liability	<u>9,612,950</u>	<u>347,896</u>
	116,444,554	105,679,618
Total fair value of net assets acquired	29,237,022	3,111,532
Goodwill on acquisition	138,583,043	145,342,189
Purchase consideration transferred	<u>167,820,065</u>	<u>148,453,721</u>

The Estia Health Group has also acquired 2 lots of residential land, the freehold to an aged care facility which is continuing to be operated by a non-related accredited provider and a further 3 aged care facilities with 2 located in Victoria and 1 in NSW. The Estia Health Group acquired these aged care facilities outright with no facilities being subject to a lease and has assumed the accommodation bond liabilities and the employee entitlement liabilities as at the respective acquisition dates. These acquisitions were funded by bank debt drawn under the Syndicated Loan Facility held by the Estia Health Group with Westpac Banking Corporation acting as the lead banker.

Notes to the Financial Statements (continued)

For the year ended 30 June 2014

31. Segment reporting

For management reporting purposes, the Group has one reportable segment. Executive management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and segment performance. Segment performance is evaluated based on operating profit or loss and is measured consistently with the profit and loss in the consolidated financial statements.

32. Parent entity information

	2014 \$	2013 \$
Information relating to Estia Health Ltd		
Current assets	26,960,535	4
Non-current assets	91,640,953	-
Total assets	118,601,488	-
Current liabilities	3,922	-
Non-current liabilities	52,841,884	-
Total liabilities	52,845,806	-
Net assets	65,755,682	-
Issued capital	68,250,000	4
Reserves	-	-
Retained earnings	(2,494,318)	-
Total shareholder's equity	65,755,682	4
Loss of the parent entity	(2,494,318)	-
Total comprehensive income of the parent entity	(2,494,318)	-

Directors' Declaration

In accordance with a resolution of the directors of Estia Health Ltd, 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 2014 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

A handwritten signature in black ink, appearing to read 'MDarville', is written over a faint, larger signature.

Marcus Darville
Director

9 October 2014

Independent auditor's report to the members of Estia Health Ltd

Report on the Financial Report

We have audited the accompanying financial report of Estia Health Ltd, which comprises the consolidated statement of financial position as at 30 June 2014, 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.

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.

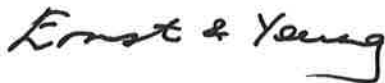
Independence

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 follows the directors' report.

Opinion

In our opinion:

- a. the financial report of Estia Health 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 2014 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



Rodney Piltz

Partner

Melbourne

9 October 2014