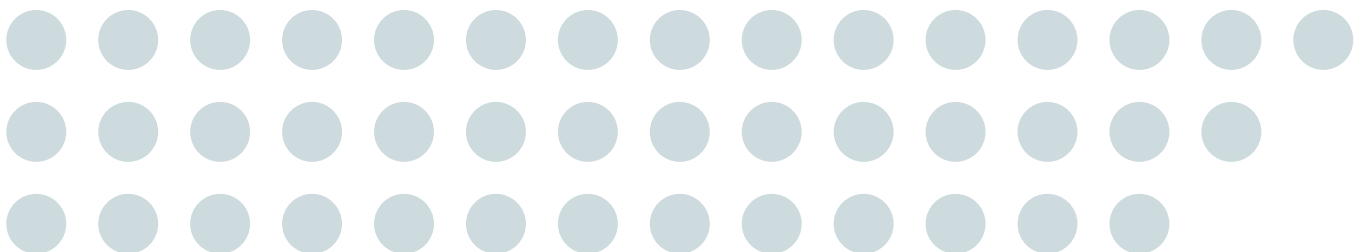


PROSPECTUS

Initial Public Offering
of Ordinary Shares



IMPORTANT NOTICES

Offer

The offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in Japara Healthcare Limited (ABN 54 168 631 052) (the **Company**) (**Offer**). The Offer in Australia is made through this Prospectus.

References to Japara and the Restructure

The Company was incorporated on 19 March 2014 and does not currently own the residential aged care business conducted by Japara (as described in Section 3.1). The business of Japara is currently conducted by two separate entities, being Japara Holdings Pty Ltd (**Japara Holdings**) and Japara Property Management Limited (**JPML**) as responsible entity of the Japara Aged Care Property Trust (**Japara Trust**) (see Section 3.1.1). In connection with the Offer, Japara will be restructured to consolidate ownership of the Japara businesses under a single parent entity, the Company (the **Restructure**, see Section 3.1.1). Completion of the Restructure is subject to the approval of the Unitholders at a Unitholder meeting scheduled to occur on 15 April 2014. If approved, the Restructure will take effect on 22 April 2014. If the Restructure is not approved, or does not otherwise complete, the Offer will not proceed.

Unless otherwise specified, this Prospectus has been prepared as if the Restructure has already occurred. For example, the Investment Overview in Section 1, the Company Overview in Section 3 and the Financial Information in Section 4, each describe Japara after the Restructure.

Lodgement and listing

This replacement prospectus is dated 11 April 2014 and was lodged with the Australian Securities and Investment Commission (**ASIC**) on that date. This replacement prospectus replaces a prospectus dated and lodged with ASIC on 4 April 2014 (**Original Prospectus**).

For the purposes of this document, this replacement prospectus will be referred to as the "Prospectus". None of ASIC, the Australian Securities Exchange (**ASX**) or their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

The Company applied to the ASX for listing and quotation of its Shares on the ASX on 4 April 2014.

No securities will be issued on the basis of this Prospectus any later than 13 months after the date of this Prospectus.

Note to Applicants

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs of any prospective investor.

It is important that you read this Prospectus carefully and in full before deciding to invest in the Company. In particular, in considering this Prospectus, you should consider the risk factors that could affect the financial performance of the Company in light of your personal circumstances (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding to invest. Some of the key risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of Japara, the repayment of capital or the payment of a return on the Shares.

As set out in Section 7, it is expected that the Shares will be quoted on the ASX initially on a conditional and deferred settlement basis. The Company and SaleCo disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statement.

No offering where offering would be illegal

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

In particular, the Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (**US Securities Act**) or any state securities law in the United States and may not be offered, sold, pledged or transferred in the United States unless the Shares are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act and applicable US state securities laws is available.

See Section 10.5 for more detail on selling restrictions that apply to the Offer and sale of Shares in jurisdictions outside of Australia.

Obtaining a copy of this Prospectus

A hard copy of this Prospectus is available free of charge to any Broker Firm Offer Applicant or Priority Offer Applicant in Australia by calling the Japara Share Offer Information Line on 1800 828 558 (within Australia) or +61 1800 828 558 (outside Australia) from 8:30am to 5:00pm (AEST) during the Offer Period. This Prospectus is also available to Broker Firm Offer and Priority Offer Applicants in Australia via the Company's website (www.japarahealthcare.com.au). This Prospectus is not available to persons in jurisdictions outside Australia (including the United States).

Exposure period

The Corporations Act prohibits the Company from processing applications to subscribe for Shares under this Prospectus (**Applications**) in the seven day period after the date of lodgement of this Prospectus (**Exposure Period**). This period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period.

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

Disclaimer and forward-looking statements

No person is authorised to give any information or make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company or the Directors. This Prospectus contains forward-looking statements, including the Forecast Financial Information in Section 4, which may be identified by words such as "may", "could", "believes", "estimates", "expects", "plans", "intends", "will", "projects", "predicts", "anticipates" and other similar words.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, SaleCo, their respective directors and management.

The Company and SaleCo cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

The Company has no intention to update or revise forward-looking statements, or to publish prospective Financial Information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

These forward-looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 5.

Statements of past performance

This Prospectus includes information regarding the past performance of Japara. Given this, and the inherent uncertain nature of forecasts, investors should be aware that past performance should not be relied upon as being indicative of future performance.

Financial Information presentation

The basis of preparation and presentation of the Financial Information in this Prospectus is set out in Section 4. The Financial Information should be read in conjunction with, and is qualified by reference to, the information contained in Section 4 including, in the case of the Forecast Financial Information, the general assumptions and specific assumptions, the sensitivity analysis and the risk factors in Section 5.

Financial amounts

Money as expressed in this Prospectus is in Australian dollars unless otherwise indicated.

Glossary

Certain terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary (see Section 12).

Privacy

By filling out an Application Form to apply for Shares, you are providing personal information to the Company and SaleCo through the Company's service provider, Link Market Services Limited (ABN 54 083 214 537) (**Share Registry**), which is contracted by the Company to manage Applications. The Company, and the Share Registry on its behalf, may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

If you do not provide the information requested in an Application Form, the Company, SaleCo and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other products and services offered by the Company, which it considers may be of interest to you.

Your personal information may also be provided to the Company's members, agents and service providers on the basis that they deal with such information in accordance with the Company's privacy policy. The members, agents and service providers of the Company may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register of members;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register of members. If you do not provide all the information requested, your Application Form may not be able to be processed.

The information contained in the Company's register of members must remain there even if that person ceases to be a Shareholder. Information contained in the Company's register of members is also used to facilitate dividend payments and corporate communications (including financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements. An Applicant has a right to gain access to the information that the Company and the Share Registry hold about that person, subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing or by telephone call to the Company's registered office or the Share Registry's office, details of which are disclosed in the Corporate Directory on the inside back cover of this Prospectus.

Applicants can obtain a copy of the Company's privacy policy by visiting the Company's website (www.japarahealthcare.com.au).

You may request access to your personal information held by or on behalf of the Company. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information in writing to the Share Registry as follows:

Email: registrars@linkmarketservices.com.au.

Address: Level 1, 333 Collins Street, Melbourne VIC 3000.

Questions

If you have any questions about how to apply for Shares, call the Japara Share Offer Information Line on 1800 828 558 (within Australia) or +61 1800 828 558 (outside Australia) from 8:30am to 5:00pm (AEST) Monday to Friday during the Offer Period.

If you have any questions about whether to invest in the Company you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser.

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CHAIRMAN'S LETTER

11 April 2014

Dear investor,

On behalf of the Directors, it gives me great pleasure to invite you to become a Shareholder in Japara Healthcare Limited, a leading Australian residential aged care operator with exciting growth prospects. Residential aged care is a significant and growing sector underpinned by strong demographic trends and substantial Government funding.

Japara commenced business in 2005 and has since grown into one of Australia's largest private sector operators of residential aged care facilities. Japara has 3,131 places across 35 facilities, located principally in Victoria and also in New South Wales, South Australia and Tasmania.

On Completion of the Offer, Japara will provide investors with exposure to a high quality residential aged care business characterised by:

- a reputation for, and a strong history of, providing high quality healthcare to Residents;
- strong operating performance and growth demonstrated by both an above industry average EBITDA per place ratio and an increasing number of Residents over time;
- sustainable cash flows supported by a high proportion of Government-funded revenue and a 100% accreditation history over the past five years;
- an above industry average occupancy level of approximately 95%¹, in part a reflection of Japara's reputation for high quality healthcare;
- a well diversified portfolio of aged care assets predominantly owned by Japara;
- an accommodation bond management policy that is conservative but well-placed to benefit from recent regulatory changes commencing 1 July 2014; and
- a high quality management team.

Accordingly, the Directors of Japara believe the Company provides an attractive investment proposition and, on Completion of the Offer, each Director will hold Shares in the Company.

Japara's business is presently conducted through Japara Holdings (which is owned by the Japara Holdings Shareholders) and the Japara Trust (which is owned by the Unitholders). Japara Holdings and the Japara Trust own Japara's operational and property assets. The Offer is conditional on Unitholders approving the Restructure as a result of which the Company will wholly acquire Japara Holdings and the underlying assets of the Japara Trust from Existing Investors in exchange for cash and Shares. Existing Investors may choose to sell their Shares into the Offer.

The Offer will raise up to \$450.4 million which will be used to purchase the equity of certain Existing Investors, reduce debt and pay for the costs of the Offer.

The Company's dividend policy will be to pay out up to 100% of NPAT. It is the Company's intention to pay out 100% of FY2015 NPAT, resulting in an indicative dividend yield of 5.4% supported by Japara's strong cash flow profile. The FY2015 dividend will be franked to the maximum extent possible.

Japara is subject to a range of risks which apply to the residential aged care sector, and aged care industry generally, including unanticipated adverse effects resulting from regulatory change, decreases in Government funding or in the average value of accommodation bonds, a reduction in occupancy rates, a loss of key personnel, an inability to comply with industry regulations, a diminished reputation, litigation or threatened litigation or an inability to maintain or expand an appropriately skilled workforce. These risks, and others, are further discussed in Section 5 of this Prospectus.

This Prospectus contains detailed information about Japara. I encourage you to read it carefully, and in its entirety, before making your investment decision.

On behalf of the Directors, I commend the Offer to you and look forward to welcoming you as a Shareholder.

Yours sincerely,



Linda Bardo Nicholls AO
Chairman

1. As at 28 February 2014.

IMPORTANT DATES

Prospectus lodgement date	Friday, 11 April 2014
Offer Period opens	Monday, 14 April 2014
Institutional bookbuild	Monday, 14 April 2014
Restructure vote	Tuesday, 15 April 2014
Offer Period closes	Tuesday, 15 April 2014
Expected commencement of trading of Shares on the ASX on a conditional and deferred settlement basis	Thursday, 17 April 2014
Allotment of Shares and completion of the Restructure (last day of conditional trading)	Tuesday, 22 April 2014
Expected despatch of holding statements	Wednesday, 23 April 2014
Expected commencement of trading of Shares on the ASX on a normal settlement basis	Thursday, 24 April 2014

These dates are indicative only and may change. The Company, SaleCo and the Lead Manager reserve the right to amend any and all of the above dates without notice, subject to the ASX Listing Rules and the Corporations Act (including to close the Offer early, to extend the closing date, to accept late Applications or to withdraw the Offer before allotment). If the Offer is withdrawn before the issue of Shares, then all Application Monies will be refunded in full (without interest) as soon as practicable in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after the Offer opens.

KEY OFFER INFORMATION

Key Offer statistics

Offer Price	\$2.00 per Share
Total number of Shares available under the Offer ¹	Up to 225.2 million
Total cash proceeds received under the Offer	Up to \$450.4 million
Total number of Shares on issue on Completion of the Offer	262.5 million
Market capitalisation at the Offer Price ²	\$525.0 million
Pro forma Net Debt/(Cash) ³	\$(18.7) million
Enterprise value at the Offer Price ⁴	\$506.3 million
Enterprise value/pro forma consolidated FY2014 forecast EBIT ^{5,6} (times)	15.6x
Enterprise value/pro forma consolidated FY2015 forecast EBIT ^{5,6} (times)	12.7x
Market Capitalisation/pro forma consolidated FY2014 forecast NPAT ^{5,7} (times)	22.6x
Market Capitalisation/pro forma consolidated FY2015 forecast NPAT ^{5,7} (times)	19.0x
Indicative pro forma forecast FY2015 dividend yield at the Offer Price ^{5,8}	5.4%

1. The number of Shares available under the Offer will equal 225.2 million less the number of Shares that Unitholders elect to retain.
2. Market capitalisation at the Offer Price is defined as the Offer Price multiplied by the total number of Shares on Completion of the Offer.
3. Net Debt is calculated as current and non-current interest bearing liabilities including finance leases less cash and cash equivalents and excluding accommodation bonds.
4. Enterprise value at the Offer Price is defined as market capitalisation at the Offer Price, less pro forma Net Cash of \$18.7 million as at 30 June 2014, adjusted to reflect the impact of the Offer and the Restructure as set out in Section 7.
5. The Forecast Financial Information is based on assumptions and accounting policies set out in Section 4.2.2 and Section 11.1.1, and is subject to the key risks set out in Section 5. There is no guarantee that forecasts will be achieved. Certain financial information included in this Prospectus is described as pro forma for the reasons described in Section 4.2.2. Forecasts have been included in this document for FY2014 and FY2015.
6. EBIT before significant items.
7. This ratio is commonly referred to as a price to earnings, or PE, ratio.
8. Indicative dividend yield is calculated as the implied dividend per Share based on a dividend payout ratio of 100% multiplied by pro forma forecast 12 months FY2015 NPAT, divided by the Offer Price. The payment of a dividend by the Company is at the discretion of the Directors and will be a function of a number of factors the Directors may consider relevant. No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend. For more information on the Company's dividend policy, see Section 4.10.

Key portfolio statistics

Number of facilities	35
Freehold facilities – owned by Japara	32
Leasehold facilities – leased by Japara from third parties	3
Total FY2014 Places	3,131
Low Care ¹	909
High Care ¹	1,880
Extra Services	342
Total FY2014 Operational Places	2,994
Number of Independent Living Units (ILUs)	139
Average occupancy per facility ²	95.3%
Average FY2013 EBITDA/place ³ (excluding corporate costs)	\$21,408
Average FY2013 EBITDA/place ³ (including corporate costs)	\$19,041
Average FY2013 bond value/bond paying Resident	\$236,491
Total FY2013 Government care funding revenue	\$167,219,249
Total FY2013 pro forma revenue	\$229,890,229

1. The distinction between Low Care and High Care will no longer apply as a result of regulatory changes taking effect on 1 July 2014 (see Section 2.4).
2. As at 28 February 2014.
3. Per Operational Place and before pro forma adjustments.

INVESTMENT OVERVIEW

1

1 | INVESTMENT OVERVIEW

1.1 Introduction²

Topic	Summary	For more information
What is Japara?	Japara is one of the largest residential aged care operators of healthcare services in Australia with over 3,000 places nationally across 35 facilities located in Victoria, New South Wales, South Australia and Tasmania. Separate to its business of providing aged care services, Japara also operates 139 ILUs across four retirement villages, located adjacent to Japara's aged care facilities. Retirement revenue accounts for less than 1% of Japara's operations by revenue.	Section 3.1
What is the Offer?	The Offer is an initial public offering of up to \$150.4 million worth of New Shares for issue by the Company and up to \$300.0 million worth of Existing Shares for sale by SaleCo.	Section 7.1
Why is the Offer being conducted?	The purpose of the Offer is to: • create an integrated business model and provide the Company with an appropriate capital structure with financial flexibility to pursue future growth opportunities; • achieve a listing on the ASX to broaden the Company's Shareholder base and provide a liquid market for its Shares; • improve the Company's future access to capital markets; and • provide an opportunity for Existing Investors to realise all or part of their investment. Following Completion of the Offer, the Directors believe Japara will have sufficient working capital to carry out its stated objectives.	Section 7.2

1.2 Key features of the residential aged care sector

Topic	Summary	For more information
What is the residential aged care sector?	The aged care industry is a significant Australian industry providing care options for elderly Australians who can no longer live unassisted in their homes, and can be separated into three main sectors: • home and community care; • residential aged care; and • acute hospital care. Aged care is a services industry, similar to the hospital industry, which caters for the elderly, provides a continuum of personal care, nursing and healthcare services and operates on a primarily Government-funded cash flow basis. It is distinct from the retirement village industry which typically caters for younger residents, provides a residential alternative to a house or apartment with little to no care services, and operates on a "user pays" deferred management fee basis. Japara operates in the residential aged care sector, a sub-sector of the aged care industry, with an estimated value of approximately \$11.6 billion in revenue. It provides accommodation and care to people who can no longer live independently (either at home or in retirement village accommodation) due to health reasons, but who do not require acute hospital care.	Section 2.1 Section 2.2 Section 2.4

2. The business of Japara is currently conducted by Japara Holdings, the Japara Trust and their respective controlled entities. In connection with the Offer, Japara will be restructured to consolidate ownership of the businesses currently conducted by Japara Holdings and the Japara Trust under a single parent entity, the Company. Completion of the Restructure is subject to the approval of the Unitholders at a Unitholder meeting scheduled to occur on 15 April 2014. If the Restructure is not approved, or does not otherwise complete, the Offer will not proceed. This Investment Overview has been prepared as if the Restructure has already occurred as at the date of this Prospectus.

Topic	Summary	
What is the residential aged care sector? (continued)	Presently, there are two main types of residential aged care services in Australia: • Low Care: accommodation support services (e.g. cleaning, laundry and meals) and personal care services (e.g. help with dressing, eating and bathing); and • High Care: typically 24 hour nursing care services with other additional services including a range of allied health services such as physiotherapy, occupational therapy and podiatry. In addition to Low Care and High Care services, operators can offer Extra Services to Residents, which involves the provision of additional “hotel type” services for an additional daily fee paid by the Resident. In 2013, approximately 75% of all Australian residential aged care Residents were High Care (or High Care Extra Services) Residents and approximately 25% were Low Care (or Low Care Extra Services) Residents. As a result of the revised regulatory framework, commencing on 1 July 2014, the distinction between Low Care and High Care will be removed.	
What are the key funding sources and the key costs to operators?	Day-to-day funding for residential aged care operators consists primarily of operating funding and accommodation bonds: • Operating funding: relates primarily to care and comprises Government subsidies and Resident contributions/fees as well as accommodation payments in respect of certain High Care places and periodic payments in lieu of bonds. • Accommodation bonds: a source of capital funding. The Government provides a significant (approximately 70%) and growing component of total operating funding to residential aged care operators. Government funding for residential care subsidies and supplements to the industry as a whole has increased at an average of 6.4% CAGR over the last six years. Labour is the key operating cost for residential aged care operators, representing on average approximately 65% of total revenue. The remaining costs are primarily comprised of catering, cleaning, laundry, consumables, repairs/maintenance, energy, utilities and administration/corporate costs.	Section 2.2.2 Section 2.2.3
What are accommodation bonds?	Accommodation bonds are: • a capital payment made by an incoming Resident and received by the operator in respect of the Resident’s occupied place; • payable by the Resident as a lump sum; and • refundable to the Resident when they leave the aged care facility and normally replaced with another accommodation bond from an incoming Resident (typically of a higher amount). To an operator, an accommodation bond is therefore an interest free form of financing for capital expenditure, growth activities or debt reduction, providing an ongoing cash flow stream to the operator. As an alternative to accommodation bonds, Residents may pay periodic payments (e.g. fortnightly) in lieu of accommodation bond returns, or a combination of a lump sum and periodic payments.	Section 2.2.2.2

1 | INVESTMENT OVERVIEW

Topic	Summary	For more information
How do accommodation bonds work?	Accommodation bonds are received by the aged care operator from a new Resident generally upon entry. The operator has an obligation to repay the bond balance to the Resident when they depart, and normally receives a new bond from an incoming Resident, typically of a higher amount. No interest is payable to the Resident by the operator in respect of the accommodation bond (unless the bond is due for repayment). The quantum of bonds chargeable by the residential aged care operator is, at any facility, governed by supply and demand dynamics, subject to Resident payment capacity and, from 1 July 2014, subject to certain Government pricing constraints. It is also linked to the value of residential real estate in the Local Government Area (LGA) as Residents will often fund the bond through the sale of their residential home. Currently, an aged care operator cannot charge accommodation bonds in respect of High Care places (unless they have Extra Services status); however, this will change as a result of the revised regulatory framework to take effect on 1 July 2014.	Section 2.2.2.2 Section 2.4
How is the residential aged care sector regulated?	The residential aged care sector is subject to a high degree of regulation by the Government. Residential aged care operators are required to have Approved Provider status, obtain the necessary allocated places to operate and are periodically assessed against 44 standards and expected outcomes. Residents need to be assessed by authorised aged care assessment teams in order for the relevant aged care operator to be eligible to receive Government funding in respect of the Resident. In addition, all aged care facilities must be certified as compliant with State and Territory building regulations. From 1 July 2014, a revised regulatory framework will commence, and is designed to address the needs of the ageing Australian population through deregulation. These changes are expected to attract further investment in the industry and provide a broader scope for Residents to receive (and pay for) specialist care and services.	Section 2.3 Section 2.4
What are the key changes as a result of the revised regulatory framework?	The revised regulatory framework which will take effect on 1 July 2014 will incorporate a number of key changes for aged care operators including: • changes to terminology; • removal of the High Care/Low Care categories; • flexibility to set Resident fees; • removal of the accommodation bond retention amount; • accommodation bond price cap; • changes to means testing criteria; • increased Government accommodation supplements funding for refurbished aged care facilities; and • increased transparency of price and payment methods.	Section 2.4
What are the key supply and demand dynamics of the residential aged care sector?	Supply is predominantly driven by Government-controlled allocation of places and approval of aged care operators with funding underpinned by the Government. Demand for residential aged care services in Australia is projected to remain strong over the medium to long term, underpinned by a demographic shift to a larger population of older Australians, with the number of Australians aged 85 years and over anticipated to double in the next 20 years.	Section 2.5

1.3 Key features of Japara

Topic	Summary	For more information
What services does Japara offer?	Japara provides two main types of residential aged care services, being Low Care and High Care, with its focus on providing High Care services. In addition, Japara offers Extra Services to Residents at some of its facilities. As a result of the revised regulatory framework, commencing on 1 July 2014, the distinction between Low Care and High Care will be removed. Following this change, Japara will continue to provide a full spectrum of care services designed to meet the care requirements of its Residents.	Section 2.4 Section 3.2
How does Japara expect to fund its activities?	Japara receives funding through two main sources, operating funding and accommodation bonds (capital funding). As an “Approved Provider” of residential aged care services, each of Japara’s facilities is eligible to receive funding contributions from the Government. Approximately 70% of Japara’s FY2013 revenue was derived from Government care funding. The remainder was primarily comprised of accommodation charges and Resident contributions. Japara also receives funding from accommodation bonds, which are a significant source of capital funding, with upfront payment made by Residents in respect of their aged care place.	Section 3.2
What are Japara’s key costs?	Japara’s key operating cost is labour (e.g. nurses and healthcare workers) which comprises approximately 65% of Japara’s total revenue. Other operating costs include medical supplies, catering, cleaning, consumables, repairs and maintenance, energy, utilities and administration corporate costs.	Section 3.2.2
What is Japara’s operating strategy?	Japara’s operating strategy is to provide high quality healthcare to meet the growing needs of Australia’s elderly population in a profitable manner. This is achieved by a focus on the following five core areas: • Facilities: provision and maintenance of high quality accommodation to meet the needs of the community; • Revenue: internal processes to ensure receipt of all entitled Government funding, driven by an appropriate Resident mix; • Human resources: ensuring appropriate facility staffing and education; • Cost management: implementing rigorous cost controls and leveraging economies of scale; and • Corporate governance: ensuring appropriate risk management and procedures are in place to minimise operational and compliance risk.	Section 3.3
What is Japara’s growth strategy?	Japara’s growth strategy centres around increasing the size of its aged care portfolio through the acquisition of additional aged care facilities and the development of brownfield projects. Japara has ambitions to increase its portfolio over the medium term from 3,131 places to approximately 5,000 places.	Section 3.4

1 | INVESTMENT OVERVIEW

Topic	Summary								For more information
What is Japara’s freehold facility portfolio?	Facility	Location	State	Low Care places	High Care places	Extra Services places	Occupancy (as at 31 Jan 2014)	FY2013 EBITDA/ place	Section 3.5
	Anglesea	Anglesea	VIC	30	30	.	90%	\$12,261	
	Balmoral Grove	Geelong	VIC	20	67	23	90%	\$22,654	
	Barongarook Gdns	Colac	VIC	60	–	–	95%	\$20,596	
	Bayview	Carrum Downs	VIC	30	30	–	100%	\$19,726	
	Bonbeach	Bonbeach	VIC	–	70	–	94%	\$27,938	
	Capel Sands	Rosebud	VIC	–	60	–	98%	\$19,025	
	Central Park	Windsor	VIC	–	–	165	98%	\$18,522	
	Elanora	Brighton	VIC	60	31	51	96%	\$27,836	
	Elouera	Torquay	VIC	45	30	–	93%	\$22,463	
	George Vowell	Mt Eliza	VIC	–	60	30	97%	\$20,059	
	Goonawarra	Sunbury	VIC	40	80	–	97%	\$33,449	
	Hallam	Hallam	VIC	–	60	–	93%	\$17,977	
	Kelaston	Ballarat	VIC	30	30	–	100%	\$22,328	
	Kingston Gardens	Springvale South	VIC	72	–	–	97%	\$16,278	
	Kirralee	Ballarat	VIC	–	100	–	98%	\$18,278	
	Lower Plenty Garden Views	Lower Plenty	VIC	45	45	–	100%	\$21,411	
	Millward	Doncaster	VIC	50	113	–	99%	\$18,669	
	Mirridong	Bendigo	VIC	–	90	–	95%	\$17,517	
	Narracan Gardens	Moe	VIC	60	107	–	92%	\$23,926	
	Roccoco	Geelong	VIC	17	60	–	92%	\$22,390	
	Rosanna Views	Rosanna	VIC	45	51	–	96%	\$27,860	
	Sandhurst	Carrum Downs	VIC	–	30	–	97%	\$18,715	
	Scottvale	Dandenong	VIC	65	45	–	88%	N/A	
	Springvale	Springvale	VIC	–	73	–	90%	\$23,248	
	St Judes	Narre Warren	VIC	–	60	–	92%	\$18,939	
	Strzelecki House	Mirboo North	VIC	30	30	–	95%	\$20,375	
	Vonlea Manor	Geelong	VIC	38	–	–	100%	\$19,679	
	Sandhill	Launceston	TAS	36	96	–	91%	\$18,306	
	Brighton	South Brighton	SA	–	76	–	97%	\$25,439	
	Lakes Entrance	Lakes Entrance	VIC	38	30	–	93%	\$12,710	
	Yarra West	Yarraville	VIC	–	70	–	92%	\$24,419	
	Albury & District	Albury	NSW	–	90	–	95%	\$18,366	
What is Japara's leasehold facility portfolio?	Facility	Location	State	Low Care places	High Care places	Extra Services places	Occupancy (as at 31 Jan 2014)	FY2013 EBITDA/ place	Section 3.5
	Kiverton Park	Chadstone	VIC	–	30	–	93%	\$27,232	
	Viewhills Manor	Endeavour Hills	VIC	60	60	–	97%	\$29,473	
	Bayview Gardens	Bayview	NSW	–	–	60	90%	\$20,617	

Topic

Summary

What is Japara's historical and forecast financial performance?

\$ million, June year end	Pro forma historicals			Pro forma forecasts	
	FY2012	FY2013	H1FY2014	FY2014	FY2015
Revenue	221.7	229.9	121.2	244.9	265.3
EBITDA (before significant items)	45.8	41.7	19.9	41.5	48.9
EBIT (before significant items)	38.0	33.3	15.4	32.5	39.9
EBIT	39.8	33.1	16.6	33.7	39.4
NPAT				23.3	27.7
Earnings per Share (cents)				8.9	10.5

Section 4 contains full details of the Financial Information. The Financial Information presented in this table is intended as a summary only and should be read in conjunction with the more detailed discussions of the Financial Information disclosed in Section 4, as well as the risk factors set out in Section 5.

What is Japara's dividend policy?

The payment of a dividend by the Company is at the discretion of the Directors and will be a function of a number of factors including the operating results, cash flows and the financial condition of Japara, and any other factors the Directors may consider relevant.

The Company's dividend policy will be to pay out up to 100% of NPAT; however, the level of dividend payout ratio may vary between periods depending on the factors noted above. No assurances can be given by any person, including the Directors, about the payment of any dividend or the level of franking on any such dividend.

It is the current intention of the Board to pay interim dividends in respect of half years ending 31 December and final dividends in respect of full years ending 30 June each year. It is anticipated that interim dividends will be paid in April and final dividends will be paid in October following the relevant financial period. It is intended that future dividends will be franked to the maximum extent possible.

Section 4.10

What will be the first dividend and when will it be paid?

It is the Board's current intention to pay an interim and a final dividend for the financial year ending 30 June 2015. Indicatively, dividends for the 30 June 2015 financial year will total 10.5 cents per Share, which, based on FY2015 pro forma NPAT, represents a dividend payout ratio of 5.4%. This dividend will be franked to the maximum extent possible.

Section 4.10

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1.4 Key strengths and investment highlights

Topic	Summary	For more information
Leading market position in residential aged care	Japara is one of the largest private sector residential aged care operators in Australia. Japara has 3,131 places across 35 facilities across Australia.	Section 3.1
Above average occupancy levels	Japara currently has an average portfolio occupancy level of approximately 95%, which is above the FY2013 industry average of approximately 93%. This above average occupancy level, in part, reflects Japara's reputation for providing high quality aged healthcare services to Residents.	Section 3.2
Diversified high quality portfolio of aged care assets	Japara operates a well-established portfolio of residential aged care facilities diversified by location, size and place mix. These facilities are equipped to provide a full continuum of high quality healthcare to Residents and include such features as private ensuites, common rooms, courtyards, dementia specific amenities and proximity to public transport. Japara owns the freehold title to 32 of its facilities and has implemented a strong asset management and development program to ensure the long-term lifecycle of the assets is maintained.	Section 3.5 Section 9
Attractive sector demographics with future potential for growth	The Australian residential aged care sector comprises approximately 186,000 places and is forecast to increase to 260,000 places by 2022, representing a CAGR of 3.8%. With a number of key factors driving growth, the demand for places is expected to continue in the medium to long term (see Section 2.5). A number of favourable sector attributes exist for a residential aged care operator, such as Japara, including, but not limited to: • Continued supply/demand imbalance: this imbalance, in conjunction with the high barriers to entry created by ongoing regulatory compliance, provides Japara the opportunity, as an operator of scale, to benefit from the growing demand for new facilities. • An industry shifting focus to High Care services: the trend towards later entry into residential aged care facilities, coupled with Residents entering facilities as Low Care Residents and progressively becoming High Care Residents (referred to as "ageing in place"), is placing increased pressure on operators to cater more for High Care Residents. This trend complements Japara's existing focus on the provision of High Care. • A highly fragmented market: the top four private aged care operators account for only approximately 10% of the market, presenting consolidation opportunities for Japara to increase its scale and improve operational economics.	Section 2
Highly defensive underlying earnings backed by Government funding	Japara has successfully managed to achieve long-term sustainable cash flows underpinned by its ability to optimise entitled Government funding. Approximately 70% of Japara's FY2013 revenue was generated through Government care funding. Government funding to the industry as a whole has increased at an average of 6.4% CAGR over the last six years.	Section 2.2.2.1 Section 3.2.1

Topic	Summary	For more information
A conservative accommodation bond regime	Since inception, Japara has employed a conservative bond accommodation regime whereby the average value of accommodation bonds received has represented only approximately 50% of the median house price in the relevant LGA. In FY2013, Japara's average bond value per bond paying Resident was \$236,491, compared to the industry average of \$276,206. Accordingly, Japara is less reliant on accommodation bond funding, resulting in a more stable and therefore sustainable cash flow position. The regulatory changes, to take effect from 1 July 2014, will allow operators to charge accommodation bonds in respect of High Care places and also impose a \$550,000 price cap. Given Japara's average bond value per bond paying Resident is well below this cap, there is significant latent cash flow potential due to the increased number of bond eligible places within Japara's portfolio. Total net accommodation bond inflows of approximately \$77 million are forecast for FY2015, driven by the following: • being able to charge accommodation bonds to all Residents who enter a facility on or after 1 July 2014; • additional available bonded places from brownfield projects expected to be completed during the FY2014 and FY2015 forecast period; and • assumed uplift in bond value on existing places in FY2015. The number of bonded places within Japara's portfolio is expected to increase by approximately 150 places in FY2015.	Section 2.4 Section 3.2.1 Section 4.8.3
A conservative capital structure	The Company's ability to leverage the capital inflow from accommodation bonds has allowed it to incorporate a conservative capital structure regime. On Completion of the Offer, Japara will have a nil debt balance.	Section 4.5.3 Section 4.5.4
Positive impact of the proposed regulatory reform	The revised regulatory changes to the aged care industry, which commence on 1 July 2014, are expected to provide a number of positive benefits for larger, well-capitalised operators, such as Japara. These include: • Ability to charge bonds on High Care places: there is potential for Japara to strengthen its existing long-term cash flow position through the application of accommodation bonds to places currently categorised as High Care. • Increased occupancy flexibility: As a result of the removal of the High Care/Low Care categories, Japara will be able to allocate places to any Resident based on demand and irrespective of the level of care they require. • Flexibility to charge additional fees: operators will have more flexibility to set Resident fees for accommodation and provide "hotel type" services (subject to approval by the Government) to meet individual Resident demands. Accordingly, Japara will be entitled to charge fees, in addition to those legislated, by agreeing those fees directly with the Resident. • Increased Government funding for refurbished facilities: given Japara's existing focus on the development of brownfields, there is potential for Japara to receive increased Government funding, pertaining to Concessional Residents, at any refurbished facilities.	Section 2.4

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Topic	Summary	For more information
Track record of strong operating performance	Japara operates on a Government-funded cash flow basis and in FY2013 generated an average EBITDA/place of \$21,408 (pre-corporate costs), which was above the industry average for top quartile operators of approximately \$21,000 and total industry average of approximately \$9,200. In addition, Japara has managed to achieve average Aged Care Funding Instrument (ACFI) funding of \$146 per day per place, which is above the industry average of approximately \$125 in FY2013. This strong performance is attributable to Japara's ability to deliver on its operating model by consistently generating cash flows from both operating and capital funding sources and applying rigorous cost control initiatives.	Section 3.2 Section 3.3
Robust growth strategy with a history of value adding acquisitions	Japara's growth strategy comprises both the acquisition of existing aged care facilities that meet its investment criteria as well as a brownfields development program. Japara has successfully implemented this strategy and over the last five years has undertaken five acquisitions and completed three brownfield developments, increasing its portfolio by over 400 places. Japara undertakes acquisitions utilising its infrastructure and compliance platform, including complying with a set of strict investment criteria, which has enabled Japara to identify and pursue what it believes to be the best acquisition opportunities. This platform is central to Japara's ambition to increase its portfolio from 3,131 places to approximately 5,000 places over the medium term and its ability to take advantage of the consolidation opportunities that exist in the highly fragmented residential aged care sector.	Section 3.4
Long-standing accreditation history	Over the last five years, Japara has maintained 100% accreditation across all of its facilities. This has been attributable to a strong focus on corporate governance underpinned by robust policies and procedures and reflects the effectiveness of Japara's systems for ensuring regulatory compliance and managing accreditation assessments.	Section 3.5 Section 9
Experienced senior management team and Board of Directors supported by a skilled workforce	Japara is led by a highly skilled and experienced management team with, on average, more than 25 years of aged care industry experience. Each of Japara's senior management team members has a long-standing history with Japara, with Andrew Sudholz (Chief Executive Officer), John McKenna (Chief Financial Officer) and Julie Reed (Executive Director of Aged Care Services) having been with Japara since its inception in 2005 and Jerome Jordan (Executive Director of Operations) since 2006. Supporting the senior management team, Japara's Board of Directors brings more than 120 years combined industry and directorship experience with some of Australia's leading ASX listed and unlisted companies. Furthermore, Japara employs more than 3,500 full time, part time and casual employees, all of whom receive extensive and ongoing professional training to ensure they provide a high quality of healthcare services across all levels of residential care.	Section 3.7.1 Section 6.2 Section 6.3

1.5 Key risks

Topic	Summary	For more information
The regulatory framework may change	The Australian aged care industry is highly regulated by the Government. From 1 July 2014, changes to the aged care regulatory framework will commence. These changes, and any future regulatory changes (such as reductions in Government funding, capping of accommodation bonds or a move from accommodation bonds to periodic payments), may have an adverse impact on the way Japara promotes, manages and operates its facilities, and its financial performance. In addition, there is a risk that other participants in the industry may, through their actions and business practices, cause future regulatory changes that will have an adverse impact on Japara's financial performance.	Section 2.4 Section 5.1.1
Japara's accommodation bonds/RADs level may decline	Japara may be exposed to the risks associated with the repayment and future receipt of accommodation bonds/RADs. These risks include particular circumstances that require the repayment of a large number of bonds/RADs at any facility, a reduction in the price achieved for new bonds/RADs, inappropriate pricing of High Care RADs post the 1 July 2014 regulatory changes, economic factors impacting the demand for Japara's aged care services or regulatory changes that limit the ability to issue replacement or new bonds/RADs.	Section 2.4 Section 5.1.2
Occupancy levels may fall	In the ordinary course of its business, Japara faces the risk that occupancy levels may fall below expectations. Reduced occupancy levels may adversely affect Japara's financial performance as it would reduce the amount of Government funding to which Japara is entitled, Resident contributions, and accommodation payments and accommodation bonds. A decrease in occupancy levels may also result in an increase in financing costs. Either of these occurrences would be likely to lead to a decline in Japara's profitability.	Section 5.1.3
Japara may lose key personnel	Japara relies on a high quality management team with significant aged care industry experience. The loss of key members of Japara's management team could adversely affect Japara's ability to operate its facilities and its business to the current standard. This could undermine Japara's ability to effectively comply with regulations and may also result in a reduction in demand for Japara's aged care services from new and existing Residents. Either of these occurrences may adversely impact on Japara's financial performance and position.	Section 5.1.4
Facilities may lose their approvals or accreditation	Aged care facilities are required to be approved and accredited in various ways. These approvals are generally subject to regular review, and may be revoked in certain circumstances. Aged care facilities must be approved and accredited to attract Government funding. If Japara does not comply with regulation and is unable to secure approvals for the operation of its aged care facilities and Resident places in the future, or if any of its existing approvals are adversely amended or revoked, this may affect Government funding, breach lending covenants and may also adversely impact on the financial performance and position and future prospects of Japara.	Section 5.1.5
Japara's reputation may be damaged	Japara operates in a commercially sensitive industry in which its reputation could be adversely impacted should it, or the aged care industry generally, suffer from any adverse publicity. If any such adverse publicity were to occur, this may reduce the number of existing Residents at Japara's facilities or Japara's ability to attract new Residents to its facilities, both of which occurrences may adversely impact Japara's financial performance and position and future prospects.	Section 5.1.6

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Topic	Summary	For more information
Japara may be subject to medical indemnity claims	Japara may be subject to future medical malpractice litigation, or threatened litigation, which could have an adverse impact on the financial performance and position and future prospects of Japara. If the costs of medical malpractice insurance relating to such risks were to rise (which may occur if the frequency of medical malpractice litigation were to increase or as a result of other factors), this could also have an adverse impact on the financial performance and position and future prospects of Japara.	Section 5.1.7
Employees may leave and Japara may not be able to attract skilled and trained new employees	Japara's business is dependent on a specialised health and aged care workforce. There is a risk that Japara may not be able to maintain or expand a workforce that is appropriately skilled and trained to meet the existing or future demand of elderly people requiring aged care services. This may impact Japara's cost structure and profitability.	Section 5.1.8
Japara's banks may require debt repayment on demand	There are currently subsisting breaches under Japara's existing facility agreements, including breaches of certain financial covenants. In addition, undertaking certain implementation steps in connection with the Restructure (Implementation Steps) will trigger further breaches under those facility agreements. Japara is currently seeking waivers in respect of the subsisting breaches and further breaches that will be triggered by undertaking the Implementation Steps. To the extent required, Japara is also seeking consent to undertake certain Implementation Steps. Japara intends to repay the outstanding amounts under the facility agreements in full on Completion of the Offer. As the waivers have not yet been obtained as at the date of this Prospectus, Japara's banks may demand repayment of all amounts outstanding under Japara's existing facility agreements at any time prior to the amounts outstanding being repaid in full. If Japara's banks demand repayment, Japara will become liable to repay approximately \$142 million immediately.	Section 5.1.9

1.6 Experience and background of the Directors and senior management

Topic	Summary	For more information
Who is on the Board of Japara?	Linda Bardo Nicholls AO (Non-Executive Chairman) Linda has more than 30 years' experience as a senior executive and company director in Australia, New Zealand and the United States. She is currently the chairman of Yarra Trams and a director of Fairfax Media, Medibank Private, Pacific Brands and Sigma Pharmaceutical Group. Previously, Linda held the position of chairman of Healthscope and of Australia Post, and was a director of St. George Bank. Linda has a Bachelor of Arts in Economics from Cornell University and a Masters of Business Administration from Harvard Business School, where she was formerly a trustee and vice president of The Harvard Business School Alumni Board. Andrew Sudholz (Chief Executive Officer and Executive Director) Andrew is the Chief Executive Officer of Japara and was a founding shareholder and executive director of Japara Holdings. He has more than 30 years' experience in the real estate, healthcare and professional services industries. Prior to joining Japara, Andrew was a global partner of Arthur Andersen Group, a partner of Ernst & Young, a national board member of the Property Council of Australia and is currently a member of the Australian Institute of Company Directors. Andrew holds an Associate Diploma of Valuations from the Royal Melbourne Institution of Technology.	Section 6.2

Topic	Summary	For more information
Richard England (Non-Executive Director)	Richard has more than 18 years' experience as a non-executive director and chairman of multiple ASX listed and unlisted companies across the financial services, banking, healthcare and insurance industries. Richard is currently the chairman of Chandler Macleod Group and of Ruralco Holdings and is a non-executive director of Nanosonics and Macquarie Atlas Roads. He has previously worked as a Chartered Accountant in Public Practice and was a partner at Ernst & Young.	
	Tim Poole (Non-Executive Director) Tim has more than 15 years' experience as a director and chairman of ASX listed and unlisted companies across the financial services, infrastructure and natural resources industries. He is currently a non-executive director of Newcrest Mining, McMillan Shakespeare and AustralianSuper and is the chairman of Lifestyle Communities. Tim holds a Bachelor of Commerce from the University of Melbourne and is a Chartered Accountant.	
	David Blight (Non-Executive Director) David has more than 30 years' experience across all major global markets and property sectors. Most recently, David has formerly been the group managing director of APN Property Group and has formerly held various positions concurrently with ING, including global chairman and chief executive officer of ING Real Estate Investment Management and vice chairman ING Real Estate (based in The Netherlands). David holds a Bachelor of Applied Science in Property Resource Management (Valuation) from the University of South Australia and is a board member of APREA (Australian Chapter).	
Who are the senior management of Japara?	Andrew Sudholz (Executive Director and Chief Executive Officer)	Section 6.3
	John McKenna (Chief Financial Officer and Company Secretary) John McKenna is the Chief Financial Officer of Japara and has more than 30 years' experience in the financial services and related sectors. He has formerly held numerous senior finance roles including executive director and chief operating officer for Burdett Buckridge Young and head of finance (of the global business segment) and financial controller of the UK branch at the National Australia Bank Group. John holds a Bachelor of Commerce degree from the University of Melbourne, a Post Graduate Diploma in Applied Finance with the Securities Institute of Australia and is a qualified Chartered Accountant.	
	Jerome Jordan (Executive Director of Operations) Jerome is the Executive Director of Operations at Japara and has over 20 years' experience working in the aged care industry. Prior to joining Japara, Jerome was an executive director at Glenvoir Holdings, the director of nursing at the Rosehill Aged Care Facility and McKinnon Aged Care Facility and a consultant to the Advanced Gerontics Consultancy Services and Westgate Private Nursing Home. Jerome holds a Master in Business Management and a Post Graduate Diploma in Business Management from Monash University and a Post Graduate Diploma in Gerontology and a Bachelor of Health Science (Nursing) from Victoria University.	

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Topic	Summary	For more information
	Julie Reed (Executive Director of Aged Care Services) Julie is the Executive Director of Aged Care Services at Japara and has over 30 years' experience in the aged care industry. Prior to joining Japara, she worked as a registered nurse at Sandringham Hospital Acute Care, a RCS coordinator at Australian Residential Care and the director of nursing at the Rosehill Aged Care Facility, Coogee Private Nursing Home and Pembridge Private Nursing Home. Julie was a founding member of NURSAC Victoria and was the Victorian representative for both NURSAC and the Royal College of Nursing for many years. Julie is a graduate from the Alfred Hospital – School of Nursing.	

1.7 Significant interests of key people

Topic	Summary	For more information
Who are the Existing Investors and what will be their interest post Completion of the Offer?	The Existing Investors are the current owners of Japara, being the Japara Holdings Shareholders and the Unitholders. Each Unitholder will receive Shares in exchange for their Japara Securities as part of the Restructure. The Unitholders may elect to sell all or some of their Shares to SaleCo. SaleCo will then sell those Existing Shares into the Offer. Unitholders who elect to retain the Shares they receive as part of the Restructure may do so by submitting an Application. Japara Holdings Shareholders will be offered cash from the proceeds of the Offer, or New Shares (or any combination of their choice), as consideration for the disposal of their Japara Holdings shares. On Completion of the Offer, Andrew Sudholz (Chief Executive Officer) will, through a controlled entity, hold approximately \$31.4 million worth of Shares which equates to 6.0% of the Company's total issued Share capital. Mr Sudholz will receive those Shares in exchange for some of his existing Japara Holdings shares and the Japara Securities he has an interest in as a result of his indirect holdings of Japara Units. On Completion of the Offer, Japara Holdings Shareholders Julius Colman, Allan Reid, Robert Peck and John McKenna will hold approximately \$23 million worth of Shares, \$10 million worth of Shares, \$10 million worth of Shares and \$250,000 worth of Shares, respectively, which equates to 8.2% of the Company's total issued Share capital.	Section 6.4.5
What significant benefits are payable to Directors and other persons connected with the Offer and what significant interests do they hold?	Key people	Section 6.4
	Andrew Sudholz ¹	Section 10.3.2
	John McKenna	
	Non-Executive Directors	
	1. All Shares held by Andrew Sudholz, through a controlled entity, on Completion of the Offer will be subject to a voluntary escrow arrangement.	

1.8 Overview of the Offer

Topic	Summary	For more information
Who are the issuers of this Prospectus?	Japara Healthcare Limited (ABN 54 168 631 052) and Japara SaleCo Limited (ABN 71 168 631 123), each incorporated in Victoria, Australia.	Section 10.1
What is the Offer?	The Offer is an initial public offering of up to \$150.4 million worth of New Shares for issue by the Company and up to \$300.0 million worth of Existing Shares for sale by SaleCo.	Section 7.1
What is SaleCo and what role does it play in the Offer?	As part of the Restructure, all Unitholders will receive Shares in exchange for their Japara Securities. Unitholders have the option to elect to retain some or all of those Shares or sell some or all of those Shares. SaleCo is a special purpose vehicle that has been established to enable the Exiting Unitholders to sell some or all of the Shares they receive through the Restructure. Exiting Unitholders, being Unitholders who elect to sell some or all of their Shares, and Unitholders who make no election, will have their Shares sold by SaleCo to Applicants who successfully apply for Shares under the Offer. Exiting Unitholders will receive cash out of the proceeds of the Offer as consideration for the sale of their Shares. The Existing Shares that SaleCo acquires from the Exiting Unitholders will be transferred to successful Applicants at the Offer Price. The price payable by SaleCo for these Existing Shares is the Offer Price. The Company will also issue New Shares to successful Applicants under the Offer.	Section 3.1.1 Section 10.2
How is the Offer structured and who is eligible to participate?	The Offer comprises: • Broker Firm Offer consisting of an invitation by a Syndicate Broker to investors in Australia to acquire Shares under this Prospectus; • Priority Offer consisting of an invitation to investors in Australia, nominated by Japara, to acquire Shares under this Prospectus; and • Institutional Offer consisting of an offer to Institutional Investors in Australia and certain other jurisdictions around the world.	Section 7.1
What are the conditions to the Offer going ahead?	The Offer is subject to a number of conditions, including: • the Restructure of Japara which is subject to approval by the Unitholders at a Unitholder meeting on 15 April 2014; and • the receipt of various third party consents (including the consent of Japara's banks to the Restructure and regulatory approvals from the ASX).	Section 3.1.1 Section 7.1
How will the proceeds of the Offer be used?	The proceeds received by the Company for the issue of New Shares will be applied to: • purchase the equity of certain Japara Holdings Shareholders; • reduce debt; and • pay for the costs of the Offer. The proceeds received by SaleCo will be paid to Unitholders who sell Shares (received as part of the Restructure) into the Offer.	Section 7.3
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Lead Manager.	Section 10.3.1

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Topic	Summary	For more information
Will the Shares be quoted?	The Company has applied to the ASX for its admission to the official list of the ASX and quotation of Shares on the ASX (which is expected to be under the code "JHC") on 4 April 2014. Listing is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	Section 7.9.1
Will any Shares be subject to voluntary escrow arrangements?	The Shares held by Andrew Sudholz (Chief Executive Officer) on Completion of the Offer will be subject to a voluntary escrow arrangement until the Company releases its audited financial results for FY2015 to the ASX.	Section 10.3.2
What is the allocation policy?	The allocation of Shares to Institutional Investors will be determined by the Company and the Lead Manager. The allocation of Shares to Broker Firm Offer Applicants will be determined by Syndicate Brokers who are responsible for allocating Shares to their Australian resident clients. The allocation to Priority Offer Applicants will be determined by the Company. The Company expects to advertise the final allocation policy under the Broker Firm Offer and Priority Offer on or about 17 April 2014, in the Sydney Morning Herald, the Age, the Australian and the Australian Financial Review.	Section 7.5.6 Section 7.6.6 Section 7.7.2
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on an acquisition of Shares under the Offer.	Section 7.4
What are the tax implications of investing in the Shares?	Summaries of certain Australian tax consequences of participating in the Offer and investing in the Shares are set out in Section 10.6. The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	Section 10.6
How can I apply?	Broker Firm Offer Applicants may apply for Shares by completing a valid Broker Firm Offer Application Form attached to or accompanying this Prospectus and lodging it with the Syndicate Broker who invited them to participate in the Offer. Priority Offer Applicants may apply for Shares by completing a valid Priority Offer Application Form attached to or accompanying this Prospectus, and lodging it in accordance with instructions set out on the Application Form. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.	Section 7.5.2 Section 7.6.2
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or around 23 April 2014.	Section 7.9.3

Topic	Summary	For more information
When can I sell my Shares on the ASX?	It is expected that trading of the Shares on the ASX will commence on or about 17 April 2014 initially on a conditional and deferred settlement basis. It is expected that the despatch of holding statements will occur on or about 23 April 2014 and that Shares will commence trading on the ASX on a normal settlement basis on or about 24 April 2014. It is the responsibility of each Applicant to confirm their holding before trading Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk.	Section 7.9.3
Can the Offer be withdrawn?	The Company reserves the right to withdraw the Offer at any time before the issue of Shares to successful Applicants. The Offer will be withdrawn if the Restructure does not complete. If this occurs, the Offer will not proceed. If the Offer does not proceed, Application Monies will be fully refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	Section 7.8
Where can I find out more information about this Prospectus or the Offer?	For more information, call the Japara Share Offer Information Line on 1800 828 558 (within Australia) or +61 1800 828 558 (outside Australia) from 8:30am to 5:00pm (AEST) Monday to Friday during the Offer Period. If you are unclear in relation to any matter in relation to this Prospectus or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.	Section 7

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A photograph of a caregiver, a young woman with brown hair, smiling and holding the hand of an elderly woman with white hair. The elderly woman is wearing a light blue cardigan and is using a white walker. They are both smiling and looking towards the right. The background is bright and out of focus.

INDUSTRY OVERVIEW

2

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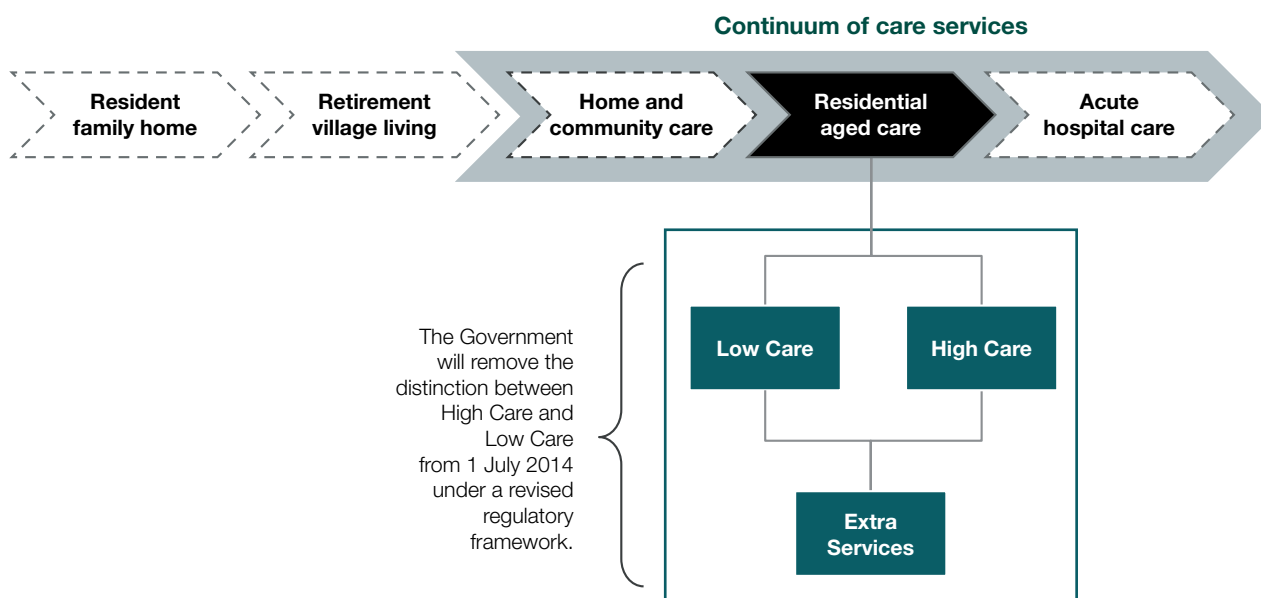
2.1 Introduction to the aged care industry

The aged care industry is a significant Australian industry providing care options for elderly Australians who can no longer live unassisted in their homes, and can be separated into three main sectors: home and community care, residential aged care and acute hospital care.

Aged care is a services industry, similar to the hospital industry, which caters for the elderly, provides a continuum of personal care, nursing and healthcare services and operates on a primarily Government-funded cash flow basis. It is distinct from the retirement village industry which typically caters for younger residents, provides a residential alternative to a house or apartment with little to no care services, and operates on a “user pays” deferred management fee basis.

Japara operates in the residential aged care sector. This is a sub-sector of the aged care industry, with an estimated value of approximately \$11.6 billion³ in revenue. It provides accommodation and care to people who can no longer live independently (either at home or in retirement village accommodation) due to health reasons, but who do not require acute hospital care.

Figure 1: Lifetime accommodation spectrum



2.1.1 Sector snapshot

Category	Description
Industry size (revenue)	Approximately \$11.6 billion ⁴
Demographic fundamentals	The number of Australians aged over 85 years is expected to double in the next 20 years ⁵ . Incidences of dementia are forecast to increase by one third within the next 10 years ⁶ .
Fragmentation	The residential aged care sector is highly fragmented with approximately 63% of operators operating single facilities, 29% between two and six facilities and 8% operating seven or more facilities⁷. Private operators represent approximately 38% of the market⁸, with Japara representing an estimated 3% market share⁹.

3. “Nursing Homes In Australia,” IBISWorld 2013; “Accommodation For The Aged In Australia,” IBISWorld 2013.

4. “Nursing Homes In Australia,” IBISWorld 2013; “Accommodation For The Aged In Australia,” IBISWorld 2013.

5. “Population Projections Australia 2006 to 2101,” Australian Bureau of Statistics 2013.

6. “Key Facts and Statistics 2013,” Fight Dementia Organisation 2013.

7. “Inaugural Report on the Funding and Financing of the Aged Care Sector,” Aged Care Financing Authority 2013.

8. “Scenario Analysis of Selected LLLB Financial Arrangements,” Interim Report, KPMG 2013.

9. Japara; aged care service operator websites access on 23 February 2014, “Aged Care Services List,” 2012; Australian Government Department of Health, www.health.gov.au accessed on 23 February 2014; “Accommodation for the Aged in Australia: Market Research Report,” IBISWorld 2013.

Category	Description
Barriers to entry	The residential aged care sector is subject to a number of barriers to entry including Government-controlled allocation of aged care places, regulatory and licensing requirements for operators, significant initial capital investment and adequate access to appropriately skilled staff.
Government funding	Approximately \$9.2 billion per annum ¹⁰ . This comprises approximately 68% of a typical operator's revenue on average each year ¹¹ .
Accreditation	To operate in the residential aged care sector, an operator must be granted "Approved Provider" status by the Government. In addition, the operator's aged care facilities must be accredited by the relevant Government body and certified as compliant with the relevant State or Territory building regulations.

2.2 Residential aged care sector

The residential aged care sector comprises approximately 186,000 places¹², more than double the size of the hospital sector, with 87,000 beds¹³. This number is forecast to increase to approximately 260,000 places¹⁴ by 2022, representing a CAGR of 3.8%.

Presently, there are two main types of residential aged care in Australia – Low Care and High Care. Aged care facilities (either wholly or a distinct part) may also be approved under the Aged Care Act to offer Extra Services places to Residents at any care level.

In 2013, approximately 75% of all Australian residential aged care Residents were High Care Residents (or High Care Extra Services), and approximately 25% were Low Care Residents (or Low Care Extra Services)¹⁵.

Table 1: Residential types of aged care¹⁶

Low Care	• Focuses on personal care service and occasional nursing care when required. • Residents are provided with accommodation support services (e.g. cleaning, laundry and meals) and personal care services (e.g. help with dressing, eating, bathing, etc.). • Accommodation bonds or equivalent periodic payments are payable. • Average Government contribution was \$25,000 per Resident in FY2012 – FY2013¹⁷.
High Care	• Typically involves 24 hour nursing care. • Additional services typically include a range of allied health services such as physiotherapy, occupational therapy and podiatry. • No accommodation bonds are payable under the current regulatory regime. Post 1 July 2014, the distinction between High Care and Low Care will be removed as a result of regulatory reforms¹⁸ and the application of accommodation bonds to High Care places will be permissible (see Section 2.4). • Average Government contribution was \$60,050 per Resident in FY2012 – FY2013¹⁹.
Extra Services	• Extra Services may apply to either High Care or Low Care, and provides additional "hotel type" services in relation to services such as catering (premium dining options), cleaning and laundry (premium linen and bedspreads). • Aged care facilities approved for Extra Services can charge Residents an additional daily fee and can also charge accommodation bonds (including for High Care). • Maximum proportion of Extra Services places is limited by law to 15% of places in each State.

10. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

11. "Inaugural Report on The Aged Care Sector," Aged Care Financing Authority 2012.

12. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

13. "Australian Hospital Statistics 2011/12," Australian Institute of Health & Welfare 2013.

14. "Inaugural Report on The Aged Care Sector," Aged Care Financing Authority 2012.

15. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

16. My Aged Care Website, Australian Government Department of Social Services, www.myagedcare.gov.au accessed on 7 February 2014.

17. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

18. "Living Longer. Living Better," Australian Government – Department of Health and Ageing Website, accessed on 23 February 2014.

19. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

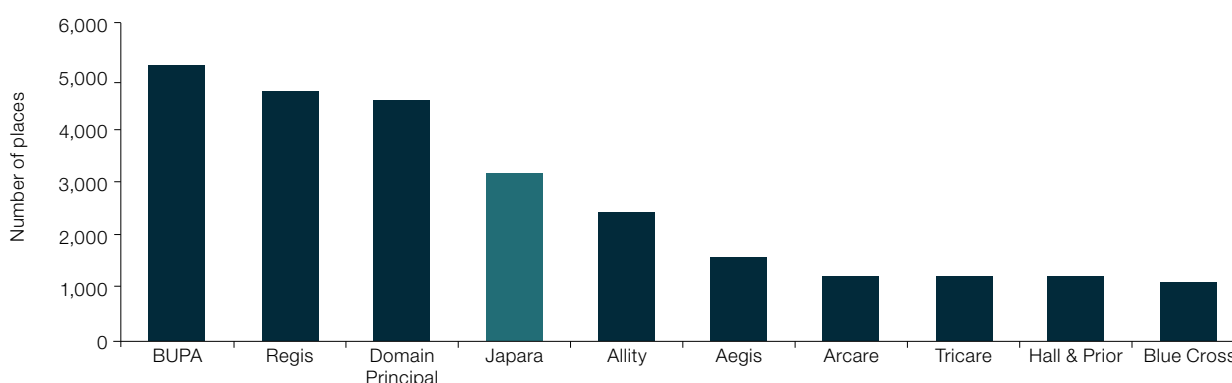
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2.2.1 Sector characteristics and structure

At 30 June 2013, there were 2,716²⁰ residential aged care facilities operating approximately 186,000²¹ places in Australia. Residential care in Australia is largely delivered by not-for-profit operators, such as religious, charitable or community-based groups, who represent approximately 60% of the sector²¹.

Private operators represent approximately 38% of the sector²² with Japara's market share accounting for an estimated 3%²³.

Figure 2: Major private operators²⁴



Over time, there has been a decline in the number of small-scale operators in the sector as they are often less profitable and become acquisition targets for larger, more efficient operators. This has arisen as a result of the gradual increase in compliance requirements coupled with an increase in demand for High Care services by Residents driven by a focus on “ageing in place” and the associated cost of its provision.

Notwithstanding the above, the residential aged care market remains highly fragmented with approximately 63% of operators operating single facilities, 29% between two and six facilities and 8% operating seven or more facilities²⁵. This dynamic may present a significant opportunity for sophisticated corporate operators to grow through consolidation.

2.2.2 Sector funding overview

Operating funding and accommodation bonds are key funding sources for aged care operators.

Government contributions towards care services account for approximately 70% of an operator's total operating revenues, with the remaining 30% comprising of Resident contributions (towards care services) and daily payments in respect of accommodation (where no accommodation bonds are currently chargeable)²⁶.

In addition, accommodation bonds are a significant source of capital funding, with upfront payment made by many Residents in respect of their aged care place.

20. “Inaugural Report on the Funding and Financing of the Aged Care Sector,” Aged Care Financing Authority 2013.

21. “2012-13 Report on the Operation of the Aged Care Act 1997,” Australian Government – Department of Health 2013.

22. “Scenario Analysis of Selected LLLB Financial Arrangements,” Interim Report, KPMG 2013.

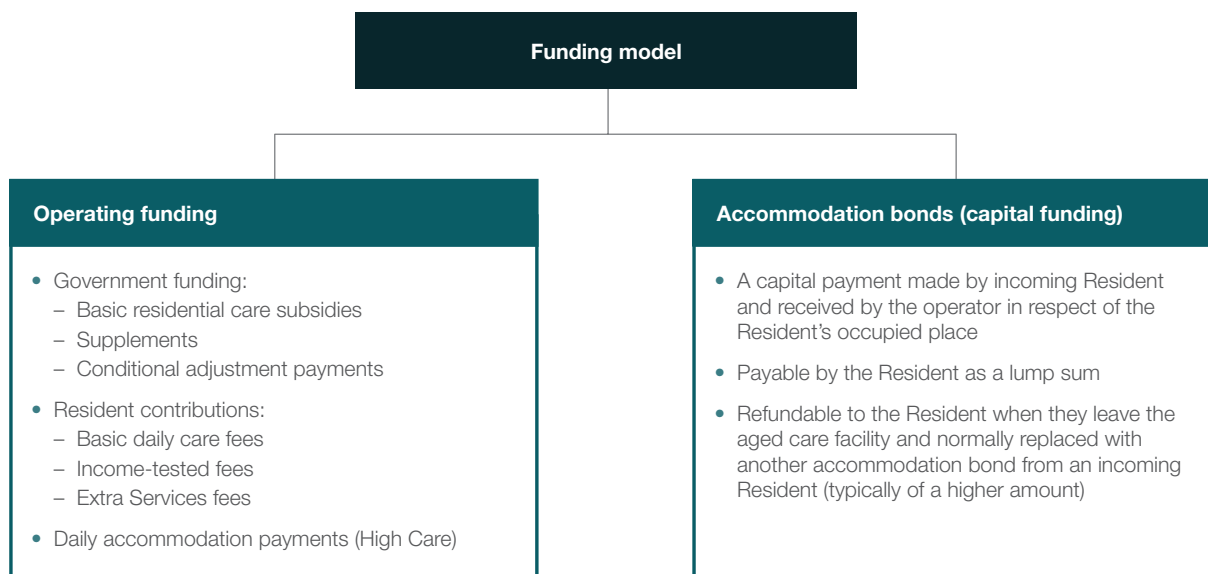
23. “Scenario Analysis of Selected LLLB Financial Arrangements,” Interim Report, KPMG 2013.

24. “Accommodation For The Aged In Australia,” IBISWorld 2013, “Aged Care Services List,” 2012. Japara Total FY2014 Places.

25. “Inaugural Report on the Funding and Financing of the Aged Care Sector,” Aged Care Financing Authority 2013.

26. “Inaugural Report On The Aged Care Sector,” Aged Care Financing Authority 2012.

Figure 3: Residential aged care revenue model²⁷



2.2.2.1 Operational funding

Operating revenues typically comprise:

Government funding	• Basic residential care subsidy: a subsidy provided by the Government to aged care operators on a per Resident, per day basis, calculated for each Resident in accordance with the ACFI. The ACFI is a mechanism by which the Government can determine the level of funding to be allocated to aged care operators and is primarily based on a Resident's income and required level of care. • Primary supplements: a subsidy available to aged care operators that can demonstrate, in accordance with the Residential Care Subsidy Principles 1997, that they supply residential aged care to a Resident of respite care approved by ACAT, provide the administration of oxygen to an eligible Resident, or administer enteral (tube) feeding to a Resident with certified medical needs. • Other supplements: a subsidy provided to aged care operators that supply more than 40% of their residential services to supported, concessional or assisted Residents as defined in the Residential Care Subsidy Principles 1997. • Conditional adjustment payment: a subsidy available to aged care operators who can demonstrate they meet a set of eligibility criteria designed to promote and measure the improvement of the quality, accessibility and sustainability of the aged care sector.
Resident contributions	• A basic daily care fee: contributes to living expenses like meals, laundry, heating/cooling, nursing and personal care. Maximum basic daily fee for all permanent residents is currently 85% of the annual single basic age pension. • An income-tested fee: applies to all Residents (other than respite Residents) and depends upon an individual's income and level of care. • Extra Services fees: includes fees for a higher standard of accommodation, food and services (e.g. entertainment) and does not depend upon the level of care.
Accommodation charges (payments)	• Payments made by Residents who enter High Care services (other than Extra Services) and have assets valued over a certain amount. • The payments are charged on a daily basis and are charged in addition to the basic daily fee and any income tested fee. • The amount payable is agreed between the Resident and the aged care operator, subject to a maximum amount set by the Government. • Where a resident is classified as concessional (also referred to as fully supported), the accommodation charge is paid by the Government on behalf of the Resident.

27. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

2.2.2.2 Accommodation bonds²⁸

Accommodation bonds are a key source of capital funding for aged care operators and are received by the operator from new non-concessional Residents currently in respect of Low Care places and High Care Extra Services places.

The operator repays the accommodation bond to the Resident when they depart (less a retained fee as referred to below) and generally receives a new bond from an incoming Resident, typically of a higher amount.

The quantum of bonds chargeable by the residential aged care operator is, at any facility, governed by supply and demand dynamics, subject to Resident payment capacity and, from 1 July 2014, will be subject to certain Government pricing constraints (see Section 2.4). Bond values are also linked to the value of residential real estate in the LGA, as Residents will often fund the bond through the sale of their residential home.

As an alternative to accommodation bonds, Residents may pay periodic payments (e.g. fortnightly) in lieu of accommodation bond returns or a combination of a lump sum and periodic payments.

Characteristic	Description
Key source of funding	• “User pays” system developed by the Government to reduce the potential funding burden from an ageing population and developed to incentivise private sector to bear the development risks and associated returns. • A capital payment made by an incoming Resident and received by the operator in respect of their occupied place. • Provides an increasing cash flow stream through growth in the value of bonds over time. • Bond repayments are guaranteed by the Government in the event of operator default.
Bond dynamics	• Payable as a lump sum. • Residents cannot be charged a bond that would leave less than \$44,000 in net assets²⁹. • Operator enjoys benefit of any form of price/capital appreciation through the ability to receive new bonds at a higher amount.
Retention and charging	• Operators are entitled to retain up to a maximum of \$331 per month from the bond amount for up to five years. This retention will not apply to Residents entering the care system from 1 July 2014 (see Section 2.4). • The bond balance becomes refundable to the Resident (net of retention amounts referred to above), or the Resident’s estate, immediately, if moving to another facility, or within 14 days of the grant of probate of the Resident’s will.
Use of funding	• The Aged Care Act stipulates that accommodation bonds must only be utilised for approved purposes, which include capital works, retiring debt and the purchase of additional facilities.
Accounting treatment	• Classified as liabilities under Australian Accounting Standards; however, not typically considered debt by banks for lending purposes. • Periodic payments are recognised as revenue in the profit and loss statement, whilst bond lump sums are accounted for as liabilities on the balance sheet (with corresponding increases in cash). • Results in high cash returns to equity and appear as cash inflows in the cash flow statement.

Worked examples outlining the mechanics of an accommodation bond pre and post 1 July 2014 are shown in Figure 4 and Figure 5 below. These examples assume:

- median house price of \$500,000 in the LGA;
- one initial Resident who makes an accommodation bond payment of \$250,000 (reflecting 50% of median house prices in the LGA);
- the Resident occupies their place for three years;
- regulated bond retention amount of \$331 is deducted monthly for the three year duration of the Resident’s stay
 - post 1 July 2014, operators will no longer be entitled to bond retention pursuant to regulatory changes coming into effect;
- house price growth of 5% per annum in the LGA (median house price of \$578,813 in year three); and
- replacement bond of \$289,406 in year three (reflecting 50% of median house prices in the LGA).

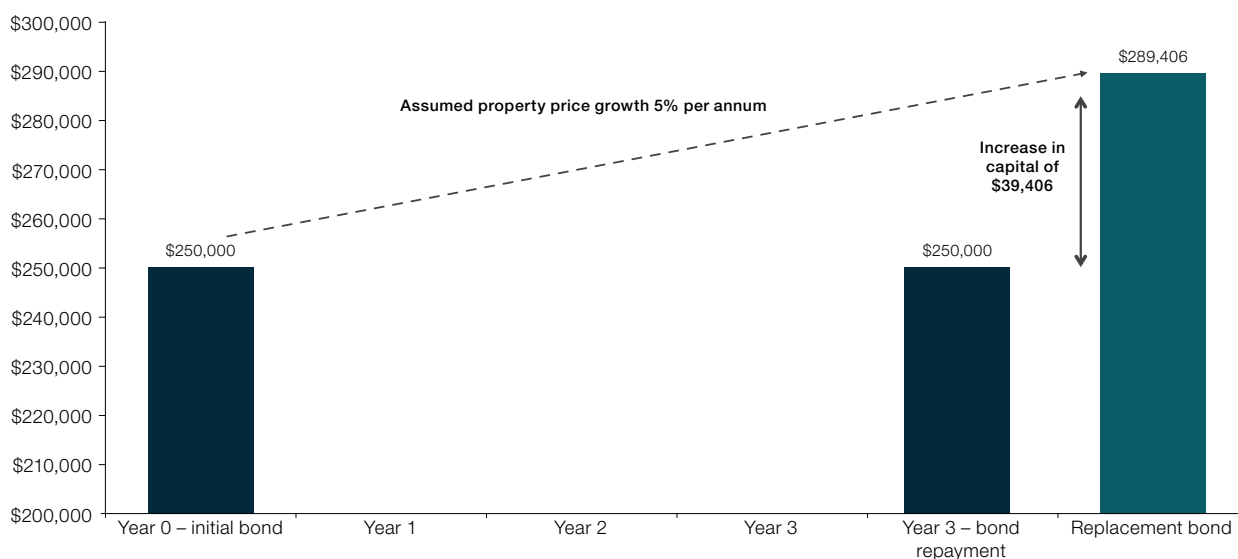
28. Australian Government – Department of Health and Ageing Website, www.health.gov.au accessed on 25 March 2014.

29. My Aged Care website, www.myagedcare.gov.au, accessed on 25 March 2013.

Figure 4: Accommodation bond worked example (pre 1 July 2014)



Figure 5: Accommodation bond worked example (post 1 July 2014)



2.2.3 Key costs

Key costs to aged care operators can be separated into labour costs and other operating costs.

Labour, such as nurses and patient care assistants, is the key operating cost (representing on average approximately 70%³⁰ of total revenue) for residential aged care operators. Labour costs are primarily governed by Enterprise Bargaining Agreements.

The remaining operating costs are primarily comprised of catering, cleaning, laundry, consumables, repairs/ maintenance, energy, utilities and administration/corporate costs.

30. "Accommodation For The Aged In Australia," IBISWorld 2013.

31. "Nursing Homes in Australia," IBISWorld 2013.

2.3 Regulation³¹

Similar to other healthcare services, the residential aged care sector is highly regulated.

Table 2: Regulation in the aged care sector

Regulation type	Description
Service accreditation	Individual residential care services (facilities) must be periodically accredited by the Australian Aged Care Quality Agency (Commonwealth body) in order to operate and receive Government funding, and are assessed against 44 standards and expected outcomes. Facilities that are performing well receive a three year accreditation period.
Facility certification	Facilities must be certified as compliant with fire safety, privacy and space requirements in order to be able to charge Residents certain types of fees (including accommodation bonds).
Resident classification	Aged Care Assessment Teams (ACATs) are Government-approved assessors that assist elderly people and their carers to determine the best type of care to meet their needs. ACATs provide information on suitable care options and can assist in arranging access or referral to appropriate residential or community care. The Government engages State and Territory Governments specifically to operate and manage the ACATs. In order for an aged care operator to receive Government funding for an incoming Resident, that Resident must be approved by an ACAT as requiring residential care.
Price regulation	The Government regulates the maximum out-of-pocket fee that can be charged for specific care levels of residential aged care.
Subsidies/ supplements	The Government subsidies are based on Resident care needs and provide supplements for specific services (indexed annually).
Place allocations	The allocation of new places is determined by the Government taking into account the population aged 70 years and older who are located in specific areas. Operators apply for new allocations (from amongst available new places) through an annual competitive process as described below: • The number of places in a State or Territory available for allocation is determined for the financial year. • The available places are distributed between the appropriate regions of the State or Territory. • Applications for allocation of available places are invited. • Available places are allocated to Approved Providers. Allocations are effective immediately, enabling facilities to receive place funding, but can be transferred or relinquished. These allocations do not necessarily result in the creation of new places as operators may retain a degree of discretion as to the timing of any development.
Accommodation charges	Operators of Extra Services places are permitted to charge higher daily accommodation rates and levy bonds. Accommodation bonds can also be charged on standard Low Care places; however, post 1 July 2014, the distinction between Low Care and High Care places will be removed (refer to Section 2.4).
Complaints investigation	The Aged Care Complaints Investigation scheme is available to anyone who has a complaint or concern about a Government subsidised aged care service.

2.4 Aged care industry reform³²

On 1 July 2014, a revised regulatory framework will take effect, which is designed to address the needs of the ageing Australian population through deregulation, to attract further investment into the industry and broaden the scope for Residents to receive (and pay for) specialist care and services.

The key changes arising out of the reform are set out below.

32. "Living Longer. Living Better.", Australian Government – Department of Health and Ageing Website, accessed on 23 February 2014. "Scenario Analysis of Selected LLLB Financial Arrangements," Interim Report, KPMG 2013.

33. "Living Longer. Living Better.", Australian Government – Department of Health and Ageing Website, accessed on 23 February 2014. "Scenario Analysis of Selected LLLB Financial Arrangements," Interim Report, KPMG 2013.

Table 3: Key changes of the aged care industry reform³³

Change	Implications	Impact on aged care operators
Changes to terminology	- Accommodation bonds will be referred to as Refundable Accommodation Deposits (RADs). - Periodic accommodation payments will be referred to as Daily Accommodation Payments (DAPs).	No impact on operators.
Removal of the High Care/Low Care categories	- The distinction between, and allocation of, High Care and Low Care places will be removed. - Operators will be able to charge accommodation bonds to all Residents who enter a facility on or after 1 July 2014. - Low Care Residents will have greater access to subsidised nursing and therapy services.	- Occupancy rates may increase (particularly for those operators catering for High Care) as places can be allocated to any Resident based on demand and irrespective of the level of care they require. - Opportunity for operators with a large number of High Care Residents to increase long-term cash flows by applying accommodation bonds to places currently categorised as High Care.
Flexibility to set Resident fees	Operators will have flexibility to set Resident fees for accommodation and provide “hotel type” and specialised services by agreeing those fees directly with the Resident.	- Operators will be entitled to charge fees in addition to those legislated. - Could result in a shortage of appropriately skilled employees as operators seek to adequately service the potential increase in demand for “hotel type” and specialised services.
Removal of the accommodation bond retention amount	Operators will not be entitled to retain a monthly fee on RADs.	Potential impact expected to be largely offset by the introduction of DAPs.
Accommodation bond price cap	Cap on accommodation bonds of \$550,000 (with Government approval required for prices set above this cap).	Likely to have a benign impact on many aged care operators due to the relatively high price cap, although some operators with high average bond balances or high price individual bonds may face net cash outflows.
Changes to means testing criteria	Accommodation support payments will be determined under new means testing arrangements based on a Resident’s annual income and the value of their assets.	Little or no impact on operators.
Increased Government accommodation supplements funding for refurbished aged care facilities	Increase in the maximum accommodation supplement available to operators for eligible Concessional Residents in relation to refurbished aged care facilities.	Likely to have a minor impact on operators in aggregate as increased funding will be limited to operators with refurbished facilities.
Increased transparency of prices and payment methods	Residents will continue to be given the choice of paying by lump sum, periodic payment or a combination of both; however, operators will be required to publish their prices in advance.	- The market may perceive a correlation between quality and price as a result of the ability for Residents to compare one operator’s pricing policy to another. - Little or no direct impact on operators as bond-eligible Residents currently have the choice between bonds and periodic payments.

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Table 4: Revenue arrangements under the current regime

Care Level	Care funding		Accommodation funding		
	ACFI (Government funding)	Daily contribution (care)	Fixed fee (accommodation)	Accommodation bond ¹	Periodic payment
Low Care (all)	✓	✓ (up to \$115/day)	–	✓	✓
High Care	✓	✓ (up to \$115/day)	✓ (up to \$33/day)	–	–
High Care (Extra Services)	✓	✓	–	✓	✓

1. Less retention amount.

Table 5: Revenue arrangements under the revised regulatory framework

Care Level	Care funding		Accommodation funding		
	ACFI (Government funding)	Daily contribution (care)	Fixed fee (accommodation)	Refundable accommodation deposit ²	Daily accommodation payment
Low Care (all)	✓	✓	–	✓	✓
High Care	✓	✓	–	✓	✓
High Care (Extra Services)	✓	✓	–	✓	✓

2. No retention amount subtracted.

2.5 Key sector trends

The residential aged care sector is subject to a number of trends which influence the current status and future outlook for aged care operators. These include³⁴:

- demographic shift to a larger population of older Australians;
- continuation of the current place supply/demand imbalance;
- barriers to entry and ongoing regulatory compliance;
- shift towards private ownership; and
- strong Government funding and support.

34. "Accommodation for the Aged in Australia: Market Research Report," IBISWorld 2013.

35. "Population Projections Australia 2012-2101," Australian Bureau of Statistics 2013.

36. "Drivers of future demand," Australia Government Productivity Commission 2011.

2.5.1 Demographic shift

The Australian population is characterised by an increasing number of elderly citizens with the number of Australians aged over 85 years anticipated to double within the next 20 years due to increased life expectancy and the ageing of the “baby boomer” generation³⁵. The ageing of Australia’s population is expected to drive an increased demand for aged care services over the next 40 years, with the Productivity Commission expecting that by 2050 over 3.5 million Australians will use aged care services³⁶.

Increases in life expectancy rates have also shifted patterns of disease and disability (such as dementia). There is a strong correlation between age and disability, with empirical evidence revealing that as people age, disability rates and, more specifically, severe or profound disability rates, increase.

In addition, the desire to stay at home longer, by utilising home and community care for example, means that residential aged care is increasingly focused on the provision of High Care.

Figure 6: Persons > 85 years old³⁷

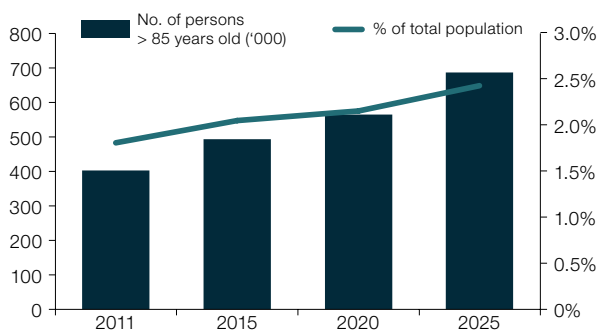
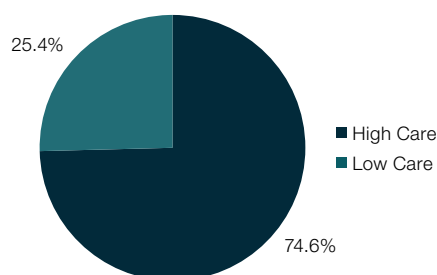


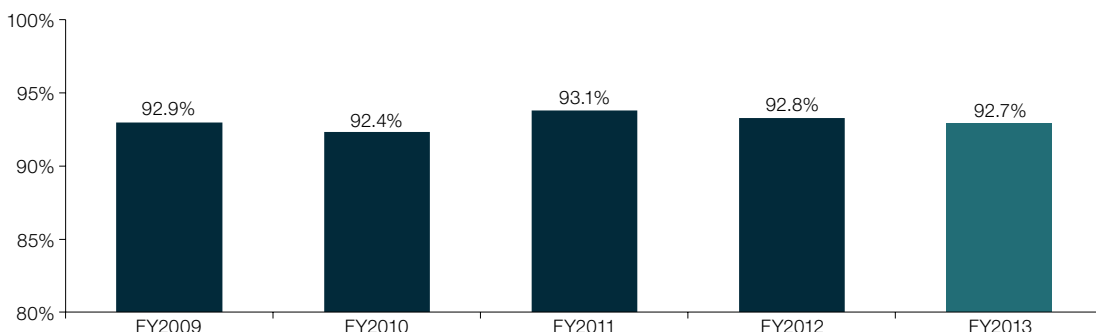
Figure 7: Current care levels for operational residential care places³⁸



2.5.2 Continued supply/demand imbalance

The level of occupancy is an important driver of an aged care operator’s financial performance. The residential aged care sector is currently subject to a supply/demand imbalance, which has underpinned consistently high long-term facility occupancy levels (averaging over 90% over the last 15 years)³⁹. This trend is anticipated to continue over the medium term with the average age of entrants in aged care facilities for males of 82 years and for females of 84 years⁴⁰, supporting the industry trend of the number of Australians older than 85 years expected to increase markedly over the next decade (see Figure 6).

Figure 8: Industry average occupancy over time⁴¹



37. “Population Projections Australia 2006 to 2101,” Australian Bureau of Statistics 2013.

38. “2012-13 Report on The Operation of The Aged Care Act 1997,” Australian Government – Department of Health 2013.

39. “2012-13 Report on The Operation of The Aged Care Act 1997,” Australian Government – Department of Health 2013. “Technical Paper On The Changing Dynamics Of Residential Aged Care Prepared To Assist The Productivity Commission Inquiry,” Australian Government – Department of Health and Ageing 2011; “Report on Government Services 2013 – Steering Committee Report,” Productivity Commission 2013.

40. “Proposed methodology for the estimation of accommodation payments,” Australian Government – Department of Health and Ageing Website, www.health.gov.au, accessed 23 February 2014.

41. “Report On Government Services 2011-12 – Steering Committee Report,” 2013; “2012-13 Report on the Operation of the Aged Care Act 1997,” Australian Government – Department of Health and Ageing 2013.

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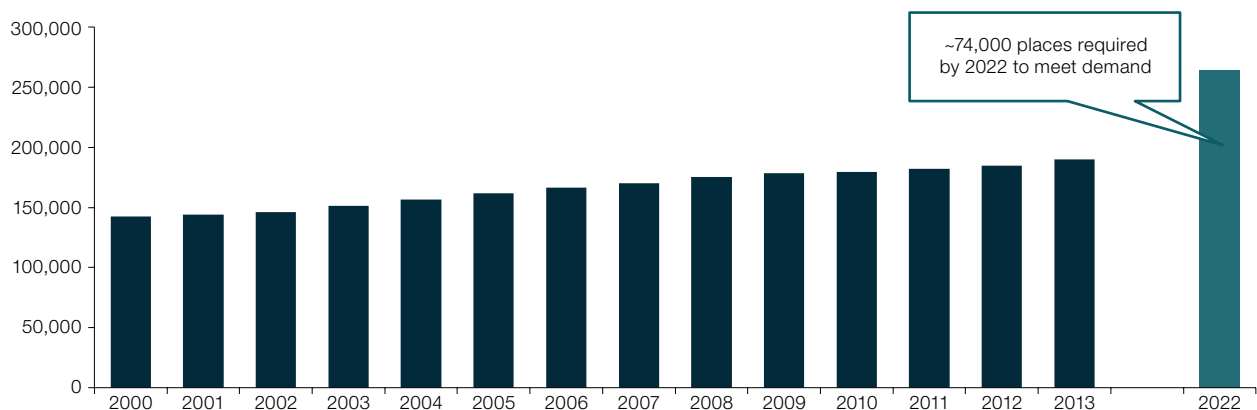
2.5.3 Barriers to entry

The residential aged care sector is highly regulated by the Government, creating natural barriers to entry for incoming market participants. These barriers include⁴²:

- Government policy of controlled expansion of aged care places;
- initial licence requirement and high levels of ongoing regulatory compliance;
- initial capital investment requirement for new entrants;
- access to specialist skills set required to operate facilities; and
- annual competitive process for new places emphasises historical performance in the industry, favouring established, reputable operators.

As a result, the supply of aged care places is limited and is expected to fall short of meeting medium-term demand.

Figure 9: Allocated aged care places in Australia⁴³



Government allocation of residential aged care places has been increasing at a modest rate for more than a decade. Over the 2000 – 2012 period, residential aged care places have grown at a CAGR of 2.0%⁴⁴. It is anticipated that a further 74,000 places approximately are projected to be required by 2022 to meet demand⁴⁵.

42. "Accommodation for the Aged in Australia: Market Research Report," IBISWorld 2013; "Nursing Homes in Australia," IBISWorld 2013.

43. "Residential Aged Care in Australia 2004-05 a Statistical Overview," Australian Institute of Health and Welfare 2006. "Residential Aged Care in Australia 2010-11 a Statistical Overview," Australian Institute of Health and Welfare 2012; "ACAR 2012 – An Initial Analysis From Ideal Group," The Ideal Group 2013; "2012-13 Report On The Operation Of The Aged Care Act 1997," Australian Government – Department of Health 2013.

44. "Residential Aged Care in Australia 2004-05 a Statistical Overview," Australian Institute of Health and Welfare 2006. Residential Aged Care in Australia 2010-11 a Statistical Overview Australian Institute of Health and Welfare – 2012, ACAR 2012 – An Initial Analysis From Ideal Group – The Ideal Group, 2012-13 Report On The Operation Of The Aged Care Act 1997– Department of Health 2013.

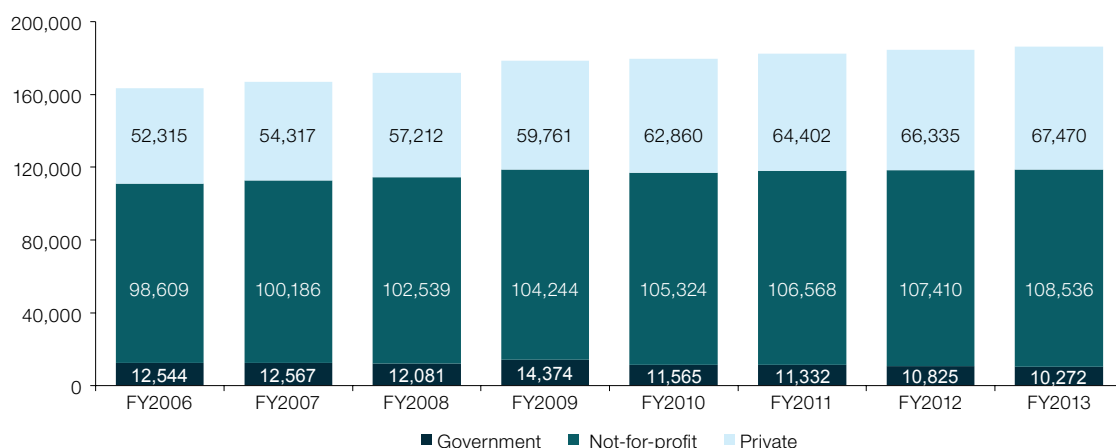
45. "The Future of Aged Care Nursing In Australia Nursing Allied Health 2013."

2.5.4 Shift towards private ownership

Whilst the sector remains dominated by Government and not-for-profit operators, private operators are the fastest growing segment. This has been driven by several factors including⁴⁶:

- reforms designed to increase private sector investment and increase professionalism and standards of care; and
- State and Commonwealth Governments progressively reducing their involvement in operating facilities.

Figure 10: Number of residential aged care places by operator type⁴⁷



2.5.5 Government funding and support

The Government provides a significant (approximately 70%) and growing component of total funding to residential aged care operators⁴⁸. This is made up predominantly of funding through the ACFI (approximately 80%) and additional funding through various supplements. Over the 2012 – 2013 period, the Government funding for residential care subsidies and supplements paid to aged care operators was \$9.2 billion, compared with \$8.7 billion over the 2011 – 2012 period, an increase of 5.2%⁴⁹.

Figure 11: Recurrent residential aged care funding⁵⁰

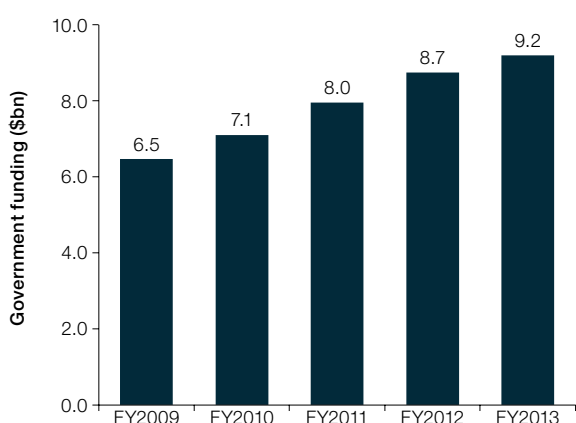
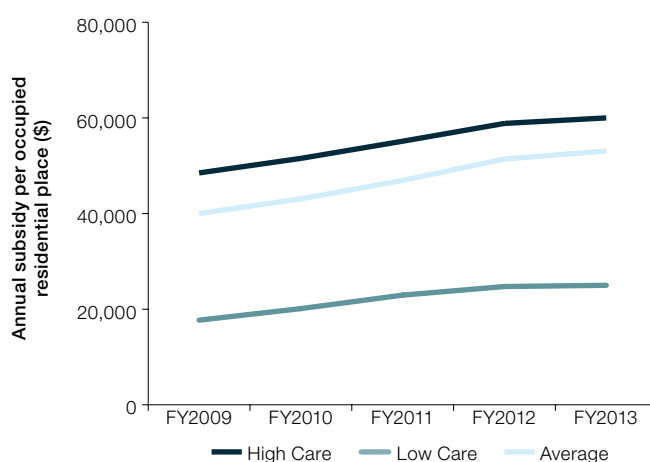


Figure 12: Annual subsidy per occupied residential place⁵¹



46. "Implementing the Living Longer Living Better aged care reform package. Overview of proposed changes to the Aged Care Act 1997 and related legislation." Australian Government – Department of Health and Ageing 2012.

47. "Report on Government Services 2013 – Steering Committee Report," Productivity Commission 2013; "2012-13 Report On The Operation Of The Aged Care Act 1997," Australian Government – Department of Health and Ageing 2013.

48. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

49. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

50. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

51. "2012-13 Report on the Operation of the Aged Care Act 1997," Australian Government – Department of Health 2013.

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COMPANY OVERVIEW

3



3 | COMPANY OVERVIEW

3.1 Overview⁵²

Japara is one of the largest residential aged care operators in Australia, with 3,131 places and 139 ILUs across 35 facilities located in Victoria, New South Wales, South Australia and Tasmania.

Since inception in 2005, Japara has successfully expanded its business and achieved significant growth in earnings by:

- development and expansion of facilities;
- selective acquisition of facilities, particularly underperforming facilities with low accommodation bond balances and/or sub optimal charging structures in place; and
- implementation of Japara's care and operating model (see Section 3.2).

3.1.1 The Restructure

Japara currently comprises Japara Holdings and the Japara Trust.

- **Japara Holdings** is the holding company for the 35 operating subsidiaries that each operate one of Japara's aged care facilities and retirement villages. Of those operating subsidiaries, 29 operate facilities that they currently lease from the Japara Trust. Three operating subsidiaries operate facilities that are leased from external parties and the remaining three subsidiaries operate facilities to which they also own the freehold title.
- **Japara Trust** owns the freehold title to 29 of Japara's 35 aged care facilities.

Japara Holdings is currently owned by the Japara Holdings Shareholders, and the Japara Trust is currently owned by the Unitholders. Pursuant to the terms of the Japara Holdings 15% Entitlement Deed Poll, the Unitholders are each entitled to a proportion of 15% of the net equity value of Japara Holdings (valued on Completion of the Offer). Each Unitholder's proportion is calculated based on the dollar value of the Unitholder's initial investment in Japara Units and the amount of time that Unitholder has held their Japara Units (referred to as the **15% Entitlement**).

On Completion of the Offer, Japara will operate as an integrated owner-operator comprising a head company, Japara Healthcare Limited, which will own 100% of Japara Holdings, 100% of the Japara Trust and, through a wholly owned subsidiary, the Victorian assets that are currently held by the Japara Trust. This structure will be created pursuant to the Restructure.

The Restructure is subject to certain conditions including approval by the Unitholders at a Unitholder meeting on 15 April 2014. The directors of JPML, as responsible entity of the Japara Trust, have unanimously recommended that Unitholders vote in favour of the Restructure.

If approved, the Restructure will involve:

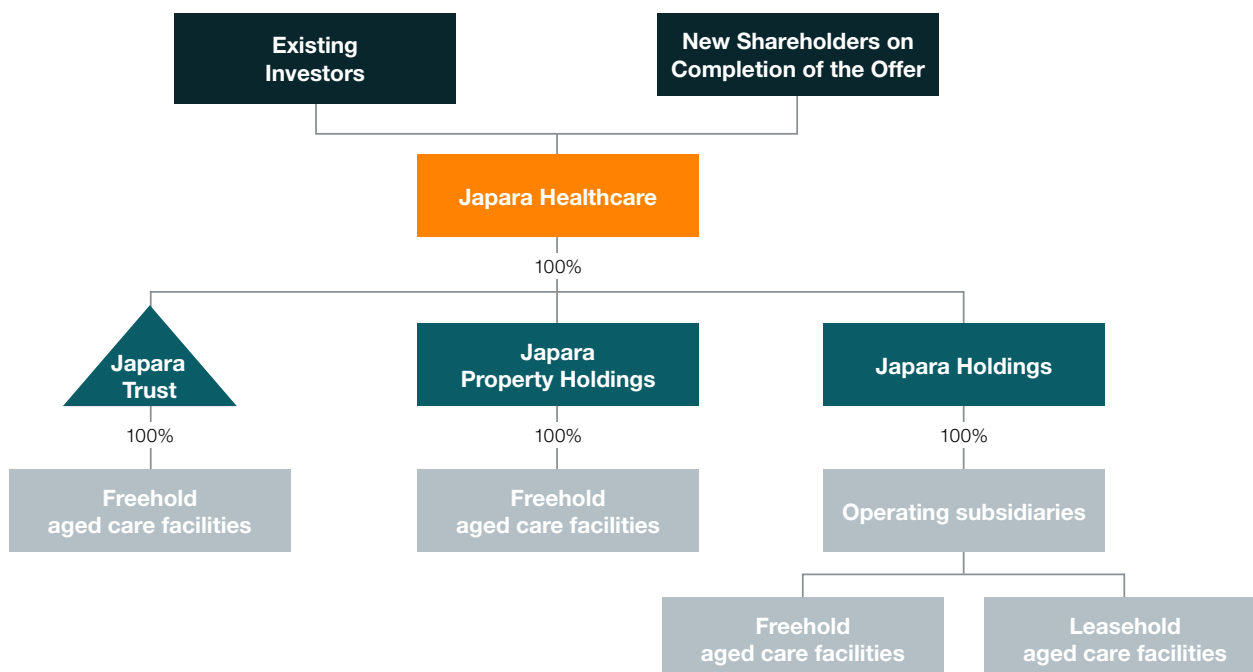
- each Unitholder first receiving Shares in exchange for all of their Japara Securities (which consist of Japara Units and the 15% Entitlement) and then being offered the opportunity to elect to either sell some or all of those Shares to SaleCo for cash, or submit an Application for those Shares in order to retain them; and
- each Japara Holdings Shareholder being offered, on the same terms, the choice to receive either cash or Shares (or any combination of their choice) in exchange for their Japara Holdings shares.

Unitholders who, having had their Japara Securities exchanged for Shares in the Company, then elect to retain their investment in Japara, may submit an Application for their allocation of Shares on the basis of this Prospectus. Unitholders who exchange their Japara Securities for Shares and who do not elect to retain their Shares (**Exiting Unitholders**) will, under the terms of the Restructure, transfer their allocation of Shares to SaleCo. SaleCo will then sell those Shares to successful Applicants, on behalf of Exiting Unitholders, and return the proceeds of the sale to Exiting Unitholders.

Each Japara Holdings Shareholder will receive either cash from the proceeds of the Offer or Shares (or any combination of their choice) as consideration for the disposal of their Japara Holdings shares pursuant to the Restructure. Andrew Sudholz (Chief Executive Officer) and other Japara Holdings Shareholders, will retain a significant proportion of their investment in Japara by choosing to receive Shares in exchange for some of their Japara Holdings shares (see Section 6.4.5).

⁵². Except as otherwise specified, this Company Overview has been prepared as if the Restructure (described in Section 3.1.1) has already occurred as at the date of this Prospectus.

Figure 13: Corporate structure of Japara post Offer



3.2 Care and operating model

Japara's provision of care is underpinned by a revenue focused operating model that is designed to facilitate "ageing in place" by servicing the full spectrum of Resident care needs as well as providing services to Residents who have dementia. This operating model is aimed at achieving:

- above industry average occupancy levels through providing a high standard of Resident care across a full spectrum of aged care services;
- EBITDA per place levels in excess of the industry average for top quartile operators of approximately \$21,000⁵³;
- internal processes to ensure receipt of all entitled Government funding; and
- sustainable cash flow levels to meet working capital requirements and facilitate future growth.

The effective implementation of this model through consistent generation of cash flows from both operating and capital funding sources, and application of rigorous cost control initiatives, has enabled Japara to achieve above industry average operating metrics including:

- an above industry average occupancy level for the last five years and current occupancy level of approximately 95%⁵⁴;
- an average FY2013 EBITDA per place of \$21,408 pre-corporate costs (\$19,041 post-corporate costs)⁵⁷, which was above the industry average for top quartile operators of approximately \$21,000 and total industry average of approximately \$9,200⁵⁵; and
- an average FY2013 ACFI funding of \$146 per day per Resident place, which was above the industry average of \$125⁵⁶.

53. Refers to EBITDA per place in the top quartile of all providers (pre-corporate costs) in FY2012. "Report on the residential aged care sector", KPMG.

54. As at 28 February 2014.

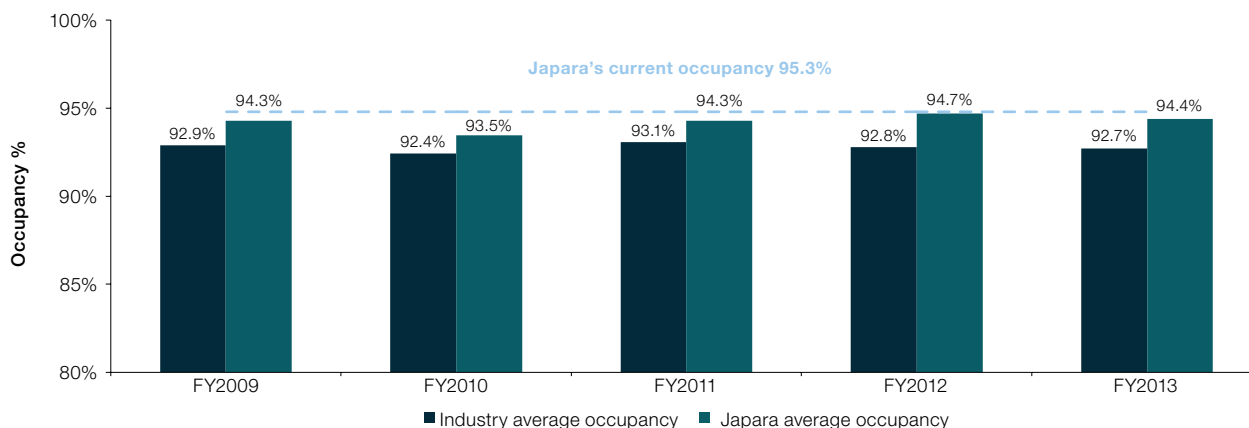
55. Refers to EBITDA per Resident place for all providers (pre-corporate costs) in FY2012. "Report on the residential aged care sector", KPMG.

56. "ACFI Annual Report 2012 – 2013," Department of Health.

57. Per Operational Place and before pro forma adjustments.

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Figure 14: Japara's average occupancy over time⁵⁸



3.2.1 Funding sources

Japara derives funding from two main sources, being operating funding (Government contributions, Resident contributions and accommodation charges) and accommodation bonds (capital funding).

Government and Resident contributions

As an "Approved Provider" of residential aged care services determined by the Department of Social Services (**Department**), each of Japara's facilities is eligible to receive funding contributions from the Government. Funding is received in the form of subsidies and supplements (primary supplements and other supplements) for Approved Residents in funded places, on a per Resident per day basis. Japara derived 72% of its revenue from Government care funding for FY2013.

Japara also receives Resident contributions for the provision of a full spectrum of aged care services (including Low Care and High Care services and Extra Services). Resident contributions made up 18% of Japara's FY2013 revenue.

Accommodation charges

In addition to Government and Resident contributions, Japara receives payments from Residents who enter High Care services (excluding Extra Services); however, these only made up 3% of total operating funding received by Japara in FY2013.

Accommodation bonds

Accommodation bonds account for a significant component of Japara's capital funding. However, unlike many other aged care operators, Japara maintains a conservative accommodation bond management regime with the value of incoming accommodation bonds set at a level equivalent to approximately 50% of the median house price in the relevant LGA. Consequently, Japara carries an average bond liability per bond paying Resident significantly below the industry average. In FY2013, the average value of Japara's bonds was \$236,491 per bond paying Resident, compared to the industry average of \$276,206 per bond paying Resident.

In FY2014, Japara plans to use funding received from accommodation bonds for the following purposes:

- repayment of bank debt utilised for the acquisition of additional aged care facilities;
- financing capital works for aged care facilities; and
- financing the acquisition of additional aged care facilities, with funding effectively acting as a substitute for owners' equity.

3.2.2 Key costs

Japara's key costs relate to labour, which accounted for approximately 65% of total revenue for FY2013. The remaining costs related to medical supplies, catering, cleaning, consumables, repairs/maintenance, energy, utilities and administration corporate costs.

As one of the larger operators of residential aged care services in Australia, Japara leverages its ability to achieve cost advantages through internalisation of certain functions and economies of scale which together allow Japara to generate higher than average profit margins.

⁵⁸. As at 28 February 2014. "Report on Government Services 2011-12 – Steering Committee Report," 2013; "Report on the Operation of the Age Care Act 1997," Australian Government – Department of Health 2013.

3.3 Operating strategy

3.3.1 Core operating strategy

Japara's operating strategy focuses on five core operational areas:

- **Facilities:** provision and maintenance of high quality accommodation to meet the needs of the community through:
 - providing places equipped to facilitate a full spectrum of care to meet Resident requirements; and
 - maintaining occupancy levels of approximately 93% or more, which is above the industry average.
- **Revenue:** internal processes to ensure receipt of all entitled Government funding, driven by an appropriate Resident mix and through the implementation of funding application and general management systems to ensure appropriate Resident classification.
- **Human resources:** ensuring appropriate facility staffing and education through:
 - retaining superior talent at all employee levels with an appropriate focus on compliance, skills and training;
 - matching the appropriate skill mix of staff with the care needs of Residents; and
 - minimising reliance on external agency staff.
- **Cost management:** implementing rigorous cost controls and leveraging economies of scale via bulk purchasing arrangements and internalisation of functions such as catering and laundry costs.
- **Corporate governance:** ensuring appropriate risk management and procedures are in place to minimise operational and compliance risk.

3.3.2 Key strategic initiatives

In addition to the core strategy outlined above, Japara has designed key strategic initiatives to facilitate the continued success of its operating strategy, including:

- responding to health and care trends which provide opportunities for Japara to differentiate its service offering from competitors and provide a superior level of care, including:
 - establishing a dementia model based on national and global dementia practices, which provides access to additional Government funding; and
 - working closely with hospitals to ensure that patients who no longer need hospital care and are more appropriately cared for in aged care facilities can be smoothly transitioned to Japara facilities;
- continuing to focus on enhancing the quality and cost efficiency of business operation through:
 - further introduction of pain management programs across selected facilities; and
 - energy management savings;
- seeking to optimise changes within the business that result from aged care regulatory reform, including:
 - achieving accommodation bond balances above historic levels; and
 - accessing significant new bonds from High Care places in the existing portfolio as a result of aged care reforms taking effect on 1 July 2014;
- positioning Japara as the preferred destination of choice for the aged by integrating with other sector service providers, including:
 - retirement village operators;
 - hospital operators; and
 - home and community care providers.

3.4 Growth strategy

Japara's growth strategy centres around increasing the size of its aged care portfolio through the acquisition of existing aged care facilities and through brownfield developments. Japara has ambitions to increase its portfolio over the medium term from 3,131 places to approximately 5,000 places.

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Japara is focusing on strategic expansion throughout Victoria, South Australia and Tasmania, where it can leverage its existing management platform and operations. Further potential exists to expand into NSW and Queensland if an appropriate platform with a local management team can be acquired and readily integrated into Japara's existing operations (e.g. by ensuring consistency with Japara's business strategy, philosophy and care services).

3.4.1 Acquisitions

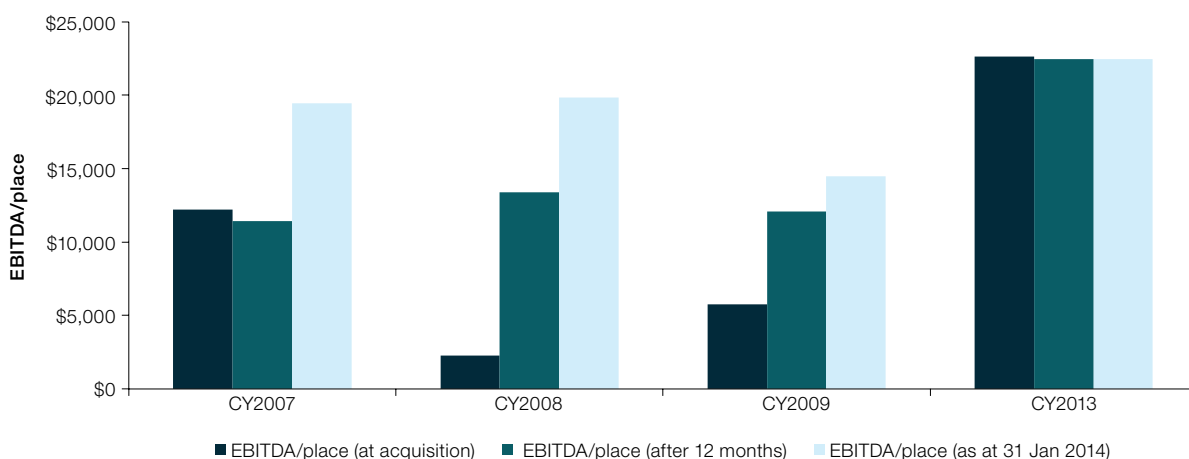
Industry consolidation among not-for-profit organisations, Government and smaller private sector operators as well as regulatory changes benefiting operators that focus on High Care present acquisition opportunities for established, corporate operators of substantial scale, such as Japara.

Japara has established policies and procedures for the acquisition of additional aged care facilities. Acquisitions are based on independent valuations undertaken by Japara's panel of valuers for both the business and real estate components. Japara undertakes formal legal, financial, property, operational and compliance due diligence on each facility before completing any acquisition.

Typically, management targets facilities where expertise can be applied in the short term to improve the performance of the facility and grow EBITDA before corporate costs to over \$15,000 per place. Japara utilises its existing infrastructure and compliance platform to successfully execute acquisitions including the application of a set of strict investment criteria to identify and filter acquisition opportunities, subject to market conditions and availability of capital. Japara's key acquisition investment criteria include:

- **Lifecycle:** new or near new facilities with minimum 15 year economic life.
- **Demand:** facilities in locations that have unmet demand.
 - Determined through the Japara research index, which measures the supply and demand of the existing aged care facilities in the LGA.
 - Acquisitions are only made when the Japara research index shows there is an undersupply of places in the LGA, and the LGA can support High Care occupancy.
- **Growth:** operational facilities that provide potential for long term growth from income and bonds.
- **Cash flow:** facilities that have a high operational income flow.
- **Value creation:** facilities that provide an opportunity for Japara to execute strategic value enhancement and asset management strategies to enhance returns to investors through:
 - purchasing undervalued assets which may be mispriced due to complexities of ownership, capital structure, planning controls or ineffective management processes;
 - countercyclical investing involving acquisitions and divestments using superior knowledge and information;
 - asset management through asset repositioning, refurbishment, extension and redevelopment of existing assets; and
 - effective deal sourcing including opportunities that are off-market or subject to capital constraints, utilising Japara's network of contacts and market intelligence.

Figure 15: History of value-adding acquisitions



Source: Japara. Based on the weighted average EBITDA per place (pre-corporate costs) and before pro forma adjustments of all acquisitions during the calendar year.

3.4.2 Development of brownfields

Japara will continue to undertake brownfields developments, which involve extending Japara's existing facilities where Japara owns the land and has obtained allocations for all necessary places. This is expected to increase Japara's portfolio size by more than 500 Operational Places over the next four years.

Japara has two types of brownfield developments, being:

- new facilities that Japara intends to build in order to replace existing facilities (**Replacement**); and
- existing facilities that are being expanded and includes the construction of additional rooms within a facility (**Extension**). As part of an Extension, existing places may be converted from one service type to another (e.g. from Low Care to High Care or from single room to dual room) or existing places may be refurbished.

3.4.2.1 Phase I brownfield projects

The Phase I brownfield projects Japara expects to undertake are detailed below.

Table 6: Phase I brownfield projects

Site ⁵⁹	Proposed development	Project Status	Expected completion date
Millward	Extension 70 place extension (63 Operational Place increase)	Commenced September 2012	March 2014
Mirridong	Extension 30 place extension and 14 place conversion (30 Operational Place increase)	Commenced February 2013	March 2014
Albury	Replacement 90 place new build (31 Operational Place increase)	Commenced February 2013	April 2014
Kelaston	Extension 32 place extension (30 Operational Place increase)	Commenced March 2014	April 2015
Bayview	Extension 30 place extension, 10 place refurbishment, 20 place conversion (30 Operational Place increase)	Planned to commence May 2014	July 2015
Central Park	Extension 25 place extension and conversion (no Operational Place increase)	Planned to commence July 2014	August 2015
Tamar Park⁶⁰	Replacement 75 place new build (75 Operational Place increase)	Planned to commence July 2015	June 2016
Yarra West⁶¹	Replacement 90 place new build (30 Operational Place increase)	Planned to commence July 2015	September 2016

59. The relevant facility is owned by Japara unless otherwise stated.

60. Japara has identified a site and intends to purchase that site in order to undertake this development. The acquisition of this site is not expected to occur within the forecast period.

61. Japara intends to identify and purchase a site in the relevant area to undertake this development.

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3.4.2.2 Phase II brownfield projects

Japara also has plans to develop the following additional brownfield projects:

Table 7: Phase II brownfield projects

Site ⁶²	Proposed development	Status	Expected completion date
George Vowell	Extension 30 place extension (30 Operational Place increase)	Planned to commence June 2015	September 2016
Hallam	Extension 30 place extension, 10 place refurbishment, 20 place conversion (30 Operational Place increase)	Planned to commence June 2015	September 2016
St. Judes	Extension 30 place extension, 10 place refurbishment, 20 place conversion (30 Operational Place increase)	Planned to commence June 2015	November 2016
Bayview Gardens⁶³	Replacement 90 place new build (30 Operational Place increase)	Planned to commence February 2016	April 2017
Kiverton Park⁶³	Replacement 90 place new build (60 Operational Place increase)	Planned to commence February 2016	April 2017
Capel Sands⁶⁴	Extension 30 place extension (30 Operational Place increase)	Planned to commence March 2016	April 2017
Lower Plenty Garden Views	Extension 30 place extension (30 Operational Place increase)	Planned to commence June 2016	August 2017

These phases will require the acquisition of new sites in Yarraville, Victoria, Bayview, New South Wales, Chadstone, Victoria, Rosebud, Victoria and Lower Plenty, Victoria. The addition of new places is subject to allocations being received from the Government. It is anticipated that the capital required for these site acquisitions will be funded primarily by additional bonds resulting from Japara's existing aged care portfolio post 1 July 2014 or from a debt facility.

3.5 Facilities portfolio

3.5.1 Facilities summary

Japara operates a well-established, diverse facility portfolio comprising 35 aged care facilities located across Australia. The facilities are located in Victoria (31 facilities), New South Wales (two facilities), Tasmania (one facility) and South Australia (one facility). Of the 35 facilities, 32 are owned by Japara as freehold and three are leased from third parties.

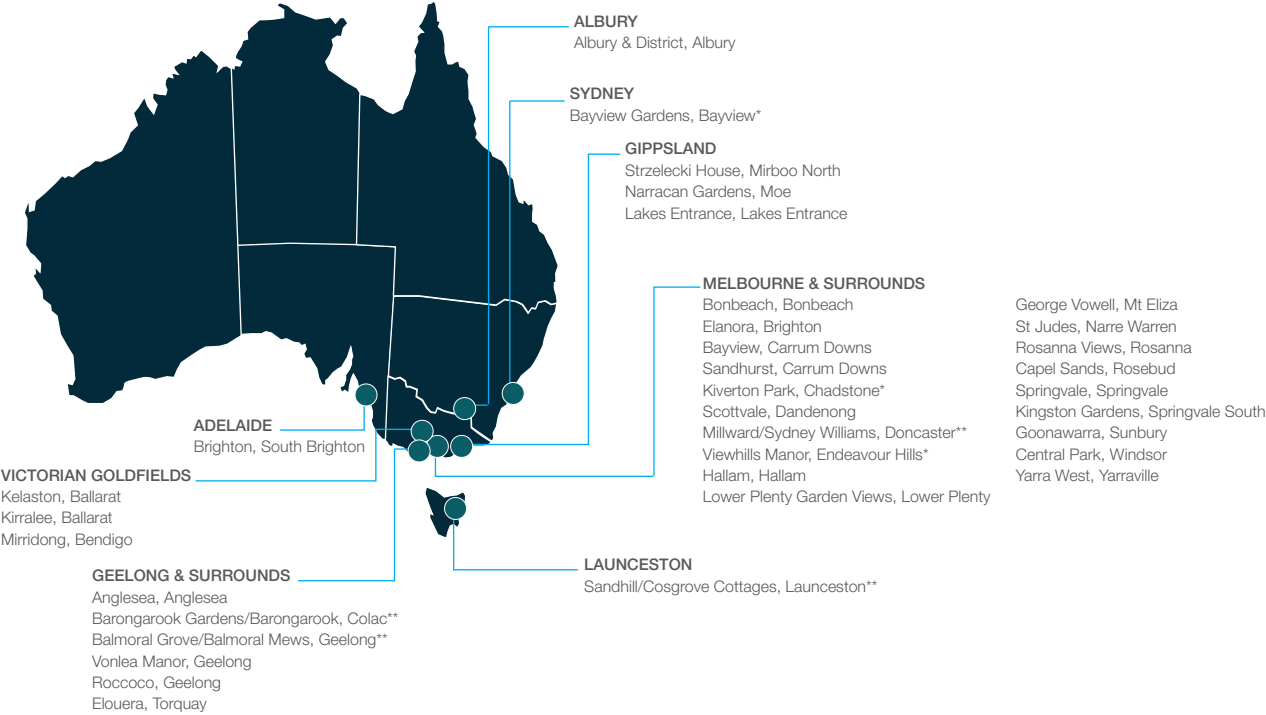
All of Japara's facilities are accredited with the Aged Care Standards and Accreditation Agency and house a mix of aged care offerings. These offerings include accommodation, personalised care and space for activity.

62. The relevant facility is owned by Japara unless otherwise stated.

63. Japara intends to identify and purchase a site in the relevant area to undertake this development. Japara will terminate the existing lease and move Residents to the new facility.

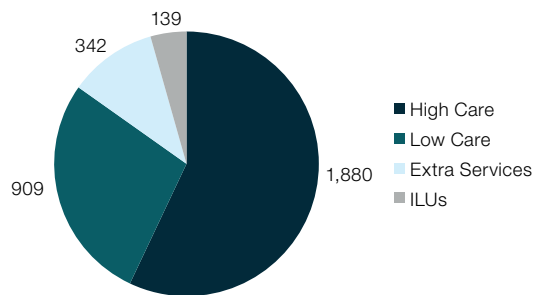
64. Japara intends to purchase an adjoining piece of land to undertake this development.

Figure 16: Japara's aged care operating footprint



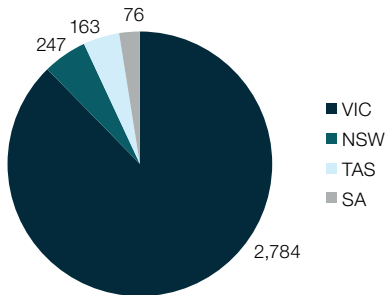
* Denotes leasehold facilities. ** Includes adjacent retirement villages.
Source: Japara.

Figure 17: Place mix (number of places)



Source: Japara.

Figure 18: Geographic diversity (number of places)



Source: Japara.

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Table 8: Key aged care portfolio metrics⁶²

Facility	Location	State	Total FY2014 Places	Total FY2014 Operational Places	No. of Low Care places
Freehold owned by the Japara Trust and Japara Property Holdings					
Anglesea ⁶³	Anglesea	VIC	60	60	30
Balmoral Grove	Geelong	VIC	110	110	20
Barongarook Gardens	Colac	VIC	60	60	60
Bayview	Carrum Downs	VIC	90	60	30
Bonbeach	Bonbeach	VIC	70	70	–
Capel Sands	Rosebud	VIC	60	60	–
Central Park	Windsor	VIC	165	165	–
Elanora	Brighton	VIC	142	142	60
Elouera	Torquay	VIC	75	75	45
George Vowell	Mt Eliza	VIC	90	90	–
Goonawarra	Sunbury	VIC	120	120	40
Hallam	Hallam	VIC	60	60	–
Kelaston	Ballarat	VIC	90	60	30
Kingston Gardens	Springvale South	VIC	72	72	72
Kirralee	Ballarat	VIC	100	100	–
Lower Plenty Garden Views	Lower Plenty	VIC	90	90	45
Millward	Doncaster	VIC	163	163	50
Mirridong	Bendigo	VIC	90	90	–
Narracan Gardens	Moe	VIC	167	167	60
Roccoco	Geelong	VIC	77	77	17
Rosanna Views	Rosanna	VIC	96	96	45
Sandhurst	Carrum Downs	VIC	30	30	–
Scottvale	Dandenong	VIC	110	110	65
Springvale	Springvale	VIC	73	73	–
St Judes	Narre Warren	VIC	60	60	–
Strzelecki House	Mirboo North	VIC	60	60	30
Vonlea Manor	Geelong	VIC	38	38	38
Sandhill	Launceston	TAS	134	132	36
Brighton	South Brighton	SA	76	76	–
Freehold owned by Japara Holdings					
Lakes Entrance	Lakes Entrance	VIC	75	68	38
Yarra West	Yarraville	VIC	70	60	–
Albury & District	Albury	NSW	90	90	–
Leasehold owned by Japara Holdings					
Kiverton Park	Chadstone	VIC	30	30	–
Viewhills Manor	Endeavour Hills	VIC	120	120	60
Bayview Gardens	Bayview	NSW	73	60	–
Other non-Operational Places			45	–	–
Total			3,131	2,994	871

Source: Japara.

62. All figures relating to places include all expansions currently being undertaken, or to be undertaken, by Japara and completed in FY2014. EBITDA/place figures based on Operational Places, before pro forma adjustments and before holding costs.

63. Anglesea FY2013 Government contribution per Resident is annualised from the date of acquisition.

No. of High Care places	No. of Extra Services places	Occupancy (as at 31 Jan 2014)	FY2013 EBITDA/ place	FY2013 bond value/ bond paying Resident	FY2013 Government contribution/ Resident	Accreditation review date
30	–	90%	\$12,261	\$267,675	\$65,302	Mar-15
67	23	90%	\$22,654	\$178,227	\$70,134	Nov-14
–	–	95%	\$20,596	\$128,428	\$51,079	Jul-15
30	–	100%	\$19,726	\$161,052	\$64,482	May-16
70	–	94%	\$27,938	\$174,372	\$75,586	Nov-15
60	–	98%	\$19,025	\$113,136	\$65,871	Oct-16
–	165	98%	\$18,522	\$243,774	\$58,749	Jul-15
31	51	96%	\$27,836	\$320,027	\$60,647	Nov-16
30	–	93%	\$22,463	\$212,759	\$59,371	Apr-14
60	30	97%	\$20,059	\$198,986	\$60,839	Jun-15
80	–	97%	\$33,449	\$172,101	\$71,642	May-15
60	–	93%	\$17,977	\$36,065	\$71,516	Aug-15
30	–	100%	\$22,328	\$223,435	\$65,298	Jul-15
–	–	97%	\$16,278	\$127,213	\$62,036	Dec-16
100	–	98%	\$18,278	\$160,482	\$66,488	Mar-16
45	–	100%	\$21,411	\$239,128	\$56,585	Jul-16
113	–	99%	\$18,669	\$256,372	\$64,334	Sep-14
90	–	95%	\$17,517	\$252,614	\$78,938	Jun-15
107	–	92%	\$23,926	\$121,740	\$65,090	Oct-14
60	–	92%	\$22,390	\$139,453	\$69,955	Oct-15
51	–	96%	\$27,860	\$205,967	\$62,962	May-15
30	–	97%	\$18,715	\$70,372	\$67,815	Feb-15
45	–	88%	N/A	N/A	N/A	Sep-14
73	–	90%	\$23,248	\$344,594	\$72,140	Apr-14
60	–	92%	\$18,939	\$105,947	\$66,249	Apr-15
30	–	95%	\$20,375	\$98,658	\$62,152	Sep-15
–	–	100%	\$19,679	\$126,047	\$64,659	Nov-16
96	–	91%	\$18,306	\$188,458	\$61,096	May-15
76	–	97%	\$25,439	\$142,676	\$65,257	May-16
30	–	93%	\$12,710	\$125,972	\$60,282	May-16
60	–	92%	\$24,419	\$148,181	\$72,300	Sep-14
90	–	95%	\$18,366	\$119,236	\$72,697	Feb-15
30	–	93%	\$27,232	N/A	\$75,224	Oct-16
60	–	97%	\$29,473	\$167,792	\$58,798	Sep-14
–	60	90%	\$20,617	\$222,965	\$64,390	Jul-15
–	–					
1,794	329					

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Table 9: Key retirement portfolio metrics⁶⁴

Facility	Location	State	Facility age	Deferred management fee ⁶⁵	Occupancy	Independent Living Units	
						No. of dwellings	Average value
Balmoral Mews	Grovedale	VIC	5 years	5% (minimum); 25% (maximum)	74%	33	\$315,000
Barongarook	Colac	VIC	14 years	5% – 25% (based on duration)	93%	30	\$240,000
Sydney Williams	Doncaster	VIC	13 years	3% p/a (>3 years); 10% p/a (<3 years)	63%	8	\$375,000 (1 bed); \$400,000 (2 beds)
Cosgrove Cottages	Launceston	TAS	40 years	N/A	81%	68	\$46,000

Source: Japara.

3.6 Reporting

Japara will operate on a 30 June financial year end basis for tax and financial reporting purposes.

Formal financial reporting will be provided to Shareholders as at 31 December (interim) and as at 30 June (full year) each year. These reports will detail (among other things) the following:

- a statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows for the period;
- the amount and tax treatment of dividends for the period; and
- significant activities undertaken for the period.

In addition to the investor reports, an annual report will be provided in accordance with the Corporations Act. The financial statements contained in the annual report will be audited and the financial statements contained in the half year accounts will be subject to review by the auditors.

3.7 Employees and community

3.7.1 Employees

Japara has more than 3,500 full time, part time and casual employees across its 35 facilities. This large workforce is managed by a number of key personnel who have extensive experience in the aged care industry, particularly in the areas of management, operations, investment, corporate governance, development and capital management.

All of Japara's employees receive extensive and ongoing professional training in order to enhance their skills and support their development to ensure they provide high quality care and service across all levels of residential care.

Job descriptions for all key personnel have been established with key performance goals. Detailed performance evaluations occur on a 12 monthly basis, with the annual reviews measuring performance against key performance goals and establishing development goals and performance objectives.

Japara recognises the integral role of training and development in driving the progress of its business. The focus of Japara's human resources strategy includes:

- attracting and retaining quality people from within the industry or externally, as appropriate;
- developing strong career paths for employees with clear goals and objectives;
- defining appropriate training programs for each employee in each year;
- providing ongoing skills training to maintain clinical strength; and
- securing Enterprise Bargaining Agreements.

64. All figures as at 31 January 2014 unless otherwise specified.

65. Annual percentage fee collected by a retirement village operator as a lump sum upon a Resident's departure.

3.7.2 Workplace Health and Safety

Japara is committed to the Workplace Health and Safety (**WH&S**) of not only its employees but also its Residents. Japara employs a safety management system and a set of safety policies and procedures for all aspects of its business in accordance with WH&S legislation.

Japara's objective is to minimise injuries and incidents and to reduce the costs associated with workers' compensation and asset protection. This culture is supported by Japara's practice of providing extensive training to employees as well as increasing managers' capabilities and competence.

3.7.3 Japara's social responsibility

As one of Australia's largest aged care operators, Japara is conscious of its social responsibility and through the financial support and donation of its skills, aged care industry experience and facilities, has fostered many links with the community. Recent examples include sponsoring sporting groups in the local communities in which its facilities are located, assisting with travel costs for local school choirs and donating surplus beds and hospital equipment to poorer communities.

Japara is also committed to supporting its employees during times of need, and has previously provided accommodation to employees who have lost their homes to bushfires, funded overseas travel for employees whose families have been involved in accidents and provided support to staff through times of serious illness.

Japara aims to build on these initiatives to broaden and extend its corporate, cultural and social profile through:

- prioritising funding to those organisations where Japara staff and Residents are directly involved through donations and volunteering; and
- focusing funding on social welfare, community development and housing, sport and recreation and people with health issues, disabilities and indigenous backgrounds.

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FINANCIAL INFORMATION

4



4 | FINANCIAL INFORMATION

4.1 Introduction

The financial information contained in Section 4 has been prepared by the Company in connection with the Offer and assumes the Restructure of Japara Holdings and the Japara Trust and Completion of the Offer have occurred. The financial information for the Company contained in Section 4 includes:

- pro forma historical financial information for the Company, being the:
 - consolidated pro forma historical statements of profit or loss and other comprehensive income for FY2012, FY2013 and H1FY2014;
 - consolidated pro forma historical statements of cash flows for FY2012, FY2013 and H1FY2014; and
 - consolidated pro forma historical statement of financial position as at 31 December 2013,
(**Pro forma Historical Financial Information**); and
- forecast financial information for the Company, being the:
 - consolidated statutory forecast statements of profit or loss and other comprehensive income for FY2014 and FY2015;
 - consolidated statutory forecast statements of cash flows for FY2014 and FY2015,
(**Statutory Forecast Financial Information**);
 - consolidated pro forma forecast statement of profit or loss and other comprehensive income for FY2014 and FY2015; and
 - consolidated pro forma forecast statement of cash flows for FY2014 and FY2015,
(**Pro forma Forecast Financial Information**),
(together the **Forecast Financial Information**),

collectively the **Financial Information**.

The Financial Information included in this Section 4 is intended to present potential investors with information to assist them in understanding:

- what the underlying historical financial performance and cash flows of the Company would have been had the Company operated as a standalone consolidated entity since 1 July 2011, on a consistent basis with the Forecast Financial Information; and
- the financial position adjusted to reflect Completion of the Offer as if it occurred on 31 December 2013.

Table 10: Overview of Financial Information

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The information in this Section 4 should also be read in conjunction with the risks set out in Section 5, the Additional Financial Information in Section 11 and other information contained in this Prospectus. All amounts disclosed in Section 4 are presented in Australian dollars unless otherwise noted and are rounded to the nearest 100,000 dollars.

4.2 Basis of preparation and presentation of the Financial Information

The Financial Information included in Section 4 has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards adopted by the Australian Accounting Standards Board (**AASB**) and the Corporations Act. The Financial Information is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The Company was incorporated on 19 March 2014 and as such does not have a financial history that would be relevant to a potential investor's consideration of financial performance. The Restructure, which will occur immediately prior to Completion of the Offer, will have the effect of bringing the operations of both Japara Holdings and the Japara Trust under the Company's ownership. For accounting purposes, the Company is treated as the accounting acquirer of Japara Holdings and the Japara Trust. The Financial Information included in this section is consolidated on this basis and the assumption that Unitholders collectively elect to retain 45% of the Shares allocated to them for their Japara Securities as part of the Restructure, reflecting how the statutory accounts of the Company will be presented going forward. The choice of accounting acquirer is a subjective area under the Australian Accounting Standards. It was determined that the Company is the accounting acquirer with the primary determining factor being it controls Japara Holdings and the Japara Trust at the time the Offer is completed. As a result the consolidated balance sheet will reflect goodwill of \$233.4 million⁶⁵ as disclosed in Table 14 and Table 28 reflecting the difference between the deemed value of Japara Holdings and the fair value of the associated net assets as at 31 December 2013. Had the accounting acquirer been deemed to be Japara Holdings, on the basis it had effective control up to the date of the Offer, then there would be no recognition of goodwill on acquisition of the Japara Trust as the deemed valuation of the Japara Trust is equal to the fair value of net assets as at 31 December 2013.

Significant accounting policies of the Company relevant to the Financial Information are noted in Section 11 and are also disclosed in Note 1 of the financial statements in the 30 June 2013 general purpose financial report of Japara Holdings and the Japara Trust which were lodged with ASIC prior to the date of this Prospectus. The accounting policies of the Company have been consistently applied throughout the periods presented.

Investors should also be aware that certain financial measures included in this Prospectus may be considered "non-GAAP financial measures"; these measures include EBITDA and EBIT.

EBITDA and EBIT are non-IFRS key financial performance measures used by the Company, the investment community and the Company's Australian peers with similar business portfolios. The Company also uses EBITDA and EBIT for its internal management reporting as it better reflects what the Company considers to be its underlying performance. EBITDA and EBIT are calculated by excluding some items which are included within the statutory net profit attributable to equity holders. They are not statutory financial measures and are not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards.

EBITDA is reported before the following:

- interest income or expense (excluding interest income/settlement expense relating to accommodation bond and RAD cash flow) and finance costs;
- depreciation, amortisation and impairment expenses; and
- taxation expense.

The Financial Information presented in this Prospectus has been reviewed by KPMG Financial Advisory Services (Australia) Pty Limited (KPMG Transaction Services) in its Investigating Accountant's Report. Investors should note the scope and limitations of that report (refer to Section 8).

4.2.1 Preparation of Pro forma Historical Financial Information

The Pro forma Historical Financial Information for the Company has been derived from the FY2012, FY2013 and H1FY2014 audited general purpose financial reports of Japara Holdings and the Japara Trust. The FY2012, FY2013 and H1FY2014 general purpose financial reports of Japara Holdings and the Japara Trust have been audited by Nexia Melbourne, who has issued unqualified audit opinions in respect of these periods.

In addition, the Financial Information described as "pro forma" has been adjusted to reflect the Company as if it had existed from 1 July 2011 and Completion of the Offer had taken place on 31 December 2013.

⁶⁵ The assumed goodwill amount of \$233.4 million has been calculated as follows: the Japara Holdings business has been valued at \$219.1 million as part of the Offer, less the fair value of net assets to be acquired of \$(14.3) million (which reflects the net assets of Japara Holdings at 31 December 2013, excluding the goodwill recognised from previous business acquisitions).

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The Pro forma Historical Financial Information in Section 4.3 has been presented before interest income (excluding interest income relating to accommodation bond and RAD cash flow), and finance costs and taxation expense because the Company's corporate and capital structure will be materially different following Completion of the Offer.

Refer to Section 11.2 for the statutory statements of profit or loss and other comprehensive income, financial position and cash flows for each of Japara Holdings and the Japara Trust. The Pro forma Historical Financial Information has also been adjusted to separate significant items as set out in Section 4.3.2 below.

4.2.2 Preparation of Forecast Financial Information

The Forecast Financial Information has been prepared by the Directors based on an assessment of present economic and operating conditions, and on a number of best estimate general and specific assumptions regarding future events and actions, as set out in Sections 4.8.1 and 4.8.2. This information is designed to assist investors in assessing the reasonableness of the assumptions and the likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

The Company believes the best estimate assumptions, when taken as a whole, are reasonable as at the date of this Prospectus. However, there can be no guarantee that the assumptions will occur and investors are cautioned not to place undue reliance on the Forecast Financial Information.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information and that this may have a material positive or negative impact on the Company's actual financial performance, cash flows or financial position. Accordingly, neither the Company, nor any other person, can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise.

The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation of the Pro forma Historical Financial Information.

The Forecast Financial Information for FY2014 and FY2015 has been presented on a statutory basis. FY2014 will be the Company's first financial reporting period, with the Company expecting to report financial information from the date of incorporation to 30 June 2014. This period therefore forms the basis of the Statutory Forecast Financial Information for FY2014. In addition, Forecast Financial Information for FY2014 has been presented on a pro forma basis. The Pro forma Forecast Financial Information assumes the Company operated for a full financial year and excludes certain significant items considered by the Directors not to be reflective of the ongoing operations. Refer to Section 4.3.3 and Section 4.6.1 for reconciliations between the Pro forma Forecast Financial Information and the Statutory Forecast Financial Information for FY2014. In FY2015, there are no differences between the pro forma and statutory versions of the Forecast Financial Information.

The Company has no intention to update or revise the Forecast Financial Information or other forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law or the ASX continuous disclosure obligations.

The information in Section 4 should be read in conjunction with the general assumptions as set out in Section 4.8.1, the specific assumptions as set out in Section 4.8.2, the sensitivities as set out in Section 4.9, the risk factors as set out in Section 5 and other information contained in this Prospectus.

4.3 Consolidated historical and forecast statements of profit or loss and other comprehensive income

Table 11 presents the consolidated pro forma historical statements of profit or loss and other comprehensive income for FY2012, FY2013 and H1FY2014 and the pro forma and statutory forecasts for FY2014 and FY2015.

Table 11: Pro forma consolidated statement of profit or loss and comprehensive income

		Pro forma historical			Pro forma forecast	Statutory forecast	Statutory forecast
(June year end, \$ in millions)	Notes	FY2012	FY2013	H1FY2014	FY2014	FY2014	FY2015
Revenue							
Government care funding		161.1	167.2	87.5	178.1	31.0	194.2
Resident care funding		43.9	45.8	24.3	49.6	8.5	53.4
Accommodation funding		13.7	14.3	7.2	14.2	2.2	14.9
Other		3.1	2.6	2.1	2.9	0.3	2.8
Total revenue		221.7	229.9	121.2	244.9	42.0	265.3
Operating costs							
Staff costs		(144.4)	(152.6)	(81.6)	(163.3)	(27.3)	(172.8)
Resident costs		(21.1)	(24.3)	(13.3)	(27.4)	(4.8)	(30.0)
Other costs		(10.5)	(11.2)	(6.4)	(12.7)	(2.3)	(13.6)
Total operating costs		(176.0)	(188.1)	(101.3)	(203.4)	(34.3)	(216.4)
EBITDA (before significant items)		45.8	41.7	19.9	41.5	7.6	48.9
Depreciation and amortisation		(7.7)	(8.4)	(4.5)	(9.0)	(1.5)	(9.0)
EBIT (before significant items)	1	38.0	33.3	15.4	32.5	6.2	39.9
Significant items	2	1.8	(0.2)	1.2	1.2	(20.0)	(0.5)
EBIT		39.8	33.1	16.6	33.7	(13.8)	39.4
Net interest expense					(0.4)	–	0.1
Net profit before tax					33.3	(13.8)	39.5
Income tax expense					(10.0)	–	(11.8)
NPAT	3				23.3	(13.8)	27.7

Notes:

1. **EBIT (before significant items)** – a reconciliation of pro forma historical EBIT to statutory equivalent EBIT is set out in Section 4.3.2.
2. **Significant items** – the significant item in FY2015 relates to a non-cash accounting charge expected in relation to an equity-settled Offer Bonus provided to certain staff on Listing. The Offer Bonus will be settled on the expiry of two years employment with the Company from Listing and, as such, it is expected there will be an associated accounting expense in FY2015 and FY2016. Details of significant items are contained in Section 4.3.2.
3. **NPAT** – a reconciliation of pro forma forecast NPAT and statutory forecast NPAT for FY2014 is provided in Section 4.3.3.

The FY2014 statutory forecast represents the forecast trading period of May and June 2014 (i.e. post Listing) and includes costs associated with the Offer. The FY2014 pro forma forecast includes six months of actual results to 31 December 2013 and pro forma forecasts from 1 January 2014 to 30 June 2014.

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4.3.1 Description of certain line items

Government care funding

Government care funding represents the Company's entitlement to revenue from the Department based upon the specific care needs of the individual Residents.

Resident care funding

Resident care funding represents fees charged directly to the Residents of each residential aged care facility in respect of care services provided by the Company. The quantum of the fees is set by the Department and increased in March and September each year.

Accommodation funding

Accommodation funding comprises accommodation charges and accommodation bond related income. Accommodation bond related income includes retention revenue (\$2.5 million and \$1.4 million in FY2014 pro forma and FY2015 pro forma respectively), associated interest income (\$1.1 million and \$2.2 million in FY2014 pro forma and FY2015 pro forma respectively) and DAP income (\$3.2 million in FY2015 pro forma). This excludes the accommodation bond or RAD itself, which is a capital contribution, reflected in the statement of cash flows as "Bond related cash flow" and treated as a liability in the statement of financial position. Please refer to Section 2.4 for further information about RADs and DAPs.

Other income

Other income includes revaluation increments upon completion of the development of investment properties, forecast gain on sale of vacant land in FY2015 and other sundry income.

Staff costs

Staff costs include salaries and wages, leave entitlements and on-costs. Both permanent and casual employees and agency staff are reflected in staff costs.

Resident care costs

Resident care costs represents costs incurred that relate directly to the provision of care to Residents such as medical expenses, catering, cleaning, laundry, rates and utilities.

Other costs

Key items included within other costs are repairs and maintenance, rent, insurance, and professional services costs.

Depreciation and amortisation

Depreciation and amortisation includes the depreciation of the Company's property, plant and equipment over its useful life. There is no amortisation expense.

The Japara Trust has held its land and buildings as investment property and as such has not depreciated them historically. On a pro forma basis the land and buildings are classified as property, plant and equipment under Australian Accounting Standards. In the pro forma historical results it is assumed that the land and buildings owned by the Japara Trust have been held as property, plant and equipment since 1 July 2011 and depreciated in line with the Company's accounting policy that will apply going forward.

4.3.2 Summary of significant items

Table 12 sets out the reconciliation of the adjustments made to the historical results to remove the impact of significant items contained within the statutory account information.

Table 12: Reconciliation of pro forma financial information to statutory account information

(June year end, \$ in millions)	Notes	FY2012	FY2013	H1FY2014
Statutory accounts equivalent EBIT				
Japara Holdings		21.2	15.7	5.8
Japara Trust		21.4	20.8	12.1
Statutory accounts equivalent EBIT		42.6	36.5	17.9
Depreciation adjustment	1	(2.8)	(3.4)	(1.3)
EBIT		39.8	33.1	16.6
Significant items				
Transaction costs	2	1.8	0.3	–
Fair value movement of investment property	3	(3.2)	(1.7)	(4.0)
Capitalised property expenditure	4	–	0.3	1.9
Legal costs and settlement	5	1.6	0.3	–
(Gain)/loss on disposal of fixed assets	6	(2.0)	0.7	0.2
Redundancy costs	7	–	0.3	0.7
Total significant items		(1.8)	0.2	(1.2)
EBIT (before significant items)		38.0	33.3	15.4

Notes:

- Depreciation adjustment** – the Japara Trust has held its land and buildings as investment property and as such has not depreciated them historically. On a pro forma basis the land and buildings are classified as property, plant and equipment under Australian Accounting Standards. In the pro forma historical results it is assumed that the land and buildings owned by the Japara Trust have been held as property, plant and equipment since 1 July 2011 and depreciated in line with the Company's accounting policy that will apply going forward.
- Transaction costs** – professional fees incurred for historical equity raising and debt refinancing exercises.
- Fair value movement of investment property** – fair value gains/losses on investment property in the Japara Trust. These gains will not be recognised in the statement of profit or loss and other comprehensive income on a combined entity basis as the residential aged care facilities will be reclassified as property, plant and equipment and depreciated going forward.
- Capitalised property expenditure** – expenditure incurred in the Japara Trust that directly relates to the acquisition or capital improvement of property. These expenses will be capitalised as property, plant and equipment on a combined entity basis as the residential aged care facilities will be reclassified as property, plant and equipment and depreciated going forward.
- Legal costs and settlement** – legal fees and settlement costs incurred in relation to a legal dispute that was settled in August 2012.
- (Gain)/loss on disposal of fixed assets** – gain on the disposal of a retirement village in FY2012 and losses that relate to the disposal of plant and equipment.
- Redundancy costs** – one-off costs associated with a roster review program initiated with a view to optimise staff levels across the business, and the closure of the Tamar Park facility.

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4.3.3 Reconciliation between Statutory Forecast Financial Information and Pro forma Forecast Financial Information in FY2014

A reconciliation between the FY2014 statutory forecast and pro forma forecast is provided in Table 13.

Table 13: Reconciliation of FY2014 statutory forecast NPAT to FY2014 pro forma forecast NPAT

(June year end, \$ in millions)	FY2014
Statutory NPAT	(13.8)
Pro forma adjustments	
1. Transaction costs in relation to the Offer	14.8
2. Trading in the period from 1 July 2013 to the date of the Offer	25.9
3. FY2014 significant items	1.2
4. Offer Bonus	5.2
5. Difference in tax expense	(10.0)
Total pro forma adjustments	37.1
Pro forma NPAT	23.3

Notes:

1. **Transaction costs in relation to the Offer** – in accordance with Australian Accounting Standards, transaction costs relating to the sale of existing equity are expensed to the statement of profit or loss and comprehensive income in the period incurred. In FY2014, \$14.8 million of expenses relating to the Offer are expected to be charged to the statement of profit or loss and comprehensive income.
2. **Trading in the period from 1 July 2013 to the date of the Offer** – the Pro forma Forecast Financial Information assumes the Company operated for the full financial year whereas the Statutory Forecast Financial Information only reflects the two month period from 1 May 2014 to 30 June 2014.
3. **FY2014 significant items** – these items are highlighted and discussed in Table 12 and relate to H1FY2014 and therefore not included in the relevant period forming the statutory forecast.
4. **Offer Bonus** – on Completion of the Offer, a cash based Offer Bonus will be payable to selected employees and is to be funded by the Japara Holdings Shareholders. The Offer Bonus also has an equity-based component totalling \$1.3 million potentially payable dependent on continued employment over a period of two years. The accounting expense for this component will be spread over FY2015 and FY2016 given the linkage to continued employment.
5. **Difference in tax expense** – FY2014 statutory NPAT is forecast to have nil income tax expense due to the forecast loss made in the period whereas the pro forma forecast reflects a normal corporate tax rate of 30%.

4.4 Pro forma historical statement of financial position

Table 14 sets out the adjustments that have been made to the consolidated statement of financial position of Japara Holdings and the Japara Trust as at 31 December 2013 to present the pro forma consolidated statement of financial position of the Company. The adjustments include the impact of the operating and capital structure that will be in place immediately following Completion of the Offer as if it had occurred as at 31 December 2013.

These adjustments include assumptions relating to matters that are known as at the date of this Prospectus. The pro forma statement of financial position is therefore provided for illustrative purposes only and is not necessarily indicative of the Company's view on its future financial position.

The "Pro forma pre impact of Offer" column in Table 14 represents a consolidation of the statement of financial position of Japara Holdings and the Japara Trust as at 31 December 2013, based on their respective audited accounts as at 31 December 2013, and other adjustments. The reconciliation from the individual audited statement of financial position for each entity to the "Pro forma pre impact of Offer" column shown in Table 14 is provided in Section 11.2.

Table 14: Pro forma historical statement of financial position as at 31 December 2013

(As at 31 December 2013, \$ in millions)	Notes	Pro forma pre impact of Offer	Equity raised (net of transaction costs)	Repayment of debt and interest rate swap	Pro forma
Current assets					
Cash assets	1, 2	42.4	128.5	(152.2)	18.7
Trade and other receivables		5.9	–	–	5.9
Other current assets		3.5	–	–	3.5
Total current assets		51.8	128.5	(152.2)	28.0
Non-current assets					
Property, plant and equipment		335.0	–	–	335.0
Investment property		18.2	–	–	18.2
Deferred tax assets	1, 3	11.4	4.7	–	16.1
Intangibles		382.5	–	–	382.5
Other non-current assets		1.5	–	–	1.5
Total non-current assets		748.5	4.7	–	753.2
Total assets		800.3	133.2	(152.2)	781.2
Liabilities					
Trade and other payables		30.9	–	–	30.9
Borrowings	2	148.8	–	(148.8)	–
Other financial liabilities	2	210.5	–	(1.6)	208.8
Current tax liability		–	–	–	–
Provisions		20.7	–	–	20.7
Other current liabilities	2	7.0	–	(1.8)	5.2
Total current liabilities		417.8	–	(152.2)	265.6
Non-current liabilities					
Deferred tax liabilities		4.2	–	–	4.2
Provisions		1.7	–	–	1.7
Total non-current liabilities		5.9	–	–	5.9
Total liabilities		423.7	–	(152.2)	271.5
Net assets		376.5	133.2	–	509.7
Equity					
Issued capital	1, 3	360.9	144.6	–	505.5
Other reserves	2	(1.6)	–	1.6	–
Retained earnings	1, 2, 3	17.3	(11.4)	(1.6)	4.2
Total equity		376.5	133.2	–	509.7

Notes:

- Equity raised (net of transaction costs)** – Offer proceeds of \$147.7 million, less transaction costs and stamp duty of \$19.2 million. Of the total transaction costs, \$4.4 million (\$3.1 million post tax) will be directly offset against issued capital with the remaining \$14.8 million of transaction costs and stamp duty being expensed. It is assumed the transaction costs are deductible for tax purposes over five years which gives rise to a deferred tax asset of \$4.7 million. Payment of stamp duty on transfer of land as a result of the Restructure of \$3.5 million will be expensed and is not deductible for tax purposes.
- Repayment of debt** – \$152.2 million from the Offer proceeds and surplus cash will be used to repay the existing core bank debt facilities (\$148.8 million), settle an existing interest rate swap (\$1.6 million) and pay \$1.8 million relating to the purchase of the Scottvale facility. The pro forma balance sheet assumes the Scottvale payment was paid at 31 December 2013, however it is scheduled to be paid in August 2014.
- The consolidated pro forma historical statement of financial position as at 31 December 2013 and the Forecast Financial Information have been prepared on the assumption that Unitholders collectively elect to retain 45% of the Shares allocated to them for their Japara Securities as part of the Restructure. If a higher percentage of Unitholders rollover their investment, the Lead Manager fee (and therefore transaction costs) will be lower as total gross proceeds of the Offer will be lower. Conversely, if a lower percentage of Unitholders rollover, transaction costs, could be higher (e.g. if Unitholders exit their investment entirely, total transaction costs could be \$22.0 million). This would impact issued capital, retained earnings and deferred tax asset.

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4.4.1 Description of certain line items

Property, plant and equipment

Property, plant and equipment includes freehold land and buildings and associated plant, furniture, fixtures and fittings relating to residential aged care facilities. As at 31 December 2013, the freehold land and buildings component of property, plant and equipment formerly belonging to the Japara Trust were independently valued at \$268.2 million, which forms 80.1% of the total carrying value of these assets within the pro forma statements of financial position. The balance primarily relates to operating assets previously held by Japara Holdings.

Intangible assets

The Company had \$382.5 million of intangible assets with an indefinite useful life as at 31 December 2013. These assets relate primarily to goodwill (\$233.4 million) and places (\$149.1 million). Intangible assets with an indefinite useful life are tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Impairment is determined for intangible assets with an indefinite useful life by assessing the carrying value against the recoverable amount of each Cash Generating Unit (CGU) or group of CGUs to which the asset relates. Each facility is assessed as an individual CGU.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current assessments of value and risk. If the recoverable amount is lower than the carrying value of the assets, an impairment loss is recorded.

The fair value of a CGU is the estimated amount for which the CGU would be exchanged between a willing buyer and willing seller in an arm's length transaction. The value in use is calculated as the present value of future cash flows of the CGU.

Significant judgements and estimates are applied in estimating the future cash flows including the key assumptions adopted. The key estimates and assumptions used to determine the value in use of an asset or CGU are based on the Company's current expectations and are considered to be reasonably achievable.

The key estimates and assumptions are:

- **Growth rates used to extrapolate cash flows beyond the forecast period** – The recoverable amount and any resulting impairment of the assets attributable to the CGU will be impacted by the Company's ability to achieve growth in line with its assumptions. Cash flows beyond the one year period are extrapolated using growth rates which reflect increases in Resident numbers and acuity as well as price growth. The long-term growth rate assumed is 3.0%.
- **Discount rates** – Discount rates represent the current market assessment of the risk specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets. The pre-tax risk adjusted discount rate applied to these cash flow projections is 11.5%.

Other financial liabilities

Other financial liabilities principally reflect accommodation bonds and RADs, repayable immediately after a Resident moves to another facility or within 14 days following the receipt of grant of probate of a Resident's will by the Approved Provider and as such are reflected as a current liability in the statement of financial position under Australian Accounting Standards. Notwithstanding this, the average tenure of each bond paying Resident is typically greater than one year.

4.5 Liquidity and capital resources

4.5.1 General

The Company's principal sources of funds are cash flows from operations, accommodation bonds and RADs. The Company may finance its ongoing operations with operating cash flows, bank borrowings or a combination of both.

The Company's cash position as outlined in the pro forma consolidated statement of financial position (refer to Table 14) and anticipated cash flows from operations are expected to provide sufficient liquidity to meet the Company's currently anticipated cash requirements. The Company's ability to generate sufficient cash depends on its future performance which, to a certain extent, is subject to a number of factors beyond its control including general economic, financial and competitive conditions.

Over time, the Company may seek debt funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risk on long-term borrowings. Quantitative and qualitative disclosures about market risk sensitive instruments are included in Section 4.5.5.

The Company's working capital requirements are generally consistent throughout the course of the year and there are no significant variations.

The Company maintains a disciplined approach to capital expenditure, with all key capital projects subject to strict approval protocols. Capital expenditure comprises expenditure on asset enhancement and replacement programs and general maintenance projects (maintenance capital expenditure funded from operational cash flows) as well as growth capital expenditure comprising brownfield development projects and acquisition of aged care facilities (funded via equity, borrowings, operating cash flows or any combination of these, as appropriate).

4.5.2 Capitalisation and indebtedness

Table 15 sets out the capitalisation and indebtedness of Japara Holdings and the Japara Trust as at 31 December 2013 as reported in their statutory accounts and for the Company as adjusted after giving pro forma effect to the impact of the Offer as if the transactions had occurred on 31 December 2013.

Table 15: Capitalisation and indebtedness

(As at 31 December 2013, \$ in millions)	Notes	Statutory (Japara Holdings and the Japara Trust pre Completion of the Offer)	Pro forma (Company post Completion of the Offer)
Cash and cash equivalents		42.4	18.7
Accommodation bonds and ILU Resident loans	1	(208.8)	(208.8)
Current interest bearing liabilities	2	(148.8)	–
Other financial instruments	3	(1.6)	–
Other current liabilities	4	(1.8)	–
Net total indebtedness		(318.6)	(190.1)
Total equity		376.5	509.7
Capital employed		695.2	699.8

Notes:

1. **Accommodation bonds and ILU Resident loans** – are accounted for as current debt for accounting and therefore a component of total capital employed by the Company, when valuing aged care businesses on an enterprise value basis market practice is to exclude these liabilities. This is due to the fact that when the Company repays a bond on departure of a Resident it is replaced soon after by a new bond/resident loan, typically at an equal or greater value.
2. **Current interest bearing liabilities** – comprises bank debt.
3. **Other financial instruments** – relates to an interest rate swap that will be closed out as part of the repayment of the associated bank debt.
4. **Other current liabilities** – non-interest bearing deferred settlement payment amount of \$1.8 million due in August 2014 relating to the purchase of the Scottvale facility. The pro forma balance sheet assumes this is paid at 31 December 2013 from Offer proceeds.

4.5.3 Borrowing policy

The forecast assumes a nil debt balance for the period up to 30 June 2015. Going forward, Japara may borrow money from time to time in order to finance activities. Should Japara choose to borrow money, it intends to maintain its gearing within prudent levels. It is intended that any borrowings will be denominated in Australian dollars.

Japara may choose to finance its brownfields development program via equity, borrowings, operating cash flows or any combination of these, as appropriate.

Japara may choose to manage its accommodation bond liquidity requirements via cash reserves, bank overdraft or a combination of the two, as appropriate.

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4.5.4 Contractual commitments and contingent liabilities

Table 16 below summarises the Company's contractual obligations and commitments as at 31 December 2013. Capital expenditure obligations typically relate to the Company's brownfield extension program and operating lease commitments primarily relate to lease payments on the Company's three leasehold facilities.

Table 16: Contractual obligations and commitments as at 31 December 2013

(\$ in millions)	Total	Payments due by period		
		<1 year	1-5 year(s)	>5 years
Capital expenditure obligations	6.4	6.4	–	–
Operating lease commitments	8.7	1.5	5.0	2.2
Total	15.1	7.9	5.0	2.2

From time to time, the Company may incur contingent liabilities arising out of its operations that may result in claims against the Company. At the date of this Prospectus, the Company is not a party to any legal proceedings that are expected, individually or in aggregate, to have a material adverse effect on its business, financial conditions or operating results in the current year or prior years.

4.5.5 Quantitative and qualitative disclosures about market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and prices. Financial instruments affected by market risk include cash, loans and borrowings, accommodation bonds and derivative financial instruments. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all operational activities are undertaken in accordance with established internal and external guidelines, financing and investment strategies of the Company. This section describes information about the Company's exposure to these risks as well as the objectives, policies and processes for measuring and managing the risks.

Primary responsibility to review, oversee and report to the Board on the Company's risk management systems and strategies rests with the Audit, Risk and Compliance Committee operating within an approved policy under the authority of the Board. The Company uses various methods to measure and manage different types of risks to which it is exposed. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Interest rate risk

As the Company is forecast to have a nil debt balance on Completion of the Offer and until the end of the forecast period (i.e. 30 June 2015), it is not exposed directly to interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. In addition, the Company maintains sufficient cash and cash equivalents to meet normal operating requirements. Also, as part of the Company's compliance with the User Rights Principles 1997, the Company maintains a liquidity management strategy to ensure that it has sufficient liquidity to enable it to refund accommodation bond and RAD balances that are expected to fall due within at least the next 12 months.

Financial liabilities of the Company comprise trade and other payables, dividends payable, deferred tax liabilities, accommodation bonds and RADs and ILU Resident loan liabilities. Trade and other payables have no contractual maturities but are typically settled within 30 days or within the terms negotiated. Dividends payable have no maturity date as such and are settled upon the dividend payment date. Accommodation bonds and RADs are potentially repayable within 14 days of a Resident leaving the aged care facility and therefore classified under "current liabilities" in the statement of financial position. However, on average, each Resident occupies a place for approximately 29 months, resulting in approximately 40% of accommodation bonds, or RADs, being replaced in any 12 month period. In addition, any accommodation bond or RAD is typically replaced by an equivalent or higher accommodation bond or RAD receivable from a new incoming Resident. ILU Resident loan liabilities are subject to loan agreements and whilst repayable within the earlier of 14 days after a new ILU Resident replaces the departing ILU Resident or six months after the ILU Resident departure, and therefore classified under "current liabilities" in the statement of financial position, are typically replaced by an equivalent or higher ILU Resident loan receivable from a new incoming ILU Resident. It is also unlikely in practice that all ILU Resident loan liabilities would be refundable within a 12 month period.

Price risk

The Company's exposure to price risk primarily relates to the risk that the Government, through the Department, alters the rate of funding provided to Approved Providers of residential aged care services. As Government funding represents approximately 72% of the Company's revenue, a fluctuation in the rate of Government funding may have a direct material impact on the revenue of the Company. While the Company is not able to influence Government policy directly, it and members of its senior management team, participates in aged care industry public awareness discussions and in aged care industry dialogue with the Government about its proposals for changes to funding for the aged care industry.

Foreign exchange risk

The Company has no operations overseas and sources exclusively from local suppliers. As such, the Company does not have a direct exposure to foreign currency.

4.6 Consolidated pro forma historical and forecast statements of cash flows

Table 17 presents the consolidated pro forma historical statements of cash flows for FY2012, FY2013 and H1FY2014 and the pro forma and statutory forecast statements of cash flows for FY2014 and FY2015.

The forecast statement of cash flows for FY2014 has been presented on both a pro forma and statutory basis in line with the statement of profit or loss and other comprehensive income. The consolidated statutory forecast statement of cash flows for FY2014 is the best estimate of the cash flows that the Directors expect to report in the Company's audited statutory consolidated general purpose financial report for FY2014. Refer to Section 4.6.2 for a reconciliation between the consolidated pro forma forecast statement of cash flows and the consolidated statutory forecast statement of cash flows for FY2014.

Table 17: Consolidated pro forma historical and forecast statement of cash flows

(June year end, \$ in millions)	Notes	Pro forma historical			Pro forma forecast	Statutory forecast	Statutory forecast
		FY2012	FY2013	H1FY2014	FY2014	FY2014	FY2015
EBITDA (before significant items)		45.8	41.7	19.9	41.5	7.6	48.9
Change in net working capital		4.4	5.0	13.8	(0.6)	–	–
Non-cash items in EBITDA	1	(2.7)	(2.9)	(2.0)	(3.2)	(0.4)	(2.2)
Net cash inflow from operations		47.5	43.8	31.7	37.7	7.2	46.7
Bond related cash flow		22.6	9.2	9.2	25.8	3.6	77.3
Maintenance capital expenditure		(2.4)	(3.1)	(1.2)	(2.8)	(0.5)	(3.1)
Net cash inflow before investment, interest, tax and financing activities		67.8	49.9	39.7	60.8	10.3	120.9
Acquisition of aged care businesses	2	–	(5.9)	(14.4)	(14.4)	–	(1.8)
Brownfields development expenditure		(3.1)	(10.9)	(16.7)	(28.4)	(2.7)	(22.2)
Net cash inflow before interest, tax and financing activities		64.7	33.1	8.6	18.0	7.6	96.9
Net interest paid					(0.4)	–	0.1
Income tax paid	3				(8.2)	(1.4)	(9.7)
Proceeds from the Offer net of transaction costs					–	128.5	–
Repayment of debt	4				–	(150.4)	–
Net cash flow before dividends					9.4	(15.8)	87.3
Illustrative dividends					–	–	(28.1)
Net cash flow					9.4	(15.8)	59.2

Notes:

- Non-cash items in EBITDA** – primarily comprise bond retention revenue (which is charged monthly to bond paying Residents; however, the Company is not entitled to deduct the cash from the bond until the liability is settled after the resident departs) and asset revaluations.
- Acquisition of aged care businesses** – relate to Anglesea (2013) and Scottvale (2014), with deferred settlement payment due in August 2014 in respect of Scottvale (\$1.8 million). No other acquisitions have been assumed in the forecast.
- Income tax paid** – the effective income tax rate on a tax paid basis for pro forma FY2014 and FY2015 is 24.4%, lower than the corporate rate due to deductions available to the company over five years in respect of transaction costs and timing differences on depreciation.
- Repayment of debt** – excludes deferred payment in respect of Scottvale (\$1.8 million) due in August 2014.

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4.6.1 Pro forma adjustments to the historical consolidated statement of cash flows

Table 18: Pro forma adjustments to the statutory consolidated statement of cash flows for FY2012, FY2013 and H1FY2014

(June year end, \$ in millions)	Notes	FY2012	FY2013	H1FY2014
Statutory operating cash inflow before interest, tax and financing activities				
Japara Holdings		47.0	21.4	16.6
Japara Trust		16.7	9.9	(15.2)
Consolidation adjustments	1	3.4	1.3	6.4
Statutory net cash inflow before interest, tax and financing activities		67.1	32.6	7.8
Significant items	2	(2.5)	0.5	0.8
Pro forma net cash inflow before interest, tax and financing activities		64.7	33.1	8.6

Notes:

1. **Consolidation adjustments** – pertain to intercompany trading items between Japara Holdings and the Japara Trust. In FY2012, transaction costs of \$3.0 million were paid from the Japara Trust to Japara Holdings where it was recognised as a financing cash flow item in the latter. In H1FY2014, the adjustments reflect the units acquired by Japara Holdings in the Japara Trust (\$6.4 million) where the Japara Trust recognised it as a financing item where the reconciliation above is shown before financing activities.
2. **Significant items** – include the cash impact of significant items reflected in Section 4.3.2. In addition, in FY2012, the Company purchased a number of places from other operators for \$1.5 million that is considered one-off/non-recurring and incurred stamp duty of \$0.9 million relating to an acquisition completed in FY2007.

4.6.2 Reconciliation of consolidated statutory statement of cash flows to pro forma forecast consolidated statement of cash flows

Table 19 sets out the pro forma adjustments to the consolidated statutory forecast statement of cash flows for FY2014 to reflect the full year impact of the capital structure that will be in place following Completion of the Offer. These also include the removal of certain one-off transaction costs incurred in respect of the Offer.

Table 19: Reconciliation of consolidated statutory statement of cash flows to pro forma forecast consolidated statement of cash flows

(June year end, \$ in millions)	FY2014
Statutory net cash flow	(15.8)
Proceeds from the Offer net of transaction costs	(128.5)
Net reduction of debt facilities	150.4
10 months forecast cash inflow from 1 July 2013 to 30 April 2014	3.3
Pro forma net cash flow	9.4

4.7 Management's discussion and analysis of the Pro forma Historical Financial Information

The following section explains the year on year movements in pro forma Historical Financial Information, together with some key operating metric information to support the analysis. FY2012 is compared to FY2013 in Section 4.7.1 and FY2013 is compared to FY2014 in Section 4.7.2.

4.7.1 Pro forma FY2012 compared to Pro forma FY2013

Table 20: Selected operating metrics: FY2012 and FY2013

(June year end, \$ in millions)	FY2012 pro forma	FY2013 pro forma
Total revenue	221.7	229.9
Government care funding	161.1	167.2
Resident care funding	43.9	45.8
Total operating costs	(176.0)	(188.1)
Staff costs	(144.4)	(152.6)
Resident care costs	(21.1)	(24.3)
EBITDA (before significant items)	45.8	41.7
Total number of available place days (days)	1,001,010	1,007,275
Average total revenue per occupied place day (\$)	233.9	241.8
Average occupancy	94.7%	94.4%
Accommodation bond related cash flow	22.6	9.2
Brownfield development expenditure	(3.1)	(10.9)

Total revenue

The key components of revenue are described below.

Government care funding increased by 3.8% from \$161.1 million in FY2012 to \$167.2 million in FY2013. Key drivers contributing to this uplift include:

- increasing Resident care requirements through acuity and implementation of a pain management therapy program resulting in an increase in Government funding per occupied bed day. The benefit was partially offset by a slight decline in occupancy in FY2013 (net uplift in revenue of circa \$2.8 million from FY2012 to FY2013);
- additional funding received relating to payroll tax supplement back payment (\$2.0 million), which arose due to an industry wide underpayment of the payroll tax supplement by the Government. The payment related to the periods between FY2006 and FY2012; and
- the acquisition of the Anglesea facility in February 2013 which was the main driver to the increase in available place days or capacity (adding incremental total revenue of \$1.4 million in FY2013).

Resident care funding grew by 4.3% from \$43.9 million in FY2012 to \$45.8 million in FY2013. The majority of this resulted from an increase in the Resident care funding rates (partially offset by the decline in occupancy) and the acquisition of the Anglesea facility which contributed \$0.4 million.

Staff costs

Staff costs increased by \$8.2 million (or 5.7%) to \$152.6 million in FY2013 compared with FY2012 (\$144.4 million), which is primarily driven by the Victorian EBA driven wage increases of which there were two in FY2013 versus one rate rise in FY2012 (3.0% in October 2012 and 2.0% in April 2013). The acquisition of the Anglesea facility contributed incremental staff costs of \$1.2 million in FY2013.

Resident care costs

Resident care costs increased by 15.5% from \$21.1 million in FY2012 to \$24.3 million in FY2013. FY2013 was the first full year of a pain management therapy program introduced in FY2012, which contributed to a \$1.8 million increase in therapy expenses from FY2012 to FY2013. Other factors that contributed to the increase from FY2012 to FY2013 included rising costs of utilities in the year and incremental costs relating to the acquisition of the Anglesea facility.

EBITDA (before significant items)

EBITDA before significant items of \$41.7 million in FY2013 declined by (8.8)% against \$45.8 million in FY2012. In overall terms the funding rate increases year on year were insufficient to meet the rising cost of care driven by industry wide wage inflation. Unlike previous years, Government funding rates were not adjusted for inflation in FY2013 which is estimated to have resulted in circa \$2.4 million of forgone revenue to the Company.

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Accommodation bond related cash flow

In FY2012, there was a net bond inflow of \$22.6 million reflecting a short-term strategic decision by Japara Holdings to increase the number and value of bond receipts in certain aged care facilities in order to reduce debt. This resulted in a net increase of 76 new bond paying Residents where the average incoming bond value was above the outgoing average bond value paid.

Japara returned to its long-term revenue focused strategy in FY2013 resulting in net inflows of \$9.2 million, reflecting a net increase of 45 new bond paying Residents.

Brownfield development expenditure

FY2013 outflow of \$10.9 million was significantly above FY2012 outflow of \$3.1 million due to the commencement of brownfields construction at the Millward, Mirridong and Albury facilities.

4.7.2 Pro forma FY2013 compared to pro forma H1FY2014, H2FY2014 and FY2014

Table 21: Selected operating metrics: FY2013, H1FY2014, H2FY2014 and FY2014

	Pro forma	Pro forma forecast	Pro forma	Pro forma forecast
(June year end, \$ in millions)	H1FY2014	H2FY2014	FY2013	FY2014
Total revenue	121.2	123.6	229.9	244.9
Government care funding	87.5	90.6	167.2	178.1
Resident care funding	24.3	25.3	45.8	49.6
Total operating costs	(101.3)	(102.0)	(188.1)	(203.4)
Staff costs	(81.6)	(81.7)	(152.6)	(163.3)
Resident care costs	(13.3)	(14.0)	(24.3)	(27.4)
EBITDA (before significant items)	19.9	21.6	41.7	41.5
Total number of available place days (days)	526,460	518,565	1,007,275	1,045,025
Average total revenue per occupied place day (\$)	247.0	252.3	241.8	249.5
Average occupancy	93.2%	94.5%	94.4%	93.9%
Accommodation bond related cash flow	9.2	16.6	9.2	25.8
Brownfield development expenditure	(16.7)	(11.7)	(10.9)	(28.4)

The FY2014 pro forma forecast EBITDA (before significant items) is based on six months actual results to 31 December 2013 (H1FY2014) and six months forecast to 30 June 2014 (H2FY2014). Commentary in this section is therefore centred upon the drivers to achieve a step up in EBITDA before significant items from \$19.9 million in H1FY2014 to \$21.6 million in H2FY2014.

Total revenue

Government care funding is forecast to increase by \$10.9 million to \$178.1 million in FY2014. The business requires revenue growth of \$3.1 million in H2FY2014 (from H1FY2014) to achieve the full year uplift in Government care funding. The uplift in H2FY2014 Government care funding is largely attributable to:

- assumed average Government care funding revenue per occupied place day (on a like-for-like basis)⁶⁶ increasing from \$178.0 in H1FY2014 to \$182.1 in H2FY2014 (results in an increase of \$1.9 million) due primarily to a higher level of care requirements of Residents. This is partially offset by lower occupancy (\$0.9 million impact) despite occupancy on a percentage basis assumed at 94.5% in H2FY2014 versus H1FY2014 of 93.2%. This is due to H2FY2014 having three less trading days;
- the introduction by the Department of the Dementia Supplement in early FY2014 and the Company began claiming it in December 2013. 567 Residents are assumed to be eligible for the supplement in H2FY2014 (contributing \$1.5 million in H2FY2014, net of incremental costs); and
- the Scottvale facility contributing circa \$3.2 million Government care funding revenue for six months in H2FY2014 (acquired in August 2013 and contributed \$2.3 million in the period to December 2013).

⁶⁶ Average Government revenue per occupied place day on a like-for-like basis excludes Department of Health and Ageing backpayment received in H1FY2014 and the Dementia Supplement and Scottvale facility listed in subsequent bullet points.

Resident care funding is anticipated to grow by 4.1% from \$24.3 million in H1FY2014 to \$25.3 million in H2FY2014, giving rise to a full year care funding result of \$49.6 million in pro forma FY2014. The majority of this growth results from an increase in the Resident care funding rates as a result of indexation (partially offset by the occupancy dynamic noted above) and the acquisition of the Scottvale facility.

Staff costs

Staff costs in FY2014 are expected to be \$163.3 million, 7.0% higher than in FY2013. This is largely driven by average wage increases of 2.75% and higher staff levels following the recent acquisitions.

Staff costs are projected to increase by \$0.1 million to \$81.7 million in H2FY2014 from H1FY2014. H2FY2014 staff costs are projected to increase due to a full period of trading at the Scottvale facility (\$0.7 million impact), which is offset by the forecast savings from the roster review program undertaken in H1FY2014 (a projected saving of \$0.6 million). The roster review was implemented in H1FY2014 in response to staff cost increases beyond funding rate growth.

Resident care costs

Resident care costs are projected to increase by \$3.1 million from \$24.3 million in FY2013 to \$27.4 million in FY2014. The increase is primarily a result of incremental trading at the Scottvale facility, the completion of Millward and Albury brownfield projects and general cost inflation.

Other costs

The FY2014 forecast includes additional costs of \$0.2 million for May and June 2014 to cover new board costs, listing fees and other compliance costs. Other costs primarily increase due to general cost inflation at 2.5% per annum.

EBITDA (before significant items)

EBITDA of \$21.6 million in H2FY2014 before significant items is projected to increase by 8.5% against \$19.9 million in H1FY2014. The main components for this expected movement are improved average occupancy levels, the new Dementia Supplement and improved cost control over H1FY2014.

EBITDA (before significant items) of \$41.5 million in FY2014, is projected to decrease by an amount of \$0.2 million compared to \$41.7 million in FY2013. The principal drivers of H2FY2014 performance are set out above and are expected to be funding rate growth of 2.0%, impact of the new Dementia Supplement and positive full year contribution of the recent acquisitions, offset by a slight deterioration in occupancy and higher operating costs largely driven by wage inflation and recent acquisitions.

Accommodation bond related cash flow

Forecast net accommodation bond flow of \$25.8 million in pro forma FY2014 compared to bond inflow of \$9.2 million in FY2013. The increase is primarily due to:

- a new marketing program ahead of the upcoming regulatory reforms;
- an increase in average value of homes sold, leading to an increase in average value of bonds (year-to-date basis \$264,000 as compared to \$236,000 in FY2013); and
- a projected increase in occupancy in H2FY2014 of 1.3% reaching an average for H2FY2014 of 94.5%, which further increases the number of accommodation bonds expected to be received.

As a result of the above, H2FY2014 pro forma accommodation bond inflow of \$16.6 million is greater than that of H1FY2014 (\$9.2 million).

Brownfield development expenditure

In the H2FY2014 period, the projected outflow of \$11.7 million is expected to be below the amount of outflow in H1FY2014 of \$16.7 million due to the completion of construction at the Millward and Albury facilities and continuation of construction at the Mirridong facility. Total cash outflow for pro forma FY2014 is expected to be \$28.4 million compared to \$10.9 million in FY2013. The increase of \$17.5 million is a result of the commencement and ongoing construction of the above mentioned brownfields projects.

4.8 Management's discussion and assumptions underlying the Forecast Financial Information

The Forecast Financial Information is based on various best estimate assumptions concerning future events, including those set out below, which should be read in conjunction with the Investigating Accountant's Report in Section 8, the risk factors set out in Section 5, the sensitivity analysis set out in Section 4.9 and all other information set out in this Prospectus.

The Forecast Financial Information has been prepared based on the significant accounting policies adopted by the Company, which are in accordance with Australian Accounting Standards and are disclosed in Section 11.

The Company believes the best estimate assumptions when taken as a whole to be reasonable at the date of this Prospectus. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

The actual results are likely to vary from the Forecast Financial Information and any variation may be materially positive or negative. The assumptions upon which the Forecast Financial Information is based, are by their nature subject to significant uncertainties and contingencies, many of which are outside the control of the Company and its Directors, and are not reliably predictable.

Accordingly, none of the Company, its Directors, or any other person can give any assurance that the Forecast Financial Information or any prospective statement contained in this Prospectus will be achieved. Events and outcomes might differ in amount and timing from the assumptions, with a material consequential impact on the Forecast Financial Information.

4.8.1 General assumptions

In preparing the Forecast Financial Information, the following general assumptions have been adopted for the forecast period:

- no significant change in the economic conditions (including financial market stability) prevailing in Australia, or any other markets in which the Company operates other than those changes reflected in the key revenue assumptions set out in Section 4.8.2;
- no significant deviation from current market expectations of broader economic conditions relevant to the aged care industry and to the Company's potential Resident pool;
- no significant change in the legislative regimes (including tax) and regulatory environments in the jurisdictions in which the Company operates but for the proposed regulatory framework known as "Living Longer, Living Better" that would have a material impact on the Company's financial performance or cash flows, financial position, accounting policies, financial reporting or disclosures;
- no change in applicable accounting standards, other mandatory professional reporting requirements or the Corporations Act that would have a material impact on the Company's consolidated financial performance, cash flows, financial position, accounting policies, financial reporting or disclosures;
- no material industrial or employee relations disputes, litigation, strikes, acts of terrorism or force majeure which have a material impact on the operations of the Company;
- no material change in capital expenditure requirements from those included in the Forecast Financial Information caused by factors outside the Company's control;
- no material environmental losses or material legal claims;
- no material beneficial or adverse effects arising from the actions of competitors;
- no significant amendment to any material contract relating to the Company's business;
- no significant delays in the performance of any material contracts and parties to those contracts will continue to comply with the contracts' terms and maintain all relevant licences and approvals;
- no material impact on the Company's ability to achieve its current earnings margin;
- no material disposals or investments other than disclosed;
- no impairment of goodwill or other identifiable intangible assets;
- key personnel, particularly the senior management team, are retained and the Company maintains its ability to recruit and retain required personnel; and
- the Offer proceeds in accordance with the timetable set out in this Prospectus.

4.8.2 Specific assumptions

The Forecast Financial Information has been prepared by the Company based on a detailed bottom-up assessment by aged care facility, consistent with its prior period budgeting processes. In preparing the Forecast Financial Information, the Company has taken into account the current year to date trading performance and market conditions. The Forecast Financial Information assumes that no material acquisitions or divestments are undertaken during the forecast period.

The specific best estimate assumptions applied by the Company in preparing the Forecast Financial Information for FY2014 and FY2015 are described below.

4.8.2.1 Revenue assumptions

The Company has estimated the revenue component of the Forecast Financial Information based on a detailed analysis of:

- historical occupancy rates at each facility relative to forecast Resident demand. The forecast assumes that both occupancy and Resident demand for H2FY2014 and FY2015 are consistent with current market conditions and the latest actual occupancy rate for the portfolio as at January 2014;
- Resident turnover during the forecast period is based on the January 12 month average length of stay;
- Government care funding rates are escalated annually by 2.0% based on an average of FY2011 to year-to-date income growth rate;
- Resident care funding and general revenue items are escalated in line with CPI at 2.5% per annum;
- pricing for accommodation (both RADs and DAPs) is set at an individual aged care facility level, taking into account the age of the facility, services, demographics, relative competition and historical trading levels. The average DAP and RAD forecast for FY2015 is \$51 per Resident per day and \$283,000 respectively;
- number of DAPs and RADs is based on average historical levels of periodic payment and accommodation bonds, taking into account resident demand, relative competition and brownfields program and are set at site level. The average number of DAP and RAD payers forecast for FY2015 is 37.9% and 62.2% of the non-Concessional Resident places respectively;
- FY2015 includes \$3.6 million of income stemming from the Dementia Supplement predicated on 611 Residents qualifying for the funding (against 567 in FY2014);
- bond retentions are not taken on new Residents from 1 July 2014 in line with the proposed regulatory reform changes; and
- interest rate applied on cash balances held in respect of the bond liquidity reserve is assumed at 3.0%; general cash accounts is assumed at 5.0%.

4.8.2.2 Expense assumptions

Operating expenses

The Company has estimated the expenses component of the Forecast Financial Information based on an individual aged care facility analysis, taking into account the recent trading performance, expected Resident activity and expected future business requirements including known and expected cost changes:

- wages and associated on-costs are escalated according to Enterprise Bargaining Agreement rates at state level also taking into account the operating parameters of each aged care facility. The average rate used for FY2015 is 3.25%; Also included in this caption are costs associated with long term incentive plans for senior management;
- specific costs associated with the implementation of the Dementia Supplement program total \$400,000 during FY2015; and
- other direct and indirect expenses are forecast based on expectations of future business requirements (and escalated at 2.5%), and known forecast cost changes. An allowance has also been made for incremental costs associated with the Company being a listed company of \$1.3 million per annum.

Depreciation and amortisation

Depreciation is forecast based on the existing asset base and depreciation rate and expected capital expenditure for the forecast period. Where the business has added extensions to existing facilities these are depreciated separately to the remainder of the building, unless the existing building underwent a major refurbishment/renovation. Refer to Section 11 for additional detail on the Company's depreciation policy.

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Taxation

The Australian corporate tax rate is assumed to remain at 30%. Other relevant tax rates are assumed to remain at current statutory rates and are state specific where applicable.

4.8.2.3 Brownfield development expenditure assumptions

Brownfield capital expenditure assumptions are based on Quantity Surveyor reports where construction has already begun and management estimates for projects yet to begin. The key assumptions by project are detailed below.

Table 22: Brownfield development assumptions

(\$ in millions)	Actual/forecast construction period	Costs ¹ incurred to 31 Dec 2013	Forecast costs remaining as at 31 Dec 2013			Total forecast capex cost	No. of additional places	Month places phased in	No. of months places phased in
			Pro forma H2FY2014	Pro forma FY2015	Cost post FY2015				
Millward	Aug-12/Mar-14	11.0	2.2	–	–	13.2	63	Apr-14	10
Albury	Feb-13/Apr-14	7.7	5.1	–	–	12.8	31	Jun-14	6
Mirridong	Feb-13/Mar-14	4.9	3.3	0.7	–	8.9	30	Jul-14	6
Kelaston	Mar-14/Apr-15	–	0.8	6.5	–	7.3	30	May-15	6
Bayview	May-14/Jul-15	–	0.3	7.6	1.1	9.0	30	Aug-15	6
Central Park	Jul-14/Aug-15	–	–	7.4	2.0	9.4	–	Sep-15	5
Total		23.6	11.7	22.2	3.1	60.6			

Notes:

1. Costs incurred to 31 December 2013 reflect predominantly construction costs and excludes any preliminary costs that have been capitalised (e.g. technical studies, surveys etc). In addition, these costs have not been adjusted for timing differences in regards to the recognition of costs on an accrual basis.

4.8.2.4 Working capital assumptions

Working capital is forecast at a business level based on management forecasts of Resident demand and associated care services program. Working capital is forecast to remain flat in FY2015 and therefore give rise to no cash flow benefit/impact.

4.8.3 Pro forma forecast statement of income and cash flow items: pro forma FY2015 compared to pro forma FY2014

Table 23: Selected operating metrics: FY2014 and FY2015

(June year end, \$ in millions)	FY2014 pro forma forecast	FY2015 pro forma forecast
Total revenue	244.9	265.3
Government care funding	178.1	194.2
Resident care funding	49.6	53.4
Total operating costs	(203.4)	(216.4)
Staff costs	(163.3)	(172.8)
Resident care costs	(27.4)	(30.0)
EBITDA (before significant items)	41.5	48.9
Total number of available place days (days)	1,045,025	1,092,810
Average revenue per occupied place day (\$)	249.5	256.3
Average occupancy	93.9%	94.7%
Accommodation bond related cash flow	25.8	77.3
Brownfield development expenditure	(28.4)	(22.2)
Dividends	–	(28.1)

Total revenue

Government care funding is forecast to increase to \$194.2 million in FY2015 from \$178.1 million in FY2014. FY2015 Government care funding assumes:

- an inflation adjustment at July 2014 and acuity creep in Residents resulting in additional Government care funding per day (resulting in a 2.0% increase in daily funding rates);
- occupancy increase giving rise to a \$9.6 million uplift in total Government funding;
- full year benefit of the Dementia Supplement that was introduced in FY2014 and 44 additional eligible Residents to give rise to incremental revenue of \$1.7 million (net of costs); and
- increased contribution from brownfield developments which are due to complete in H2FY2014 and FY2015.

Resident care funding revenue is forecast to increase by \$3.8 million from FY2014 to FY2015, which is primarily attributable to an assumed increase in Resident contribution per occupied bed day, an increase in occupancy and brownfield developments.

Other revenue growth is forecast at \$0.6 million due to a number of offsetting factors arising as a result of regulatory reforms. These include:

- higher income in relation to accommodation payments due to the ability to charge a bond/DAP on beds previously classified as High Care (from when they become available). The forecast also includes a decline in average Concessional Residents from 38.3% in FY2014 to 35.6%. The result of this is an uplift in accommodation funding for DAP revenue, which is forecast to contribute \$3.2 million;
- additional interest earned on a higher bond/RAD balance (circa \$0.7 million);
- partially offset by the cessation of the accommodation charge on High Care places and bond retention revenue. Under the regulatory changes these revenue items are no longer charged on new incoming Residents (no change to Residents under these arrangements prior to 1 July 2014). These revenue items are forecast to reduce by \$3.4 million;
- the expected profit of \$0.8 million on the proposed sale of 28 subdivided blocks of land at Moe which is based on an internal company valuation; and
- an expected \$450,000 fair value revaluation gain on the construction of an additional six ILUs by September 2014 at Balmoral Mews (the same amount that was recognised in H1FY2014 when five ILUs were completed at the same site).

Staff costs

Staff costs are projected to increase by \$9.5 million (or 5.8%) to \$172.8 million in FY2015 as compared to \$163.3 million in FY2014. This increase is due to the annual rise in EBA rates, additional staff costs associated with completion of Millward, Mirridong and Albury brownfields projects totalling \$5.8 million and the full year staff cost of the Scottvale facility.

Resident care costs

Resident care costs are expected to increase by \$2.6 million from \$27.4 million in FY2014 to \$30.0 million in FY2015. The majority of the increase is attributable to the completion of the brownfields projects, coupled with natural increases in line with inflation.

Other costs

Other costs in FY2015 represent a \$0.9 million increase from FY2014 primarily due to the full year impact of public company costs (\$1.1 million increment) offset by other cost saving initiatives.

EBITDA (before significant items)

EBITDA (before significant items) of \$48.9 million in FY2015 is expected to increase by \$7.4 million against \$41.5 million in FY2014 and driven by funding increases, the full year impact of the Dementia Supplement, occupancy increase over the average FY2014 level, the brownfield expansion program, offset by general cost inflation and expansion in headcount and other direct operating expenses on the brownfield expansion program is progressively completed.

Accommodation bond and RAD related cash flow

FY2015 net accommodation bond and RAD inflow of \$77.3 million is expected to be greater than the FY2014 inflow of \$25.8 million. The majority of this increase is attributable to the change in regulatory framework which permits the operator to receive RADs on High Care Resident places that could not previously attract RADs as well as additional Resident places as a result of brownfields projects completion at Millward, Albury and Mirridong facilities.

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The average value of DAPs/RADs has been forecast at \$283,000 in FY2015, which represents a \$19,000 increase in the average value of accommodation bonds in FY2014 (\$264,000). The Directors have assumed an increase in bond pricing in an open and transparent market. The average value increase is further enhanced by the absolute number of additional RADs forecast to be received increasing by 154 to a total of 762 RAD places in FY2015.

Brownfield development expenditure

There is an expected outflow of \$22.2 million in FY2015, down 21.8% compared to \$28.4 million in FY2014. The reduction in expenditure for building works in progress is due to a number of larger brownfields projects being completed in FY2014 (Millward, Albury and Mirridong).

The forecast amount in FY2015 primarily relates to the extensions at Kelaston, Bayview and Central Park facilities. These projects are forecast to commence in March 2014, May 2014 and July 2014 respectively.

Illustrative dividends

Full year pro forma dividends in FY2015 represent a dividend payout of 100% of FY2015 pro forma NPAT which is in line with the dividend policy described in Section 4.10 below.

4.9 Sensitivity analysis

The Forecast Financial Information is based on a number of key assumptions which have been outlined above. These estimates and assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, the Directors and management, and based upon assumptions with respect to future business decisions or actions which are subject to change. The Forecast Financial Information is also subject to a number of risks as outlined in Section 5.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions on the Forecast Financial Information, the sensitivity of the consolidated forecast pro forma NPAT attributable to Shareholders for FY2014 and FY2015 to changes in certain key assumptions is set out below.

The sensitivity analysis is intended to provide a guide only and variations in actual performance could exceed the ranges shown.

Table 24: Sensitivity analysis on consolidated forecast pro forma NPAT attributable to Shareholders for FY2014 and FY2015

Assumption	Increase/ decrease	Impact on consolidated pro forma NPAT for FY2014	Impact on consolidated pro forma NPAT for FY2015
Change in Government care funding	+/- 1%	\$1.2 million/\$1.2 million	\$1.4 million/\$1.4 million
Change in occupancy	+/- 1%	\$1.6 million/\$1.6 million	\$1.7 million/\$1.7 million
Change in salaries and wages expense	+/- 1%	\$(1.1) million/\$1.1 million	\$(1.2) million/\$1.2 million
Change in dementia supplement	+/- 100 residents	\$0.4 million/\$0.4 million	\$0.4 million/\$0.4 million
Change in brownfield completion	- 3 months	\$(0.1) million	\$(0.4) million

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to illustrate the likely impact on forecast FY2014 and FY2015 consolidated pro forma NPAT of the Company. In practice, changes in variables may offset each other or may be additive.

4.10 Dividend policy

The payment of a dividend by the Company is at the discretion of the Directors and will be a function of a number of factors such as the operating results, cash flows and the financial condition of the Company, and any other factors the Directors may consider relevant.

The Company's dividend payout ratio will be formulated with regard to a range of factors including:

- general business and financial conditions;
- the certainty of the Company's cash flow;
- capital expenditure requirements;
- taxation considerations;
- working capital requirements; and
- other factors that the Directors consider relevant.

The Company's dividend policy will be to pay out up to 100% of NPAT; however, the level of dividend payout ratio is expected to vary between periods depending on the factors noted above. It is intended that future dividends will be franked to the maximum extent possible. No assurances can be given by any person, including the Directors, about the payment of any dividend or the level of franking on any such dividend.

It is the current intention of the Board to pay interim dividends in respect of half years ending 31 December and final dividends in respect of full years ending 30 June each year. It is anticipated that interim dividends will be paid in April and final dividends will be paid in October following the relevant financial period. It is intended that the first dividend paid will be the interim dividend in respect of the half year ending 31 December 2014.

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KEY RISKS

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This Section 5 describes what Japara believes to be the key risks associated with an investment in the Company.

It does not purport to be an exhaustive list of every risk that may be associated with an investment in the Company now or in the future. The consequences associated with each risk are partially or completely outside the control of the Company and, if they were to eventuate, may adversely affect the future operating performance of, and the value of an investment in, the Company.

Before applying for Shares, you should satisfy yourself that you have a sufficient understanding of the risks described in this Section 5 and consider whether the Shares are a suitable investment for you, having regard to your own investment objectives, financial circumstances and taxation position. If you do not understand any part of this Prospectus, or have any questions about whether to invest in the Company, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser.

5.1 Specific risks

5.1.1 The regulatory framework may change

The Australian aged care industry is highly regulated by the Government. From 1 July 2014, the Government changes to the aged care regulatory framework will commence (see Section 2.4 for more details).

Any further future regulatory change for the industry may have an adverse impact on the way Japara promotes, manages and operates its facilities, and its financial performance.

Examples of these adverse changes may include:

- modification of ACFI scores or payment levels to bring growth back to historical levels, as happened in FY2013 and which resulted in an approximately \$2.6 million reduction in funding from the Department;
- increased funding for home care reducing demand for Low Care places; and
- changes to the physical building and structure requirements for aged care facilities.

In addition, there is a risk that other participants in the industry may, through their actions and business practices, cause future regulatory changes that have an adverse impact on Japara's financial performance. Any new regulatory restrictions or changes in Government attitudes or policies in relation to any or all of the existing regulatory areas may adversely impact on the financial performance and position and future prospects of Japara.

5.1.2 Japara's accommodation bonds/RADs level may decline

The value of, and returns from, Japara's accommodation bonds (and, post 1 July 2014, RADs) may fluctuate depending on market conditions. Accommodation bonds become repayable immediately after a Resident moves to another facility or within 14 days upon receipt of the grant of probate of the Resident's will by the operator. While individual accommodation bonds/RADs are generally replaced in a short period of time with a bond of equal or higher value, Japara will be exposed to risks associated with repayment, and future issue, of accommodation bonds/RADs including:

- specific issues arising in Japara's business, such as a major issue at a facility, which could require Japara to repay a large number of bonds/RADs that cannot be replaced immediately;
- a general reduction in the price that can be achieved for new bonds/RADs, which may result from falls in residential property prices, lower levels of personal wealth or deterioration of market conditions in the areas surrounding Japara's facilities. As incoming Residents typically move into a facility after selling their family homes, there is a risk that a downturn in the property market may limit potential Residents' ability to relocate into a facility. Specifically, such a downturn may affect the ability of potential incoming Residents to sell their own homes or sell them at prices that allow them to provide accommodation bonds;
- inappropriate pricing of High Care RADs by Japara post the 1 July 2014 reforms, which may result in lower than projected takeup of RADs by High Care Residents;
- more attractive bonds/RADs charging practices of competitors resulting in Residents choosing an alternative operator;
- demand for Japara's aged care services changing over time due to general economic factors (such as interest rates) and social factors (such as population demographics and demand for home care); and
- regulatory changes that limit Japara's ability to issue replacement or new bonds/RADs.

The effect of these risks on Japara may be a reduction in the price and amount of new bonds/RADs received and an increased timeframe to complete agreements with new Residents.

5.1.3 Occupancy levels may fall

In the ordinary course of its business, Japara faces the risk that occupancy levels may fall below expectations. Reduced occupancy levels may adversely affect Japara's financial performance as it would reduce:

- the amount of Government funding to which Japara is entitled;

- Resident contributions; and
- accommodation bonds/RADs.

A decrease in occupancy levels may also result in an increase in financing costs. Either of these occurrences would be likely to reduce Japara's profitability.

5.1.4 Japara may lose key personnel

Japara relies on a high quality management team with significant aged care industry experience.

The loss of key members of Japara's management team could adversely affect the ability of Japara to operate its facilities and its business to the current standard. This could undermine Japara's ability to effectively comply with regulations and may also result in a reduction in demand for Japara's aged care services from new and existing Residents. Either of these occurrences may adversely impact on Japara's financial performance and position.

5.1.5 Facilities may lose their approvals or accreditation

Aged care facilities are required to be approved and accredited in various ways including clinical care requirements. These approvals are generally subject to regular review, and may be revoked in certain circumstances. Aged care facilities need approvals and accreditations to attract Government funding. If Japara does not comply with regulation and is unable to secure approvals for the operation of its aged care facilities and Resident places in the future, or if any of its existing approvals are adversely amended or revoked, this may breach lending covenants and may also adversely impact on the financial performance and position and future prospects of Japara.

5.1.6 Japara's reputation may be damaged

Japara operates in a commercially sensitive industry in which its reputation could be adversely impacted should it, or the aged care industry generally, suffer from any adverse publicity. Examples of adverse publicity may include reports of inappropriate care of Residents, inquiries or investigations relating to the operation of aged care facilities or incidents at aged care facilities, health and safety issues affecting Residents or poor maintenance of, or delivery of services at, aged care facilities. If any such adverse publicity were to occur, this may reduce the number of existing Residents at Japara's facilities or Japara's ability to attract new Residents to its facilities, both of which occurrences may adversely impact Japara's financial performance and position and future prospects.

5.1.7 Japara may be subject to medical indemnity claims

Healthcare providers are exposed to the risk of medical indemnity claims, litigation and coronial inquests. Subject to the medical indemnity insurance arrangements that Japara has in place at the relevant time, any future medical malpractice litigation, or threatened litigation, against Japara could have an adverse impact on the financial performance and position and future prospects of Japara. If the costs of medical malpractice insurance were to rise (which may occur if the frequency of medical malpractice litigation were to increase or as a result of other factors), this could also have an adverse impact on the financial performance and position and future prospects of Japara.

5.1.8 Employees may leave and Japara may not be able to attract skilled and trained new employees

Japara's business is dependent on a specialised health and aged care workforce. There is a risk that Japara may not be able to maintain or expand a workforce that is appropriately skilled and trained to meet the existing or future demand of elderly people requiring aged care services. This may arise as a result of:

- increases in wages which Japara cannot profitably afford and is unable to pass on to Residents or is not recognised in full in the ACFI consumer price index adjustments;
- a general industry shortage of staff in key areas, such as nurses and other skilled staff. This may increase the bargaining power of medical professionals and can lead to upward pressure on applicable wages and salaries; and
- any disputes with staff, including the possibility of prolonged industrial action among Japara's employees.

If any of these risks were to eventuate, it may impact Japara's cost structure or profitability.

5.1.9 Japara's banks may require debt repayment on demand

As at the date of this Prospectus, there are currently subsisting breaches under Japara's existing facility agreements, including breaches of certain financial covenants (being those that relate to debt service cover ratio and leverage ratio). In addition, undertaking certain implementation steps in connection with the Restructure prior to Completion of the Offer (**Implementation Steps**) will trigger further breaches under those facility agreements. Japara is currently in discussion with its banks and is seeking waivers in respect of the subsisting

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breaches, waivers in respect of the further breaches that will be triggered by undertaking the Implementation Steps and, to the extent required, consents to undertake certain Implementation Steps. However, as at the date of this Prospectus such waivers and consents have not yet been obtained. Accordingly, Japara's banks may demand repayment of all amounts outstanding under Japara's existing facility agreements at any time prior to the amounts outstanding under the facility agreements being repaid in full, which is expected to occur on Completion of the Offer. If Japara's banks demand repayment of all amounts owing under its existing facility agreements prior to this planned repayment, Japara will become liable to repay approximately \$142 million (plus accrued interest and interest rate swap break fees of approximately \$1.5m) immediately. If Japara does not make this repayment, the banks may enforce their security and take control of Japara's assets. The Offer would not complete under these circumstances.

5.1.10 Increased competition may affect Japara's competitive position

Japara operates in a sector with established competitors. A substantial increase in the level of competition could result in, among other things, Japara experiencing lower occupancy rates than anticipated, revenue reductions, reduced operating margins and a loss of market share. This may have a material adverse effect on Japara's ability to achieve its objectives and on Japara's business, financial performance and position and future prospects.

5.1.11 Japara may be unable to achieve growth targets

Japara's future brownfield and greenfield growth is dependent on many factors outside Japara's control. In particular, Japara's ability to meet its growth targets is dependent on its ability to acquire attractive sites on which to develop new facilities. There is no assurance that Japara will secure suitable developments and acquisitions to meet its growth targets. If Japara does not meet its growth targets, this may adversely impact on Japara's future performance.

5.1.12 Risks relating to construction and property development

Japara faces construction and property development risks when developing new facilities, including:

- construction risk arising from unexpected cost increases, quality issues and delays in the completion of its developments (including due to inclement weather);
- default risk arising from participants in the development process, including construction contractors, defaulting in the performance of their respective obligations;

- marketing risk arising from changing market conditions or sentiment affecting property prices, investor interest in Japara's place offerings and payment expectations for and in respect of accommodation bonds;
- industrial relations risk affecting construction progress;
- the internalisation of development capabilities may not result in the advantages that Japara expects will be achieved; and
- an inability to finance construction and property development.

All of these may impact on Japara's ability to meet its growth and financial performance targets. In addition, poor site selection may result in Japara developing a facility at a site that is not attractive to potential Residents. This could also impact on Japara's financial performance.

5.1.13 Japara's fixed costs may impact its flexibility

Japara's capital expenditure may include fixed costs pertaining to property ownership, including, but not limited to interest payments, maintenance costs, property rates and taxes. Because of those fixed costs, a reduction in revenue as a result of reduced demand for Japara's facilities, together with the illiquid nature of property investments (including an inability to sell facilities quickly if required), may adversely impact on Japara's financial performance and profitability.

5.1.14 The value of Japara's facilities portfolio may decline

The value of Japara's portfolio, including any other facilities held by Japara in the future, may be impacted by a number of risks affecting Japara and the property market generally including, but not limited to:

- changes in property yields;
- fluctuating occupancy levels;
- a downturn in the property markets in general;
- changes in prices of comparable facilities; and
- increased competition from new or existing facilities.

A reduction in the value of Japara's portfolio may adversely impact on Japara's ability to procure debt financing arrangements, which may, in turn, impact on Japara's financial performance and position and future prospects.

5.1.15 Japara's facilities portfolio is illiquid

Japara's portfolio is, by its nature, comprised of illiquid assets. Japara may not be able to realise the value of the facilities within its portfolio within a short period of time or at valuation. This may adversely affect Japara's future financial performance and position.

5.1.16 Japara may not meet its forecasts

The forward-looking statements, opinions and estimates provided in this Prospectus, including the financial forecasts provided, rely on various contingencies and assumptions, some of which are described in Section 4. Various factors, both known and unknown, may impact upon the performance of Japara and cause actual performance to vary significantly from expected results. There can be no guarantee Japara will achieve its stated objectives or that any forward-looking statement or forecast will eventuate.

5.1.17 Past acquisitions may create future liabilities

In accordance with its growth strategy outlined in Section 3.4, Japara has acquired a number of aged care facilities as a going concern. At the time each aged care facility was acquired, Japara conducted due diligence enquiries. Notwithstanding this due diligence, it is possible that one or more material adverse issues may not have been identified prior to Japara acquiring the facility. If a material adverse issue was not identified prior to Japara's acquisition of the facility, such an issue could adversely impact the financial performance and position and future prospects of Japara.

5.1.18 Third party lessors may not discharge their obligations

As detailed in Section 3, Japara currently leases three facilities (being Kiverton Park, Viewhills Manor and Bayview Gardens) from third party lessors. Japara may also lease additional properties from third parties in the future. Failure of a third party lessor to discharge its obligations as agreed with Japara may adversely affect the operations and financial performance of the Kiverton Park, Viewhills Manor or Bayview Gardens facilities. This may in turn adversely affect Japara's future financial performance and position.

The leases in respect of Bayview Gardens and Kiverton Park expired on 31 October 2010 and 28 February 2013 respectively. As at the date of this Prospectus, these leases are operating under a month to month tenancy. Negotiations with the relevant landlords to extend these leases for a longer term are continuing and are likely to result in a longer lease long term. If either or both of these leases are not renewed, it may result in a termination of the lease arrangement for those facilities as this would result in the need to relocate the affected Residents. This may have an adverse impact on Japara's operations and financial performance.

5.1.19 Landlord consent to Offer may not be received

Some of Japara's third party leases require landlord consent for the change in control that will occur on Completion of the Offer. As at the date of this Prospectus, not all of these consents have been received. If a consent is not granted, it may result in the termination of the relevant lease. This may have an adverse impact on the Company's operations and financial performance.

5.1.20 A workplace accident or incident may occur

There is a risk that liability arising from workplace health and safety matters at a facility may be attributable to Japara. To the extent that any liabilities are borne by Japara, this may impact the financial position and performance of Japara (to the extent not covered by insurance). In addition, penalties may be imposed upon Japara, which may have an adverse impact on the financial performance and position of Japara.

5.1.21 Environmental issues or incidents may affect facilities or the buildings and structures

There is a risk that the land on which one of Japara's facilities operates and/or the building and structures may be or become contaminated. Government environmental authorities may require such contamination to be remedied. There is a risk that Japara may be required to undertake any such remedial work at its own cost. Such an event would adversely impact upon Japara's financial performance.

In addition, environmental laws impose penalties for environmental damage and contamination which can be material. If a person is exposed to a hazardous substance at a facility, they may make a personal injury claim against Japara. Such a claim could be for an amount that is greater than the value of the contaminated facility.

An environmental issue may also result in interruptions to the operations of a facility. Any income lost as a result of such an interruption may not be recoverable.

Japara and its operations are subject to environmental legislation. While environmental issues are continually monitored, there is no assurance that the operation of any of Japara's facilities will not be affected by an environmental incident or subject to environmental liabilities, which could impact the reputation, financial performance and value of Japara.

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5.1.22 Japara may not be able to sell its facilities profitably

The risks generally associated with acquiring property assets can be greater for special purpose assets such as aged care facilities. If a facility cannot be sold as an aged care facility, any purchaser may need to incur extensive capital expenditure (for example, to rezone the land) in order for a facility to be suitable for other commercial purposes. This may affect Japara's ability to sell its facilities to third parties who intend to use the land for an alternative use, which could have an adverse impact on Japara's future financial performance and position.

5.1.23 The State Revenue Office of Victoria may withdraw its stamp duty assessment

Japara has sought stamp duty relief in connection with the Restructure. Japara has received a ruling from the State Revenue Office of Victoria (SRO). There is a risk that the SRO might withdraw, threaten to withdraw or replace that ruling and issue an assessment, which might impose a higher amount of stamp duty than has been anticipated in relation to the Restructure. Any increase in the expected amount of stamp duty payable in respect of the Restructure may adversely affect Japara's financial performance and position.

5.1.24 Japara may be unable to obtain debt financing

Japara may require funding or working capital in the future in order to pursue its growth strategy. Given the nature of Japara's revenue profile and the potentially capital intensive nature of its business, there is no assurance that any such additional capital or funding will be available on favourable terms or at all and that Japara will comply with the terms of such facilities. If adequate funds are not available, Japara may not be able to achieve its growth targets or respond to competitive pressures.

Japara may finance its investment in new facilities or in construction and property development with borrowed funds or gearing. Geared assets magnify investment gains or losses and increase the volatility of returns to movements in interest rates and property values.

In addition, bad debts or delays in receiving expected revenue may impact on the financial performance and position of Japara.

5.1.25 Japara may lose or be unable to secure insurance

Japara currently maintains insurance within ranges of coverage consistent with industry practice, including public liability. However, no assurance can be given that such insurance will be available in the future on commercially attractive terms. There is also no guarantee

that any cover will be adequate and available to cover claims. Japara may be unable to secure insurance to satisfactorily cover all anticipated risks or the cost of insurance may increase above anticipated levels.

5.1.26 Japara's I.T. systems may fail

Japara relies on a third party I.T. service provider to support its business operations. Japara's I.T. systems may be adversely affected by damage, equipment faults, power failure, computer viruses, misuse of systems or inadequate business continuity planning. Any failure of I.T. systems, as a result of such factors, may compromise Japara's data integrity, which may adversely affect Japara's business operations and financial performance and position.

5.1.27 The Company may suffer loss in connection with the Restructure

The Company may not be able to recover any loss which arises in connection with the Restructure.

As described in Section 3.1.1, the Company will acquire 100% of Japara Holdings, 100% of the Japara Trust and, through a wholly owned subsidiary, the Victorian assets held in the Japara Trust as part of the Restructure to be undertaken in conjunction with the Offer.

Under the Restructure, due to the familiarity that existing management has with the operations of Japara Holdings and the Japara Trust, the Existing Investors have provided limited warranties. For example, the Unitholders do not provide warranties in relation to ownership of the assets or liabilities in the Japara Trust.

The Company may suffer loss as a result of the acquisitions of Japara Holdings, the Japara Trust and Victorian assets currently held in the Japara Trust for which it cannot recover under the Restructure documents, for example, if the basis of the claim does not fall within any of the warranties referred to above or an Existing Investor does not have funds to satisfy a claim which has been made by the Company.

5.2 General risks

5.2.1 Economic uncertainty may affect the value of Shares

Like any other investment, returns from an investment in Shares are influenced by the level of economic activity. For example, a contraction in the Australian or global economy may impact upon the performance of Japara by reducing or increasing Resident demand for facilities places, and affecting costs and other underlying real estate fundamentals.

5.2.2 There may be changes to legal and regulatory requirements

An investment in Shares may be adversely affected by legal and regulatory changes or requirements, and actions pursuant to such requirements, especially resource management, building, local Government, and other planning related laws and regulations. Potential changes to existing laws or the introduction of new laws could increase Japara's compliance costs and obligations.

If Japara fails to comply with applicable laws or regulations, it may also be subject to fines, injunctions, penalties, requirements for remedial works, total or partial suspension of regulatory approvals or other sanctions that may have an adverse effect on an investment in Shares.

There is also the possibility that any future litigation involving Japara could adversely affect Japara's financial performance.

5.2.3 There may be changes to tax rates or laws

Any change to the existing rate of company income tax may adversely impact on Shareholder returns, as may a change to the tax payable by Shareholders. Any other changes to Australian tax law and practice that impact Japara, or the aged care industry generally, could also have an adverse effect on Shareholder returns.

5.2.4 Catastrophic events could damage facilities

Insured or uninsured catastrophic events such as fires, floods, earthquakes, widespread health emergencies, pandemics, epidemics, wars and strikes could affect the value of Japara's facilities and the conduct of its business operations. Some events of this type are uninsurable. To the extent they do occur, there may be adverse effects on Japara's business and its financial performance.

5.2.5 Expected future events may not occur

Certain statements in this Prospectus constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of Japara to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Given these uncertainties, prospective investors should not place undue reliance on such forward-looking statements. In addition, under no circumstances should a forward-looking statement be regarded as a representation or warranty by Japara, SaleCo or any other person referred to in this Prospectus, that a particular outcome or future event is guaranteed.

5.2.6 Share market volatility may affect the value of Shares

There may be relatively few potential buyers or sellers of Shares on the ASX at any time. This may increase the volatility of the market price of Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares.

Factors such as changes in the Australian or international regulatory environment (including for accounting), Australian and international equity markets, Australian dollar and foreign currency movements and the Australian and global economy, could cause the market price of Shares to fluctuate. These fluctuations may adversely affect the market price of Shares after the Offer.

The market prices of stocks are historically volatile, including in response to changes in stock markets or the economy generally.

5.2.7 Shareholdings may be diluted

In future, the Company may issue Shares to new investors in order to finance Japara's operations or growth strategy. While the Company will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital it is able to issue within a 12 month period, as a result of any new issue of Shares, an investor's proportional beneficial ownership in the underlying assets of Japara may be diluted.

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KEY PEOPLE, INTERESTS AND BENEFITS

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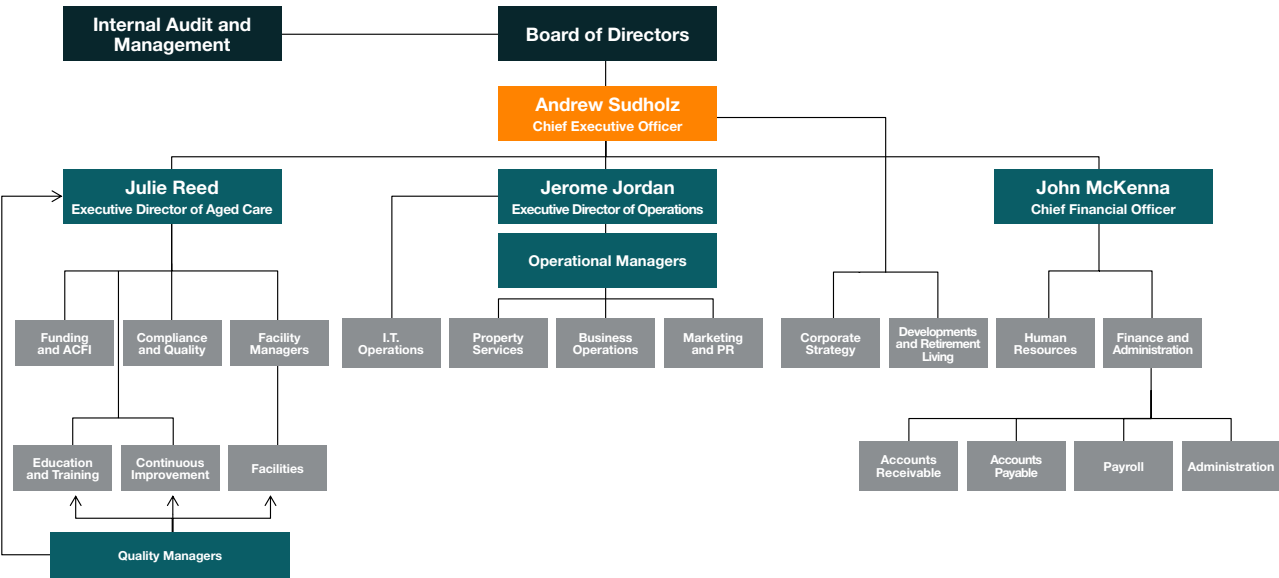
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6.1 Overview

On Completion of the Offer, Japara will be operated by a team of experienced and dedicated senior management executives. This team will be led by the Chief Executive Officer, Andrew Sudholz, who will report to Japara’s Board of Directors.

Figure 19 below outlines the organisational structure of Japara and provides a breakdown of Japara’s operational and functional divisions.

Figure 19: Japara organisational structure



6.2 Board of Directors

The Board of Directors has been appointed to ensure a highly experienced and complementary skill set exists for the benefit of Japara. The Board of Directors has extensive relevant experience in operations, manufacturing, finance, information technology and experience on the boards of both ASX listed and unlisted companies.

The Board of Directors comprises an independent Non-Executive Chairman, an Executive Director and three independent Non-Executive Directors.

Name	Expertise, experience and qualifications
 Linda Bardo Nicholls AO (Non-Executive Chairman)	Linda is a senior executive and company director with more than 30 years' experience across Australia, New Zealand and the United States. Presently, Linda is the chairman of Yarra Trams and has directorships with Fairfax Media, Medibank Private, Pacific Brands Group and Sigma Pharmaceutical Group. Previously, she has held the position of chairman at some of Australia's most well-regarded companies, including Healthscope and Australia Post, and was a director of St. George Bank. She also holds directorships with Low Carbon Australia and the Walter and Eliza Hall Institute of Medical Research. Linda holds a Masters of Business Administration from Harvard Business School and a Bachelor of Arts in Economics from Cornell University.

Name	Expertise, experience and qualifications
 Andrew Sudholz (Chief Executive Officer and Executive Director)	Andrew is a founding shareholder and executive director of Japara Holdings. Andrew has more than 30 years' experience in the real estate, healthcare and professional services industries. Prior to the establishment of Japara Holdings, Andrew was a global partner of the Arthur Andersen Group, a national partner of Ernst & Young's Real Estate Advisory Services Group and the state general manager of the Triden Corporation. He is also a fellow of the Australian Property Institute, a responsible executive under the Australian Financial Services Licensing regime, a former president of the Victorian division and national board member of the Property Council of Australia and is currently a member of the Australian Institute of Company Directors. Andrew holds an Associate Diploma of Valuations from the Royal Melbourne Institution of Technology.
 Richard England (Non-Executive Director)	Richard has more than 18 years' experience as a non-executive director and Chairman of multiple ASX listed and unlisted companies across the financial services, banking, healthcare and insurance industries. Richard is currently the chairman of Chandler Macleod Group and of Ruralco Holdings and is a non-executive director of Nanosonics and Macquarie Atlas Roads. Prior to embarking on his career as a director, Richard was a Chartered Accountant in Public Practice and a partner at Ernst & Young, where he was the national director of Corporate Recovery and Insolvency. He is a councillor of the Royal Sydney Botanic Gardens Foundation and is deputy chairman of Indigenous Art Code, the company administering the Indigenous Australian Art Commercial Code of Conduct. Richard is a fellow of the Institute of Chartered Accountants in Australia, is a qualified Chartered Accountant and a member of the Australian Institute of Company Directors.
 Tim Poole (Non-Executive Director)	Tim has more than 15 years' experience as a director and chairman of ASX listed and unlisted companies across the financial services, infrastructure and natural resources industries. He is currently a non-executive director of Newcrest Mining, McMillan Shakespeare and AustralianSuper, chairman of Lifestyle Communities and a director of several private unlisted companies. He was formerly managing director of Hastings Funds Management and chairman of Asciano. Tim holds a Bachelor of Commerce from the University of Melbourne and is a Chartered Accountant.
 David Blight (Non-Executive Director)	David has more than 30 years' experience in the real estate industry, across all major global markets and property sectors. Most recently, he was the group managing director of APN Property Group and has formerly held various positions concurrently with ING, including global chairman and chief executive officer of ING Real Estate Investment Management and vice chairman of ING Real Estate (based in The Netherlands). Prior to that, David held senior executive positions with Armstrong Jones and Mirvac across Australia and New Zealand. David holds a Bachelor of Applied Science in Property Resource Management (Valuation) from the University of South Australia and is a Board member of APREA (Australian Chapter).

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6.3 Senior management

Name	Expertise, experience and qualifications
Andrew Sudholz (Chief Executive Officer and Executive Director)	See Section 6.2.
	John McKenna is the Chief Financial Officer of Japara and has more than 30 years' experience in financial services and related sectors. He has held numerous senior finance roles in banking and finance, including lead roles in various change management programs. Prior to joining Japara, John was an executive director and chief operating officer of Burdett Buckenridge Young, a stockbroking and corporate advisory company, where he headed their finance and compliance divisions. He formerly held senior finance roles with the National Australia Bank Group including head of finance (of the global business segment) and financial controller of the UK branch. John has a Bachelor of Commerce degree from the University of Melbourne, is a qualified Chartered Accountant and has a Post Graduate Diploma in Applied Finance with the Securities Institute of Australia.
John McKenna (Chief Financial Officer and Company Secretary)	
	Jerome is the Executive Director of Operations at Japara and has more than 20 years' of experience working in the aged care industry. Prior to joining Japara, Jerome was the executive director at Glenvoir Holdings, where he managed the Waverley Valley Aged Care Facility, St. Leigh Private Nursing Home and Brentwood Private Nursing Home. Jerome has also worked as the director of nursing at the Rosehill Aged Care Facility and McKinnon Aged Care Facility and was a consultant to the Advanced Gerontics Consultancy Services and the Westgate Private Nursing Home. Jerome has a Master in Business Management and a Post Graduate Diploma in Business Management from Monash University, a Post Graduate Diploma in Gerontology and a Bachelor of Health Science (Nursing) from Victoria University and multiple Certificates in Aged Care, Occupational Health and Safety and Front Line Management.
Jerome Jordan (Executive Director of Operations)	
	Julie is the Executive Director of Aged Care Services at Japara and has over 30 years' industry experience in the aged care industry. Prior to joining Japara, she has held positions as a registered nurse at Sandringham Hospital Acute Care, a RCS coordinator at Australian Residential Care and the director of nursing at the Rosehill Aged Care Facility, Coogee Private Nursing Home and Pembridge Private Nursing Home. Julie was a founding member of NURSAC Victoria and has held multiple positions including chairman and treasurer, and was the Victorian representative for both NURSAC and the Royal College of Nursing – Aged Care Liaison Committee for many years. In addition, Julie has experience as an educator within the aged care industry, having formerly worked as a sessional teacher for private registered training organisations and higher education facilities. Julie is a graduate from the Alfred Hospital, School of Nursing.
Julie Reed (Executive Director of Aged Care Services)	

6.4 Interests and benefits

6.4.1. Senior management remuneration

6.4.1.1 Chief Executive Officer

Details regarding the terms of the employment of the Chief Executive Officer, Andrew Sudholz, are set out below.

Term	Description
Employer	Andrew Sudholz is employed by ACSAG. Andrew's employment agreement recognises his previous service with ACSAG since 1 April 2005.
TFR	Andrew's is entitled to TFR of \$962,000, which includes base salary, statutory superannuation contributions and Directors' fees in relation to any directorships of Japara Group Members. His salary is subject to review annually, with the first review on or around 1 July 2015 and on or around August or September, following the finalisation of Japara's full year results, in each future year.
STI	In addition to the TFR, Andrew is entitled to a contingent STI opportunity of up to 50% of TFR. Payment of the annual STI award will depend on the achievement of certain financial and non-financial hurdles, subject to the Board's discretion. If the performance hurdles are met, the first STI award will be made in respect of the financial year commencing on 1 July 2014. For the first STI, there will be an additional gateway in place to ensure that no payout will occur unless threshold financial performance measures are met and ongoing compliance and accreditation targets are met. 50% of the STI will be paid in cash following the end of the performance year, and the remaining 50% will be deferred for a further 12 months before also being paid in cash (subject to certain conditions).
LTI	Andrew is also entitled to participate in the Loan Plan (refer to Section 6.4.3.1 for further details).
One-off cash bonus	Andrew will also be entitled to a one-off cash bonus of \$1.5 million following Listing, in recognition of his contribution towards this milestone. This one-off cash bonus will be funded by each Japara Holdings Shareholder (see the Glossary in Section 12 for the full list of shareholders).
Termination	Andrew's employment may be terminated by either party upon giving 12 months' notice. Andrew's employment may also be terminated by ACSAG without notice in circumstances including serious misconduct. Andrew may be paid in lieu of part or all of the notice period, an amount equal to a proportion of his TFR at the time at which notice is given which corresponds to the proportion of the notice period for which notice is not given.
Restraint	Upon termination, Andrew is bound by a restraint period of up to a maximum of six months, during which time he cannot compete with Japara or provide services in any capacity to a Japara competitor.

Andrew will continue to be a substantial Shareholder in the Company following Listing. Andrew has accepted an escrow being placed on the Shares (other than those acquired under the Loan Plan, which are subject to performance conditions over the relevant performance period). Refer to Section 10.3.2 for further details.

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6.4.1.2 Chief Financial Officer

Details regarding the terms of the employment of the Chief Financial Officer, John McKenna, are set out below.

Term	Description
Employer	John McKenna is employed by ACSAG.
TFR	John is entitled to TFR of \$440,000, which includes base salary and statutory superannuation contributions.
STI	In addition to the TFR, John is entitled to a contingent STI opportunity of up to 40% of TFR. Payment of the annual STI award will depend on the achievement of certain financial and non-financial hurdles, subject to the Board's discretion. If the performance hurdles are met, the first STI award will be made in respect of the financial year commencing on 1 July 2014. For the first STI, there will be an additional gateway in place to ensure that no payout will occur unless threshold financial performance measures are met and ongoing compliance and accreditation targets are met. The STI award will be delivered in cash. 50% of the award will be paid in cash following the end of the performance year, and the remaining 50% will be deferred for a further 12 months before also being paid in cash (subject to the participant's continued employment for the additional 12 months).
LTI	John is also entitled to participate in the Rights Plan (refer to Section 6.4.3.2 for further details).
Offer Bonus	The Company intends to grant John a one-off Offer Bonus on, or around, the date of Listing (refer to Section 6.4.2 for further details). This Offer Bonus will be funded by each Japara Holdings Shareholder (see the Glossary in Section 12 for the full list of shareholders).
Termination	John's employment may be terminated by either party upon giving three months' notice. John's employment may also be terminated by ACSAG without notice in circumstances including serious misconduct. John may be paid a severance payment upon termination (except in circumstances where ACSAG can terminate without notice under the employment agreement) or redundancy of up to 12 months' gross salary less any applicable taxation deduction.

6.4.1.3 Other key management personnel

Details regarding the terms of the employment of the Executive Director of Operations, Jerome Jordan, and Executive Director of Aged Care Services, Julie Reed are set out below.

Term	Description
Employer	Each of Jerome Jordan and Julie Reed are employed under individual executive services agreements with ACSAG.
TFR	The executive service agreements for Jerome and Julie provide for a TFR including base salary and superannuation contribution.
STI	In addition, Jerome and Julie are entitled to a contingent STI opportunity of up to 40% of TFR. If the performance hurdles are met, the first STI award will be made in respect of the financial year commencing on 1 July 2014. The performance measures that will apply to the first STI award are intended to be similar to those applying to the Chief Financial Officer (see Section 6.4.1.2 for details). The STI award will be delivered in cash. 50% of the award will be paid in cash following the end of the performance year, and the remaining 50% will be deferred for a further 12 months before also being paid in cash (subject to the participant's continued employment for the additional 12 months).
LTI	Jerome and Julie are also entitled to participate in the Rights Plan (see Section 6.4.3.2 for further details).
Offer Bonus	The Company intends to grant each of Jerome and Julie a one-off Offer Bonus on, or around, the date of Listing (refer to Section 6.4.2 for further details). This Offer Bonus will be funded by each Japara Holdings Shareholder (see the Glossary in Section 12 for the full list of shareholders).
Termination	The executive service agreements provide for notice and termination provisions, including termination payments up to 12 months' salary and restraint provisions.

6.4.2 Offer Bonus

6.4.2.1 Features of the Offer Bonus

It is intended that a number of employees (other than the Chief Executive Officer) will be entitled to receive a one-off Offer Bonus in recognition of their contribution to this milestone. This Offer Bonus will be funded by each Japara Holdings Shareholder (see the Glossary in Section 12 for the full list of shareholders).

The amount of the Offer Bonus granted to each participant will be determined following Listing, based on a formula that takes into account the following factors, amongst others:

- the employee's period of service;
- the employee's performance during that period of service;
- the employee's base salary; and
- indexation.

The Offer Bonus will be delivered partly in cash component and partly under the Rights Plan. The total amount of the Offer Bonus is anticipated to be up to a maximum of \$3.7 million in cash (excluding the Chief Executive Officer's one-off cash bonus following Listing) and performance rights over Shares with a face value of \$1.3 million. The Chief Executive Officer will receive a separate one-off cash bonus following Listing (as described in Section 6.4.1.1).

It is anticipated that the cash component will be paid, and that the performance rights component will be granted, following Listing.

The key features of the Rights Component are set out in the table below.

Feature	Description
Participants	The Chief Financial Officer, the Executive Director of Operations and Executive Director of Aged Care Services, and other staff members invited by the Board to participate will be entitled to receive performance rights under the Rights Plan.
Grant of Offer Bonus performance rights	Each performance right entitles the holder to acquire a Share for nil consideration at the end of the deferral period, subject to continuous employment.
Issue price	Performance rights will be granted at no cost to the participants.
Deferral period and vesting condition	The performance rights will be subject to a two year deferral period commencing on the grant date of the performance rights, subject to the participant's continued employment. The participant must remain continuously employed with a Japara Group Member during the deferral period. If the participant remains employed during the deferral period, the performance rights will automatically vest and Shares will be allocated to the participant. The Board may make an equivalent cash payment in lieu of providing Shares to the participant. If the participant ceases employment before the performance rights vest, the performance rights will be automatically forfeited, unless the Board determines otherwise.
Rights during the deferral period	The performance rights do not carry dividends or voting rights prior to vesting.
Restrictions on dealing	Participants must not sell, transfer, encumber, hedge or otherwise deal with the performance rights during the deferral period.
Change of control	In a situation where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the performance rights. Where only some of the performance rights are vested on a change of control, the remainder of the performance rights will immediately lapse. If the change of control occurs before the Board exercises its discretion, the performance rights will vest.

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6.4.3 LTI arrangements

The Company has established various LTI arrangements to assist in the attraction, motivation and retention of its senior management (including the Chief Executive Officer, Chief Financial Officer and other members of senior management) and employees.

6.4.3.1 Loan Plan

The Company's Loan Plan is an LTI plan under which the Chief Executive Officer, and any other employee as determined by the Board, will be entitled to acquire Loan Shares in Japara. Eligibility to participate in the Loan Plan and the number of Loan Shares (and the associated loan amount) to be acquired by each participant will be determined by the Board.

It is intended that the Chief Executive Officer will be entitled to participate in the Loan Plan following Listing, and that it will form the basis of his LTI. The Chief Executive Officer's LTI arrangement differs to the other executives as the Chief Executive Officer is a substantial Shareholder of the Company and as a result, unlike other executives, would not be able to participate in the Rights Plan in a financially effective way. Details regarding the LTI arrangements of other executives are set out in Section 6.4.3.2 below.

The key terms of the Loan Plan and the grant to be made to the Chief Executive Officer on or about the date of Listing under the Loan Plan are set out in the table below.

Term	Description
Eligibility	Offers may be made at the Board's discretion to employees of the Company or its related bodies corporate or any other person that the Board determines to be eligible to receive a grant under the Loan Plan. It is intended that for the initial grant, the Chief Executive Officer will be the only participant in the Loan Plan.
Offers under the Loan Plan	The Board may make offers at its discretion. The Board has the discretion to set the terms and conditions on which it will offer Loan Shares in individual offer documents. Offers must be accepted by the participant and can be made on an opt-in or opt-out basis. The Company intends to make opt-out offers.
Nature of the loan	The Chief Executive Officer will be provided with a limited recourse loan from the Company for the sole purpose of subscribing for Loan Shares in Japara. The loan for the initial grant to the Chief Executive Officer will have a seven year term. It is intended that future loans will not be subject to a fixed term, but will ultimately be re-payable at the participant's discretion or upon cessation of employment.
Loan amount	The Chief Executive Officer will be granted a loan in order to acquire Loan Shares with a fair value of \$481,000. This loan will be used to acquire Loan Shares at a subscription price equal to \$2.00 per Share. The number of Loan Shares will be determined on or around the date of Listing, and will be calculated by an independent advisor based on option pricing methodology. The total amount of the loan will be the number of the Loan Shares so determined, multiplied by the subscription price.
Interest	Under the Loan Plan Rules, interest may be charged from time to time at the Board's discretion.

Term	Description										
Performance conditions, performance period and vesting	Loan Shares will vest subject to the satisfaction of performance conditions set by the Board. The performance conditions will be tested over a performance period of at least three years (commencing on the date of Listing and ending on 30 June 2017). The performance conditions must be satisfied in order for some or all of the Loan Shares to vest. For the Chief Executive Officer's initial grant under the Loan Plan, the Loan Shares will be subject to a performance condition based on the CAGR of the Company's earnings per Share (EPS) over the performance period. The percentage of Loan Shares that vest, if any, will be determined over the performance period by reference to the following vesting schedule: <table> <tr> <th>Company's CAGR of EPS over the performance period</th><th>% of Loan Shares that vest</th></tr> <tr> <td>Less than threshold CAGR</td><td>Nil</td></tr> <tr> <td>Threshold CAGR</td><td>20%</td></tr> <tr> <td>Between threshold and stretch CAGR</td><td>Straight line pro rata vesting between 20% and 100%</td></tr> <tr> <td>Stretch CAGR</td><td>100%</td></tr> </table> In addition, a gateway hurdle applies to the grant. For the gateway to be met, ongoing accreditation and compliance with regulatory guidelines across the business must be achieved, as well as a threshold EBITDA target. If this gateway is not met, even if the EPS performance condition is otherwise met, none of the Loan Shares will vest. If none of the Loan Shares vest, the Chief Executive Officer will forfeit the Loan Shares in full satisfaction of the loan. Any Loan Shares that remain unvested at the end of the performance period will be forfeited immediately and the Company may exercise discretion to sell the Loan Shares in order to repay the outstanding loan balance in respect of those Shares. The Chief Executive Officer will not receive any benefit in respect of Loan Shares that are forfeited.	Company's CAGR of EPS over the performance period	% of Loan Shares that vest	Less than threshold CAGR	Nil	Threshold CAGR	20%	Between threshold and stretch CAGR	Straight line pro rata vesting between 20% and 100%	Stretch CAGR	100%
Company's CAGR of EPS over the performance period	% of Loan Shares that vest										
Less than threshold CAGR	Nil										
Threshold CAGR	20%										
Between threshold and stretch CAGR	Straight line pro rata vesting between 20% and 100%										
Stretch CAGR	100%										
Repayment of the loan	The loan term for the initial grant will be seven years from the date the Loan Shares were granted to the Chief Executive Officer. Accordingly, if some or all of the Loan Shares vest, the Chief Executive Officer has up to seven years from the grant date to repay the outstanding balance. If the performance conditions attaching to the Loan Shares are satisfied and the outstanding balance is repaid in full, the Chief Executive Officer will be free to deal with the Loan Shares, subject to the requirements of the Company's Policy for Dealing in Securities.										
Rights associated with Loan Shares	Loan Shares have the same rights as ordinary Shares including the right to receive dividends and capital distributions, participate in future capital raisings and exercise voting rights. Any dividends or distributions paid on the Loan Shares while the loan remains outstanding will be applied (on an after tax basis) towards repayment of the loan.										
Restrictions on dealing	The Chief Executive Officer must not sell, transfer, encumber, hedge or otherwise deal with Loan Shares until the loan is repaid. The Chief Executive Officer will be free to deal with the Loan Shares after he repays the loan, subject to the requirements of the Company's Policy for Dealing in Securities.										
Cessation of employment	If the Chief Executive Officer ceases employment for cause, unless the Board determines otherwise, the Loan Shares will be automatically forfeited, in full satisfaction of the loan. In other circumstances, the Loan Shares will remain on foot and subject to the original performance conditions, with a broad discretion for the Board to vest some or all of the Loan Shares, based on the portion of the performance period that has elapsed and performance during that period. Following vesting of the Loan Shares, if the Chief Executive Officer ceases employment prior to the repayment of the loan, the Chief Executive Officer will be required to repay the outstanding loan within six months of his cessation date.										

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Term	Description
Change of control	In a situation where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the Loan Shares. Where only some of the Loan Shares are vested on a change of control, the remainder of the Loan Shares will immediately lapse. If the change of control occurs before the Board exercises its discretion: • a pro-rata portion of the Loan Shares equal to the portion of the relevant performance period that has elapsed up to the expected or actual (as appropriate) date of the change of control will immediately vest; and • the Board may, in its absolute discretion, decide whether the balance should vest or lapse. If vesting is accelerated, the loan will be immediately repayable.
Reconstructions, corporate actions, rights issues, bonus issues, etc	The Loan Plan Rules will include specific provisions dealing with rights issues, bonus issues and corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their Loan Shares as a result of such corporate actions.

6.4.3.2 Rights Plan

6.4.3.2.1 Features of the Rights Plan

The Rights Plan is an LTI plan under which eligible employees that are invited by the Board to participate in the Rights Plan are provided with performance rights. It is intended that performance rights will initially be granted to the Chief Financial Officer, Executive Director of Operations and the Executive Director of Aged Care Services and any other individuals invited by the Board to participate.

The key terms of the Rights Plan are set out in the table below.

Term	Description
Eligibility	Offers may be made at the Board's discretion to employees of Japara or any other person that the Board determines to be eligible to receive a grant under the Rights Plan.
Offers under the performance rights plan	The Board may make offers at its discretion. The Board has the discretion to set the terms and conditions on which it will offer performance rights in individual offer documents. Offers must be accepted by the employee and can be made on an opt-in or opt-out basis. The Board intends to make opt-out offers.
Grant of performance rights	A performance right entitles the holder to acquire a Share for nil consideration at the end of the performance period, subject to meeting specific performance conditions.
Issue price	The performance rights will be issued for nil consideration.
Exercise price	No exercise price is payable in respect of the performance rights.

Term	Description										
Performance conditions, performance period and vesting	Performance rights granted as part of the LTI offer will vest subject to the satisfaction of performance conditions. The performance conditions will be tested over a performance period of at least three years (commencing on the date of Listing and ending on 30 June 2017). The performance conditions must be satisfied in order for the performance rights to vest. The performance conditions for the initial LTI offer under the Rights Plan will be similar to those applying to the Chief Executive Officer's grant under the Loan Plan. The performance rights will be subject to a performance condition based on the CAGR of the Company's EPS over the performance period. The percentage of performance rights that vest, if any, will be determined over the performance period by reference to the following vesting schedule: <table> <tr> <th>Company's CAGR of EPS over the performance period</th><th>% of performance rights that vest</th></tr> <tr> <td>Less than threshold CAGR</td><td>Nil</td></tr> <tr> <td>Threshold CAGR</td><td>20%</td></tr> <tr> <td>Between threshold and stretch CAGR</td><td>Straight line pro rata vesting between 20% and 100%</td></tr> <tr> <td>Stretch CAGR</td><td>100%</td></tr> </table> In addition, a gateway hurdle applies to the grant. For the gateway to be met, ongoing accreditation and compliance with regulatory guidelines across the business must be achieved, as well as a threshold EBITDA target. If this gateway is not met, even if the EPS performance condition is otherwise met, none of the performance rights will vest. Any performance rights that remain unvested at the end of the performance period will lapse immediately.	Company's CAGR of EPS over the performance period	% of performance rights that vest	Less than threshold CAGR	Nil	Threshold CAGR	20%	Between threshold and stretch CAGR	Straight line pro rata vesting between 20% and 100%	Stretch CAGR	100%
Company's CAGR of EPS over the performance period	% of performance rights that vest										
Less than threshold CAGR	Nil										
Threshold CAGR	20%										
Between threshold and stretch CAGR	Straight line pro rata vesting between 20% and 100%										
Stretch CAGR	100%										
Rights associated with performance rights	The performance rights do not carry dividends or voting rights prior to vesting.										
Restrictions on dealing	The participant must not sell, transfer, encumber, hedge or otherwise deal with performance rights. The participant will be free to deal with the Shares allocated on vesting of the performance rights, subject to the requirements of the Company's Policy for Dealing in Securities.										
Cessation of employment	If the participant ceases employment for cause or due to their resignation, unless the Board determines otherwise, any unvested performance rights will be automatically forfeited. In other circumstances, the performance will remain on foot and subject to the original performance conditions, with a broad discretion for the Board to vest or forfeit some or all of the performance rights, based on the portion of the performance period that has elapsed and performance during that period.										
Change of control	In a situation where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the performance rights. Where only some of the performance rights are vested on a change of control, the remainder of the performance rights will immediately lapse. If the change of control occurs before the Board exercises its discretion, the performance rights will: • a pro-rata portion of the performance rights equal to the portion of the relevant performance period that has elapsed up the expected or actual (as appropriate) date of the change of control will immediately vest; and • the Board may, in its absolute discretion, decide whether the balance should vest or lapse.										

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Term	Description
Reconstructions, corporate actions, rights issues, bonus issues, etc	A participant cannot participate in new issues of securities by the Company prior to vesting of the performance rights. However, the rules of Rights Plan include specific provisions dealing with rights issues, bonus issues and corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their performance rights as a result of such corporate actions.

6.4.3.2.2 Grants to the members of the senior management (other than the Chief Executive Officer)

An LTI offer of performance rights will be made to the Chief Financial Officer, Executive Director of Operations and Executive Director of Aged Care Services, at or around the date of Listing.

The Chief Financial Officer, Executive Director of Operations and Executive Director of Aged Care Services, will have a maximum LTI opportunity of up to 30% of their TFR. Under the LTI offer, the:

- Chief Financial Officer will be entitled to receive performance rights over Shares with a face value of \$132,000;
- Executive Director of Operations will be entitled to receive performance rights over Shares with a face value of \$132,000; and
- Executive Director of Aged Care Services will be entitled to receive performance rights over Shares with a face value of \$132,000.

The final number of performance rights awarded to the Chief Financial Officer, Executive Director of Operations and Executive Director of Aged Care Services, will be calculated by an independent advisor based on option pricing methodology.

The performance rights will be granted to the Chief Financial Officer, Executive Director of Operations and Executive Director of Aged Care Services, under the Rights Plan and subject to the key terms and vesting and performance conditions of outlined in Section 6.4.3.2.1 above.

6.4.4 Director remuneration

6.4.4.1 Non-Executive Directors

Under the Constitution, the Board may decide the remuneration which each Director is entitled to from the Company for his or her services as a Director. However, the total amount provided to all Directors for their services as Directors must not exceed, in aggregate in any financial year, the amount fixed by the Company in general meeting. This amount has been fixed at \$1,000,000. For the financial year ending 30 June 2014, the fees payable to the current Directors will not exceed \$111,000 in aggregate.

The annual base Director fees currently agreed to be paid by the Company are \$200,000 to the Non-Executive Chairman, \$100,000 to each other Non-Executive Director and an additional \$20,000 to the chair of each standing Committee of the Board.

The Non-Executive Chairman of the Board does not receive Committee fees in respect of her role as Non-Executive Chairman or member of any Committee.

The Company Board and Committee fee structure (inclusive of superannuation) for FY2014 and FY2015 is as follows:

Table 25: Director fees structure for FY2014 and FY2015

Name	Role	FY2014	FY2015
Linda Nicholls	Non-Executive Chairman	\$41,096	\$200,000
Richard England	Non-Executive Director	\$24,658	\$120,000
Tim Poole	Non-Executive Director	\$20,548	\$100,000
David Blight	Non-Executive Director	\$24,658	\$120,000

6.4.4.2 Other remuneration arrangements

Directors may be paid for travel and other expenses incurred in attending to the Company's affairs, including attending and returning from meetings of Directors or Committees or general meetings. Any Director who devotes special attention to the business of the Company or who performs services which, in the opinion of the Board, are outside the scope of the ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company. There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

6.4.4.3 Deeds of indemnity, access and insurance

The Company has entered into a deed of indemnity, access and insurance with each Director which confirms the Director's right of access to Board papers and requires the Company to indemnify the Director, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of the Company or of a related body corporate. Under the deeds of indemnity, insurance and access, the Company must maintain a D&O Policy insuring a Director (among others) against liability as a Director and officer of the Company and its related bodies corporate until seven years after a Director ceases to hold office as a Director of the Company or a related body corporate (or the date any relevant proceedings commenced during the seven year period have been finally resolved).

6.4.4.4 Directors' shareholdings

On Completion of the Offer, the Directors will hold the following Shares in Japara through beneficial interests or entities associated with the Director.

Table 26: Directors' shareholdings

Director	Shares (\$)
Linda Nicholls	\$50,000
Andrew Sudholz	Refer to Section 6.4.5
Richard England	\$50,000
Tim Poole	\$400,000
David Blight	\$100,000

6.4.5 Existing Investors' interests in the Offer

The Existing Investors are the current owners of Japara, being the Japara Holdings Shareholders and the Unitholders. Each Unitholder will receive Shares in exchange for their Japara Securities as part of the Restructure. Some of the Unitholders will sell all or some of their Shares to SaleCo. SaleCo will then sell those Existing Shares into the Offer. Unitholders who elect to retain the Shares they receive as part of the Restructure may do so by submitting an Application.

Japara Holdings Shareholders will be offered cash from the proceeds of the Offer, or New Shares (or any combination of their choice), as consideration for the disposal of their Japara Holdings shares.

On Completion of the Offer, Andrew Sudholz (Chief Executive Officer) will, through a controlled entity, hold approximately \$31.4 million worth of Shares, which equates to 6.0% of the Company's total issued Share capital. On Completion of the Offer, Japara Holdings Shareholders Julius Colman, Allan Reid, Robert Peck and John McKenna will hold approximately \$23 million worth of Shares, \$10 million worth of Shares, \$10 million worth of Shares and \$250,000 worth of Shares, respectively, which equates to 8.2% of the Company's total issued Share capital.

All Shares in which Andrew Sudholz will have an interest on Completion of the Offer will be subject to voluntary escrow arrangements (see Section 10.3.2).

Julius Colman, Allan Reid, Robert Peck and John McKenna have each confirmed they have no current intention to dispose of the Shares issued to them in connection with the Restructure and the Offer.

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6.5 Corporate governance

Section 6.5 explains the main policies and practices adopted by Japara. Details of Japara's key policies and practices and the charters for the Board and each of its Committees are available at www.japarahealthcare.com.au.

The Board monitors the operational and financial position and performance of Japara and oversees its business strategy including approving the strategic objectives, plans and budgets of Japara. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of Japara. In conducting Japara's business with these objectives, the Board seeks to ensure that Japara is properly managed to protect and enhance Shareholder interests, and that Japara, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing Japara, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Japara's business and which are designed to promote the responsible management and conduct of Japara. The main policies and practices adopted by Japara, which will take effect from Listing, are summarised below.

6.5.1 ASX corporate governance principles and recommendations

The Company is seeking a listing on the ASX. The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations (**ASX Recommendations**) for Australian listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, the Company will be required to provide a statement in its annual report disclosing the extent to which it has followed the recommendations during each reporting period. Where the Company does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

The Company intends to comply with all of the ASX Recommendations from the time of its Listing.

6.5.2 Board appointment and composition

The Board has adopted a Board Charter which states that the Board should comprise a majority of independent Non-Executive Directors.

The Board is currently made up of five Directors, comprising of four independent Non-Executive Directors (including the Non-Executive Chairman) and one Executive Director (the Chief Executive Officer).

The Board considers a Director to be independent where he or she is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement. The Board will consider the materiality of any given relationship on a case by case basis and has adopted materiality guidelines to assist it in this regard. The Board reviews the independence of each Director in light of interests disclosed to the Board.

The Board considers that each of Linda Nicholls, Richard England, Tim Poole and David Blight is free from any business or any other relationship that could materially interfere with the independent exercise of their judgement and is able to fulfil the role of an independent Director for the purposes of the ASX Recommendations.

6.5.3 Board Charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- the Board's composition and processes;
- the Board's role and responsibilities;
- the relationship and interaction between the Board and management; and
- the authority delegated by the Board to management and Board committees.

The Board's role is to:

- represent and serve the interests of Shareholders by overseeing and appraising the Company's strategies, policies and performance. This includes overseeing the financial and human resources the Company has in place to meet its objectives and reviewing management performance;
- protect and optimise the Company's performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Company's Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- set, review and ensure compliance with the Company's values and governance framework (including establishing and observing high ethical standards); and

- ensure that Shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

Matters which are specifically reserved for the Board or its Committees include:

- appointment of a chair;
- appointment and removal of the Chief Executive Officer/Managing Director;
- appointment of Directors to fill a vacancy or as an additional Director;
- establishment of Board Committees, their membership and delegated authorities;
- approval of dividends;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management;
- calling of meetings of Shareholders; and
- any other specific matters nominated by the Board from time to time.

The management function is conducted by, or under the supervision of, the Chief Executive Officer as directed by the Board (and by officers to whom the management function is properly delegated by the Chief Executive Officer). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time they consider it appropriate.

The Board collectively, and individual Directors, may seek independent professional advice subject to the approval of the Chair.

A copy of the Board Charter will be made available on Japara's website at www.japarahealthcare.com.au.

6.5.4 Board Committees

The Board may from time to time establish Committees to streamline the discharge of its responsibilities. The Board has established the following Committees:

- Audit, Risk and Compliance Committee; and
- Remuneration and Nomination Committee.

6.5.4.1 Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee will assist the Board in carrying out its accounting, auditing, and financial reporting responsibilities including:

- overseeing the Company's relationship with the external auditor and the external audit function generally;
- overseeing the Company's relationship with the

internal auditor and the internal audit function generally;

- overseeing the preparation of the financial statements and reports;
- overseeing the Company's financial controls and systems; and
- managing the process of identification and management of financial risk.

The Committee's charter provides that the Committee must comprise of only Non-Executive Directors, a majority of independent Directors, an independent chair who is not chair of the Board, and a minimum of three members of the Board. The Audit, Risk and Compliance Committee will comprise:

- Richard England (chair);
- Tim Poole; and
- David Blight.

Non-committee members, including members of management and the external auditor, may attend meetings of the Committee by invitation of the Committee chair.

A copy of the Committee's charter will be made available on Japara's website at www.japarahealthcare.com.au.

6.5.4.2 Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for matters relating to succession planning, nomination and remuneration of the Directors and the Chief Executive Officer.

The responsibilities of the Remuneration and Nomination Committee are as follows:

- review and recommend to the Board the size and composition of the Board, including review of Board succession plans and the succession of the Non-Executive Chairman and Chief Executive Officer, having regard to the objective that the Board comprise Directors with a broad range of skills, expertise and experience from a broad range of backgrounds, including gender;
- review and recommend to the Board the criteria for Board membership, including the necessary and desirable competencies of Board members and the time expected to be devoted by Non-Executive Directors in relation to the Company's affairs;
- review and recommend to the Board membership of the Board, including making recommendations for the re-election of Directors, subject to the principle that a Committee member must not be involved in making recommendations to the Board in respect of themselves and assisting the Board as required to identify individuals who are qualified to become Board members (including in respect of Executive

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Directors), in accordance with the policy outlined in section 4 of the Charter;

- assist the Board as required in relation to the performance evaluation of the Board, its Committees and individual Directors, and in developing and implementing plans for identifying, assessing and enhancing Director competencies;
- review and make recommendations in relation to any corporate governance issues as requested by the Board from time to time;
- review the Board charter on a periodic basis and recommend any amendments for the Board's consideration;
- ensure that an effective induction process is in place and regularly review its effectiveness;
- on an annual basis, review the effectiveness of the Board Diversity Policy by assessing the Company's progress towards the achievement of the measurable objectives and any strategies aimed at achieving the objectives and reporting to the Board recommending any changes to the measurable objectives, strategies or the way in which they are implemented; and
- in accordance with the Board Diversity Policy, on an annual basis, review the relative proportion of women and men in the workforce at all levels of Japara, and submit a report to the Board, which outlines the Committee's findings.

The Committee's charter provides that the Committee must consist of only Non-Executive Directors, a majority of independent Directors, a minimum of three members, and an independent Director as chair. The current members of the Committee are:

- David Blight (chair);
- Tim Poole; and
- Richard England.

A copy of the Committee's charter will be made available on Japara's website at www.japarahealthcare.com.au.

6.5.5 Corporate governance policies

The Board has adopted the following corporate governance policies (to take effect upon commencement of trading on the ASX), each having been prepared having regard to the ASX Recommendations and which are available on the Company's website at www.japarahealthcare.com.au.

6.5.5.1 Continuous Disclosure Policy

The Company places a high priority on communication with Shareholders and is aware of the obligations it will have, once listed, under the Corporations Act and the ASX Listing Rules, to keep the market fully informed of any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Company's securities.

The Company has adopted a Continuous Disclosure Policy which establishes procedures to ensure that Directors and senior management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

6.5.5.2 Policy for Dealing in Securities

The Company has adopted a Policy for Dealing in Securities which is intended to explain the types of conduct in dealings in securities that are prohibited under the Corporations Act and establish a best practice procedure for the buying and selling of securities that protects the Company and Directors and employees against the misuse of unpublished information which could materially affect the value of securities. The policy applies to all Directors, officers, senior executives, employees of the Company and its related bodies corporate and their connected persons.

The policy provides that relevant persons must not deal in the Company's securities:

- when they are in possession of material price-sensitive information;
- on a short-term trading basis; and
- during trading blackout periods (except in exceptional circumstances).

Otherwise trading will only be permitted in trading windows or in all other periods by:

- Directors with prior approval from the Non-Executive Chairman of the Board;
- the Non-Executive Chairman of the Board with prior approval from the Chairman of the Audit, Risk and Compliance Committee; and
- senior executives with prior approval from the Chief Executive Officer.

6.5.5.3 Code of Conduct

The Board is committed to a high level of integrity and ethical standards in all business practices. Accordingly, the Board has adopted a formal Code of Conduct which outlines how Japara expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards. All employees of Japara (including temporary employees, contractors and Company Directors) must comply with the Code of Conduct.

The Code is designed to:

- provide a benchmark for professional behaviour throughout Japara;
- support Japara's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach the policy.

6.5.5.4 Diversity Policy

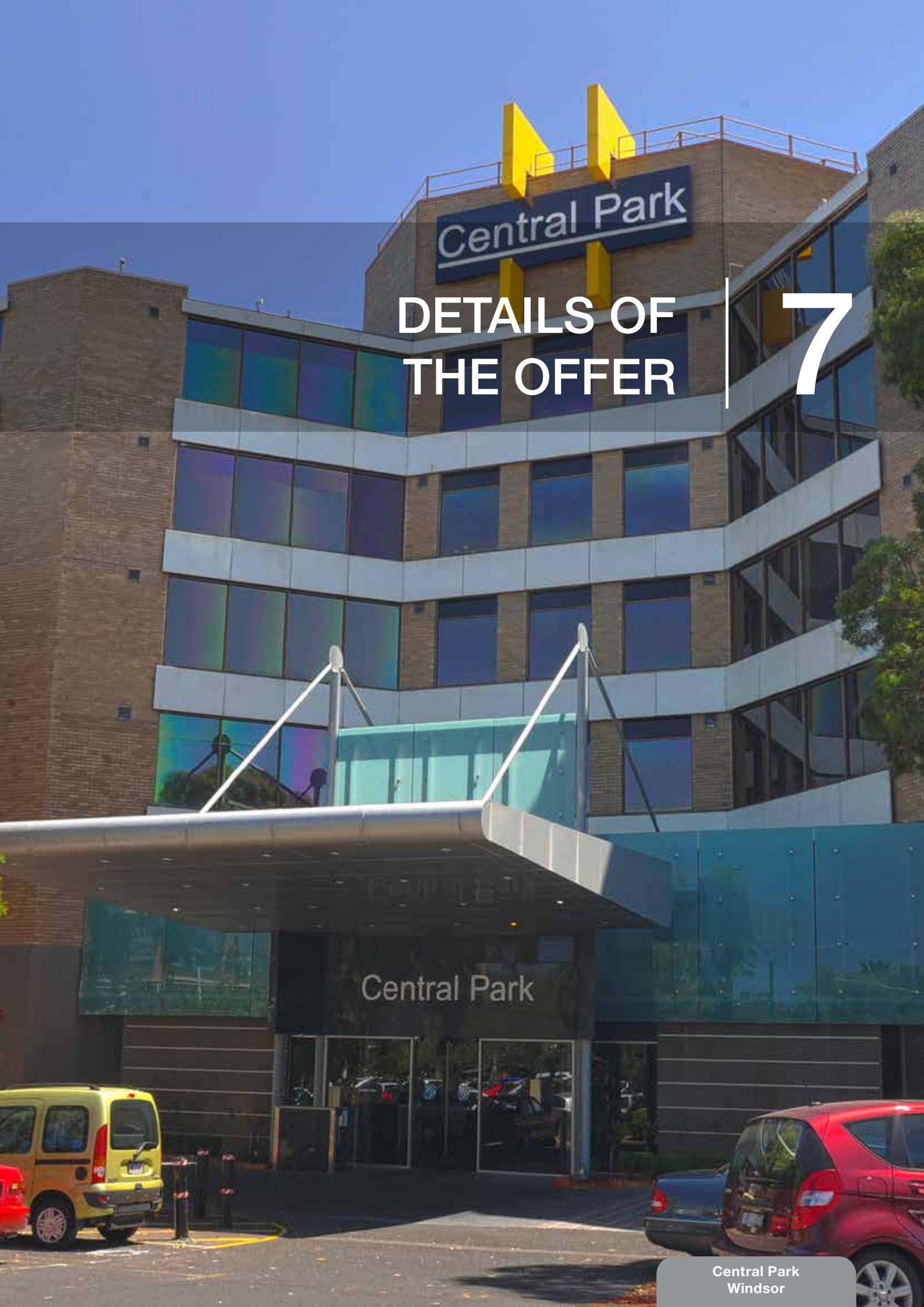
The Board of the Company has formally approved a Diversity Policy in order to address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative management and leadership structure. The Board will include in the Annual Report each year a summary of the Company's progress towards achieving the measurable objectives set under the Diversity Policy for the year to which the Annual Report relates and details of the measurable objectives set under the Diversity Policy for the subsequent financial year.

6.5.5.5 Communications with Shareholders

The Company's aim is to ensure that Shareholders are kept informed of all major developments affecting the state of affairs of the Company. In addition to the Company's continuous disclosure obligations, the Company recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time and the Company will communicate this information regularly to Shareholders and other stakeholders through a range of forums and publications.

All ASX announcements made to the market, including annual and half year financial results, will be posted on the Company's website at www.japarahealthcare.com.au as soon as practicable following their release by the ASX. The full text of all notices of meetings and explanatory material, the Company's Annual Report and copies of all investor presentations made to analysts and media briefings will be posted on the Company's website. The website will also contain a facility for the Shareholders to direct queries to the Company.

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Central Park

DETAILS OF THE OFFER

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Central Park

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7.1 Description of the Offer

This Prospectus relates to an initial public offering of up to \$150.4 million worth of New Shares for issue by the Company, and up to \$300.0 million worth of Existing Shares for transfer by SaleCo, at an Offer Price of \$2.00 per Share. The total number of Shares on issue on Completion of the Offer will be up to 262.5 million. All Shares will rank equally with each other.

The Offer comprises the Broker Firm Offer (see Section 7.5), Priority Offer (see Section 7.6), and Institutional Offer (see Section 7.7). There is no general public offer of Shares. The allocation of Shares between the Broker Firm Offer, the Priority Offer and the Institutional Offer will be determined by the Lead Manager and the Company, having regard to the allocation policies outlined in Sections 7.5.6, 7.6.6 and 7.7.2.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.2 Purpose of the Offer

The purpose of the Offer is to:

- create an integrated business model and provide the Company with an appropriate capital structure with financial flexibility to pursue future growth opportunities;
- achieve a listing on the ASX to broaden the Company's shareholder base and provide a liquid market for its Shares;
- improve the Company's future access to capital markets; and
- provide an opportunity for Existing Investors to realise all or part of their investment.

7.3 Sources and uses of funds⁶⁷

The Offer is expected to raise up to \$450.4 million. Proceeds received by the Company will be applied to:

- purchase the equity of certain Japara Holdings Shareholders;
- reduce debt; and
- pay for the costs of the Offer.

The proceeds received by SaleCo will be paid to certain Unitholders who sell Shares (received as part of the Restructure) into the Offer.

Source of funds	\$m	%	Uses of funds	\$m	%
Offer proceeds received by SaleCo for the transfer of Existing Shares	up to 300.0	67%	Purchase equity of Unitholders and Japara Holdings Shareholders	up to 294.8	65%
Offer proceeds received by the Company for the issue of New Shares	up to 150.4	33%	Reduce debt	125.0	28%
			Costs of the Offer	up to 22.0	5%
			Offer Bonus	5.2	1%
			Other financing items	3.4	1%
Total sources	up to 450.4	100%	Total uses	up to 450.4	100%

67. The sources and uses of funds represent the maximum amount of funds that can be raised under the Offer and reflect the assumption that Unitholders collectively elect to exit 100% of Shares allocated to them for their Japara Securities as part of the Restructure. The Financial Information in Section 4 reflects the assumption that Unitholders collectively elect to retain 45% of Shares allocated to them for their Japara Securities as part of the Restructure.

7.4 Terms of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in the Company).
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 7.10.
What is the consideration payable for each Share?	The Offer Price is \$2.00 per Share.
What is the Offer Period?	The key dates, including details of the Offer Period, are set out in Important Dates on page 3. No Shares will be issued on the basis of this Prospectus later than the Expiry Date.
What are the cash proceeds to be raised?	Up to \$450.4 million will be raised under the Offer.
What is the minimum and maximum Application size under the Broker Firm Offer and Priority Offer?	The minimum Application size under the Broker Firm Offer and Priority Offer is \$2,000 worth of Shares. There is no minimum Application size under the Broker Firm Offer or Priority Offer. The Lead Manager and the Company reserve the right to reject any Application or to allocate a lesser number of Shares than applied for. Applicants under the Priority Offer will receive a guaranteed minimum allocation of \$20,000 worth of Shares.
What is the allocation policy?	Prior to date of this Prospectus, certain Institutional Investors committed to the Lead Manager to acquire Shares as described in Section 7.7.1. The allocation of Shares among Applicants in the Institutional Offer will be determined by the Lead Manager in consultation with the Company. For further information on the Institutional Offer refer to Section 7.7. With respect to the Broker Firm Offer, it is a matter for the Syndicate Brokers how they allocate Shares among eligible clients. For further information on the Broker Firm Offer refer to Section 7.5. With respect to the Priority Offer, the Company, in consultation with the Lead Manager, will determine the allocation of Shares among Applicants, subject to the guaranteed minimum allocation. The allocation of Shares between the Broker Firm Offer, Priority Offer and the Institutional Offer will be determined by the Lead Manager in consultation with the Company, having regard to the allocation policies outlined in Sections 7.5.6, 7.6.6 and 7.7.2. The Company expects to advertise the final allocation policy under the Broker Firm Offer and Priority Offer on or about 17 April 2014.
When will I receive confirmation whether my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or about 23 April 2014.

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Topic	Summary
Will the Shares be quoted?	The Company has applied for admission to the official list of the ASX and quotation of Shares on the ASX under the code “JHC”. Listing is conditional on the ASX approving this application and on completion of the Restructure. If ASX approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act. The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by Japara from time to time. The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit Japara to the official list is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.
When are the Shares expected to commence trading?	It is expected that trading of the Shares on the ASX will commence on or about 17 April 2014, initially on a conditional and deferred settlement basis. This will be before the condition for the commencement of unconditional trading will have been satisfied, being completion of the Restructure. The contracts formed on acceptance of Applications and confirmations of allocations will be conditional on the ASX agreeing to quote the Shares on the ASX, and on issue occurring. Following completion of the Restructure, trading will be on an unconditional but deferred settlement basis until the Company has advised the ASX that holding statements have been despatched to Shareholders. It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk. The Company and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them or by a Syndicate Broker.
What is conditional and deferred settlement trading?	It is expected that trading of the Shares on the ASX (on a conditional and deferred basis) will commence on or about 17 April 2014. It is expected that the Restructure will complete on 22 April 2014. The period of conditional and deferred settlement trading allows for Shares to trade on the ASX prior to (and including) this date. In the event the Restructure does not complete by the end of the conditional and deferred settlement trading period, the Offer will not complete and all trades conducted during the conditional and deferred settlement trading period will be invalid and will not settle. All Application Monies received will be returned to Applicants. No interest will be paid on any Application Monies refunded as a result of the Offer not completing. Trading on the ASX is expected to commence on a normal settlement basis on or about 24 April 2014.
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Lead Manager. Details are provided in Section 10.3.1
Are there any voluntary escrow arrangements?	Yes. Details are provided in Section 10.3.2.
Has any ASIC relief or the ASX waiver been obtained or been relied on?	Yes. Details are provided in Section 10.11.
Are there any tax considerations?	Yes. Details are provided in Section 10.6.

Topic	Summary
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on the acquisition of Shares under the Offer. See Sections 10.3.1.1 and 10.7.1 for details of various fees payable by the Company to the Lead Manager and by the Lead Manager to certain Syndicate Brokers.
What should I do with any enquiries?	All enquiries in relation to this Prospectus should be directed to the Japara Share Offer Information Line on 1800 828 558 (within Australia) or +61 1800 828 558 (outside Australia) from 8:30am to 5:00pm (AEST), Monday to Friday, during the Offer Period. If you are unclear in relation to any matter regarding this Prospectus or are uncertain as to whether the Company is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

7.5 Broker Firm Offer

7.5.1 Who can apply?

The Broker Firm Offer is open to persons who have received an invitation to participate in the Offer from a Syndicate Broker and who have a registered address in Australia. If you have been invited to participate by a Syndicate Broker, you will be treated as an Applicant under the Broker Firm Offer in respect of that allocation. You should contact your Syndicate Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.

7.5.2 How to apply

You should complete and lodge your Broker Firm Offer Application Form with the Syndicate Broker who invited you to participate in the Offer. Application Forms must be completed in accordance with the instructions given to you by your Syndicate Broker and the instructions set out on the Application Form. Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus in its paper copy form or in its electronic form, which may be downloaded in its entirety from www.japarahealthcare.com.au.

By making an Application, you declare that you were given access to this Prospectus (and any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The minimum Application under the Broker Firm Offer is \$2,000 worth of Shares and in multiples of \$500 thereafter. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. The Company may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in its discretion in compliance with applicable laws.

The Broker Firm Offer opens at 9:00am on 14 April 2014 and is expected to close at 5:00pm on 15 April 2014. The Company and the Lead Manager may elect to extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer, or any part of it, may be closed at any earlier date and time, without further notice (subject to the ASX Listing Rules and the Corporations Act). Your Syndicate Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Please contact your Syndicate Broker for instructions.

7.5.3 How to pay

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with instructions received from their Syndicate Broker.

7.5.4 Application Monies

The Company reserves the right to decline any Application in whole or in part, without giving any reason. Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any Application Monies that are refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application amount by the Offer Price. Where the Offer Price does not divide evenly into the Application amount, the number of Shares to be allocated will be determined by the Applicant's Syndicate Broker.

Cheque(s) or bank draft(s) must be in Australian dollars and drawn on an Australian branch of an Australian financial institution, must be crossed "Not Negotiable" and must be made payable in accordance with the directions of the Syndicate Broker from whom the Applicant received a firm allocation.

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Applicants should ensure that sufficient funds are held in the relevant account(s) to cover the amount of the cheque(s) or bank draft(s). If the amount of your cheque(s) or bank draft(s) for Application Monies (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is less than the amount specified on your Application Form, you may be taken to have applied for such lower dollar amount of Shares as the number for which your cleared Application Monies will pay (and to have specified that amount on your Application Form) or your Application may be rejected.

7.5.5 Acceptance of Applications

An Application in the Broker Firm Offer is an offer by an Applicant to the Company to subscribe for the number of Shares specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form (including the conditions regarding quotation on the ASX in Section 7.9.1). To the extent permitted by law, an Application is irrevocable.

An Application may be accepted by the Company and the Lead Manager in respect of the full number of Shares specified in the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

7.5.6 Broker Firm Offer allocation policy

The allocation of Shares to Syndicate Brokers will be determined by the Lead Manager in consultation with the Company. Shares which have been allocated to Syndicate Brokers for allocation to their Australian resident clients will be issued or transferred to the Applicants who have received a valid allocation of Shares from those Syndicate Brokers. It will be a matter for those Syndicate Brokers how they allocate Shares among their clients, and they (and not the Company, SaleCo or the Lead Manager) will be responsible for ensuring that their clients who have received an allocation from them, receive the relevant Shares.

7.5.7 Announcement of the final allocation policy under the Broker Firm Offer

The Company expects to announce the final allocation policy under the Broker Firm Offer on or about 17 April 2014. It is expected that this information will be advertised in The Sydney Morning Herald, The Age, The Australian and The Australian Financial Review on that same day. Applicants under the Broker Firm Offer will be able to call the Japara Share Offer Information Line on 1800 828 558 (within Australia) or +61 1800 828 558 (outside Australia) from 8:30am to 5:00pm (AEST), Monday to Friday after the final allocation policy is announced to confirm their allocations. Applicants under the Broker Firm Offer will also be able to confirm their allocation through their Syndicate Broker.

However, if you sell Shares before receiving a holding statement, you do so at your own risk, even if you obtained details of your holding from the Company or confirmed your allocation through your Syndicate Broker.

7.6 Priority Offer

7.6.1 Who can apply?

The Priority Offer is open to investors who have received an invitation to participate in the Offer from Japara and who have a registered address in Australia. If you have been invited by Japara to participate in the Priority Offer, you will be treated as an Applicant under the Priority Offer in respect of those Shares that are allocated to you.

7.6.2 How to apply

You should complete and lodge your Priority Offer Application Form in accordance with the instructions set out on the Application Form. Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus in its paper copy form or its electronic form, which may be downloaded in its entirety from www.japarahealthcare.com.au.

By making an Application, you declare that you were invited to participate in the Priority Offer and were given access to this Prospectus (and any supplementary or replacement prospectus), together with an Application Form.

Applicants under the Priority Offer will receive a guaranteed minimum allocation of \$20,000 worth of Shares (or such lower number of Shares applied for, subject to the minimum Application size of \$2,000 worth of Shares and in multiples of \$500 worth of Shares thereafter). There is no maximum value of Shares which may be applied for under the Priority Offer.

The Company may amend or waive the Priority Offer application procedures or requirements, in its discretion in compliance with applicable laws.

The Priority Offer opens at 9:00am on 14 April 2014 and is expected to close at 5:00pm on 15 April 2014. The Company and the Lead Manager may elect to extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer, or any part of it, may be closed at any earlier date and time, without further notice (subject to the ASX Listing Rules and the Corporations Act). Applicants are therefore encouraged to submit their Applications as early as possible.

7.6.3 How to pay

Applicants under the Priority Offer may pay by BPAY using the Offer biller code and the unique customer reference number provided to you or by cheque by following the instructions on the paper or online Application Form.

If you make a BPAY payment, your financial institution may impose a limit on the amount that you can transact on BPAY and policies with respect to timing for processing BPAY transactions, which may vary between financial institutions.

If you are paying by cheque, you may send a cheque for your Application Monies to the Share Registry. Cheques must be drawn on an Australian branch of a financial institution in Australian dollars, made payable to “Japara IPO Account” and crossed “Not Negotiable”. You should ensure that sufficient funds are held in the relevant account(s) to cover your cheque. Cash will not be accepted. Receipts for payments will not be issued.

7.6.4 Application Monies

The Company reserves the right to decline any Application in whole or in part, without giving any reason, subject to the terms of the guaranteed minimum allocation described above. Applicants under the Priority Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for (subject to the guaranteed minimum allocation) will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application amount by the Offer Price. Where the Offer Price does not divide evenly into the Application amount, the number of Shares to be allocated will be determined by the Lead Manager.

If the amount of your cheque or BPAY payment for Application Monies (or the amount for which those cheque or BPAY payments clear in time for allocation) is insufficient to pay for the number of Shares you have applied for, you may be taken to have applied for such lower number of Shares as your cleared Application Monies will pay for, or your Application may be rejected.

7.6.5 Acceptance of Applications

An Application in the Priority Offer is an offer by an Applicant to the Company to subscribe for Shares in the amount specified the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form (including the conditions regarding quotation on the ASX in Section 7.9.1). To the extent permitted by law, an Application is irrevocable.

An Application may be accepted by the Company and the Lead Manager in respect of the full number of Shares specified in the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

7.6.6 Priority Offer allocation policy

The allocation of Shares to the Priority Offer will be determined by the Lead Manager in consultation with the Company. The Company will consult with the Lead Manager, regarding the allocation of Shares within the Priority Offer. The Company has absolute discretion regarding the allocation of Shares to Applicants under the Priority Offer and may reject an Application, or allocate fewer Shares than applied for, in its absolute discretion, subject to the terms of the guaranteed minimum allocation described above.

7.6.7 Announcement of the final allocation policy under the Priority Offer

The Company expects to announce the final allocation policy under the Priority Offer on or about 17 April 2014. It is expected that this information will be advertised in The Sydney Morning Herald, The Age, The Australian and The Australian Financial Review on that same day. Applicants in the Priority Offer will be able to call the Japara Share Offer Information Line on 1800 828 558 (within Australia) or +61 1800 828 558 (outside Australia) from 8:30am to 5:00pm (AEST), Monday to Friday after the final allocation policy is announced to confirm their allocations.

If you sell Shares before receiving a holding statement, you do so at your own risk, even if you obtained details of your holding from the Company.

7.7 Institutional Offer

7.7.1 Invitations to bid

Selected Institutional Investors have committed to the Lead Manager to acquire Shares under this Prospectus at the Offer Price. These Institutional Investors may be allocated Shares at the discretion of the Lead Manager in consultation with the Company. The Lead Manager will also invite certain Australian residents and Institutional Investors in certain other overseas jurisdictions (excluding the United States) to bid for Shares under the Institutional Offer.

7.7.2 Institutional Offer allocation policy

Subject to the commitment described in Section 7.7.1, the allocation of Shares among bidders in the Institutional Offer will be determined by the Lead Manager in consultation with the Company. The Lead Manager and the Company have absolute discretion regarding the basis of allocation of Shares, and there is

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no assurance that any such Institutional Investor will be allocated any Shares, or the number of Shares for which it has bid.

The allocation policy will be influenced by a number of factors including:

- number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- the Company's desire for an informed and active trading market following Listing on the ASX;
- the Company's desire to establish a wide spread of institutional Shareholders;
- overall level of demand under the Broker Firm Offer, Priority Offer and Institutional Offer;
- the size and type of funds under management of particular bidders;
- the likelihood that particular bidders will be long-term Shareholders; and
- other factors that the Company and the Lead Manager considered appropriate.

Participants in the Institutional Offer will be advised of their allocation of Shares, if any, by the Lead Manager.

The allocation of Shares between the Institutional Offer, Broker Firm Offer and the Priority Offer will be determined by the Lead Manager in consultation with the Company.

7.8 Discretion regarding the Offer

The Company may withdraw the Offer at any time before the issue of Shares to successful Applicants or bidders under the Broker Firm Offer, Priority Offer, and the Institutional Offer. In addition, the Company may withdraw the Offer if the Restructure does not complete. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest) in accordance with the requirements of the Corporations Act.

The Company and the Lead Manager also reserve the right (subject to the ASX Listing Rules and the Corporations Act) to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Shares than the amount applied or bid for. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

7.9 ASX listing, registers, holding statements, and conditional and deferred settlement trading

7.9.1 Application to the ASX for listing of Japara and quotation of Shares

The Company has applied for admission to the official list of the ASX and quotation of the Shares on the ASX on 4 April 2014. The Company expects its ASX code to be JHC.

The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit the Company to the official list of the ASX is not to be taken as an indication of the merits of the Company or the Shares offered under this Prospectus.

If permission is not granted for the official quotation of the Shares on the ASX within three months after the date of this Prospectus (or any later date permitted by law), all Application Monies received by the Company will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

Subject to certain conditions (including any waivers obtained by the Company from time to time), the Company will be required to comply with the ASX Listing Rules.

7.9.2 CHESS and issuer sponsored holdings

The Company will apply to participate in the ASX's Clearing House Electronic Sub-register System (CHESS) and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, being an electronic CHESS sub-register or an issuer sponsored sub-register.

For all successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been issued to them. This statement will also provide details of a Shareholder's Holder Identification Number for CHESS holders or, where applicable, the Securityholder Reference Number of issuer sponsored holders. Shareholders will subsequently

receive statements showing any changes to their Shareholding. Share certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring Syndicate Broker in the case of a holding on the CHESS sub-register or through the Share Registry in the case of a holding on the issuer sponsored sub-register. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.9.3 Conditional and deferred settlement trading and selling Shares on market

It is expected that trading of the Shares on the ASX on a conditional and deferred settlement basis will commence on or about 17 April 2014.

If the Offer is withdrawn before Shares have commenced trading on an unconditional basis, all contracts for the sale of the Shares on the ASX will be cancelled and any Application Monies received will be refunded as soon as possible. Conditional and deferred settlement trading will continue until the Company has advised the ASX that the Restructure has completed, which is expected to be on or about 22 April 2014. If completion of the Restructure has not occurred by the end of the conditional and deferred settlement trading period, the Offer will not complete and all trades conducted during the conditional and deferred settlement trading period will be invalid and will not settle. All Application Monies received will be refunded to Applicants. No interest will be paid on any Application Monies refunded as a result of the Offer not completing.

Following completion of the Restructure, trading on the ASX will be on an unconditional but deferred settlement basis until the Company has advised the ASX that initial holding statements have been despatched to Shareholders. Trading on the ASX is expected to commence on a normal settlement basis (that is, on a T+3 basis) on or about 24 April 2014.

Following the issue of Shares, successful Applicants will receive a holding statement setting out the number of Shares issued to them under the Offer. It is expected that holding statements will be despatched by standard post on or about 23 April 2014. If you sell Shares before receiving a holding statement, you do so at your own risk. It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares.

The Company, SaleCo and the Lead Manager disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding from the Japara Share Offer Information Line or confirmed your firm allocation through a Syndicate Broker.

7.10 Description of Shares

7.10.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the official list of the ASX.

7.10.2 Rights attaching to Shares

The rights attaching to the Shares are set out in the Constitution and are, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

The principal rights, liabilities and obligations of the Shareholders are summarised below.

7.10.2.1 Voting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands (unless a Shareholder has appointed more than one proxy) and one vote on a poll for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

7.10.2.2 Dividends

The Board may pay any interim and final dividends that, in its judgement, the financial position of the Company justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

7.10.2.3 Issue of further Shares

The Board may (subject to the Constitution, the ASX Listing Rules and the Corporations Act) issue, allot or grant options for, or otherwise dispose of, Shares in the company on such terms as the Board decides.

7.10.2.4 Variation of class rights

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. Under that section, with the:

- consent in writing of the holders of at least 75% of the issued Shares in the particular class; or
- the sanction of a special resolution passed at a separate meeting of the holders of Shares in that class,

the rights attached to a class of Shares may be varied or cancelled.

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7.10.2.5 Transfer of Shares

Subject to the Constitution and to any restrictions attached to a Shareholder's Shares, Shares may be transferred in accordance with the ASX Settlement Operating Rules, any other ASX requirements and the Corporations Act or via a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Board may refuse to register a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

7.10.2.6 General meeting and notices

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. The Company must give at least 28 days written notice of a general meeting.

7.10.2.7 Winding up

Subject to the Constitution, the Corporations Act and any preferential rights attaching to any class or classes of Shares, Shareholders will be entitled on a winding up to a share in any surplus assets of the Company in proportion to the Shares held by them. If the Company is wound up, the liquidator may with the sanction of a special resolution, divide the whole or part of the Company's property among Shareholders and decide how the division is to be carried out as between Shareholders or different classes of Shareholders.

7.10.2.8 Unmarketable parcels

In accordance with the ASX Listing Rules, the Board may sell Shares which constitute less than a marketable parcel by following the procedures set out in the Constitution.

7.10.2.9 Proportional takeover provisions

The Constitution requires Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless they are renewed by Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

7.10.2.10 Directors – appointment and removal

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of seven, unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at annual general meetings of the Company.

No Director (excluding any Managing Director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint a Director in addition to the existing

Directors or to fill a casual vacancy on the Board, and that Director (apart from the Managing Director) will then hold office until the conclusion of the next annual general meeting of the Company.

7.10.2.11 Directors – voting

Questions arising at a meeting of the Board must be decided by a majority of votes cast by the Directors present at the meeting and entitled to vote on the matter. If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote, unless there are only two Directors present or entitled to vote (in which case the chairperson of the meeting does not have a second or casting vote and the proposed resolution is taken as lost).

7.10.2.12 Directors – remuneration

Under the Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for his or her services as a Director. However the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. The remuneration of a Director (who is not a Managing Director or an Executive Director) must not include a commission on, or a percentage of, profits or operating revenue.

Directors may be paid for travel and other expenses incurred in attending to the Company's affairs, including attending and returning from meetings of Directors or committees or general meetings. Any Director who devotes special attention to the business of the Company or who performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company.

Directors remuneration is discussed in Sections 6.4.1 and 6.4.2.

7.10.2.13 Powers and duties of Directors

The business and affairs of the Company are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within the Company's power and the powers that are not required by law or by the Constitution to be exercised by the Company in general meeting.

7.10.2.14 Preference Shares

The Company may issue preference Shares including preference Shares which are, or at the option of the Company or holder are, liable to be redeemed or convertible to ordinary Shares. The rights attaching to preference Shares are those set out in the Constitution unless other rights have been approved by special resolution of the Company.

7.10.2.15 Officers' indemnity

The Company, to the extent permitted by law, indemnifies each Director, alternate Director and executive officer of the Company on a full indemnity basis against all losses, liability, costs, charges and expenses incurred by that person as an officer of the Company or one of its related bodies.

The Company, to the extent permitted by law, may purchase and maintain insurance, or pay or agree to pay, a premium for insurance for each Director, alternate Director and executive officer of the Company against any liability incurred by that person as an officer of the Company or its related bodies corporate, including a liability for negligence or for reasonable costs and expenses incurred in defending or responding to proceedings (whether civil or criminal and whatever their outcome).

The Company may enter into contracts with a Director or former Director agreeing to provide continuing access to Board papers, books, records and documents of the Company which relate to the period during which the Director or former Director was a Director. The Company may procure that its related bodies corporate provide similar access to board papers, books, records or documents.

7.10.2.16 Amendment

The Constitution may be amended only by a special resolution passed by Shareholders.

7.10.3 Share capital

As at the date of this Prospectus, the only class of security on issue by the Company are fully paid ordinary Shares.

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A photograph of a caregiver, a woman with blonde hair wearing a blue and red patterned short-sleeved shirt and blue pants, standing behind an elderly woman. The elderly woman is seated in a black wheelchair, wearing a light blue long-sleeved shirt over a green top, beige pants, and tan shoes. They are outdoors on a gravel path next to a green lawn, with a house and trees in the background. A semi-transparent dark horizontal band is overlaid across the middle of the image, containing the title text.

INVESTIGATING ACCOUNTANT'S REPORT

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KPMG Transaction Services
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The Directors
Japara Healthcare Limited and Japara SaleCo
Limited
Q1 Building, Level 4
1 Southbank Boulevard
Southbank VIC 3006

11 April 2014

Dear Directors

Limited Assurance Investigating Accountant's Report and Financial Services Guide

Investigating Accountant's Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by Japara Holdings Pty Ltd ("Japara Holdings"), Japara Property Management Limited (as responsible entity for Japara Aged Care Property Trust ("Japara Trust"), Japara Healthcare Limited ("JHC") and Japara SaleCo Limited ("SaleCo") (together, "Japara") to prepare this report for inclusion in the prospectus to be dated 11 April 2014 ("Prospectus"), and to be issued by JHC and SaleCo, in respect of the proposed initial public offering of JHC shares ("Transaction").

Expressions defined in the Prospectus have the same meaning in this report.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the pro forma historical and forecast financial information described below and disclosed in the Prospectus.

The pro forma historical and forecast financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG.

KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Pro Forma Historical Financial Information

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the pro forma historical financial information of JHC (the responsible party) included in the Prospectus.

The pro forma historical financial information has been derived from the historical financial information of Japara Holdings and the Japara Trust, after adjusting for the effects of pro forma adjustments described in sections 4 and 11 of the Prospectus. The pro forma financial information consists of JHC's consolidated pro forma historical Statement of Financial Position as at 31 December 2013, consolidated pro forma historical Statements of Profit or Loss and Other Comprehensive Income for the years ended 30 June 2012, 30 June 2013 and the six months to 31 December 2013 and consolidated pro forma historical Statements of Cash Flows for the years ended 30 June 2012, 30 June 2013 and the six months to 31 December 2013 and related notes as set out in sections 4 and 11 of the Prospectus issued by JHC and SaleCo (collectively the "Pro Forma Historical Financial Information"). The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 4 and 11 of the Prospectus. Due to its nature, the Pro Forma Historical Financial Information does not represent JHC's actual or prospective financial position, financial performance, or cash flows.

The Pro Forma Historical Financial Information has been compiled by JHC to illustrate the impact of certain events and transactions on JHC's financial position as at 31 December 2013 and JHC's financial performance and cash flows for the years ended 30 June 2012 and 30 June 2013, and the six months to 31 December 2013. As part of this process, information about JHC's financial position, financial performance and cash flows has been extracted by JHC from Japara Holdings' and Japara Trust's financial statements for the years ended 30 June 2012, 30 June 2013 and the six months to 31 December 2013.

The financial statements of Japara Holdings and the Japara Trust for the years ended 30 June 2012, 30 June 2013 and the six months to 31 December 2013 were audited by Japara Holdings and the Japara Trust's external auditor in accordance with Australian Auditing Standards. The audit opinions issued to the members of Japara Holdings and the Japara Trust relating to those financial statements were unqualified.

For the purposes of preparing this report we have performed limited assurance procedures in relation to Pro Forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the Pro Forma Historical Financial Information is not prepared, in all material respects, by the directors in accordance with the stated basis of preparation. As stated in section 4 of the Prospectus, the stated basis of preparation is:

- the extraction of Historical Financial Information from the audited financial statements of Japara Holdings and the Japara Trust for the years ended 30 June 2012 and 30 June 2013 and the six months to 31 December 2013; and

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- the application of pro forma adjustments, determined in accordance with Australian Accounting Standards and JHC's accounting policies, to the Historical Financial Information of Japara Holdings and the Japara Trust to illustrate the effects of the restructure of Japara Holdings and the Japara Trust and the impact of the initial public offering on JHC, described in sections 4 and 11 of the Prospectus.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures we performed were based on our professional judgement and included:

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the Historical Financial Information of Japara Holdings and the Japara Trust from their respective audited financial statements for the years ended 30 June 2012, 30 June 2013 and the six months to 31 December 2013;
- consideration of the pro forma adjustments to the Historical Financial Information described in the Prospectus;
- enquiry of directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Pro Forma Historical Financial Information; and
- a review of accounting policies adopted by JHC as disclosed in section 11 of the Prospectus for consistency of application.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Financial Information is prepared, in all material respects, by the directors in accordance with the stated basis of preparation.

Directors' Forecast and directors' best-estimate assumptions

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the forecast consolidated statutory and pro forma Statements of Profit or Loss and Other Comprehensive Income and forecast consolidated pro forma and statutory Statements of Cash flows of JHC (the responsible party) for the years ending 30 June 2014 and 30 June 2015, as described in section 4 of the Prospectus (the "Directors' Forecast"). The directors' best-estimate assumptions underlying the Directors' Forecast are described in section 4 of the Prospectus. As stated in section 4 of the Prospectus, the basis of preparation of the Directors'

Forecast is the recognition and measurement principles contained in Australian Accounting Standards and JHC's accounting policies.

We have performed limited assurance procedures in relation to the Directors' Forecast, set out in section 4 of the Prospectus, and the directors' best-estimate assumptions underlying it in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions do not provide reasonable grounds for the Directors' Forecast;
- in all material respects the Directors' Forecast is not:
 - prepared on the basis of the directors' best-estimate assumptions as described in the Prospectus; and
 - presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards and JHC's accounting policies; or
- the Directors' Forecast itself is unreasonable.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted primarily of:

- comparison and analytical review procedures on the Directors' Forecast;
- discussions with management and directors of JHC of the factors considered in determining the directors' best estimate assumptions; and
- examination, on a test basis, of evidence supporting:
 - the directors' best estimate assumptions and amounts in the Directors' Forecast; and
 - the evaluation of accounting policies used in the Directors' Forecast.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent, than for an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The directors' of JHC and SaleCo are responsible for the preparation of:

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- the Pro Forma Historical Financial Information, including the selection and determination of the pro forma transactions and/or adjustments made to the Historical Financial Information and included in the Pro Forma Historical Financial Information;
- the Directors' Forecast, including the directors' best-estimate assumptions on which the Directors' Forecast is based and the sensitivity of the Directors' Forecast to changes in key assumptions.

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Review statement on the Pro Forma Historical Financial Information

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as set out in section 4 of the Prospectus, comprising:

- the consolidated pro forma historical Statements of Profit or Loss and Other Comprehensive Income of JHC for the years ended 30 June 2012 and 30 June 2013 and the six months to 31 December 2013;
- the consolidated pro forma historical statements of cash flows of JHC for the years ended 30 June 2012 and 30 June 2013 and the six months to 31 December 2013; and
- the consolidated pro forma historical statement of financial position of JHC as at 31 December 2013,

is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions or adjustments described in sections 4 and 11 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and JHC's accounting policies disclosed in section 11 of the Prospectus.

Directors' Forecast and the directors' best-estimate assumptions

Based on our procedures, which is not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the Directors' Forecast for the years ending 30 June 2014 and 30 June 2015 do not provide reasonable grounds for the Directors' Forecast; and
- in all material respects, the Directors' Forecast:
 - is not prepared on the basis of the directors' best-estimate assumptions as described in section 4 of the Prospectus; and

- is not presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards, and JHC's accounting policies; and
- the Directors' Forecast itself is unreasonable.

The Directors' Forecast has been prepared by JHC management and adopted and disclosed by the directors in order to provide prospective investors with a guide to the potential financial performance of JHC for the years ending 30 June 2014 and 30 June 2015.

There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the Directors' Forecast since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Directors' Forecast is based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of JHC. Evidence may be available to support the directors' best-estimate assumptions on which the Directors' Forecast is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in JHC, which are detailed in the Prospectus, and the inherent uncertainty relating to the Directors' Forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in sections 4 and 5 of the Prospectus. The sensitivity analysis described in section 4 of the Prospectus demonstrates the impact on the Directors' Forecast of changes in key directors best-estimate assumptions. We express no opinion as to whether the Directors' Forecast will be achieved.

We have assumed, and relied on representations from certain members of management of JHC, that all material information concerning the prospects and proposed operations of JHC has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed initial public offering, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG Transaction Services is an adviser to Japara and from time to time, KPMG Transaction Services also provides Japara with certain other professional services for which normal professional fees are received.

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General advice warning

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our conclusions, we draw attention to section 4 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this Investigating Accountant's Report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

Yours faithfully



Stewart May
Authorised Representative

**Financial Services Guide
Dated 11 April 2014**

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) ('**KPMG Transaction Services**'), and Stewart May as an authorised representative of KPMG Transaction Services (**Authorised Representative**), authorised representative number 404262.

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;

- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- securities, and
- superannuation.

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of

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*Japara Healthcare Limited
Limited Assurance Investigating Accountant's Report and Financial
Services Guide
11 April 2014*

financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by Japara Holdings Pty Ltd, Japara Property Management Limited as responsible entity for the Japara Aged Care and Retirement Property Trust, Japara Healthcare Limited and Japara SaleCo Limited (Client) to provide general financial product advice in the form of a Report to be included in the Prospectus (Document) prepared by Client in relation to the initial public offer of Japara Healthcare Limited (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services \$0.7 million for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may

provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of tax and advisory services to the Client for which professional fees are received. Over the past two years professional fees of \$0.3 million have been received from the Client. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO
Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services
A division of KPMG Financial Advisory
Services (Australia) Pty Ltd
10 Shelley St
Sydney NSW 2000
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
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Facsimile: (02) 9335 7200

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FACILITIES PORTFOLIO

9

9 | FACILITIES PORTFOLIO

Japara's portfolio comprises 35 aged care facilities located across Victoria, New South Wales, Tasmania and South Australia.

The portfolio comprises all existing facilities and includes all expansions currently being undertaken, or to be undertaken, by Japara and completed in FY2014. The below excludes Tamar Park which was closed in December 2013 and has 45 non-Operational Places. Key metrics referred to in this section are current as at 31 January 2014 unless otherwise specified.

9.1 Aged care facility profiles

Anglesea, Anglesea

Located in the coastal township of Anglesea, approximately 37 kilometres south-west of Geelong and 90 kilometres south-west of the Melbourne CBD, the Anglesea facility comprises a modern 60 place, single-level purpose built facility, providing both High Care and Low Care services to Residents.



Key metrics

Total FY2014 Places	60	Occupancy (%)	90%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$12,261
Low Care	30	FY2013 average bond value per bond paying Resident	\$267,675
High Care	30	FY2013 average Government contribution per Resident	\$65,302
High Care Extra Services	–	Accreditation review date	May 2015

Balmoral Grove, Geelong

Located in the suburb of Grovedale, approximately eight kilometres south of the Geelong CBD, the Balmoral Grove facility comprises a 110 place, two-level purpose built facility, providing High Care and Low Care services and High Care Extra Services to Residents.

The facility was originally constructed in 1992 and extended to a two storey facility in 2008.



Key metrics

Total FY2014 Places	110	Occupancy (%)	90%
Total FY2014 Operational Places	110	FY2013 EBITDA/place	\$22,654
Low Care	20	FY2013 average bond value per bond paying Resident	\$178,227
High Care	67	FY2013 average Government contribution per Resident	\$70,134
High Care Extra Services	23	Accreditation review date	Nov 2014

Barongarook Gardens, Colac

Located in the predominantly residential area of Colac, approximately 140 kilometres south-west of Melbourne CBD and 70 kilometres west of the Geelong CBD, the Barongarook Gardens facility provides a total of 60 places providing Low Care services to Residents. The facility is located in close proximity to the Barangarook Creek Reserve and various active and passive recreational reserves, shopping facilities and public transport facilities.



Key metrics

Total FY2014 Places	60	Occupancy (%)	95%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$20,596
Low Care	60	FY2013 average bond value per bond paying Resident	\$128,428
High Care	–	FY2013 average Government contribution per Resident	\$51,079
High Care Extra Services	–	Accreditation review date	Jul 2015

Bayview, Carrum Downs

Located in the predominantly residential area of Carrum Downs, approximately 34 kilometres south-east of the Melbourne CBD, the Bayview facility has a total of 60 places, providing both Low Care and High Care services to Residents. Notable features surrounding the facility include several public and private golf courses, public transport access through Seaford railway station (approximately 4.5 kilometres west) and Port Phillip Bay (approximately four kilometres west).



Key metrics

Total FY2014 Places	90	Occupancy (%)	100%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$19,726
Low Care	30	FY2013 average bond value per Resident	\$161,052
High Care	30	FY2013 average Government contribution per Resident	\$64,482
High Care Extra Services	–	Accreditation review date	May 2016

Bonbeach, Bonbeach

Located in the suburb of Bonbeach, approximately 35 kilometres south of the Melbourne CBD, the Bonbeach facility provides a total of 70 places providing High Care services to Residents. Notable features surrounding the facility include Frankston Hospital (approximately 10 kilometres south), recreation reserves, primary and secondary schools and the Carrum Downs Regional Shopping Centre.



Key metrics

Total FY2014 Places	70	Occupancy (%)	94%
Total FY2014 Operational Places	70	FY2013 EBITDA/place	\$27,938
Low Care	–	FY2013 average bond value per bond paying Resident	\$174,372
High Care	70	FY2013 average Government contribution per Resident	\$75,586
High Care Extra Services	–	Accreditation review date	Nov 2015

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Capel Sands, Rosebud

Located in the seaside town of Rosebud, approximately 90 kilometres south of the Melbourne CBD, the Capel Sands facility has a total of 60 places providing High Care services to Residents. The facility is constructed over a single level and is configured as four double rooms and 52 single rooms with shared ensuites.



Key metrics

Total FY2014 Places	60	Occupancy (%)	98%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$19,025
Low Care	–	FY2013 average bond value per bond paying Resident	\$113,136
High Care	60	FY2013 average Government contribution per Resident	\$65,871
High Care Extra Services	–	Accreditation review date	Oct 2016

Central Park, Windsor

Located in the suburb of Windsor, approximately four kilometres south-east of the Melbourne CBD, the Central Park facility comprises a total of 165 Extra Services places, across 130 rooms over five levels of accommodation. Places include a mixture of single and double rooms, with most rooms comprising individual ensuites.



Key metrics

Total FY2014 Places	165	Occupancy (%)	98%
Total FY2014 Operational Places	165	FY2013 EBITDA/place	\$18,522
Low Care	–	FY2013 average bond value per bond paying Resident	\$243,774
High Care	–	FY2013 average Government contribution per Resident	\$58,749
High Care Extra Services	165	Accreditation review date	Jul 2015

Elanora, Brighton

Located in the primarily residential suburb of Brighton, approximately 10 kilometres south of the Melbourne CBD, the Elanora facility comprises a two-level purpose built facility with a total of 142 places providing Low Care and High Care services and Extra Services to Residents. Overall, the facility has 130 single rooms and six double rooms, all of which have ensuites.



Key metrics

Total FY2014 Places	142	Occupancy (%)	96%
Total FY2014 Operational Places	142	FY2013 EBITDA/place	\$27,836
Low Care	60	FY2013 average bond value per bond paying Resident	\$320,027
High Care	31	FY2013 average Government contribution per Resident	\$60,647
High Care Extra Services	51	Accreditation review date	Nov 2016

Elouera, Torquay

Located in the Surf Coast Shire, Torquay, approximately 78 kilometres south-west of the Melbourne CBD, the Elouera facility comprises a total of 75 places providing Low Care and High Care services to Residents. The facility is constructed over two levels with the main facility on the first level and manager's residence on the second level. All rooms are single rooms with individual ensuites.



Key metrics

Total FY2014 Places	75	Occupancy (%)	93%
Total FY2014 Operational Places	75	FY2013 EBITDA/place	\$22,463
Low Care	45	FY2013 average bond value per bond paying Resident	\$212,759
High Care	30	FY2013 average Government contribution per Resident	\$59,371
High Care Extra Services	–	Accreditation review date	Apr 2014

George Vowell, Mt Eliza

Located on the south-eastern corner of Nepean Highway and Cobb Road, Mount Eliza, approximately 67 kilometres south of the Melbourne CBD, the George Vowell facility comprises 90 places providing High Care services and High Care Extra Services to Residents. The facility has 79 rooms with individual ensuites, configured across three wings. The Valley View and Lakeside wings each comprise 30 single rooms with ensuites and the Wattle wing comprises a total of 19 rooms, with a mixture of single and double room configurations.



Key metrics

Total FY2014 Places	90	Occupancy (%)	97%
Total FY2014 Operational Places	90	FY2013 EBITDA/place	\$20,059
Low Care	–	FY2013 average bond value per bond paying Resident	\$198,986
High Care	60	FY2013 average Government contribution per Resident	\$60,839
High Care Extra Services	30	Accreditation review date	Jun 2015

Goonawarra, Sunbury

Located within the Hume City Council, Sunbury, approximately 40 kilometres north-west of the Melbourne CBD, the Sunbury facility comprises 120 places accommodating 80 High Care and 40 Low Care Residents. The facility has a combination of 66 single rooms and 27 double rooms, with 60 of the single rooms incorporating individual ensuites and eight dual rooms incorporating shared ensuites. All double rooms comprise a shared ensuite between two rooms.



Key metrics

Total FY2014 Places	120	Occupancy (%)	97%
Total FY2014 Operational Places	120	FY2013 EBITDA/place	\$33,449
Low Care	40	FY2013 average bond value per Resident	\$172,101
High Care	80	FY2013 average Government contribution per Resident	\$71,642
High Care Extra Services	–	Accreditation review date	May 2015

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Hallam, Hallam

Located in Hallam, approximately 35 kilometres south-east of the Melbourne CBD, the Hallam facility comprises 60 places providing High Care services to Residents. The facility is older style in nature, comprising 29 double and two single rooms with shared ensuites.



Key metrics

Total FY2014 Places	60	Occupancy (%)	93%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$17,977
Low Care	–	FY2013 average bond value per bond paying Resident	\$36,065
High Care	60	FY2013 average Government contribution per Resident	\$71,516
High Care Extra Services	–	Accreditation review date	Aug 2015

Kelaston, Ballarat

Located in Wendouree, approximately four kilometres north-west of the Ballarat CBD and 115 kilometres north-west of the Melbourne CBD, the Kelaston facility comprises a single storey 60 place establishment that has been progressively developed over recent years. All 60 places are single rooms with individual ensuites comprising 30 Low Care and 30 High Care places.



Key metrics

Total FY2014 Places	90	Occupancy (%)	100%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$22,328
Low Care	30	FY2013 average bond value per bond paying Resident	\$223,435
High Care	30	FY2013 average Government contribution per Resident	\$65,298
High Care Extra Services	–	Accreditation review date	Jul 2015

Kingston Gardens, Springvale South

Located in Springvale South, approximately 25 kilometres south-east of the Melbourne CBD, the Kingston facility has a total of 72 places providing Low Care services to Residents. The facility is divided into three sections. Sections A and B comprise the original construction with section C the extension. The accommodation comprises a separate reception and office area, large central activities and dining area, additional sitting and lounge rooms, commercial laundry, commercial kitchen and Resident rooms. Paved enclosed courtyards are accessible from the common areas.



Key metrics

Total FY2014 Places	72	Occupancy (%)	97%
Total FY2014 Operational Places	72	FY2013 EBITDA/place	\$16,278
Low Care	72	FY2013 average bond value per bond paying Resident	\$127,213
High Care	–	FY2013 average Government contribution per Resident	\$62,036
High Care Extra Services	–	Accreditation review date	Dec 2016

Kirralee, Ballarat

Located in Ballarat East, approximately three kilometres east of the Ballarat CBD and approximately 115 kilometres north-west of the Melbourne CBD, the Kirralee facility comprises 100 places within 36 single and 32 double rooms, providing High Care services to Residents. The facility is comprised of five wings, three to the rear and two to the side with a nurses' station and pans rooms to each wing.



Key metrics

Total FY2014 Places	100	Occupancy (%)	98%
Total FY2014 Operational Places	100	FY2013 EBITDA/place	\$18,278
Low Care	–	FY2013 average bond value per bond paying Resident	\$160,482
High Care	100	FY2013 average Government contribution per Resident	\$66,488
High Care Extra Services	–	Accreditation review date	Mar 2016

Lower Plenty Garden Views, Lower Plenty

Located in Lower Plenty, approximately 18 kilometres north-east of the Melbourne CBD, the Lower Plenty Garden Views facility comprises a total of 90 places, providing Low Care and High Care services to Residents. The Resident rooms are accommodated over two levels, with the ground level comprising 45 single rooms with individual ensuites and the upper level comprising 45 single rooms, five of which incorporate private ensuites and 40 incorporate shared one between two bathrooms.



Key metrics

Total FY2014 Places	90	Occupancy (%)	100%
Total FY2014 Operational Places	90	FY2013 EBITDA/place	\$21,411
Low Care	45	FY2013 average bond value per bond paying Resident	\$239,128
High Care	45	FY2013 average Government contribution per Resident	\$56,585
High Care Extra Services	–	Accreditation review date	Jul 2016

Millward, Doncaster

Located in Doncaster East, approximately 20 kilometres north-west of the Melbourne CBD, the Millward facility comprises 163 places, providing Low Care and High Care services to Residents. The facility is constructed over three levels, the top two levels of which make up the aged care facility and the ground level, the Sydney Williams retirement village.



Key metrics*

Total FY2014 Places	163	Occupancy (%)	99%
Total FY2014 Operational Places	163	FY2013 EBITDA/place	\$18,669
Low Care	50	FY2013 average bond value per bond paying Resident	\$256,372
High Care	113	FY2013 average Government contribution per Resident	\$64,334
High Care Extra Services	–	Accreditation review date	Sep 2014

* Includes a 63 place expansion to be completed in FY2014.

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Mirridong, Bendigo

Located on the southern side of McIvor Highway, Bendigo, approximately 150 kilometres north of the Melbourne CBD, the Mirridong facility comprises 60 places providing High Care services to Residents with 10 double rooms and 40 single rooms. Four of the double rooms comprise private ensuites and 36 of the single rooms comprise a private ensuite.

The facility is currently undertaking an expansion which will increase the facility's capacity to 90 places.



Key metrics*

Total FY2014 Places	90	Occupancy (%)	95%
Total FY2014 Operational Places	90	FY2013 EBITDA/place	\$17,517
Low Care	–	FY2013 average bond value per bond paying Resident	\$252,614
High Care	90	FY2013 average Government contribution per Resident	\$78,938
High Care Extra Services	–	Accreditation review date	Jun 2015

* Includes a 30 place expansion to be completed in FY2014.

Narracan Gardens, Moe

Located in Newborough, the Narracan Gardens facility comprises 167 places providing High Care and Low Care services to Residents. The facility has 10 double rooms and 87 single rooms. The original building was made up of the Erica and Banksia Wings comprising 32 High Care places with 17 dementia specific places sharing six bathrooms. The majority of the remaining rooms have private ensuites, with some comprising one ensuite between two rooms.



Key metrics

Total FY2014 Places	167	Occupancy (%)	92%
Total FY2014 Operational Places	167	FY2013 EBITDA/place	\$23,926
Low Care	60	FY2013 average bond value per bond paying Resident	\$121,740
High Care	107	FY2013 average Government contribution per Resident	\$65,090
High Care Extra Services	–	Accreditation review date	Oct 2014

Roccoco, Geelong

Located in St Albans Park, approximately five kilometres south-east of the Geelong CBD and 80 kilometres south-west of the Melbourne CBD, the Roccoco facility comprises 77 places providing Low Care and High Care services to Residents.



Key metrics

Total FY2014 Places	77	Occupancy (%)	92%
Total FY2014 Operational Places	77	FY2013 EBITDA/place	\$22,390
Low Care	17	FY2013 average bond value per bond paying Resident	\$139,453
High Care	60	FY2013 average Government contribution per Resident	\$69,955
High Care Extra Services	–	Accreditation review date	Oct 2015

Rosanna Views, Rosanna

Located in Rosanna, approximately 16 kilometres north-east of the Melbourne CBD, the Rosanna facility comprises 96 places providing High Care and Low Care services to Residents. The facility is constructed over two levels, providing a natural separation of the Low Care and High Care operations. The upper level is utilised for High Care Residents and the lower level for Low Care Residents. Also on the lower level is a reception, a large living and dining area, private dining/function room, additional sitting rooms, hairdresser room and commercial kitchen. Paved, enclosed courtyards are accessible from the central activities area.



Key metrics

Total FY2014 Places	96	Occupancy (%)	96%
Total FY2014 Operational Places	96	FY2013 EBITDA/place	\$27,860
Low Care	45	FY2013 average bond value per bond paying Resident	\$205,967
High Care	51	FY2013 average Government contribution per Resident	\$62,962
High Care Extra Services	–	Accreditation review date	May 2015

Sandhurst, Carrum Downs

Located in Carrum Downs, approximately 34 kilometres south-east of the Melbourne CBD, the Sandhurst facility comprises 30 places providing High Care services to Residents. The facility is constructed over a single level and comprises a large central activities area, additional lounge/sitting rooms, multi-purpose room, commercial kitchen and commercial laundry. The Resident rooms comprise 30 single rooms with private ensuites.



Key metrics

Total FY2014 Places	30	Occupancy (%)	97%
Total FY2014 Operational Places	30	FY2013 EBITDA/place	\$18,715
Low Care	–	FY2013 average bond value per bond paying Resident	\$70,372
High Care	30	FY2013 average Government contribution per Resident	\$67,815
High Care Extra Services	–	Accreditation review date	Feb 2015

Scottvale, Dandenong

Located in Dandenong, approximately 30 kilometres south-east of the Melbourne CBD, the Scottvale facility comprises 110 places providing Low Care and High Care services to Residents. The 87 ward facility, originally constructed in 2004 with an extension undertaken in 2007, comprises 110 places with 64 single and 23 two place wards. Resident wards are accommodated on the ground level and staff facilities located on the first level of the building.



Key metrics

Total FY2014 Places	110	Occupancy (%)	88%
Total FY2014 Operational Places	110	FY2013 EBITDA/place	N/A
Low Care	65	FY2013 average bond value per bond paying Resident	N/A
High Care	45	FY2013 average Government contribution per Resident	N/A
High Care Extra Services	–	Accreditation review date	Sep 2014

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Springvale, Springvale

Located in Springvale, approximately 20 kilometres south-east of the Melbourne CBD, the Springvale facility comprises 73 places providing High Care services to Residents. The facility is built over two levels and has been progressively developed in recent years. All rooms have ensuites, with the majority being shared between two rooms.



Key metrics

Total FY2014 Places	73	Occupancy (%)	90%
Total FY2014 Operational Places	73	FY2013 EBITDA/place	\$23,248
Low Care	–	FY2013 average bond value per bond paying Resident	\$344,594
High Care	73	FY2013 average Government contribution per Resident	\$72,140
High Care Extra Services	–	Accreditation review date	Apr 2014

St Judes, Narre Warren

Located in Narre Warren North, approximately 38 kilometres south-east of the Melbourne CBD, the St Judes facility comprises a single storey 60 place establishment providing High Care services to Residents. The recently constructed facility consists a total of 15 double rooms with the remainder being single rooms with a combination of single and shared bathrooms.



Key metrics

Total FY2014 Places	60	Occupancy (%)	92%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$18,939
Low Care	–	FY2013 average bond value per bond paying Resident	\$105,947
High Care	60	FY2013 average Government contribution per Resident	\$66,249
High Care Extra Services	–	Accreditation review date	Apr 2015

Strzelecki House, Mirboo North

Located in the historic township of Mirboo North, approximately 30 kilometres south of Moe and approximately 125 kilometres east of the Melbourne CBD, the Strzelecki House facility comprises 30 Low Care single rooms and 30 High Care dual rooms, all with ensuites shared between two Residents. Six of the rooms have private ensuites. The facility features linen and storage rooms, staff rooms, a lounge room, dining area and a commercial kitchen.



Key metrics

Total FY2014 Places	60	Occupancy (%)	95%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$20,375
Low Care	30	FY2013 average bond value per bond paying Resident	\$98,658
High Care	30	FY2013 average Government contribution per Resident	\$62,152
High Care Extra Services	–	Accreditation review date	Sep 2015

Vonlea Manor, Geelong

Located in Norlane, approximately 10 kilometres north of the Geelong CBD and approximately 60 kilometres south of the Melbourne CBD, the Vonlea Manor facility comprises 38 places providing Low Care services to Residents within a single level dementia specific building, with all rooms comprising private ensembles. There is a central recreational area, administration areas and two separate internal courtyards contained within the building.



Key metrics

Total FY2014 Places	38	Occupancy (%)	100%
Total FY2014 Operational Places	38	FY2013 EBITDA/place	\$19,679
Low Care	38	FY2013 average bond value per bond paying Resident	\$126,047
High Care	–	FY2013 average Government contribution per Resident	\$64,659
High Care Extra Services	–	Accreditation review date	Nov 2016

Sandhill, Launceston

Located in South Launceston, approximately four kilometres from the Launceston CBD, the Sandhill facility comprises 134 places providing Low Care and High Care services to Residents. The purpose built facility, completed in 2009, is constructed over three levels and comprises both single and dual place rooms. All wards are accommodated on the ground and first floors.



Key metrics

Total FY2014 Places	134	Occupancy (%)	91%
Total FY2014 Operational Places	132	EBITDA/place	\$18,306
Low Care	36	FY2013 average bond value per bond paying Resident	\$188,458
High Care	96	FY2013 average Government contribution per Resident	\$61,096
High Care Extra Services	–	Accreditation review date	May 2015

Brighton, South Brighton

Located in South Brighton, approximately 12 kilometres south-west of the Adelaide CBD, the Brighton facility comprises 76 places providing High Care services to Residents. South Brighton is a coastal suburb located along Adelaide's western shoreline and features access to Kingston Park and associated Aboriginal history.



Key metrics

Total FY2014 Places	76	Occupancy (%)	97%
Total FY2014 Operational Places	76	FY2013 EBITDA/place	\$25,439
Low Care	–	FY2013 average bond value per bond paying Resident	\$142,676
High Care	76	FY2013 average Government contribution per Resident	\$65,257
High Care Extra Services	–	Accreditation review date	May 2016

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Lakes Entrance, Lakes Entrance

Located in the central Gippsland town of Kalimna, approximately 320 kilometres east of Melbourne and two kilometres west of the town centre, the Lakes Entrance facility comprises 75 places, 68 of which are currently operational, providing Low Care and High Care services to Residents. Originally built in circa 1985, the facility is constructed in three stages over four wings.



Key metrics

Total FY2014 Places	75	Occupancy (%)	93%
Total FY2014 Operational Places	68	FY2013 EBITDA/place	\$12,710
Low Care	38	FY2013 average bond value per bond paying Resident	\$125,972
High Care	30	FY2013 average Government contribution per Resident	\$60,282
High Care Extra Services	–	Accreditation review date	May 2016

Yarra West, Yarraville

Located in Yarraville, six kilometres west of the Melbourne CBD, the Yarra West facility comprises 70 places providing High Care services to Residents. The facility incorporates a part double storey aged care facility with single, double and three place wards, with either private ensuites or separate ablutions, resident lounges/dining rooms, a laundry, kitchen, staff support rooms and offices.

A 24 place extension was undertaken in circa 1999 and involved included 22 single place wards with either shared or private ensuites. There are approximately 20 onsite car spaces, two central courtyards and a courtyard bordering the extension.



Key metrics

Total FY2014 Places	70	Occupancy (%)	92%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$24,419
Low Care	–	FY2013 average bond value per bond paying Resident	\$148,181
High Care	60	FY2013 average Government contribution per Resident	\$72,300
High Care Extra Services	–	Accreditation review date	Sep 2014

Albury & District, Albury

Located in Albury, approximately one kilometre north of the Albury town centre, the Albury & District facility comprises a purpose built, single level, 90 place residential aged care facility completed in 1972. The facility provides High Care services to Residents and consists of predominantly multi-bedded wards with shared bathrooms.

An additional allotment close to the eastern boundary of the residence is currently being utilised as a car park for staff and visitors.



Key metrics

Total FY2014 Places	90	Occupancy (%)	95%
Total FY2014 Operational Places	90	FY2013 EBITDA/place	\$18,366
Low Care	–	FY2013 average bond value per bond paying Resident	\$119,236
High Care	90	FY2013 average Government contribution per Resident	\$72,697
High Care Extra Services	–	Accreditation review date	Feb 2015

Kiverton Park, Chadstone

Located in East Malvern, approximately 15 kilometres south-east of the Melbourne CBD, the Kiverton Park facility comprises 30 places providing High Care services to Residents. The purpose built, single level residential aged care facility completed circa 1986 consists of 17 single and double place wards with five separate shower toilets.



Key metrics

Total FY2014 Places	30	Occupancy (%)	93%
Total FY2014 Operational Places	30	FY2013 EBITDA/place	\$27,232
Low Care	–	FY2013 average bond value per bond paying Resident	N/A
High Care	30	FY2013 average Government contribution per Resident	\$75,224
High Care Extra Services	–	Accreditation review date	Oct 2016

Viewhills Manor, Endeavour Hills

Located in Endeavour Hills, approximately 31 kilometres south-east of the Melbourne CBD, the Viewhills Manor facility comprises 120 places providing Low Care and High Care services to Residents. The facility consists of two separate purpose built, single-level residential aged care buildings completed in circa 2002 and 2004 with each building consisting of 60 place wards with private ensuites.



Key metrics

Total FY2014 Places	120	Occupancy (%)	97%
Total FY2014 Operational Places	120	FY2013 EBITDA/place	\$29,473
Low Care	60	FY2013 average bond value per bond paying Resident	\$167,792
High Care	60	FY2013 average Government contribution per Resident	\$58,798
High Care Extra Services	–	Accreditation review date	Sep 2014

Bayview Gardens, Bayview

Located in Bayview, approximately 32 kilometres north of the Sydney CBD, the Bayview Gardens facility comprises 73 places, with 60 places currently in operation, providing High Care Extra Services to Residents. The purpose built aged care facility was completed in circa 1981 and was constructed over two levels. It comprises a mixture of one to four place wards.



Key metrics

Total FY2014 Places	73	Occupancy (%)	90%
Total FY2014 Operational Places	60	FY2013 EBITDA/place	\$20,617
Low Care	–	FY2013 average bond value per bond paying Resident	\$222,965
High Care	–	FY2013 average Government contribution per Resident	\$64,390
High Care Extra Services	60	Accreditation review date	Jul 2015

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ADDITIONAL
INFORMATION

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10 | ADDITIONAL INFORMATION

10.1 Incorporation

The Company was incorporated in Victoria on 19 March 2014 as a public company.

10.2 Sale of Exiting Unitholders' Existing Shares by SaleCo

As described in Section 3.1.1, as part of the Restructure, all Unitholders will receive Shares in exchange for their Japara Securities. Unitholders will then be given the option to elect to submit an Application for some or all of those Shares or sell some or all of those Shares to SaleCo. SaleCo is a special purpose vehicle that has been established to enable the Exiting Unitholders to sell all or some of the Existing Shares they receive through the Restructure.

Exiting Unitholders, who choose to sell some or all of their Existing Shares, will have their Existing Shares sold by SaleCo to Applicants who successfully apply for Shares under the Offer. Exiting Unitholders will receive cash from the proceeds of the Offer as consideration for the sale of their Existing Shares.

Exiting Unitholders, who choose to sell their Existing Shares pursuant to the Restructure, authorise the responsible entity of the Japara Trust to execute deed polls in favour of SaleCo. Under those deed polls, Exiting Unitholders will irrevocably offer to sell their Existing Shares to SaleCo free from encumbrances and third party rights and following the commencement of conditional and deferred settlement trading of Shares on the ASX.

The Existing Shares that SaleCo acquires from the Exiting Unitholders will be transferred to successful Applicants under the Offer at the Offer Price. The price payable by SaleCo for these Existing Shares is the Offer Price. The Company will also issue New Shares to successful Applicants under the Offer.

The final number of Existing Shares to be sold by SaleCo will depend on the final level of sell-down by Exiting Unitholders. This will not be known until on or about 17 April 2014.

SaleCo has no material assets, liabilities or operations other than its interest in the deed polls described above. The directors of SaleCo are Andrew Sudholz, Linda Nicholls and Richard England. The Company has indemnified SaleCo, and the directors of SaleCo, for any loss that SaleCo, or the directors of SaleCo, may incur as a consequence of the Offer.

10.3 Material contracts

The Directors consider that there are a number of contracts which are significant or material to the Company or of such a nature that an investor may wish to have details of them when making an assessment

of whether to apply for Shares. The main provisions of these contracts are summarised below. These summaries do not purport to be complete and are qualified by the text of the contracts themselves.

10.3.1 Underwriting Agreement

The Offer is being managed and underwritten by the Lead Manager pursuant to an underwriting agreement dated 4 April 2014 between the Company, SaleCo, Japara Holdings, JPML, as responsible entity for the Japara Trust, (together the **Japara Signatories**) and the Lead Manager (**Underwriting Agreement**).

Under the Underwriting Agreement, the Lead Manager has agreed to:

- manage the Offer;
- conduct the bookbuild in respect of the Offer; and
- underwrite the Offer.

10.3.1.1 Fees and expenses

Offer management fee

The Company must pay the Lead Manager an offer management fee equal to 0.50% of the total gross proceeds of the Offer.

Underwriting fee

The Company must pay the Lead Manager an underwriting fee equal to 2.50% of the total gross proceeds.

Marketing fee

The Company must pay the Lead Manager a marketing fee equal to 0.50% of the total gross proceeds.

The above fees will become payable by the Company on the day for settlement under the Underwriting Agreement. All fees payable by the Company to the Lead Manager are exclusive of GST.

The Company has also agreed to reimburse the Lead Manager for certain reasonable costs, including all legal costs agreed to by the Company (up to \$75,000 excluding GST), certain out-of-pocket costs and any stamp or transfer duties or withholding taxes payable in respect of the Underwriting Agreement.

10.3.1.2 Representations and warranties

The Underwriting Agreement contains representations, warranties and undertakings provided by the Japara Signatories (as applicable) to the Lead Manager. The representations and warranties relate to matters such as the nature of the Japara Signatories, the conduct of the Japara Signatories (including in respect of their businesses, due diligence, disclosure and compliance with applicable laws and the ASX Listing Rules), information provided, material adverse change, insurance, insolvency, licences, litigation, the Offer Documents and the conduct of the Offer.

The Company's undertakings include that it will not, during the 90 day period after the issue and allotment of Shares under the Offer, allot or agree to allot any Shares without the prior written consent of the Lead Manager.

10.3.1.3 Indemnity

The Company, Japara Holdings and JPML as responsible entity for the Japara Trust (on a joint and several basis) agree to keep the Lead Manager and certain of the Lead Manager's affiliated parties indemnified from losses suffered in connection with the Offer, subject to customary exclusions (including fraud and gross negligence).

10.3.1.4 Termination events

If any of the following events occurs at any time from the date of execution of the Underwriting Agreement, the Lead Manager may terminate its obligations under the Underwriting Agreement:

- (disclosures in Offer Documents) in the Lead Manager's reasonable opinion a statement contained in an Offer Document is misleading or deceptive or likely to mislead or deceive, or a matter required by the Corporations Act is omitted from such document, or any such document fails to comply with the Corporations Act, the ASX Listing Rules or other applicable laws;
- (supplementary prospectus) in the reasonable opinion of the Lead Manager, the Company and SaleCo are required to issue a supplementary prospectus to comply with section 719 of the Corporations Act;
- (compliance with law) any aspect of the Offer does not comply with the Corporations Act, all regulations under the Corporations Act, the ASX Listing Rules or any other applicable law or regulation;
- (member approval) members of the Japara Trust do not approve all resolutions required to implement the Restructure;
- (Restructure) any event occurs, the consequence of which, in the reasonable opinion of the Lead Manager, is that the Restructure will not be effected within three business days of the implementation date;
- (legal proceedings) a director of the Company, SaleCo or any Japara Group Member or any person who is anticipated to become a director of the Company, SaleCo or a Japara Group Member engages in fraudulent activity with respect to the Offer or is charged with an indictable offence or is disqualified from managing a corporation under the Corporations Act or the equivalent laws of another jurisdiction;
- (voluntary escrow agreement) the voluntary escrow agreement entered into by Andrew Sudholz is withdrawn, varied, terminated, rescinded, breached, altered or amended (other than with the prior written consent of the Lead Manager);
- (withdrawal) the Company or SaleCo withdraws this Prospectus or any part of the Offer or indicates that

it does not intend to proceed with the Offer or any part of it;

- (insolvency) the Company, SaleCo or a Japara Group Member is insolvent, or there is an act or omission made which is likely to result in the Company, SaleCo or a Japara Group Member becoming insolvent;
- (certificate not given) the Company does not give the Lead Manager a closing certificate, as required under the Underwriting Agreement;
- (unable to issue or transfer Shares) the Company is prevented from allotting or issuing, or SaleCo is prevented from transferring the Shares the subject of the Offer within the time required by the ASX Listing Rules, the ASX, ASIC, applicable laws, an order of a court of competent jurisdiction or a governmental agency;
- (listing approval) approval is refused or not granted by the ASX to:
 - the admission of the Company to the official list of the ASX on or before the approval date for listing; or
 - the official quotation of all of the Shares under the Offer on the ASX or for the Shares under the Offer to be cleared through CHESS on or before the date for quotation,

or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld or the ASX indicates to the Company that approval is likely to be withdrawn, qualified (other than by customary conditions) or withheld;

- (events) any of the following events occur in respect of the Offer:
 - ASIC holds a hearing under section 739(2);
 - ASIC issues an order (including an interim order) under section 739(1A);
 - an application is made by ASIC for an order under Part 9.5 in relation to the Offer or this Prospectus;
 - ASIC commences any inquiry or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Offer or this Prospectus and such investigation or hearing becomes public or is not withdrawn or otherwise disposed of within 13 business days after it is commenced or where it is commenced less than 31 business days before the settlement date it has not been withdrawn or otherwise disposed of before the settlement date;
 - any person (other than the Lead Manager) who has previously consented to the inclusion of their name or any statement in this Prospectus withdraws that consent; or

- any person (other than the Lead Manager) gives a notice under section 730 in relation to this Prospectus; or
- (market fall) the S&P/ASX200 Index of the ASX falls by 10% or more below the level of that index as at the business day prior to the date of the Underwriting Agreement and remains at or below that level for three consecutive business days, or is at that level on the business day immediately prior to the settlement date.

If any of the following events occur at any time from the date of execution of the Underwriting Agreement until on or before the settlement date or at any other time as specified below, the Lead Manager may terminate its obligations if, in the reasonable opinion of the Lead Manager the event has, or is likely to have a materially adverse effect on the ability of the Lead Manager to market or promote or settle the Offer or the willingness of investors to subscribe for Shares under the Offer; or gives rise to, or is likely to give rise to, any liability on the part of the Lead Manager under any law or regulation or any contravention by the Lead Manager of the Corporations Act or any other law:

- (future matters) any statement or estimate in the Offer Documents which relates to a future matter is not based on reasonable grounds or, in the reasonable opinion of the Lead Manager, is unlikely to be met in the projected time frame;
- (adverse change to Japara) an event occurs which is or is likely to give rise to:
 - an adverse change in the assets, liabilities, financial position or performance, forecasts or prospects of Japara from those disclosed in any Offer Document; or
 - an adverse change in the nature of the business conducted by Japara as disclosed in any Offer Document;
- (disclosures in due diligence report) the due diligence report or any other information supplied by or on behalf of the Company, SaleCo or any Japara Group Member to the Lead Manager in relation to Japara or the Offer (including any information supplied prior to the date of the Underwriting Agreement) is in the reasonable opinion of the Lead Manager misleading or deceptive (including by omission) or likely to mislead or deceive;
- (Offer timetable) an event specified in the Offer timetable is delayed for more than three business days, unless otherwise agreed with the Lead Manager (who must act reasonably);
- (breach) the Company or SaleCo fails to perform or observe any of its obligations under the Underwriting Agreement;
- (representations and warranties) a representation or warranty contained in the Underwriting Agreement on the part of the Company or SaleCo is not true or correct;

- (breach of laws) there is a contravention by the Company, SaleCo or a Japara Group Member of the Corporations Act, the Competition and Consumer Act 2010 (Cth) or the Australian Securities and Investments Commission Act 2001 (Cth), any aged care laws (and all regulations under those acts and laws), its constituent documents or any of the ASX Listing Rules;
- (certificate) any certificate given under the Underwriting Agreement by the Company or SaleCo is false, misleading or inaccurate;
- (constitution) the Company varies any term of its constitution other than as contemplated by the Pathfinder and this Prospectus or with the prior written consent of the Lead Manager;
- (legal proceedings) any commencement of legal proceedings against the Company, SaleCo, or any Japara Group Member or against any director of the Company, SaleCo or a Japara Group Member in that capacity or any regulatory body commences any inquiry or public action against the Company, SaleCo or a Japara Group Member;
- (change in management) a change to the Chief Executive Officer, the Chief Financial Officer, or the Board occurs without the prior written consent of the Lead Manager (not to be unreasonably withheld or delayed);
- (change of law) there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State or Territory of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or State authority, including ASIC, adopts or announcements a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement); or
- (trading, banking moratorium or hostilities) any of the following occurs:
 - trading generally shall have been suspended or materially limited on the ASX, the London Stock Exchange, the Hong Kong Stock Exchange or on the New York Stock Exchange;
 - a general moratorium on commercial banking activities shall have been declared in Australia, the United Kingdom or the United States, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries; or
 - there shall have occurred any outbreak or escalation of hostilities (whether war has been declared or not) or any change in financial markets or any calamity or crisis in Australia, Hong Kong, the United Kingdom, the United States, or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries.

10.3.2 Voluntary escrow arrangements

Andrew Sudholz (Chief Executive Officer) has entered into a voluntary escrow deed with the Company in relation to all Shares he will hold through a controlled entity on Completion of the Offer. Under the voluntary escrow deed, Mr Sudholz agrees, subject to certain limited exceptions, not to deal in those Shares from Completion of the Offer until release to the ASX of the Company's audited results for the financial year ending 30 June 2015. The Shares subject to this arrangement represent approximately 6.0% of the total Shares on issue following the Offer. For further information in relation to the interests of Directors, please refer to Section 6.4.

10.3.3 Resident agreements

Japara's Approved Providers, which operate Japara's portfolio of facilities, enter into Resident agreements with each Resident. Resident agreements govern the terms on which the Resident is accommodated at the facility. All Resident agreements for the same type of care (e.g. Low Care and High Care services and Extra Services) are substantively on the same terms.

Grant of licence and level of care

Under the terms of the Resident agreement, a Resident is granted a licence to occupy a place in the facility and the Approved Provider agrees to provide the prescribed level of care (e.g. Low Care, High Care and Extra Services) in accordance with the Aged Care Act.

Accommodation bond

If an accommodation bond is payable, the Resident may elect to pay the accommodation bond:

- by lump sum;
- by making periodic payments (e.g. fortnightly); or
- partly by lump sum and partly by periodic payments.

If the Resident elects to pay the accommodation bond in a lump sum, the entire amount of the accommodation bond is payable on or before the Resident takes up their place. Alternatively, a Resident may pay the accommodation bond in a lump sum within six months after taking up their place in the facility (however, the Resident must then pay interest on the accommodation bond until it is paid).

If a Resident elects to pay the accommodation bond by making periodic payments, such payments are calculated and paid in accordance with the Aged Care Act. The Aged Care Act prescribes how periodic payments must be calculated, including the amount of each payment, the proportion of each payment representing the retention amount and interest amount, and the lump sum equivalent.

If a Resident elects to pay the accommodation bond partly by one lump sum payment and partly by periodic payment, both the lump sum and periodic payments are payable as described above.

Residents cannot be charged an accommodation bond that would result in a Resident suffering financial hardship.

The balance of the accommodation bond (being the bond less a monthly fee the Approved Provider is entitled to retain) will be refunded if the Resident:

- dies;
- ceases to occupy the place in the facility; or
- the Approved Provider ceases to be certified under the Aged Care Act.

The Approved Provider must pay interest on the balance of the accommodation bond for the period from the day after the occurrence of one of the events described above until the balance of the accommodation bond is refunded in full.

The bond balance becomes refundable to the Resident (net of retention amounts) or to the Resident's estate, immediately, if moving to another facility, or within 14 days of the grant of probate of the Resident's will.

Accommodation charge

If an accommodation charge is payable, the Resident must pay the amount determined by the Approved Provider in accordance with any amount prescribed by the Department.

The accommodation charge is payable during the Resident's occupancy (including any periods of leave as assessed under the Aged Care Act) and will continue to be payable until the Resident vacates the facility.

If the Resident does not pay the accommodation charge when it is due, the Resident may be charged interest on the outstanding amount, calculated from the date that is one month after the accommodation charge is due, until the outstanding amount is paid.

If the Resident is transferring from a Low Care place to a High Care place, the Resident may cause the transfer of the accommodation bond held by the Low Care Approved Provider to the High Care Approved Provider. The transferred accommodation bond may then be used to pay the Approved Provider in place of the accommodation charge.

The accommodation charge is payable subject to any determination under the Aged Care Act that payment would cause a Resident financial hardship.

Resident fees

The Resident agrees to pay the applicable fees prescribed by the Department, payable monthly in advance, with the first payment due on the day the Resident takes up their place in the facility. The Resident fees are payable during the Resident's occupancy (including any periods of leave as assessed under the Aged Care Act) and continue to be payable until the Resident vacates the facility.

Rules of occupancy and charter of Resident's rights and responsibilities

The Resident must comply with the rules of occupancy, which establish the minimum standard of conduct of the Resident during their accommodation in the facility.

The Resident and the Approved Provider also agree to abide by a charter of Resident's rights and responsibilities.

Termination

The Resident may terminate the Resident agreement by providing notice in writing within 14 days of signing the Resident agreement.

The agreement may also be terminated if one of the following events occurs:

- the Resident dies;
- the Resident gives seven days' written notice to the Approved Provider stating their intention to terminate;
- the facility is closing;
- the Resident fails to commence continuous occupation in the facility;
- the Resident has not paid any fees due under the Resident agreement to the Approved Provider within 42 days after the date upon which those fees became payable for a reason within the Resident's control;
- the Resident has intentionally caused serious damage to the facility, serious injury to the Approved Provider or its employees or to another Resident within the facility;
- the Resident is away from the facility for a continuous period of at least seven days for a reason other than permitted by the Aged Care Act or an emergency; or
- the facility cannot provide accommodation suitable to the Resident having regard to the Resident's long-term assessed needs as assessed by an ACAT or at least two medical or other health practitioners and the facility has agreed not to provide the kind of care the Resident needs.

The Approved Provider may also terminate the Resident agreement by requiring a Resident to leave the facility. Such a decision requires 14 days' written notice to the

Resident setting out:

- the decision and the reasons for the decision;
- the date on which the Resident must leave; and
- the Resident's rights, including access to complaints resolution mechanisms.

Default

If any money owed to the Approved Provider by the Resident under the Resident agreement (other than the accommodation bond) is not paid by its due date, the Approved Provider may charge interest on the unpaid money for the period that is the shorter of the period from one month after the money is payable until:

- the date when the amount is paid; or
- the date when the facility ceases to provide care to the Resident.

The Resident must pay all costs, charges and expenses the Approved Provider may reasonably incur as a result of any breach or default by the Resident under the Resident agreement.

Guarantee and indemnity

The Resident must nominate a guarantor who must guarantee that the Resident will perform the Resident's obligations under the Resident agreement as well as indemnifying the Approved Provider against all loss resulting from the Resident's failure to do so.

10.4 Ownership restrictions

The sale and purchase of Shares in the Company is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This section contains a general description of these laws.

10.4.1 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in the Company.

10.4.2 Foreign Acquisitions and Takeovers Act

Generally, the Foreign Acquisitions and Takeovers Act applies to acquisitions of shares and voting power in a company of 15% or more by a single foreign person

and its associates (substantial interest), or 40% or more by two or more unassociated foreign persons and their associates (aggregate substantial interest). Where an acquisition of a substantial interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Australian Federal Government's Foreign Investment Policy or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a substantial interest or an aggregate substantial interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

10.5 Selling restrictions

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction in the United States and may not be offered, sold, pledged or transferred in the United States except in accordance with an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act laws and any other applicable laws.

This Prospectus may only be distributed in Australia and, outside Australia, to persons to whom the Offer may be lawfully made in accordance with the laws of the applicable jurisdiction, provided that this Prospectus may not be distributed in the United States. The Offer is not an offer or invitation in any jurisdiction where, or to any person to whom, such an offer or invitation would be unlawful.

Each Applicant will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act and may not be offered, sold or resold in the United States, except in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable securities laws;
- it is not in the United States;
- it has not and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction

in which the Shares are offered and sold.

Each Applicant under the Institutional Offer will be required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

10.6 Tax considerations

The comments in Section 10.6 provide a general outline of Australian tax issues for Australian resident Shareholders that hold Shares in the Company on capital account for Australian income tax purposes (i.e. the comments do not apply to Shareholders who hold the Shares on revenue account or as trading shares, and non-Australian resident Shareholders). They also do not apply to Shareholders that are companies, banks, insurance companies, taxpayers that carry on a business of trading in shares or that are subject to the Taxation of Financial Arrangement rules contained in Division 230 of the Income Tax Assessment Act 1997.

The summary in Section 10.6 is general in nature and is not exhaustive of all income tax consequences that could apply in all circumstances of any given Shareholder. The individual circumstances of each Shareholder may affect the taxation implications of the investment of that Shareholder.

It is recommended that all Shareholders consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.

The summary in Section 10.6 is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the tax authority at the time of issue of this Prospectus. Tax law is complex and subject to ongoing change. The tax consequences discussed in this summary do not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in administrative practice or interpretation by the relevant authorities. If there is a change, including a change having retrospective effect, the tax, stamp duty and GST consequences should be reconsidered by Shareholders in light of the changes. The precise implications will depend upon each Shareholder's specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act. This summary is confined to taxation issues and is only one of the matters you need to consider when making a decision about your investments. You should consider taking advice from a licensed adviser, before making a decision about your investments.

The Company and its advisers disclaim all liability to any Shareholder or other party for all costs, losses,

damages and liabilities that the Shareholder or other party may suffer or incur arising from or relating to or in any way connected with the contents of this summary or the provision of this summary to the Shareholder or any other party of the reliance on it by the Shareholder or any other party.

10.6.1 Company tax status

The Company intends to form an Australian tax consolidated group. Accordingly, the Company and its Australian resident subsidiaries will together be taxed at the Australian corporate tax rate which at present is 30%.

10.6.2 Income tax treatment of dividends received for Australian resident Shareholders

In the event that a Shareholder receives a dividend from the Company, the cash dividend will be included in the Shareholder's assessable income. In addition, to the extent that the Company "franks" the dividend, the franking credit attached to the dividend should generally also be included in the Shareholder's assessable income.

Where the franking credit is included in the Shareholder's assessable income, the Shareholder should generally be entitled to a corresponding tax offset against tax payable by the Shareholder. The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, the Shareholder may be entitled to a tax refund.

To be eligible for the franking credit and tax offset, a Shareholder must satisfy the "holding period" rule and "related payments" rule. This requires that a Shareholder hold the Shares in the Company "at risk" for a period of not less than 45 days (not including the date of acquisition or the date of disposal). In addition, a Shareholder must not be obliged to make a "related payment" in respect of any dividend, unless they hold the Shares at risk for the required holding period around all dividend dates.

Shareholders should seek professional advice to determine if these requirements, as they apply to them, have been satisfied.

The holding period rule should not apply to a Shareholder who is an individual whose tax offset entitlement (for all franked distributions received in the income year) does not exceed \$5,000 for the income year in which the franked dividend is received. However, this exemption does not apply to a dividend which is subject to the related payments rule.

The Government has announced proposed changes that may apply to deny franking tax offsets to certain "dividend washing" arrangements. No legislation in respect to these proposed changes has been released at this time. Shareholders should have regard to these proposed changes in considering the tax implications of their personal circumstances.

10.6.3 Capital Gains Tax implications for Australian resident Shareholders

Where an Australian resident Shareholder holds their Shares in the Company on capital account, the disposal of the Shares should be taxed under the Capital Gains Tax (CGT) rules.

For CGT purposes, the Shareholder will make a capital gain where the capital proceeds received for the disposal of their Shares exceeds the CGT cost base of their Shares. Similarly, the Shareholder will make a capital loss where the capital proceeds received for their Shares are less than the reduced cost base of their Shares.

Broadly, the cost base and reduced cost base of the Shares should be equal to the amount paid to acquire the Shares. Certain other costs associated with holding the Shares, such as incidental costs of acquisition and disposal, may be added to the cost base and reduced cost base.

Generally, all capital gains and losses made by a Shareholder for an income year will be aggregated to determine whether the Shareholder has made a net capital gain or a net capital loss for the year. A net capital gain is included in the Shareholder's assessable income whereas a net capital loss is carried forward and may be available to set off against capital gains of later years. Capital losses cannot be offset against other assessable income.

If a Shareholder is an individual, complying superannuation entity or trust, and has held the Shares for 12 months or more before disposal of the Shares, the Shareholder will prima facie be entitled to a "CGT discount" for any capital gain made on the disposal of the Shares. Capital gains may be discounted by half in the case of individuals and trusts, and by one-third in the case of complying superannuation entities. Shareholders that are companies are not entitled to a CGT discount. Capital losses must be applied first to reduce a capital gain before applying the discount.

Where the Shareholder is a trustee of a trust that has held the Shares for 12 months or more before disposal, the CGT discount may flow through to the beneficiaries of that trust if those beneficiaries are not companies. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

10.6.4 Tax File Numbers

A Shareholder is not required to quote their Tax File Number (**TFN**), or where relevant, Australian Business Number (**ABN**), to the Company. However, if a Shareholder's TFN, ABN or exemption details are not provided, Australian tax may be required to be deducted by the Company from distribution and/or unfranked dividends at the maximum marginal tax rate plus the Medicare levy. An exemption from the requirement to withhold applies in respect of a fully franked dividend paid by the Company.

A Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN.

10.6.5 Goods and Services Tax implications

No Goods and Services Tax (**GST**) should be payable by Shareholders in respect of the acquisition or disposal of their Shares in the Company, regardless of whether or not the Shareholder is registered for GST.

The extent to which each Shareholder is entitled to recover any GST incurred on costs relating to the acquisition or disposal of Shares in the Company will depend on the individual circumstances of each Shareholder.

No GST should be payable by Shareholders on receiving dividends distributed by the Company.

10.6.6 Stamp duty

No Australian stamp duty should be payable by Shareholders in respect of the Offer or their acquisition or disposal of their Shares in the Company whilst it is a listed company. Individual Shareholders should obtain their own independent advice depending on their individual circumstances.

10.7 Interests of Directors, advisers and promoters

Sections 6.4 and 10.7.1 outline the nature and extent of the interests and fees of certain persons involved in the Offer.

Other than as set out in this Prospectus:

- No amount has been paid or agreed to be paid and no benefit has been given or agreed to be given to a Director, or proposed Director to induce them to become, or to qualify as, a Director of the Company.
- None of the following persons:
 - a Director or proposed Director of the Company;
 - each person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;

- a promoter of the Company; or
- an underwriter to the issue of Shares,

holds or held at any time during the last two years an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the offer of Shares; or
- the offer of Shares,

or was paid or given or agreed to be paid or given any amount or benefit for services provided by such persons in connection with the formation or promotion of the Company or the offer of Shares.

10.7.1 Interests of advisers

- Macquarie Capital has acted as Lead Manager of the Offer. The Company has agreed to pay Macquarie Capital the amount in accordance with the Underwriting Agreement.
- The Lead Manager has agreed to pay CBA Equities Limited as a Co-Lead Manager to the Offer a Co-Lead Manager fee of up to \$500,000, on behalf of the Company, out of fees payable to them by the Company.
- The Lead Manager has agreed to pay Morgans Corporate Limited as a Co-Lead Manager to the Offer a Co-Lead Manager fee of up to \$375,000, on behalf of the Company, out of fees payable to them by the Company.
- Each of CBA Equities Limited, Morgans Corporate Limited and Macquarie Equities Limited has acted as Syndicate Broker to the Offer. They will each receive a fee of 1.50% on their respective Broker Firm Offer allocations. All of the amounts payable to the Syndicate Brokers are payable by the Lead Manager out of the fees payable to them by the Company.
- Herbert Smith Freehills has acted as Australian legal adviser to the Company in connection with the Offer (excluding in relation to taxation). Japara has paid or agreed to pay up to \$825,000 (not including GST) for such services to the date of this Prospectus. Further amounts may be paid to Herbert Smith Freehills in accordance with its time-based charge-out rates.
- KPMG Financial Advisory Services (Australia) Pty Limited has undertaken accounting and taxation due diligence in relation to Japara in connection with the Offer and has also acted as Investigating Accountant and has prepared the Investigating Accountant's Report included in this Prospectus. Japara has paid or agreed to pay up to \$700,000 for such services to the date of this Prospectus. Further amounts may be paid to KPMG Financial Advisory Services (Australia) Pty Limited in accordance with its time-based charge-out rates.

- KPMG has acted as Taxation Adviser to the Company. Japara has paid or agreed to pay up to \$300,000 for such services to the date of this Prospectus. Further amounts may be paid to KPMG in accordance with its time-based charge-out rates.

Unless stated otherwise, all such payments have been paid or are payable in cash.

10.8 Description of the syndicate

Macquarie Capital is Lead Manager to the Offer. CBA Equities Limited and Morgans Corporate Limited are Co-Lead Managers to the Offer. Macquarie Equities Limited is Co-Manager to the Offer.

10.9 Consents to be named and to inclusion of statement and disclaimers of responsibility

Written consents to the issue of this Prospectus have been given and, at the time of lodgement of this Prospectus with ASIC, had not been withdrawn by the following parties:

- Macquarie Capital has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Lead Manager in the form and context it is so named. Macquarie Capital takes no responsibility for any part of this Prospectus other than any reference to its name.
- Herbert Smith Freehills has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Company's Australian legal adviser in the form and context it is so named. Herbert Smith Freehills takes no responsibility for any part of this Prospectus other than any reference to its name.
- KPMG Financial Advisory Services (Australia) Pty Limited has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Investigating Accountant to the Company in the form and context it is so named and has not withdrawn its consent to the inclusion in this Prospectus of its Investigating Accountant's Report in the form and context in which it is included. KPMG has also given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its consent to be named in this Prospectus as Taxation Adviser, in the form and content it is so named. KPMG takes no responsibility for any part of this Prospectus other than any reference to its name and the Investigating Accountant's Report.
- Link Market Services has given and has not withdrawn its written consent to be named as the Share Registry in the form and context in which it is

named. Link Market Services has not taken part in the preparation of any part of this Prospectus other than the recording of its name as Share Registry to the Company. Link Market Services has not authorised or caused the issue of and expressly disclaims and takes no responsibility for any part of this Prospectus.

- CBA Equities Limited has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as a Co-Lead Manager in the form and context it is so named. CBA Equities Limited takes no responsibility for any part of this Prospectus other than any reference to its name.
- Morgans Corporate Limited has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as a Co-Lead Manager in the form and context it is so named. Morgans Corporate Limited takes no responsibility for any part of this Prospectus other than any reference to its name.
- Macquarie Equities Limited has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as a Co-Manager in the form and context it is so named. Macquarie Equities Limited takes no responsibility for any part of this Prospectus other than any reference to its name.
- IBISWorld has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in this Prospectus of parts of its reports "Accommodation For The Aged in Australia," and "Nursing Homes In Australia," in the form and context in which they are included.

10.10 Costs of the Offer

The expenses connected with the Offer, which are payable by the Company, are estimated to be approximately \$19.2 million.

10.11 ASIC relief and ASX confirmations and waivers

Japara has sought the following exemption from ASIC and confirmation and waiver from the ASX in relation to the Company and the Offer:

- an exemption from the pre-prospectus advertising and publicity rules in section 734(2) of the Corporations Act to permit Japara to provide employees with certain information relating to the Offer;
- confirmation that the Company may undertake conditional and deferred settlement trading of Shares subject to certain conditions to be approved by the ASX; and

- a waiver of ASX Listing Rule 10.14 so that the Company may issue Shares, options or rights to Mr Sudholz as part of the Company's executive incentive plan over the approximately three years following the Offer without obtaining Shareholder approval, to the amount disclosed in this Prospectus.

10.12 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications are governed by the law applicable in Victoria, Australia and each Applicant for Shares under this Prospectus submits to the exclusive jurisdiction of the courts of Victoria, Australia.

10.13 Statement of Directors

This Prospectus is authorised by each Director of the Company and by each director of SaleCo, who each consent to its lodgement with ASIC and its issue.

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ADDITIONAL FINANCIAL INFORMATION

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11.1 Key accounting policies

11.1.1 Basis of preparation

The Financial Information has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the AASB and the Corporations Act 2001, although it is presented in abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by the AASB applicable to annual financial reports prepared in accordance with the Corporations Act.

The Financial Information, except for cash flow information, has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

11.1.2 Principles of consolidation

The Financial Information incorporates the assets, liabilities and results of entities controlled by the Company at the end of the reporting period. A controlled entity is any entity over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Where controlled entities have entered or left the Company during the year, the financial performance of those entities is included only for the period of the year that they were controlled.

In preparing the Financial Information, all intragroup balances and transactions between entities in the consolidated entity have been eliminated in full on consolidation.

11.1.3 Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exceptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair

value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

11.1.4 Impairment

Impairment testing is performed annually for goodwill and other intangible assets with indefinite useful lives.

The recoverable amount of the CGU to which the assets relate is calculated and if this amount is lower than the carrying value of the assets an impairment loss is recorded.

The recoverable amount of the CGU is based on the higher of the fair value of the CGU and its value-in-use.

The fair value of the CGU is calculated in accordance with both the definitions of market value, defined by the International Valuation Standards Committee and the regulations of the Corporations Act 2001. Market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction. The valuation is performed by an independent expert.

The value-in-use is calculated as the present value of future cash flows of the CGU which includes a number of assumptions and estimates, being a discount rate of 11.5% per annum and an increase in cash flows of 3% per annum. The non-occurrence of the events in relation to the assumptions and estimates may or may not impact on the achievement of the recoverable amount and any resulting impairment of the assets attributable to the CGU.

11.1.5 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Aged care facility revenue comprises daily Resident contributions and Government funding, which are both determined in accordance with Government authorised rates. Revenue from the rendering of a service or supply of a good is recognised upon the delivery of the service or good to the Resident. The Company is entitled to charge retention fees to Residents in respect of accommodation bonds held. These fees are regulated by the Government and are accrued by the Company during the Resident's period of occupancy.

Retirement village revenue comprises monthly licence fee income and accrued deferred management fee

income which is calculated in accordance with individual licence agreements.

Interest revenue is accrued on a daily basis based on the principal amount and prevailing interest rate.

Cash received in advance and goods and services invoiced in advance in relation to unearned income are recognised as deferred revenue.

All revenue is stated net of the amount of GST.

11.1.6 Financing costs

Financing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other financing costs are recognised in income in the period in which they are incurred.

11.1.7 Leases

Leases of fixed assets, including assets acquired under hire purchase agreements, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Company, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

11.1.8 Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss” in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured either at fair value, amortised cost using the effective interest rate method or at cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in the statement of profit or loss and other comprehensive income.

The Company does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at “fair value through profit or loss” when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are

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recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

11.1.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

11.1.10 Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other

comprehensive income during the financial year in which they are incurred.

Development works in progress

Capital expenditure incurred in the course of development activities are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Upon completion, the asset is reclassified as property, plant and equipment or leasehold improvements.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Company commencing from the time the asset is held ready for use. Leased plant and equipment and leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the equipment and improvements.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Land	Nil
Buildings ¹	2.0%
Plant, property and equipment	4% to 25%
Leasehold improvements	Lower of lease term or useful life

1. Average remaining useful life of the buildings as at 31 December 2013 is 38 years based on an accounting policy to depreciate this class of asset over 50 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income.

Investment property

Investment properties comprise Land and Buildings, including integral plant and equipment, held for the purpose of earning rental income, capital appreciation, or both. They are initially recognised at cost (including any acquisition costs). Once initially recorded, the property assets are thereafter carried at fair value. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Company.

Once initially recognised, investment properties are stated at fair value at each balance date. Any gain or loss arising from a change in fair value is recognised in the statement of profit or loss and other comprehensive income in the period.

Land held for sale

Land held for development and sale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, foreign currency movements, borrowing costs and holding costs until completion of development. Borrowing costs, foreign currency movements and holding charges incurred after development is completed, are expensed. Profits are brought to account on the signing of an unconditional contract of sale.

11.1.11 Trade and other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

11.1.12 Intangible assets

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the fair value of the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Resident places

Resident places are issued by the Government to Approved Providers, and can also be purchased from third parties. Resident places are stated at cost or fair value at acquisition less any accumulated impairment losses. The Resident places are not amortised as the Directors believe that they have a long indeterminate life and are not expected to diminish in value over time. Accordingly, no significant depreciable amount exists that requires amortisation.

The carrying amounts of the Resident places are reviewed at the end of each reporting period to ensure that they are not valued in excess of their recoverable amounts.

11.1.13 Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a “loss event”) having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified into profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the Company gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using the probability weighted discounted

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cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Impairment of assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Impairment testing is performed annually for goodwill, customer related intangibles and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

11.1.14 Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

In connection with the Restructure, the Company and its wholly owned Australian subsidiaries intend to form an income tax consolidated group under the Tax Consolidation Regime. On formation of the tax consolidated group, each entity in the group will recognise its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which will be immediately assumed by the parent entity. The tax liability of each group entity will then be subsequently assumed by the parent entity. The group will notify the Tax Office once it forms the tax consolidated group, expected to be on or around 22 April 2014. The tax consolidated group will enter a tax sharing agreement whereby each company in the group will contribute to the income tax payable in proportion to their contribution to profit before income tax of the tax consolidated group.

11.1.15 Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the Company that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

11.1.16 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

11.1.17 Accommodation bond liabilities

Accommodation bonds are non-interest bearing deposits made by Residents to the Company upon admission. These deposits are liabilities which fall due and payable when the Resident leaves the facility. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

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

11.1.18 ILU Resident loan liabilities and deferred management fee receivables

ILU Resident loans are non-interest bearing payments made by retirement village residents to the Company upon signing of a licence agreement to occupy an ILU. These payments are liabilities which fall due and payable upon termination of the licence less the deferred management fee calculated in accordance with the licence. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

ILU Resident loan liabilities are recorded at an amount equal to the proceeds received, net of the accrued deferred management fee.

Deferred management fees crystallise upon the termination of the loan licence agreement. As such, the deferred management fee receivables are recorded at present value based upon an expected occupancy period until termination of the loan licence agreement. Therefore deferred management fees contain both current and non-current elements.

11.1.19 Provisions

Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at balance date.

11.2 Additional financial information

The following tables seek to show the statutory reconciliation of Japara Holdings and the Japara Trust on a line by line basis and relative contribution to earnings and cash flow from Japara Holdings and the Japara Trust and the effect of the Restructure on the statement of financial position.

Table 27: Pro forma consolidated historical statements of income

(June year end, \$ in millions)	FY2012 pro forma				FY2013 pro forma				H1FY2014 pro forma			
	Japara Holdings	Japara Trust	Eliminations	Japara	Japara Holdings	Japara Trust	Eliminations	Japara	Japara Holdings	Japara Trust	Eliminations	Japara
Revenue												
Government care funding	161.1	-	-	161.1	167.2	-	-	167.2	87.5	-	-	87.5
Resident care funding	43.9	-	-	43.9	45.8	-	-	45.8	24.3	-	-	24.3
Accommodation funding	13.7	-	-	13.7	14.3	-	-	14.3	7.2	-	-	7.2
Other	4.5	20.2	(21.6)	3.1	4.1	21.1	(22.6)	2.6	3.0	11.2	(12.0)	2.1
Total revenue	223.1	20.2	(21.6)	221.7	231.4	21.1	(22.6)	229.9	122.1	11.2	(12.0)	121.2
Operating costs												
Staff costs	(144.4)	-	-	(144.4)	(152.6)	-	-	(152.6)	(81.6)	-	-	(81.6)
Resident costs	(21.1)	-	-	(21.1)	(24.3)	-	-	(24.3)	(13.3)	-	-	(13.3)
Other costs	(30.3)	(1.8)	21.6	(10.5)	(31.4)	(2.4)	22.6	(11.2)	(17.3)	(1.1)	12.0	(6.4)
Total operating costs	(195.8)	(1.8)	21.6	(176.0)	(208.4)	(2.4)	22.6	(188.1)	(112.3)	(1.1)	12.0	(101.3)
EBITDA (before significant items)	27.3	18.4	-	45.8	23.0	18.8	-	41.7	9.8	10.1	-	19.9
Depreciation	(4.9)	-	-	(4.9)	(5.0)	-	-	(5.0)	(3.1)	-	-	(3.1)
EBIT (before significant items)	22.4	18.4	-	40.8	18.0	18.8	-	36.7	6.7	10.1	-	16.7
Significant items	(1.2)	3.0	-	1.8	(2.3)	2.1	-	(0.2)	(0.8)	2.0	-	1.2
EBIT	21.2	21.4	-	42.6	15.7	20.8	-	36.5	5.8	12.1	-	17.9
Net interest expense	(3.2)	(11.3)			(1.8)	(8.5)			(1.2)	(3.9)		
Profit before tax	18.0	10.1			13.9	12.3			4.7	8.2		
Tax expense	(5.6)	-			(4.2)	-			(1.4)	-		
Net profit after tax	12.4	10.1			9.7	12.3			3.2	8.2		

Table 28: Pro forma consolidated historical statement of financial position as at 31 December 2013

Table 28 represents a consolidation of the Statement of Financial Position of Japara Holdings and the Japara Trust as at 31 December 2013, based on their respective audited accounts as at that date, and other adjustments which are detailed in the footnotes below this table. The table is not meant to add across from the first column to the last column due to the nature of how the Restructure is accounted for and the order of the Restructure steps. The last footnote below this table highlights how the final column ("Pro forma pre impact of Offer") is calculated.

(As at 31 December 2013, \$ in millions)	Japara Trust statutory	Japara Holdings statutory	Shareholder dividend declared	Japara Holdings acquisition	Elimination of Japara Holdings investment	Other eliminations	Japara Trust distribution	Change in classification of property	Change in accounting for ILUs properties	Pro forma pre impact of Offer
Current assets										
Cash assets	7.1	38.6	-	38.6	-	-	(3.2)	-	-	42.4
Trade and other receivables	-	5.9	-	5.9	-	-	-	-	-	5.9
Other current assets	7.1	3.2	-	3.2	-	(6.8)	-	-	-	3.5
Total current assets	14.2	47.7	-	47.7	-	(6.8)	(3.2)	-	-	51.8
Non-current assets										
Property, plant and equipment	-	66.8	-	66.8	-	-	-	268.2	-	335.0
Investment property	268.2	10.2	-	10.2	-	-	-	(268.2)	7.9	18.2
Deferred tax assets	-	11.4	-	11.4	-	-	-	-	-	11.4
Intangibles	-	181.3	-	384.6	-	-	-	-	(2.1)	382.5
Other non-current assets	-	1.5	-	1.5	-	-	-	-	-	1.5
Investments	-	6.6	-	6.6	(6.6)	-	-	-	-	-
Total non-current assets	268.2	277.7	-	481.0	(6.6)	-	-	-	5.8	748.5
Total assets	282.4	325.4	-	528.7	(6.6)	(6.8)	(3.2)	-	5.8	800.3
Liabilities										
Trade and other payables	3.0	34.7	-	34.7	-	(6.8)	-	-	-	30.9
Borrowings	115.3	33.5	-	33.5	-	-	-	-	-	148.8
Other financial liabilities	1.6	207.7	-	207.7	-	-	-	-	1.2	210.5
Current tax liability	-	-	-	-	-	-	-	-	-	-
Provisions	-	20.7	-	20.7	-	-	-	-	-	20.7
Other current liabilities	-	7.0	-	7.0	-	-	-	-	-	7.0
Distributions payable	3.2	-	-	-	-	-	(3.2)	-	-	-
Total current liabilities	123.1	303.6	-	303.6	-	(6.8)	(3.2)	-	1.2	417.8
Non-current liabilities										
Deferred tax liabilities	-	4.2	-	4.2	-	-	-	-	-	4.2
Provisions	-	1.7	-	1.7	-	-	-	-	-	1.7
Total non-current liabilities	-	5.9	-	5.9	-	-	-	-	-	5.9
Total liabilities	123.1	309.5	-	309.5	-	(6.8)	(3.2)	-	1.2	423.7
Net assets	159.3	15.8	-	219.1	(6.6)	-	-	-	4.7	376.5
Equity										
Issued capital/Units Issued	141.8	0.1	-	219.1	-	-	-	-	-	360.9
Other reserves	(1.6)	(21.5)	21.5	-	-	-	-	-	-	(1.6)
Retained earnings	19.2	37.2	(21.5)	-	(6.6)	-	-	-	4.7	17.3
Total equity	159.3	15.8	-	219.1	(6.6)	-	-	-	4.7	376.5

11 | ADDITIONAL FINANCIAL INFORMATION

Notes:

Japara Trust and Japara Holdings statutory - the Japara Trust and Japara Holdings balance sheets as at 31 December 2013 reflect the statement of financial position as audited by Nexia.

Shareholder dividend declared - under the Offer, the shareholders of CRPSM Pty Ltd (a special purpose vehicle that is a shareholder in Japara Holdings) will sell their shares in Japara Holdings and use said proceeds to repay a \$21.5 million loan from Japara Holdings. Japara Holdings will then distribute these funds to the pre Offer owners of Japara Holdings by way of a dividend. The effect of this is a credit to the reserve (as CRPSM Pty Ltd is no longer controlled by Japara Holdings) and a debit to retained earnings to reflect the dividend.

Japara Holdings acquisition entry - the Japara Holdings business has been valued at \$219.1 million as part of the Offer giving rise to \$233.4 million goodwill amount arising on acquisition by the Company.

Elimination of Japara Holdings investment - at 31 December 2013, Japara Holdings owned approximately six million Japara Units with a book value of \$6.6 million. This adjustment represents the elimination of the investment as the Company cannot have an investment in itself. The carrying value of the investment is not materially different to the current market value. On 1 January 2014, Japara Holdings acquired a further three million Japara Units for a consideration of \$3.3 million. This transaction is not reflected in the pro forma balance sheet above on the grounds it occurred post 31 December 2013 (i.e. pro forma date).

Other eliminations - intra group transactions between Japara Holdings and the Japara Trust at 31 December of \$6.8 million have been eliminated.

Japara Trust distribution - a \$3.2 million distribution payable at 31 December 2013 to Unitholders in the Japara Trust will be paid pre-Offer.

Change in classification of property - land and buildings of the Japara Trust were independently valued at 31 December 2013 and reflect a fair value of \$268.2 million. The Company will adopt a historical cost and depreciation approach to all aged care facilities (excluding retirement villages) from Offer date which means these properties will be classed as plant, property and equipment and depreciated accordingly.

Change in accounting for ILU properties - ILUs currently owned by the Japara Trust will be transferred to the Company. Currently the licence and operation is carried in the books of Japara Holdings. The adjustment reflects bringing the ILU properties and their associated Resident loans recognised in the Japara Trust onto the Company's books at their fair value which means an accounting policy change where previously these were carried based on an expectation of future rental yield.

Pro forma of pre impact of Offer - reflects the sum of the following items: Japara Trust statutory, Japara Holdings acquisition entry, Elimination of Japara Holdings investment, Other eliminations, Japara Trust distribution, Change in classification of property and Change in accounting for ILUs.

Table 29: Pro forma consolidated historical statements of cash flows

	FY2012 pro forma			FY2013 pro forma			H1FY2014 pro forma					
	Japara Holdings	Japara Trust	Eliminations	Japara Holdings	Japara Trust	Eliminations	Japara Holdings	Japara Trust	Eliminations			
(Year ended 30 June, \$ in millions)												
EBITDA (before individually significant items)	28.1	17.7	-	45.8	23.1	18.6	-	41.7	9.8	10.1	-	19.9
Changes in net working capital	3.3	0.7	0.4	4.4	6.7	(1.7)	-	5.0	13.8	-	-	13.8
Non-cash items in EBITDA	(2.7)	-	-	(2.7)	(2.9)	-	-	(2.9)	(2.0)	-	-	(2.0)
Net cash inflow from operating activities before interest and tax	28.7	18.4	0.4	47.5	26.9	16.9	-	43.8	21.6	10.1	-	31.7
Bond related cash flow	22.6	-	-	22.6	9.2	-	-	9.2	9.2	-	-	9.2
Maintenance capital expenditure	(1.9)	(0.4)	-	(2.3)	(2.4)	(0.7)	-	(3.1)	(1.1)	(0.1)	-	(1.2)
Net cash inflow before investment, interest, tax, financing activities (excl. bond finance), acquisitions and brownfields expenditure	49.4	18.0	0.4	67.8	33.7	16.2	-	49.9	29.7	10.0	-	39.7
Acquisition of aged care businesses	-	-	-	-	(0.7)	(5.2)	-	(5.9)	(3.0)	(24.9)	13.5	(14.4)
Building works in progress	(3.1)	-	-	(3.1)	(10.9)	-	-	(10.9)	(16.7)	-	-	(16.7)
Net cash inflow before interest, tax and financing activities	46.3	18.0	0.4	64.7	22.1	11.0	-	33.1	10.0	(14.9)	13.5	8.6

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A caregiver with blonde hair, wearing a white short-sleeved uniform, is smiling down at an elderly person. She is holding a clear glass of water in her right hand and a yellow sponge in her left hand. The elderly person's head and arm are visible in the foreground. The background is a bright, out-of-focus indoor setting.

GLOSSARY

12

12 | GLOSSARY

Term	Definition
15% Entitlement	The entitlement of each Unitholder to a proportion of 15% of the net equity value of Japara Holdings (valued on Completion of the Offer), pursuant to the terms of the Japara Holdings 15% Entitlement Deed Poll, calculated based on the dollar value of the Unitholder's initial investment in Japara Units and the amount of time that Unitholder has held their Japara Units
AASB	Australian Accounting Standards Board
ABN	Australian Business Number
ACATs	Aged Care Assessment Teams
ACN	Australian Company Number
ACSAG	Aged Care Service Australia Group Pty Ltd (ABN 32 110 281 760)
AFSL	Australian Financial Services Licence
Aged Care Act	Aged Care Act 1997 (Cth)
AML/CTF Act	Anti-Money Laundering and Counter-Terrorism Financing Act 2006
Applicant	A person who submits an Application
Application	An application for Shares under the Offer described in this Prospectus
Application Form	Each of the paper and electronic application forms attached to, or accompanying this Prospectus upon which an Application may be made
Application Monies	The amount accompanying an Application Form submitted by an investor
Approved Provider	Aged care provider as accredited by the Department
Approved Resident	Each Resident eligible for funding as determined by ACATs
ARSN	Australian Registered Scheme Number
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rules	The listing rules of the ASX, with any modification or waivers which the ASX may grant to Japara from time to time
ASX Recommendations	The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations
ASX Settlement Operating Rules	The settlement and operating rules of the ASX
Board	The board of Directors
Broker Firm Offer	The invitation to Australian resident investors from a Syndicate Broker to acquire Shares offered under this Prospectus
CAGR	Compound Annual Growth Rate
CGT	Capital Gains Tax
CGU	Cash Generating Unit
Co-Lead Managers	CBA Equities Limited (ABN 76 003 485 952) and Morgans Corporate Limited (ABN 32 010 539 607)
Co-Manager	Macquarie Equities Limited (ABN 41 002 574 923)
Committee	Each of the: – Audit, Risk and Compliance Committee; and – Remuneration and Nomination Committee. as the contexts requires
Company	Japara Healthcare Limited (ABN 54 168 631 052)
Completion of the Offer	Completion of the Restructure and the allotment of Shares under this Prospectus
Concessional Resident	Residents who cannot fully meet their accommodation costs whereby the Government pays an accommodation supplement to the facility in which they live

Term	Definition
Constitution	The constitution of the Company as amended from time to time
Corporations Act	Corporations Act 2001 (Cth)
DAPs	Daily Accommodation Payments
Department	Department of Social Services
Directors	The board of directors of the Company
EPS	Earnings per Share
Existing Investor	A Unitholder or a Japara Holdings Shareholder
Existing Shares	Shares issued to all Unitholders as part of the Restructure
Exiting Unitholder	A Unitholder who chooses via an irrevocable deed poll to dispose of Existing Shares received as part of the Restructure by transferring those Existing Shares to SaleCo, in exchange for the proceeds of the sale of those Existing Shares to Applicants under the Offer
Expiry Date	The date that is 13 months after the date of this Prospectus
Exposure Period	The seven day period after the date of lodgement of the Prospectus with ASIC, which ASIC may extend by a further seven days
Extra Services	The provision of the same level of care as High Care and Low Care with additional “hotel type” services, such as catering, cleaning and laundry
Financial Information	Financial information as defined in Section 4 of this Prospectus
Forecast Financial Information	Together the Statutory Forecast Financial Information and the Pro forma Forecast Financial Information
Forecast Period	The period from Completion of the Offer until 30 June 2015
Government	The Commonwealth Government of Australia
Gross Asset Value	Total asset value of Japara including properties and any other current or non-current assets
GST	Goods and Services Tax
GST Law	GST law as defined in section 195-1 of the A New Tax System (Goods and Services Tax) Act 1999
High Care	Nursing care services, in addition to personal care services, that are generally provided to Residents who need almost complete assistance with most activities of daily living
ILU	Independent Living Unit
ILU Resident	A Resident who occupies a place in an ILU
Institutional Investor	A person to whom offers and issues of Shares may lawfully be made without the need for disclosure under Chapter 6D.2 of the Corporations Act or without any other lodgement, registration or approval with or by a government agency (other than one with which Japara, in its absolute discretion, is willing to comply)
Institutional Offer	The Offer under this Prospectus to certain Institutional Investors to apply for Shares
Investigating Accountant	KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Limited (ABN 43 007 363 215)
Investigating Accountant's Report	The report prepared by the Investigating Accountant set out in Section 8
Japara	Means: – before completion of the Restructure, the business carried on by Japara Holdings, the Japara Trust and their respective controlled entities; and – after completion of the Restructure, the business carried on by the Company and its controlled entities
Japara Group Member	Any entity within the Japara group
Japara Holdings	Japara Holdings Pty Ltd (ABN 18 110 466 889)

12 | GLOSSARY

Term	Definition
Japara Holdings 15% Entitlement Deed Poll	The deed poll given by Japara Holdings in favour of the Unitholders relating to the 15% Entitlement
Japara Holdings Shareholder	– Ashens Properties Pty Ltd (ABN 29 007 159 917) as trustee for the Sudholz Family Discretionary Trust – Finmare Pty Ltd (ACN 005 709 455) as trustee for the A&J Colman Family Trust – CRPSM Pty Ltd (ABN 27 159 466 234) – Samraj Pty Limited (ACN 005 509 213) as trustee for the Reid Family Trust No. 2 – Wanganui Pty Ltd (ACN 005 198 738) as trustee for the Peck Von Hartel Super Fund – John McKenna and Philippa McKenna as trustees for the McKenna Family Trust
Japara Securities	Japara Units and each Unitholder's 15% Entitlement in respect of their Japara Units
Japara Signatories	The parties to the Underwriting Agreement being the Company, SaleCo, Japara Holdings, JPML and the Lead Manager
Japara Trust	Japara Aged Care Property Trust (ARSN 117 176 048)
Japara Unit	A unit in the Japara Trust
JPML	Japara Property Management Limited (ACN 113 425 086), as responsible entity for the Japara Trust
Lead Manager	Macquarie Capital (Australia) Limited (ABN 79 123 199 548)
LGA	Local Government Area
Listing	The commencement of trading in Shares on the official list of the ASX, initially on a conditional and deferred settlement basis
Loan Plan	The loan plan described in Section 6.4.3.1
Low Care	Personal care services, such as assistance with daily living which may include clinical care support, that are generally provided to more independent Residents
Loan Plan Rules	Rules of the Loan Plan
Loan Shares	The Shares acquired under the Loan Plan
LTI	Long term incentive
New Shares	New Shares issued by the Company pursuant to the Offer
Offer	The offer of New Shares for issue by the Company and Existing Shares for sale by SaleCo under this Prospectus
Offer Bonus	The bonus described in Section 6.4.2
Offer Document	This Prospectus, an Application Form, any supplementary prospectus, the investor presentation, an ASX announcement and all other materials used by the Company in marketing the Offer
Offer Period	The period as set out in the Important Dates for the Broker Firm Offer and Priority Offer
Offer Price	\$2.00 per Share
Operational Place	A place available for occupancy by a Resident
Original Prospectus	The prospectus dated 4 April 2014 in relation to the Offer, which is replaced by this Prospectus
Pathfinder	A draft prospectus for the Offer dated 29 March 2014 that has been provided to certain Institutional Investors and wholesale investors in connection with the Institutional Offer and the Broker Firm Offer
Places	An allocated place under the Aged Care Act, being a place which is capable of attracting residential care subsidy on a per Resident per day basis (when operational and occupied)
Priority Offer	An offer of Shares to investors who have received an invitation from Japara who have a registered address in Australia

Term	Definition
Pro forma Forecast Financial Information	The: – consolidated pro forma forecast statement of profit or loss and other comprehensive income for FY2014 and FY2015; and – consolidated pro forma forecast statement of cash flows for FY2014 and FY2015
Pro forma Historical Information	The pro forma historical information as defined in Section 4 of this Prospectus
Pro forma Historical Financial Information	The: – consolidated pro forma historical statements of profit or loss and other comprehensive income for FY2012, FY2013 and H1FY2014; – consolidated pro forma historical statements of cash flows for FY2012, FY2013 and H1FY2014; and – consolidated pro forma historical statement of financial position as at 31 December 2013
Prospectus	This document dated 11 April 2014, which is a replacement prospectus and which replaces the Original Prospectus
RADs	Refundable Accommodation Deposits
Resident	A person who occupies a place within an aged care facility
Respite care	Temporary care for sick, elderly, or disabled persons, which provides relief for their usual carer
Restructure	The restructure of Japara, which will result in the consolidation of the ownership of the businesses currently conducted by Japara Holdings and the Japara Trust as discussed in Section 3.1.1
Rights Plan	The performance rights plan described in Section 6.4.3.2
SaleCo	Japara SaleCo Limited (ABN 71 168 631 123)
Share	A fully paid ordinary share in the capital of the Company
Shareholder	A holder of Shares
Share Registry	Link Market Services Limited (ABN 54 083 214 537)
SRO	State Revenue Office of Victoria
Statutory Forecast Financial Information	The: – consolidated statutory forecast statements of profit or loss and other comprehensive income for FY2014 and FY2015; and – consolidated pro forma forecast statement of cash flows for FY2014 and FY2015
STI	Short term incentive
Syndicate Broker	CBA Equities Limited, Morgans Corporate Limited and Macquarie Equities Limited
TFN	Tax File Number
TFR	Total fixed remuneration
Total FY2014 Operational Places	2,994 Operational Places that the Company will operate as at 30 June 2014
Total FY2014 Places	3,131 Operational Places and non-Operational Places that the Company will have as at 30 June 2014
Underwriting Agreement	An underwriting agreement dated 4 April 2014 between the Company, SaleCo, Japara Holdings, JPML as responsible entity for the Japara Trust, and the Lead Manager
Unitholder	A holder of Japara Securities
US Securities Act	United States Securities Act of 1933, as amended
WH&S	Workplace Health and Safety

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CORPORATE DIRECTORY

Japara Healthcare Limited

Q1 Building
1 Southbank Boulevard
Southbank VIC 3006
Australia

Lead Manager

Macquarie Capital (Australia) Limited
101 Collins Street
Melbourne VIC 3000
Australia

Co-Lead Managers

CBA Equities Limited
Tower 1
201 Sussex Street
Sydney NSW 2000
Australia

Morgans Corporate Limited
Level 29 Riverside Centre
123 Eagle Street
Brisbane QLD 4000
Australia

Co-Manager

Macquarie Equities Limited
1 Shelley Street
Sydney NSW 2000
Australia

Australian Legal Adviser to the Company

Herbert Smith Freehills
101 Collins Street
Melbourne VIC 3000
Australia

Investigating Accountant

KPMG Financial Advisory Services (Australia)
Pty Limited
147 Collins Street
Melbourne VIC 3000
Australia

Taxation Adviser

KPMG
147 Collins Street
Melbourne VIC 3000
Australia

Share Registry

Link Market Services Limited
333 Collins Street
Melbourne VIC 3000
Australia

Japara Share Offer Information Line

Number: 1800 828 558 (within Australia);
+61 1800 828 558 (outside Australia)

Hours of operation: 8:30am to 5:00pm (AEST)
Monday to Friday during the Offer Period

JAPARA

HEALTHCARE

