

**Japara Holdings Pty Ltd
and
Controlled Entities
ABN 18 110 466 889**

2011 Annual Financial Report
For the financial year ended 30 June 2011

2011 Annual Financial Report

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Japara Holdings Pty Ltd and Controlled Entities

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DIRECTORS' REPORT

Your directors present their report on the consolidated group for the financial year ended 30 June 2011.

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

(Mark) Andrew Sudholz

Julius Colman

Robert Peck

Arnan Lawrence Rouse (resigned 13 July 2010)

The directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Review of operations

During 2011, the consolidated group continued trading as an operator of aged care facilities and retirement villages, an aged care and retirement property trust manager and as a developer of aged care facilities and retirement villages.

The consolidated profit of the consolidated group for the financial year after providing for income tax amounted to \$10,198,000 (2010: \$5,304,000).

The number of approved aged care places (beds) and independent living units operated by the consolidated group remained at 2,950 (2010: 2,950) at the reporting date. The higher revenue for the current financial year of \$213,270,000 (2010: \$194,639,000) compared to the previous year, being a 9.6% increase (2010: 11.6% increase), has arisen primarily due to increases in funding received from the Federal government as a result of higher care need classifications of residents that have 'aged in place'. Total expenses from ordinary activities increased to \$198,653,000 (2010: \$187,017,000), an increase of 6.2% (2010: 6.5% increase); this percentage increase is less than the percentage increase in revenue resulting in profit before income tax increasing to \$14,617,000 (2010: \$7,622,000 before income tax).

During the year the consolidated group continued to be advised by UBS Investment Bank ("UBS") in a process to sell the combined businesses of the consolidated group and the Japara Aged Care & Retirement Property Trust (the "Trust"). UBS and other professional advisors also helped in a simultaneous process to assist in a restructure of the capital and debt funding arrangements of the consolidated group, both as a step that might facilitate such sale and also as an alternative in the event that a sale was not successfully concluded. In respect of these processes, total costs incurred during the year and charged to the statement of comprehensive income amounted to \$112,000 (2010: \$2,838,000). No fees were incurred or paid to UBS during the year (2010: \$Nil). Further details regarding this transaction are reported below under the heading 'Events after the reporting period'.

Change of accounting treatment

During the year the consolidated group changed its accounting treatment in respect of the recording of a receivable from the Japara Aged Care & Retirement Property Trust (the "Trust"), a related party of the consolidated group. This receivable related to the ingoing contributions paid by residents of retirement villages managed by the consolidated group and represented the amount that the Trust, as the freehold owner of the retirement village, was ultimately responsible for paying to the residents of those retirement villages should the consolidated group default on repaying the ingoing contributions in accordance with the individual resident loan/license agreements. As a result of this change in accounting treatment, the consolidated group no longer records the amount as a receivable. Instead it discloses the amount as a contingent asset, and has recorded the amount as a customer related intangible asset that is amortized on a straight-line basis over its useful life of 10 years and at the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The directors have restated the comparative year statements of comprehensive income, financial position and changes in equity. The effect of this change in accounting treatment has been to reduce profit after tax during the year by \$548,000 (2010: \$548,000 reduction in profit after tax). Further details of this change in accounting treatment are disclosed in Note 1 to the financial statements.

Changes in state of affairs

Other than mentioned in the review of operations above, no significant changes in the consolidated group's state of affairs occurred during the financial year.

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DIRECTORS' REPORT (CONTINUED)

Principal activities

The principal activities of the consolidated group during the financial year were that of an operator and developer of aged care facilities and retirement villages and as an aged care facility and retirement village property trust manager throughout Australia. No significant change in the nature of these activities occurred during the year.

Events after the reporting period

Since 30 June 2011, the prospective purchaser of all the shares in Japara Holdings Pty Ltd and all the units in the Japara Aged Care & Retirement Property Trust (the "Trust") advised that it had decided not to pursue the proposed acquisition and that it had accordingly withdrawn from the purchases of all the shares and all the units. Therefore, in August 2011 Japara Holdings Pty Ltd and the Trust have closed down the transaction process which was being managed by UBS. All costs incurred to 30 June 2011 have been allocated between the Trust and Japara Holdings Pty Ltd based upon the relative values of the units in the Trust and the shares in Japara Holdings Pty Ltd which were calculated with reference to the offer price from the prospective purchaser and the gross asset values of the Trust and Japara Holdings Pty Ltd.

Since the reporting date, the consolidated group in conjunction with the Trust have been exploring a restructure of the combined businesses. This could have entailed a move to a combined entity whereby the Trust and the businesses operated by Japara Holdings Pty Ltd and its associated entities would be combined under a common ownership. Whilst the aim of the directors was to have this restructure completed before 1 March 2012, the intention was to have this substantially completed in the 2011 calendar year. The Group has since done considerable work in exploring this option and seeking to bring it about. It has, however, been unable to obtain for investors in the Trust a form of security that it is prepared to put and recommend to them. The combined entity option in this form is accordingly no longer being pursued.

On 14 September 2011, in anticipation of moving to a combined entity the Group had, in relation to the Group's and the Trust's bank debt, entered into short term funding arrangements with the Group's and the Trust's primary lender until 1 March 2012, by which time it was expected that the restructure project would have been completed. However, as the combined entity restructure project has been put to one side, the Group is now pursuing 3-4 year bank funding. As at the date of signing the financial statements, the Group's and the Trust's key bankers have accepted a mandate to arrange three to four year syndicated loan facilities to the Group and to the Trust.

In October 2011, the Trust entered into a contract to sell the Woodburn Lodge Retirement Village in Brighton, Victoria, which the consolidated group currently manages. Settlement is due to take place in December 2011 and the consolidated group will cease to manage the retirement village at settlement. The directors have therefore taken this into account when assessing the recoverability of the customer related intangibles as at 30 June 2011 and have calculated the amount of the impairment charged to the statement of comprehensive income during the year ended 30 June 2011 to be \$1,071,000 (2010: \$Nil).

On 18 August 2011, the consolidated group settled on a contract for the purchase of 30 pre-1997 high care places (bed licences). A \$30,000 deposit had been paid during the year ended 30 June 2010 with the balance of \$1,470,000 being paid at settlement. The deposit amount of \$30,000 (2010: \$30,000) is included in Note 7 to the financial statements as a current asset.

An amount of \$535,000 (2010: \$535,000) which had been paid in respect of the deposit upon the exchange of contracts for the purchase of the freehold property and business of an aged care facility was successfully recovered as a result of the consolidated group commencing legal proceedings to recover these deposits as the acquisition did not proceed. This amount is disclosed in Note 7 to the financial statements as a current asset and was received by the Group in August 2011. An amount of accrued interest receivable of \$70,000 (2010: \$Nil) relating to the delayed refund of the deposit is included in Note 6 to the financial statements as interest receivable. This interest amount was received by the Group in November 2011. The Group is now seeking recovery through the courts of costs incurred of approximately \$75,000 in recovering this deposit. Due to the uncertainty of successfully being able to recover these costs, the Group has not recorded this amount in the financial statements.

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DIRECTORS' REPORT (CONTINUED)

Events after the reporting period (continued)

Subsequent to the reporting date, the Group has entered into a construction contract to build a 13 bed extension at one of its aged care facilities. The contract sum is \$1,625,000 (excluding GST). Construction commenced in September 2011 and is expected to be completed in the first half of the 2012 calendar year.

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

Future developments

Likely developments in the operations of the consolidated group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the consolidated group.

Environmental regulations

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

Dividends

No dividends were declared or paid for the year ended 30 June 2011 (2010: \$Nil). No other dividends have been declared or paid since the start of the financial year to the date of this report.

Share options

No options over issued shares or interests in the consolidated group were granted during or since the end of the financial year (2010: Nil) and there were no options outstanding at the date of this report.

Directors' and officers' insurance

During the financial year, the consolidated group paid a premium in respect of a contract insuring the directors named in this report and current executive officers of the consolidated group against certain liabilities that may be incurred by such a director or executive officers to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits the disclosure of the nature of the liabilities insured and amount of the premium.

Legal proceedings

At the date of this financial report Japara Holdings Pty Ltd (the "Company") and its majority shareholders continue to be involved in legal proceedings concerning a former director and current shareholder. On 28 October 2011 a hearing before the Supreme Court of Victoria set a trial date in October 2012. No amounts have been provided for in the financial statements as the Company is of the opinion that the legal proceedings, against the Company, will not be successful.

On 30 November 2010 the parent entity and one of its controlled entities were served with a County Court Writ notifying a claim by a landlord of a property tenanted by the controlled entity in relation to unpaid rent, which had been held back by the controlled entity over a dispute about works which it argues were the responsibility of the landlord. A settlement was reached during the year whereby the consolidated group paid a sum of \$657,000 in unpaid rent (this amount had been fully provided for as at 30 June 2010) and \$99,000 (2010: \$Nil) in interest and costs, which were charged in full to the statement of comprehensive income in the year ended 30 June 2011. All claims against the consolidated group were dropped during the year and the matter was resolved.

An amount of \$535,000 (2010: \$535,000) which had been paid in respect of the deposit upon the exchange of contracts for the purchase of the freehold property and business of an aged care facility was successfully recovered as a result of the consolidated group commencing legal proceedings to recover these deposits as the acquisition did not proceed. This amount is disclosed in Note 7 to the financial statements as a current asset and was received by the Group in August 2011. An amount of accrued interest receivable of \$70,000 (2010: \$Nil) relating to the delayed refund of the deposit is included in Note 6 to the financial statements as interest receivable. This interest amount was received by the Group in November 2011. The Group is now seeking recovery through the courts of costs incurred of approximately \$75,000 in recovering this deposit. Due to the uncertainty of successfully being able to recover these costs, the Group has not recorded this amount in the financial statements.

Japara Holdings Pty Ltd and Controlled Entities

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DIRECTORS' REPORT (CONTINUED)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Rounding of amounts

Japara Holdings Pty Ltd and its controlled entities is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

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



(Mark) Andrew Sudholz – Director

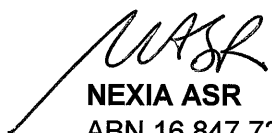
Melbourne

Dated this 30th day of November 2011

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF JAPARA HOLDINGS PTY LTD**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.


NEXIA ASR
ABN 16 847 721 257


GEORGE S DAKIS
Partner
Audit & Assurance

Melbourne

30 November 2011

‘value beyond numbers’

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Japara Holdings Pty Ltd and Controlled Entities

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	2011 \$'000	2010 \$'000
Revenue from ordinary activities	2	213,270	194,639
Details of expenditure:	3		
Employee benefits expense		(136,303)	(124,747)
Occupancy costs		(29,143)	(28,858)
Cost of services		(14,325)	(13,947)
Depreciation, amortisation and impairment		(5,734)	(4,406)
Finance costs		(6,833)	(7,409)
Administrative expenses		(6,315)	(7,650)
Total expenses from ordinary activities		(198,653)	(187,017)
Profit before income tax		14,617	7,622
Income tax expense	4	(4,419)	(2,318)
Profit for the year		10,198	5,304
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year		10,198	5,304
Profit attributable to members of the group		10,198	5,304
Total comprehensive income attributable to members of the group		10,198	5,304

The accompanying notes form part of these financial statements.

Japara Holdings Pty Ltd and Controlled Entities

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

		2011	2010	1 July 2009
	Note	\$'000	\$'000	\$'000
ASSETS				
Current assets				
Cash assets	5	17,448	12,416	6,952
Trade and other receivables	6	9,036	6,458	13,053
Other current assets	7	3,529	3,617	4,703
Land held for sale	8	900	-	-
Total current assets		30,913	22,491	24,708
Non-current assets				
Trade and other receivables	6	1,000	-	-
Property, plant and equipment	9	54,460	57,489	58,596
Investment property	10	10,151	10,884	10,884
Deferred tax assets	16	9,914	12,877	15,103
Intangibles	11	172,729	174,584	175,366
Other non-current assets	12	1,174	1,063	1,233
Total non-current assets		249,428	256,897	261,182
TOTAL ASSETS		280,341	279,388	285,890
LIABILITIES				
Current liabilities				
Trade and other payables	13	17,487	19,339	16,132
Borrowings	14	53,779	68,650	34,659
Other financial liabilities	15	164,919	156,104	139,429
Current tax liability	16	1,306	-	-
Provisions	17	13,867	11,931	9,888
Other current liabilities	18	4,569	4,319	3,855
Total current liabilities		255,927	260,343	204,963
Non-current liabilities				
Borrowings	14	-	5,138	72,657
Deferred tax liabilities	16	4,797	4,690	4,597
Provisions	17	1,286	1,084	845
Total non-current liabilities		6,083	10,912	78,099
TOTAL LIABILITIES		262,010	271,255	283,062
NET ASSETS		18,331	8,133	2,828
EQUITY				
Issued capital	19	120	120	120
Retained earnings		18,211	8,013	2,708
TOTAL EQUITY		18,331	8,133	2,828

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Issued Capital	Retained Earnings	Total
	\$'000	\$'000	\$'000
Balance at 1 July 2009	120	3,827	3,947
Retrospective adjustment upon change in accounting treatment	-	(1,119)	(1,119)
Balance at 1 July 2009 as restated	120	2,708	2,828
Rounding	-	1	1
Profit attributable to members of parent entity	-	5,304	5,304
Sub-total	120	8,013	8,133
Dividends paid or provided for	-	-	-
Balance at 30 June 2010	120	8,013	8,133
 Balance at 1 July 2010	 120	 8,013	 8,133
Profit attributable to members of parent entity	-	10,198	10,198
Sub-total	120	18,211	18,331
Dividends paid or provided for	-	-	-
Balance at 30 June 2011	120	18,211	18,331

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

		2011	2010
	Note	\$'000	\$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		207,852	194,876
Payments to suppliers and employees		(182,204)	(167,959)
Income tax paid		(42)	-
Interest received		1,161	583
Financing costs paid		(7,213)	(7,171)
Net cash provided by / (used in) operating activities	23	19,554	20,329
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property		(375)	(764)
Payments for property previously capitalised		-	(1,200)
Purchase of plant and equipment	9	(1,786)	(1,492)
Proceeds from sale of property, plant and equipment		7	2,045
Capital works in progress	9	(71)	(268)
Deposits paid		-	(515)
Net cash provided by / (used in) investing activities		(2,225)	(2,194)
CASH FLOW FROM FINANCING ACTIVITIES			
Net payments made on behalf of related parties		(338)	-
Loans repaid by related parties		-	5,317
Proceeds from bank borrowings		2,249	3,694
Repayment of bank borrowings		(22,258)	(36,713)
Advances made to shareholders		(500)	-
Repayment of shareholder loans		-	(1,500)
Repayment of hire purchase agreement principal		-	(10)
Due diligence costs paid		(3,067)	(2,556)
Net proceeds from accommodation bonds		11,504	15,370
Net proceeds from ILU resident loans		113	3,727
Net cash provided by / (used in) financing activities		(12,297)	3,806
Net increase / (decrease) in cash held		5,032	5,464
Cash at beginning of financial year		12,416	6,952
Cash at end of financial year	5	17,448	12,416

The accompanying notes form part of these financial statements.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General information

Japara Holdings Pty Ltd (the "Company") is a company limited by shares, incorporated and domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2011 comprises the Company and its controlled entities (together referred to as the "consolidated group" or the "Group").

The consolidated financial report was authorised for issue by the Directors on 30 November 2011.

The financial statements are presented in Australian Dollars and are rounded to the nearest thousand dollars.

The nature of the operations and principal activities of the consolidated group are described in the Directors' Report.

Statement of compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs"), and Interpretations, adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial report of the Group also complies with International Financial Reporting Standards ("IFRS"), and Interpretations, adopted by the International Accounting Standards Board.

Basis of preparation

The financial report is 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.

The preparation of a financial report that complies with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Information about critical accounting estimates and judgements in applying the Group's accounting policies is set at the end of Note 1.

The accounting policies set out below have been consistently applied to all financial years presented in the consolidated financial statements and by all entities in the consolidated group, except as explained in Note 1 u. below which addresses changes in accounting policies.

Presentation of financial statements

As a result of amendments to the *Corporations Act 2001* arising from the Corporations Amendment (Corporate Reporting Reform) Bill 2010, effective 28 June 2010, full financial disclosures relating to the Group's parent entity, Japara Holdings Pty Ltd, are no longer required to be presented within the Group's consolidated financial report. Summarised information relating to Japara Holdings Pty Ltd's results and financial position is set out in Note 24 'Parent Entity Disclosures'.

Accounting policies

a. 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.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the income statement 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 consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Japara Holdings Pty Ltd and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the Group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The Group notified the Tax Office that it had formed an income tax consolidated group to apply from 11 August 2004. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to profit before income tax of the tax consolidated group.

b. Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are measured on the historical cost basis less accumulated depreciation on the buildings and any impairment losses.

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

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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 consolidated group.

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 comprehensive income in the period.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Plant and equipment

Plant and equipment are measured on the historical cost basis less accumulated depreciation and any impairment losses.

The carrying amount of 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 consolidated group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

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 consolidated group 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
Buildings	2.5%
Plant and equipment	5% to 25%
Leasehold improvements	Lower of lease term or useful life

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 comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

c. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. **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 consolidated group, 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.

e. **Financial instruments**

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the consolidated group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the consolidated group 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 at either fair value; amortised cost using the effective interest rate method; or 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: (i) the amount at which the financial asset or financial liability is measured at initial recognition; (ii) less principal repayments; (iii) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and (iv) less any reduction for impairment.

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 comprehensive income.

The consolidated group 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.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 consolidated group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

(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.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the consolidated group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

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 consolidated group 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 cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year's 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.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated group 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.

f. Impairment of assets

At each reporting date, the consolidated group 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 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 consolidated group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

g. Intangibles

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.

Bed licences (approved provider aged care places)

Bed licences are issued by the Federal Government to approved providers, and can also be purchased from third parties. Bed licences are stated at cost or fair value at acquisition less any accumulated impairment losses. The bed licences 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 bed licences are reviewed at the end of each accounting period to ensure that they are not valued in excess of their recoverable amounts.

Customer related intangibles

Customer related intangibles ("CRIs") arise upon the acquisition of the business of retirement villages and relate to the inherent value of the underlying resident loan/licence agreements. CRIs are amortised on a straight line basis over the effective useful life of the underlying resident loan/licence agreements which has been assessed at 10 years.

CRIs are initially recorded upon acquisition at fair value which is then subsequently the deemed cost. CRIs are tested annually for impairment and carried at cost less accumulated amortisation and accumulated impairment losses.

h. Employee benefits

Provision is made for the consolidated group'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.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Provisions

Provisions are recognised when the consolidated group 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.

j. 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.

k. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated group and the revenue can be reliably measured.

Aged care facility revenue comprises daily resident living contributions and government funding, which are both determined in accordance with Federal 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 consolidated group is entitled to charge retention fees to aged care facility residents in respect of accommodation bonds held. These fees are regulated by the Federal Government and are accrued by the consolidated group 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 goods and services tax (GST).

l. Finance costs

Finance 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 of sale.

All other finance costs are recognised in income in the period in which they are incurred.

m. Development work in progress

Development work in progress consists of expenses incurred by the consolidated group intended for capital work required for future operating activity. These costs are capitalised as a non-current asset in property, plant and equipment as development work in progress until such time as work is completed and will then be transferred to property, plant and equipment or leasehold improvements as appropriate.

n. Goods and services tax (GST)

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Accommodation bond liabilities

Accommodation bonds are non interest bearing deposits made by aged care facility residents to the consolidated group upon admission to low care (hostel) or extra service accommodation. These deposits are liabilities which fall due and payable when the resident leaves the facility. As there is no unfettered 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.

p. ILU resident loan liabilities and deferred management fee receivables

Independent living unit ("ILU") resident loans are non interest bearing payments made by retirement village residents to the consolidated group 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 unfettered 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.

q. Principles of consolidation

A controlled entity is any entity over which Japara Holdings Pty Ltd has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 27 to the financial statements.

As at the reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

r. Business combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the consolidated group's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. **Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

t. **Rounding of amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial statements and directors' report have been rounded off to the nearest \$1,000.

u. **Adoption of new and revised accounting standards**

During the current year, the consolidated group has adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these Standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these Standards and Interpretations has had on the financial statements of the consolidated group.

AASB 3: Business Combinations

In March 2008, the Australian Accounting Standards Board revised AASB 3, and as a result some aspects of business combination accounting have changed. Below is an overview of the key changes and the impact on the consolidated group's financial statements.

Recognition and measurement impact

Recognition of acquisition costs — The revised version of AASB 3 requires that all costs associated with a business combination be expensed in the period in which they were incurred. Previously such costs were capitalised as part of the cost of the business combination.

Disclosure impact

The revised AASB 3 contains a number of additional disclosure requirements, not required by the previous version of AASB 3. The revised disclosures are designed to ensure that users of the consolidated group's financial statements are able to understand the nature and financial impact of any business combinations on the financial statements.

v. **New accounting standards for application in future periods**

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application from various dates in the future and which the Group has decided not to early adopt as the Group has assessed that there is minimal or no benefit from early adoption. A discussion of those future requirements and their impact on the Group is as follows:

- AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
 - requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
 - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a "related party" to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Group.

- AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (i.e. full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability and contains a public company with an Australian Financial Services License, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

- AASB 2010–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific "RDR" disclosures. Since the Group is a for-profit private sector entity that has public accountability and contains a public company with an Australian Financial Services License, it does not qualify for the reduced disclosure requirements for Tier 2 entities.
- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

- AASB 2009–14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Group.

- AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

- AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

- AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

- AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

- AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

- AASB 2010–9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011).

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Group.

- AASB 2010–10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009–11 & AASB 2010–7] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009–11 will only affect early adopters of AASB 2009–11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010–7.]

This Standard is not expected to impact the Group.

The consolidated group does not anticipate early adoption of any of the above Australian Accounting Standards.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgments

The directors have evaluated estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the consolidated group.

Key estimates — Impairment

The consolidated group assesses impairment at each reporting date by evaluating conditions specific to the consolidated group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Bed licences are stated at cost or fair value at acquisition which becomes deemed cost less any accumulated impairment losses. Bed licences have been determined to have an indefinite life. Bed licences are allocated to cash-generating units and tested at each reporting date for impairment. No impairment has been recognised in respect of bed licences at reporting date.

Goodwill is stated at cost or fair value at acquisition which becomes deemed cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and tested at each reporting date for impairment. No impairment has been recognised in respect of goodwill at reporting date.

Customer related intangibles ("CRIs") are stated at cost or fair value at acquisition which becomes deemed cost less any accumulated amortisation and impairment losses. CRIs are allocated to cash generating units and at the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. An impairment charge of \$1,071,000 (2010: \$Nil) has been recognised in respect of CRIs at reporting date.

The recoverable amount of bed licences, goodwill and CRIs is based on the present value of future cash flows of the cash generating unit which includes a number of assumptions and estimates. These assumptions and estimates are as follows:

Pre-tax discount rate – 8.0%

Earnings cash flow growth rate – 2.0% per annum for first 5 years only; then 0.0% thereafter

Accommodation bond cash flow growth – based upon historical trends and projected future growth

Growth in bed licence value – 3.0% 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 bed licences, goodwill and CRIs, if any.

Key judgements – bank facilities and refinancing

Note 25 (c) refers to the debt facilities of the consolidated group with its bank. The directors of the Group believe that any restructuring and/or refinancing will be successful and that it is appropriate for the financial statements to be prepared on a going concern basis.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior period adjustments

During the year the consolidated group changed its accounting treatment in respect of the recording of a receivable from the Japara Aged Care & Retirement Property Trust (the "Trust"), a related party of the consolidated group. This receivable related to the ingoing contributions paid by residents of retirement villages managed by the consolidated group and represented the amount that the Trust, as the freehold owner of the retirement village, was ultimately responsible for paying to the residents of those retirement villages should the consolidated group default on repaying the ingoing contributions in accordance with the individual resident loan/license agreements. As a result of this change in accounting treatment, the consolidated group no longer records the amount as a receivable, discloses the amount as a contingent asset, and has recorded the amount as a customer related intangible asset that is amortized on a straight-line basis over its useful life of 10 years and assessed for impairment at each reporting date. The directors have restated the comparative year statements of comprehensive income, financial position and changes in equity. The impact of the change in this accounting treatment is represented below.

The impact on the statement of financial position is as follows:

	Previous treatment	Adjustment	Revised treatment
	\$'000	\$'000	\$'000
As at 1 July 2009			
Trade and other receivables	20,878	(7,825)	13,053
Deferred tax asset	14,624	479	15,103
Intangibles	169,139	6,227	175,366
Retained profits	3,827	(1,119)	2,708
As at 30 June 2010			
Trade and other receivables	14,363	(7,905)	6,458
Deferred tax asset	12,163	714	12,877
Intangibles	169,139	5,445	174,584
Retained profits	9,759	(1,746)	8,013

The impact on the statement of comprehensive income is as follows:

Year ended 30 June 2009

Depreciation, amortisation and impairment	(5,757)	(783)	(6,540)
Total expenses from ordinary activities	(174,730)	(783)	(175,513)
Loss before income tax	(375)	(783)	(1,158)
Income tax benefit	1,435	235	1,670
Profit for the year	1,060	(548)	512

Year ended 30 June 2010

Depreciation, amortisation and impairment	(3,605)	(783)	(4,388)
Finance cost	(7,329)	(80)	(7,409)
Total Expenses	(186,154)	(863)	(187,017)
Profit before income tax	8,485	(863)	7,622
Income tax expense	(2,553)	235	(2,318)
Profit for the year	5,932	(628)	5,304

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: REVENUE

	2011 \$'000	2010 \$'000
Operating activities		
— service fee income	208,404	191,356
— property acquisition and management fee income	1,427	1,365
— rent income	562	366
— sundry income	1,618	942
Total operating revenue	212,011	194,029
Non-operating activities		
Interest income:		
— bank	1,107	630
— other	152	(20)
Total non-operating revenue	1,259	610
Total revenue	213,270	194,639

NOTE 3: PROFIT BEFORE INCOME TAX

a.	Employee benefits expense		
	Wages and leave expenses	111,978	103,916
	Superannuation contributions	9,671	8,893
	Agency staff expense	4,847	3,625
	Hire of staff costs	181	109
	Payroll tax and other staff costs	9,626	8,204
	Total employee benefits expense	136,303	124,747
b.	Occupancy costs		
	Rent of premises under operating leases	21,733	21,543
	Rent of premises – IFRS straight-lining	534	1,378
	Rates and taxes	926	857
	Utilities	3,942	3,547
	Other occupancy costs	2,008	1,533
	Total occupancy costs	29,143	28,858

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 3: PROFIT BEFORE INCOME TAX (CONTINUED)

	2011 \$'000	2010 \$'000
c. Cost of services		
Contract cleaning	36	32
Contract laundry	66	69
Contract catering	1,301	1,266
Food supplies	5,881	5,773
Medical and health expenses	5,100	4,968
Other service costs	1,941	1,839
Total cost of services	14,325	13,947
d. Depreciation, amortisation and impairment		
Plant and equipment - depreciation	2,732	2,620
Leasehold improvements - amortisation	82	76
Freehold buildings - depreciation	907	909
Freehold land and buildings - impairment	158	18
Customer related intangibles - amortisation	784	783
Customer related intangibles - impairment	1,071	-
Total depreciation, amortisation and impairment	5,734	4,406
e. Finance costs		
Bank facility fees	1,305	721
Bank interest expense	4,391	5,443
Finance charges – HP agreement	2	3
Other interest expense	862	1,000
Other interest expense – related parties	273	242
Total finance costs	6,833	7,409
f. Administrative expenses		
Legal, professional, insurance and management fees	3,306	2,692
Advertising expenses	256	151
IT expenses	124	116
Office supplies, printing and stationery expenses	677	692
Communication costs	440	396
Other administrative expenses	1,512	3,603
Total administrative expenses	6,315	7,650

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 3: PROFIT BEFORE INCOME TAX (CONTINUED)

	2011	2010
	\$'000	\$'000
Remuneration of the auditor		
Audit of financial statements	183	159
Other services	96	55
Total fees payable to Nexia ASR	<u>279</u>	<u>214</u>

NOTE 4: INCOME TAX EXPENSE

a. The components of tax expense comprise:

Current tax expense	3,904	2,667
Deferred tax expense / (benefit)	515	(349)
Income tax expense	<u>4,419</u>	<u>2,318</u>

b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense in the financial statements as follows:

Profit before income tax	<u>14,617</u>	<u>7,622</u>
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Prima facie tax on profit before income tax at 30% (2010: 30%)	4,385	2,287
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Add tax effect of:

— Non-allowable tax income	(3)	(9)
— Non-allowable tax expenses	34	4
— ILU charge on loan movement	3	24
— Entertainment expenses	-	13
— Investment allowance	-	(1)

Income tax expense attributable to profit from ordinary activities	<u>4,419</u>	<u>2,318</u>
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c. Income tax rate

The tax rate used in the above reconciliations is the corporate tax rate of 30% payable by the Australian corporate entities on taxable profits under the Australian tax law. There has been no change in the corporate tax rate when compared with the previous period.

d. Tax consolidation

Relevance of tax consolidation to the consolidated group

Japara Holdings Pty Ltd and Controlled Entities formed a tax consolidated group which commenced on 11 August 2004.

Relevance of tax consolidation to the parent entity

Japara Holdings Pty Ltd commenced operations in April 2005. It is the head entity of the tax consolidated group which commenced on 11 August 2004.

Nature of tax funding arrangements and tax sharing agreements

The tax consolidated group has entered into a tax sharing agreement effective from 1 July 2006 whereby each company in the group contributes to the income tax payable in proportion to their contribution to profit before tax of the consolidated group. The income tax liability of the subsidiary is recorded in the books of account of Japara Holdings Pty Ltd and of the subsidiary members as a debt owing to Japara Holdings Pty Ltd.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 5: CASH AND CASH EQUIVALENTS

	2011	2010
	\$'000	\$'000
CURRENT		
Cash at bank and in hand	17,140	12,108
Short-term bank deposits	308	308
	<u>17,448</u>	<u>12,416</u>

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	17,448	12,416
	<u>17,448</u>	<u>12,416</u>

The consolidated group also entered into a number of security deposit guarantees with its bankers for security for the performance of the consolidated group. As at balance date \$460,000 (2010: \$460,000) of the cash and cash equivalents balance was secured by its bankers.

NOTE 6: TRADE AND OTHER RECEIVABLES

	Note	\$'000	\$'000
CURRENT			
Resident debtors		4,362	4,258
Provision for doubtful debts	6a	<u>(185)</u>	<u>(315)</u>
		4,177	3,943
Other receivables			
Interest receivable	7a	150	53
Sundry debtors	6b	3,537	2,431
Amounts receivable from related parties	6c	<u>1,172</u>	<u>31</u>
		9,036	6,458
NON-CURRENT			
Amounts receivable from related parties	6c	<u>1,000</u>	<u>-</u>
		1,000	-

a. Provision for doubtful debts

A provision for doubtful debts is recognised when there is objective evidence that an individual resident debtor receivable amount is impaired.

The movement in the provision for doubtful debts was as follows:

Opening balance as at 1 July	315	210
Charge for the year	-	175
Amounts written off	<u>(130)</u>	<u>(70)</u>
Closing balance as at 30 June	185	315

Japara Holdings Pty Ltd and Controlled Entities

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NOTE 6: TRADE AND OTHER RECEIVABLES (CONTINUED)

- b. Sundry debtors includes an amount of \$2,996,000 (2010: \$2,312,000) relating to the due diligence and other associated costs incurred to 30 June 2011 reimbursable by the Japara Aged Care & Retirement Property Trust ("the Trust"). This amount was invoiced to, and paid in full by, the Trust in September 2011.

Sundry debtors also includes an amount of \$Nil (2010: \$250,000) relating to stamp duty recoverable.

		2011 \$'000	2010 \$'000
c.	Other related parties – unsecured		
	<i>Current:</i>		
	Other related parties – the Trust	1,172	31
	<i>Non-current:</i>		
	Other related parties – shareholder	6d 500	-
	Other related parties – key management personnel	6e 500	-
		<u>2,172</u>	<u>31</u>

- d. Under order of the court, the consolidated group made advances to a shareholder during the year totalling \$500,000 (2010:\$Nil). See note 26 for further details regarding this receivable.

- e. A loan of \$500,000 (2010: \$Nil) was made to one of the key management personnel during the year. See note 26 for further details regarding this receivable.

NOTE 7: OTHER ASSETS

	Note	2011 \$'000	2010 \$'000
CURRENT			
Prepayments and accrued income		2,195	2,384
Deposits	7a	565	565
GST recoverable		397	231
Deferred management fee receivable		372	437
		<u>3,529</u>	<u>3,617</u>

- 7a. Included in this is an amount of \$535,000 (2010: \$535,000) which had been paid in respect of the deposit upon the exchange of contracts for the purchase of the freehold property and business of an aged care facility. This amount was successfully recovered as a result of the consolidated group commencing legal proceedings to recover this deposit as the acquisition did not proceed. This amount was received by the Group in August 2011. An amount of accrued interest receivable of \$70,000 (2010: \$Nil) relating to the delayed refund of the deposit is included in Note 6 to the financial statements as interest receivable. This interest amount was received by the Group in November 2011. The Group is now seeking recovery through the courts of costs incurred of approximately \$75,000 in recovering this deposit. Due to the uncertainty of successfully being able to recover these costs, the Group has not recorded this amount in the financial statements.

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 8: LAND HELD FOR SALE

		2011	2010
	Note	\$'000	\$'000
Balance at beginning of year:		-	-
Transfer from investment property – at fair value	10	1,058	-
Fair value adjustment		(133)	-
Impairment charge - expected selling costs		(25)	-
Closing balance at end of year		<u>900</u>	<u>-</u>

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

PROPERTY

Buildings and leasehold improvements:

- At cost	28,737	28,687
Accumulated depreciation and amortisation	<u>(2,458)</u>	<u>(1,469)</u>
Total buildings at written down value	<u>26,279</u>	<u>27,218</u>

Land:

- At cost	<u>10,303</u>	<u>10,303</u>
Total land at written down value	<u>10,303</u>	<u>10,303</u>

Capital works in progress

- At cost	<u>1,185</u>	<u>2,086</u>
Total capital works in progress	<u>1,185</u>	<u>2,086</u>

Total property	<u><u>37,767</u></u>	<u><u>39,607</u></u>
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PLANT AND EQUIPMENT

Plant and equipment:

- At cost	28,064	26,545
Accumulated depreciation	<u>(11,371)</u>	<u>(8,663)</u>
Total plant and equipment at written down value	<u>16,693</u>	<u>17,882</u>

Total property, plant and equipment	<u><u>54,460</u></u>	<u><u>57,489</u></u>
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 9: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in Carrying Amounts	Building & leasehold improvement \$'000	Land at cost \$'000	Capital works in progress \$'000	Plant & equipment \$'000	Total property, plant & equipment \$'000
2011					
Balance as at 1 July 2010	27,218	10,303	2,086	17,882	57,489
Additions at cost	50	-	396	1,785	2,231
Impairment charge	-	-	-	-	-
Disposal of assets	-	-	-	(492)	(492)
Transfer in from / (out of) Capital WIP	-	-	(325)	-	(325)
Transfers to assets held for resale	-	-	-	-	-
Transfers from non P,P&E	-	-	-	250	250
Development costs expensed	-	-	(972)	-	(972)
Depreciation expense	(989)	-	-	(2,732)	(3,721)
Carrying amount as at 30 June 2011	26,279	10,303	1,185	16,693	54,460
2010					
Balance as at 1 July 2009	27,458	10,303	1,818	19,017	58,596
Additions at cost	745	-	268	1,492	2,505
Disposals	-	-	-	(7)	(7)
Impairment charge	-	-	-	-	-
Depreciation expense	(985)	-	-	(2,620)	(3,605)
Carrying amount as at 30 June 2010	27,218	10,303	2,086	17,882	57,489

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 10: INVESTMENT PROPERTY

	Note	2011 \$'000	2010 \$'000
Balance at beginning of year:		10,884	10,884
Additions at cost		-	18
Fair value adjustment		-	(18)
Transfer in from Capital WIP	9	325	-
Transfer to land held for sale	8	(1,058)	-
Closing balance at end of year		10,151	10,884

NOTE 11: INTANGIBLES

Goodwill arising upon business acquisitions

– at cost	27,877	27,877
Net carry value	27,877	27,877

Bed licences (aged care facility approved places)

– at cost	141,262	141,262
Net carry value	141,262	141,262

Customer related intangibles

– at cost	7,825	7,825
Accumulated amortisation	(3,163)	(2,380)
Accumulated impairment	(1,071)	-
Rounding	(1)	-
Net carry value	3,590	5,445
Total Intangibles	172,729	174,584

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 11: INTANGIBLES (CONTINUED)

Movements in Carrying Amounts	Goodwill	Bed licences	Customer related intangibles	Total
	\$'000	\$'000	\$'000	\$'000
2011				
Balance as at 1 July 2010	27,877	141,262	5,445	174,584
Amortisation expense	-	-	(783)	(783)
Impairment charge	-	-	(1,071)	(1,071)
Rounding	-	-	(1)	(1)
Carrying amount as at 30 June 2011	27,877	141,262	3,590	172,729
2010				
Balance as at 1 July 2009	27,877	141,262	6,228	175,367
Amortisation expense	-	-	(783)	(783)
Carrying amount as at 30 June 2010	27,877	141,262	5,445	174,584

NOTE 12: OTHER NON-CURRENT ASSETS

	2011	2010
	\$'000	\$'000
Deferred management fee receivable	1,174	1,063
	1,174	1,063

NOTE 13: TRADE AND OTHER PAYABLES

CURRENT

Trade payables	3,478	5,075
Sundry payables and accrued expenses	14,009	14,264
	17,487	19,339

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 14: BORROWINGS	Note	2011	2010
		\$'000	\$'000
CURRENT			
Bank bills – secured	14a	-	660
Bank loans – secured	14a	53,409	67,682
Insurance premium financing loan	14a	370	299
Equipment loan	14a	-	9
		<u>53,779</u>	<u>68,650</u>
NON-CURRENT			
Bank bills – secured	14a	-	-
Bank loans – secured	14a	-	5,138
		<u>-</u>	<u>5,138</u>
 a. Total current and non-current secured liabilities:			
Bank bills		-	660
Bank loans		53,409	72,820
Insurance premium financing loan		370	299
Equipment loan		-	9
		<u>53,779</u>	<u>73,788</u>

b. Security – Bank loans

The bank loans (2010: bank loans and bank bills) are secured by registered first mortgages of freehold properties and leases on the places of business of the consolidated group and fixed and floating charges over the business and assets of the consolidated group.

The insurance premium financing loan is carried at the principal amount less any repayments. It is secured by the unexpired portion of the insurance policy.

The equipment loan is secured over the specific equipment that was purchased utilising the funds provided by the loan.

c. Maturity – Bank loans

As at the reporting date, there are two (2010: three) separate bank loan facilities. The first facility, totalling \$29,645,000, which was due to mature on 1 March 2013, was repaid in full in September 2011 when the Group refinanced its debt, with a new short-term bank loan facility which matures on 1 March 2012. The second facility amounting to \$23,764,000 in total had maturity dates of 30 June 2011 in respect of \$18,626,000, and 30 June 2012 in respect of \$5,138,000. A new facility agreement was entered into in August 2011 with a new maturity date of 30 June 2013. The third loan facility was repaid in full during the year.

At the date of signing these financial statements the Group's key bankers have accepted a mandate to arrange three to four year syndicated loan facilities. The directors are confident that these new syndicated loan facilities will be in place prior to 1 March 2012.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 15: OTHER FINANCIAL LIABILITIES

	2011	2010
	\$'000	\$'000
Accommodation bonds	150,529	141,276
ILU resident loans	14,390	14,828
	164,919	156,104

Accommodation bonds are non-interest bearing deposits made by aged care facility residents to the consolidated group upon their admission to low care (hostel) or extra service accommodation.

The Group has provided each resident that has entered into an accommodation bond agreement with the Group and/or paid an accommodation bond to the Group with a written guarantee of future refund of the accommodation bond balance in accordance with the accommodation bond agreement and in compliance with the prudential requirements set out under the Aged Care Act 1997.

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

NOTE 16: TAX

a. Liabilities

CURRENT

Income tax payable	1,306	-
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NON-CURRENT

Deferred tax liability comprises:

Prepayments and accrued income	628	536
Bed licences	3,815	3,815
Capital works in progress (interest expense)	354	339
Deferred tax liability	4,797	4,690

b. Assets

NON-CURRENT

Deferred tax asset comprises:

Provisions	4,603	4,001
Capitalised borrowing costs	33	305
Capitalised legal costs	38	53
Sundry creditors and accruals	2,859	2,934
Aborted due diligence costs	577	746
Property, plant and equipment	534	1,568
Unused revenue tax losses	-	2,556
Customer related intangibles	1,270	714
Deferred tax asset	9,914	12,877

Net deferred tax asset	5,117	8,187
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Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16:TAX (CONTINUED)

2011	2010
\$'000	\$'000

c. Reconciliations

i. Gross movements

The overall movement in the deferred tax account is as follows:

Opening balance	8,188	10,506
Credited / (charged) to the income statement	(515)	349
Revenue losses	(2,556)	(2,667)
Revenue losses (net) assumed by head entity	-	-
Closing balance	<u>5,117</u>	<u>8,188</u>

ii. Current tax liability

Income tax

Income tax payable	9,153	6,811
Income tax instalment paid during year	(42)	-
Amount offset by tax losses of head entity of Tax Consolidated Group	(7,805)	(6,811)
Closing balance	<u>1,306</u>	<u>-</u>

iii. Deferred tax liability

The movement in deferred tax liability for each temporary difference during the year is as follows:

Prepayments and accrued income

Opening balance	536	457
Charged / (credited) to the income statement	92	79
Closing balance	<u>628</u>	<u>536</u>

Bed licences

Opening balance	3,815	3,815
Charged / (credited) to the income statement	-	-
Closing balance	<u>3,815</u>	<u>3,815</u>

Capital works in progress (interest expense)

Opening balance	339	324
Charged / (credited) to the income statement	15	15
Closing balance	<u>354</u>	<u>339</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: TAX (CONTINUED)

	2011	2010
Note	\$'000	\$'000
iv. Deferred tax assets		
The movement in deferred tax assets for each temporary difference during the year / period is as follows:		
Provisions		
Opening balance	4,001	3,285
Credited / (charged) to the income statement	602	716
Closing balance	4,603	4,001
Capitalised borrowing costs		
Opening balance	305	160
Credited / (charged) to the income statement	(272)	145
Closing balance	33	305
Capitalised legal costs		
Opening balance	53	69
Credited / (charged) to the income statement	(15)	(16)
Closing balance	38	53
Sundry creditors and accruals		
Opening balance	2,935	1,948
Credited / (charged) to the income statement	(76)	987
Closing balance	2,859	2,935
Abandoned due diligence costs		
Opening balance	746	154
Credited / (charged) to the income statement	(169)	592
Closing balance	577	746
Tax allowances relating to property, plant and equipment		
Opening balance	1,568	3,784
Business acquisitions	-	-
Credited / (charged) to the income statement	(1,034)	(2,216)
Closing balance	534	1,568
Unused revenue tax losses		
Opening balance	2,556	5,223
Credited / (charged) to the income statement	5,249	4,144
Amount used to offset tax liabilities by head entity of Tax Consolidated Group	(7,805)	(6,811)
Closing balance	-	2,556

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: TAX (CONTINUED)

	2011	2010
Note	\$'000	\$'000
Customer related intangibles		
Opening balance	714	479
Credited / (charged) to the income statement	556	235
Closing balance	<u>1,270</u>	<u>714</u>

NOTE 17: PROVISIONS

CURRENT

Employee benefits	<u>13,867</u>	<u>11,931</u>
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NON-CURRENT

Employee benefits	<u>1,286</u>	<u>1,084</u>
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	No.	No.
Number of employees at year end	<u>3,447</u>	<u>3,271</u>

Provision for long-term employee benefits

A provision has been recognised for employee benefits relating to long service leave for employees. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits have been included in Note 1.

NOTE 18: DEFERRED REVENUE

	2011	2010
	\$'000	\$'000
CURRENT		
Deferred revenue	<u>4,569</u>	<u>4,319</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19: ISSUED CAPITAL

	2011	2010
	\$'000	\$'000
100,000 (2010: 100,000) fully paid ordinary shares	100	100
1,350 (2010: 1,350) fully paid employee shares	20	20
	<u>120</u>	<u>120</u>

a. Ordinary shares	No.	No.
At the beginning of reporting year	100,000	100,000
Shares issued during year	-	-
At reporting date	<u>100,000</u>	<u>100,000</u>

b. Employee shares	No.	No.
At the beginning of reporting year	1,350	1,350
Shares issued during year	-	-
At reporting date	<u>1,350</u>	<u>1,350</u>

Ordinary shares and employee shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands, however, each employee share is not entitled to a vote.

NOTE 20: CAPITAL AND LEASING COMMITMENTS

	2011	2010
	Land & Buildings	Land & Buildings
	\$'000	\$'000
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable		
— not later than 12 months	21,382	20,952
— between 12 months and five years	85,065	87,930
— greater than five years	18,635	37,562
	<u>125,082</u>	<u>146,444</u>

The above amounts relate primarily to property leases for the business premises of the consolidated group which are non-cancellable leases with ten-year terms, with rent payable monthly in advance. Contingent rental provisions within the lease agreements require that the minimum lease payments shall be increased by 2.5% per annum from each 1 July after the first full year of the leases inception. Options exist to renew the leases for additional terms of 5 years. If these options are exercised, then 3 subsequent options will exist for 3 additional terms of 5 years.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20: CAPITAL AND LEASING COMMITMENTS (CONTINUED)

Capital expenditure commitments

As at reporting date the consolidated group had entered into contracts relating to capital expenditure commitments to a value of \$Nil (GST exclusive) (2010: \$44,000) (GST exclusive).

As at reporting date and as at 30 June 2010 the consolidated group had entered into a contract to purchase 30 pre-1997 high care places (bed licences) from a third party. The total contract sum is for \$1,500,000 (GST exclusive). At reporting date a deposit of \$30,000 (2010: \$30,000) had been paid and the balance of \$1,470,000 (2010: \$1,470,000) was paid at settlement which occurred in August 2011.

NOTE 21: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The consolidated group has guaranteed the due and punctual repayment of bank loans taken out by a related party, the Japara Aged Care & Retirement Property Trust (the "Trust"). Should the Trust default on its bank facility agreements, then the consolidated group may be called upon to honour the bank facilities. At reporting date, the Trust had bank loans amounting to \$121,558,000 (2010: \$124,235,000). At the date of signing these financial statements, the Trust was not in default of any of its bank facilities.

The consolidated group has entered into a number of security deposit guarantees with its bankers for security for the performance of the consolidated group. As at balance date \$460,000 (2010: \$460,000) of the cash and cash equivalents balance was secured by its bankers.

At the date of this financial report Japara Holdings Pty Ltd (the "Company") and its majority shareholders continue to be involved in legal proceedings concerning a former director and current shareholder. On 28 October 2011 a hearing before the Supreme Court of Victoria set a trial date in October 2012. No amounts have been provided for in the financial statements as the Company is of the opinion that the legal proceedings, against the Company, will not be successful.

An amount of \$535,000 (2010: \$535,000) which had been paid in respect of the deposit upon the exchange of contracts for the purchase of the freehold property and business of an aged care facility was successfully recovered as a result of the consolidated group commencing legal proceedings to recover these deposits as the acquisition did not proceed. This amount is disclosed in Note 7 to the financial statements as a current asset and was received by the Group in August 2011. An amount of accrued interest receivable of \$70,000 (2010: \$Nil) relating to the delayed refund of the deposit is included in Note 6 to the financial statements as interest receivable. This interest amount was received by the Group in November 2011. The Group is now seeking recovery through the courts of costs incurred of approximately \$75,000 in recovering this deposit. Due to the uncertainty of successfully being able to recover these costs, the Group has not recorded this amount in the financial statements.

As explained in the Directors' Report and Note 1 to the financial statements, during the year the consolidated group changed its accounting treatment in respect of the recording of a receivable from the Japara Aged Care & Retirement Property Trust (the "Trust"), a related party of the consolidated group. This receivable related to the ongoing contributions paid by residents of retirement villages managed by the consolidated group and represented the amount that the Trust, as the freehold owner of the retirement village, was ultimately responsible for paying to the residents of those retirement villages should the consolidated group default on repaying the ongoing contributions in accordance with the individual resident loan/license agreements. As a result of this change in accounting treatment, the consolidated group no longer records the amount as a receivable but discloses the amount as a contingent asset. As at 30 June 2011, the contingent asset amounts to \$7,914,000 (2010: \$7,905,000). However, should the consolidated group be unable to repay residents loans when they fall due, and the residents make a claim against the Trust as the freehold owner of the retirement village, the Trust would counterclaim against the consolidated group under the management agreements between the consolidated group and the Trust. As at 30 June 2011, the consolidated group is therefore contingently liable to the Trust in the sum of \$7,914,000 (2010: \$7,905,000).

Other than mentioned above, there are no contingent liabilities or contingent assets as at reporting date.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22: SEGMENT REPORTING

The consolidated group operates predominantly in one business and geographical segment being the provision of residential aged care services throughout Australia.

NOTE 23: CASH FLOW INFORMATION

	2011	2010
	\$'000	\$'000
Reconciliation of cash flow from operations with profit after income tax		
Profit after income tax	10,198	5,304
Non-cash flows in profit:		
Depreciation, amortisation and impairment	5,734	4,406
Rental – AIFRS adjustment	534	1,377
ILU resident loan revaluation	9	145
Net (gain) / loss on disposal of property, plant and equipment	485	155
Abandoned development expenditure	972	-
Bond retention revenue	(2,252)	(2,299)
Deferred management fee income	(551)	(567)
Due diligence costs	122	2,626
Sundry income	-	(2)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
(Increase)/decrease in trade and term debtors	(1,454)	3,375
(Increase)/decrease in other assets	(166)	278
(Increase)/decrease in deferred tax assets	2,963	2,226
Increase/(decrease) in payables	(204)	838
Increase/(decrease) in current and deferred tax liabilities	1,414	92
Increase/(decrease) in provisions	2,138	2,282
Finance costs	(388)	93
	19,554	20,329

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 24: PARENT ENTITY DISCLOSURES

The parent company of the Group, as at and throughout the financial years ended 30 June 2011 and 30 June 2010, was Japara Holdings Pty Ltd. Presented below is supplementary information about the parent entity.

	Parent	
	2011	2010
	\$'000	\$'000
Result of the parent entity		
(Loss) / profit after tax	(4,658)	(4,587)
Other comprehensive income	-	-
Total comprehensive income for the year	(4,658)	(4,587)
Financial position of the parent entity at year end		
Current assets	41,461	45,650
Non-current assets	29,406	15,621
Total assets	70,867	61,271
Current liabilities	72,482	58,239
Non-current liabilities	16	5
Total liabilities	72,498	58,244
Net (liabilities) / assets	(1,631)	3,027
Total equity of the parent entity comprising:		
Share capital	120	120
Retained earnings	(2,643)	2,015
Reserves	892	892
Total (deficit) / equity	(1,631)	3,027

Guarantees, contingent liabilities and capital commitments of the parent entity

The parent entity has entered into a cross guarantee and indemnity with its wholly-owned subsidiaries in respect of bank bills and bank loans taken out by those subsidiaries. Should the subsidiaries default on their bank facility agreements, then the parent entity may be called upon to honour the bank facilities. At reporting date, the subsidiaries had bank loans amounting to \$50,259,000 (2010: \$72,030,000). At the date of signing these financial statements, none of the subsidiaries were in default of any of their bank facilities.

The parent entity has guaranteed the due and punctual repayment of bank loans taken out by a related party, the Japara Aged Care & Retirement Property Trust (the "Trust"). Should the Trust default on its bank facility agreements, then the parent entity may be called upon to honour the bank facilities. At reporting date, the Trust had bank loans amounting to \$121,558,000 (2010: \$124,235,000). At the date of signing these financial statements, the Trust was not in default of any of its bank facilities.

At the date of this financial report Japara Holdings Pty Ltd (the "Company") and its majority shareholders continue to be involved in legal proceedings concerning a former director and current shareholder. On 28 October 2011 a hearing before the Supreme Court of Victoria set a trial date in October 2012. No amounts have been provided for in the financial statements as the Company is of the opinion that the legal proceedings, against the Company, will not be successful.

The parent entity has entered into a number of security deposit guarantees with its bankers for security for the performance of the parent entity. As at balance date \$152,000 (2010: \$152,000) of the cash and cash equivalents balance was secured by its bankers.

The parent entity does not have any capital commitments at reporting date (2010: None).

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25: EVENTS AFTER THE REPORTING PERIOD

- a. Since 30 June 2011, the prospective purchaser of all the shares in Japara Holdings Pty Ltd and all the units in the Japara Aged Care & Retirement Property Trust (the "Trust") advised that it had decided not to pursue the proposed acquisition and that it had accordingly withdrawn from the purchases of all the shares and all the units. Therefore, in August 2011 Japara Holdings Pty Ltd and the Trust have closed down the transaction process which was being managed by UBS. All costs incurred to 30 June 2011 have been allocated between the Trust and Japara Holdings Pty Ltd based upon the relative values of the units in the Trust and the shares in Japara Holdings Pty Ltd which were calculated with reference to the offer price from the prospective purchaser and the gross asset values of the Trust and Japara Holdings Pty Ltd.
- b. Since the reporting date, the consolidated group in conjunction with the Trust have been exploring a restructure of the combined businesses. This could have entailed a move to a combined entity whereby the Trust and the businesses operated by Japara Holdings Pty Ltd and its associated entities would be combined under a common ownership. Whilst the aim of the directors was to have this restructure completed before 1 March 2012, the intention was to have this substantially completed in the 2011 calendar year. The Group has since done considerable work in exploring this option and seeking to bring it about. It has, however, been unable to obtain for investors in the Trust a form of security that it is prepared to put and recommend to them. The combined entity option in this form is accordingly no longer being pursued.
- c. On 14 September 2011, in anticipation of moving to a combined entity the Group had, in relation to the Group's and the Trust's bank debt, entered into short term funding arrangements with the Group's and the Trust's primary lender until 1 March 2012, by which time it was expected that the restructure project would have been completed. However, as the combined entity restructure project has been put to one side, the Group is now pursuing 3-4 year bank funding. As at the date of signing the financial statements, the Group's and the Trust's key bankers have accepted a mandate to arrange three to four year syndicated loan facilities to the Group and to the Trust.
- d. In October 2011, the Trust entered into a contract to sell the Woodburn Lodge Retirement Village in Brighton, Victoria, which the consolidated group currently manages. Settlement is due to take place in December 2011 and the consolidated group will cease to manage the retirement village at settlement. The directors have therefore taken this into account when assessing the recoverability of the customer related intangibles as at 30 June 2011 and have calculated the amount of the impairment charged to the statement of comprehensive income during the year ended 30 June 2011 to be \$1,071,000 (2010: \$Nil).
- e. On 18 August 2011, the consolidated group settled on a contract for the purchase of 30 pre-1997 high care places (bed licences). A \$30,000 deposit had been paid during the year ended 30 June 2010 with the balance of \$1,470,000 being paid at settlement. The deposit amount of \$30,000 (2010: \$30,000) is included in Note 7 to the financial statements as a current asset.
- f. An amount of \$535,000 (2010: \$535,000) which had been paid in respect of the deposit upon the exchange of contracts for the purchase of the freehold property and business of an aged care facility was successfully recovered as a result of the consolidated group commencing legal proceedings to recover these deposits as the acquisition did not proceed. This amount is disclosed in Note 7 to the financial statements as a current asset and was received by the Group in August 2011. An amount of accrued interest receivable of \$70,000 (2010: \$Nil) relating to the delayed refund of the deposit is included in Note 6 to the financial statements as interest receivable. This interest amount was received by the Group in November 2011. The Group is now seeking recovery through the courts of costs incurred of approximately \$75,000 in recovering this deposit. Due to the uncertainty of successfully being able to recover these costs, the Group has not recorded this amount in the financial statements.
- g. At the date of this financial report Japara Holdings Pty Ltd (the "Company") and its majority shareholders continue to be involved in legal proceedings concerning a former director and current shareholder. On 28 October 2011 a hearing before the Supreme Court of Victoria set a trial date in October 2012. No amounts have been provided for in the financial statements as the Company is of the opinion that the legal proceedings, against the Company, will not be successful.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25: EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

- h. Subsequent to the reporting date, the Group has entered into a construction contract to build a 13 bed extension at one of its aged care facilities. The contract sum is \$1,625,000 (excluding GST). Construction commenced in September 2011 and is expected to be completed in the first half of the 2012 calendar year.
- i. Other than mentioned above and elsewhere in this financial report, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.
- j. The financial report was authorised for issue on 30 November 2011 by the board of directors.

NOTE 26: RELATED PARTY TRANSACTIONS

a. Parent entity

Japara Holdings Pty Ltd is the ultimate parent entity.

b. Subsidiaries

Interests in subsidiaries are detailed in Note 27.

c. Key management personnel

Directors

The names of the directors in office at any time during the financial year were:

(Mark) Andrew Sudholz

Julius Colman

Robert Peck

Arnan Lawrence Rouse (resigned 13 July 2010)

Other key management personnel

The names of other key management personnel at any time during the financial year were:

Allan Reid Director of Japara Property Management Limited

John McKenna Chief Financial Officer and Secretary

Julie Reed Executive Director of Aged Care Services

Jerome Jordan Executive Director of Operations

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 26: RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel compensation

	Short-term benefits	Post- employment benefit	Other long- term benefits	Total
2011	\$	\$	\$	\$
Total compensation	1,768,759	156,750	-	1,925,509
2010				
Total compensation	2,211,692	74,445	-	2,286,137

As at reporting date an amount of \$797,600 (2010: \$645,000) was unpaid in respect of key management personnel compensation.

Retirement and superannuation payments

No amounts by way of a prescribed benefit were given during the year by the consolidated group or a related party to a director, key management personnel or prescribed superannuation fund in connection with the retirement from a prescribed office.

Transactions with related parties

Japara Aged Care & Retirement Property Trust

Japara Property Management Limited, a wholly-owned subsidiary of the parent entity, is the Responsible Entity for the Japara Aged Care and Retirement Property Trust ("the Trust").

The consolidated group has had transactions with the Trust during the year which have all been on commercial terms and at arm's length and are set out below:

- A number of members of the consolidated group are tenants of the properties owned by the Trust, and pay a monthly rent to the Trust on an arm's length commercial basis.
- The consolidated group receives fees from the Trust for its acquisition and management activities performed on behalf of the Trust.
- The consolidated group acts as project manager for the Trust on certain property developments undertaken by the Trust and receives a fee calculated on an arm's length commercial basis for providing this service.
- The consolidated group has made payments to external suppliers on behalf of the Trust which are reimbursable. The Trust has made similar payments on behalf of the consolidated group which are similarly reimbursable.
- Entities associated with directors of the consolidated group, who are unitholders of the Trust, were entitled to participate in distributions from the Trust in their normal capacity as unitholders.

Japara Holdings Pty Ltd and Controlled Entities

ABN 18 110 466 889

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 26: RELATED PARTY TRANSACTIONS (CONTINUED)

The amount of the transactions are as follows:

	2011	2010
<i>Income receivable by the consolidated group</i>	\$	\$
Management fees payable by the Trust to the Responsible Entity	1,427,015	1,355,678
Disposal fees payable by the Trust to the Responsible Entity	-	9,250
Reimbursement of costs payable by the Trust to the Responsible Entity	470,836	85,349
Debt facility fee payable by the Trust to the Responsible Entity	81,618	86,080
Interest receivable from / (payable to) the Trust by the consolidated group	-	(113,749)
	1,979,469	1,422,608

Expenses payable by the consolidated group

Rent payable to the Trust by the consolidated group	19,622,758	19,730,843
Interest payable to the Trust by the Responsible Entity	132,754	141,420
	19,755,512	19,872,263

Amounts remaining unpaid as at balance date are as follows:

Amounts receivable from the Trust	1,520,775	370,500
Amounts (payable) to the Trust	-	(779,807)

A receivable amount of \$2,995,755 (2010: \$2,312,035) relating to the due diligence and other associated costs incurred to 30 June 2011 reimbursable by the Trust and is disclosed in Note 6(b) to the financial statements. This amount was invoiced to, and paid in full by, the Trust in September 2011.

Other related party transactions

Under order of the court, the consolidated group made interest free advances to a former director and existing shareholder during the year totalling \$500,000 (2010:\$Nil). As directed by the court order, this amount is being treated as instalments of the price to be paid to the shareholder in respect of his shareholding in Japara Holdings Pty Ltd pursuant to a future sale of those shares. Once those shares are sold, the receivable amount will be reimbursed out of the sale proceeds.

Also during the year, the consolidated group made an interest free loan of \$500,000 (2010: \$Nil) to a member of the key management personnel.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 27: SUBSIDIARIES

Name of Entity	Ownership	Class of shares	Equity holding	
			2011	2010
			%	%
Aged Care Services Australia Group Pty Ltd	Direct	Ordinary	100	100
Aged Care Services One (Central Park) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Two (Roccoco) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Three (Balmoral Grove) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Four (Park Group) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Five (Narracan Gardens) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Six (Mirridong) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Seven (Kelaston) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Eight (Elanora) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Nine (George Vowell) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 10 (Kingston Gardens) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 11 (View Hills) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 12 (Albury & District) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 13 (Lakes Entrance) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 14 (Lower Plenty Garden Views) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 15 (Rosanna Views) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 16 (Millward) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 17 (Bonbeach) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 18 (Hallam) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 19 (Goonawarra) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 20 (Bayview Gardens) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 21 (Barongarook Gardens) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 22 (Sandhurst) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 23 (Capel Sands) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 24 (St Judes) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 25 (Springvale) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 26 (Bayview) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 27 (Kirrilee) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 28 (Elouera) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 29 (Mirboo North) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 30 (Brighton) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 31 (Vonlea Manor) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 32 (Bundaberg) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 33 (Dava) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 34 (Yarra West) Pty Ltd	Direct	Ordinary	100	100

Japara Holdings Pty Ltd and Controlled Entities

ABN 18 110 466 889

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 27: SUBSIDIARIES (CONTINUED)

Name of Entity	Ownership	Class of shares	Equity holding	
			2011	2010
			%	%
Aged Care Services 35 (Clayton) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 36 (Eden) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 37 (Kyneton) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 38 (Pottsville) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 39 (Tugun) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 40 (Ballina) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 41 (Cairns) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 42 (Portland) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 43 (Mildura) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 44 (Lakes Entrance) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 45 (Woodend) Pty Ltd	Direct	Ordinary	100	100
Bacaal Pty Ltd	Direct	Ordinary	100	100
Japara Developments Pty Ltd	Direct	Ordinary	100	100
Japara Property Management Limited #	Direct	Ordinary	100	100
Japara Retirement Living Pty Ltd	Direct	Ordinary	100	100
Japara Retirement Living 1 (Woodburn Lodge) Pty Ltd	Indirect	Ordinary	100	100
Japara Retirement Living 2 (Balmoral Mews) Pty Ltd	Indirect	Ordinary	100	100
Japara Retirement Living 3 (Lakes Entrance) Pty Ltd	Indirect	Ordinary	100	100
Japara Retirement Living 4 (Cosgrove Cottages) Pty Ltd	Indirect	Ordinary	100	100
Japara Retirement Living 5 (Sydney Williams) Pty Ltd	Indirect	Ordinary	100	100
Japara Retirement Living 6 (Barongarook) Pty Ltd	Indirect	Ordinary	100	100
Japara Retirement Living 7 (Courtlands Village) Pty Ltd	Indirect	Ordinary	100	100
Japara Retirement Living 8 (The Heritage) Pty Ltd	Indirect	Ordinary	100	100
JD No. 1 (Bundaberg) Pty Ltd	Indirect	Ordinary	100	100
JD No. 2 (Balmoral Mews) Pty Ltd	Indirect	Ordinary	100	100
JD No. 3 (Lakes Entrance) Pty Ltd	Indirect	Ordinary	100	100
JD No. 4 (Queenscliff) Pty Ltd	Indirect	Ordinary	100	100
JD No. 5 (Albury & District) Pty Ltd	Indirect	Ordinary	100	100
JD No. 6 (Dava) Pty Ltd	Indirect	Ordinary	100	100
JD No. 7 (Colac) Pty Ltd	Indirect	Ordinary	100	100
JD No. 8 (Yarra West) Pty Ltd	Indirect	Ordinary	100	100
JD No. 9 (North Albury) Pty Ltd	Indirect	Ordinary	100	100

This entity is the responsible entity for the Japara Aged Care & Retirement Property Trust and holds an Australian Financial Services Licence No. 287324.

All of the above entities are registered in Australia.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 28: ECONOMIC DEPENDENCE

The award of approved places (bed licences) and the Department of Health and Ageing funding thereon is controlled by statutory authorities of the Federal Government. On the assumption that there are no future changes in legislation that adversely affects the award or non-withdrawal of approved places (bed licences), the directors have no reason to believe that these approved places (bed licences) will be withdrawn.

Accreditation is provided by the Aged Care Standards and Accreditation Agency. The consolidated group has established detailed practices, procedures and processes to ensure accreditation requirements are met at all times and, has historically met and continues to meet, these accreditation requirements.

NOTE 29: FINANCIAL INSTRUMENTS

(a) Financial risk management objectives, policies and processes

Inherent within the consolidated group's activities are the risks that arise from holding financial instruments. These are managed through a process of ongoing identification, measuring and monitoring. The consolidated group's financial instruments consist mainly of deposits with banks, bank loans, accounts receivable and payable, loans to and from related parties, deferred tax assets and liabilities and accommodation bonds, which all arise directly from its operations. The main purpose of non-derivative financial instruments is to raise finance for the consolidated group's operations. The consolidated group does not have any derivative financial instruments at balance date (2010: None).

The directors of the consolidated group are responsible for identifying and controlling risks that arise from these financial instruments. As such the consolidated group has identified that the key areas of risk are credit risk, liquidity risk and market risk (which can be analysed further into interest rate risk, currency risk and price risk), with further information on each risk category disclosed below. The directors of the consolidated group, amongst other responsibilities, are tasked to identify, monitor, control and hence mitigate risk, within the framework of the consolidated group's operational mandate and compliance with legislation and industry specific regulations. Information is reported to all relevant parties within the consolidated group on a regular basis including key management, the Board of Directors and the compliance committee. All risk management policies are approved and reviewed by the Board of Directors on a regular basis.

Capital management

Management controls the capital of the consolidated group in order to maintain a manageable level of debt, meet its prudential requirements in relation to resident bond liabilities, provide the shareholders with adequate returns and ensure that the consolidated group can fund its operations and continue as a going concern.

The consolidated group's debt and capital includes ordinary share capital, resident accommodation bonds, ILU resident loans and financial liabilities, supported by financial assets.

Under the Aged Care Act, the consolidated group is required to meet certain prudential requirements in relation to resident accommodation bonds held. These are managed through the establishment and regular updating of a liquidity management strategy.

Management effectively manages the consolidated group's capital by assessing the consolidated group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

Japara Holdings Pty Ltd and Controlled Entities**ABN 18 110 466 889****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011****NOTE 29: FINANCIAL INSTRUMENTS (CONTINUED)****(i) Credit risk**

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the consolidated group to incur a financial loss.

With respect to credit risk arising from the financial assets of the consolidated group, other than derivatives, the consolidated group's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the balance sheet and notes to the financial statements. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The consolidated group has identified that it does not have any material credit risk exposure to any single non-related party receivable or group of non-related party receivables under financial instruments entered into by the consolidated group. The consolidated group has identified that its single largest customer is the Department of Health & Ageing in respect of funding received. Such funding is received on a monthly basis, in advance at the start of each month, and any funding receivable at balance date is accrued based upon Department of Health & Ageing calculations of balancing funding amounts. The consolidated group has determined that any credit risk associated with the Department of Health & Ageing is insignificant. In respect of other customers, being aged care facility residents, the consolidated group monitors the level of receivables balances on a weekly basis and any associated credit risk is mitigated by their independence of each other and individual immateriality to the consolidated group. The consolidated group's exposure to bad debts is therefore not significant, however a provision for doubtful debts has been raised in the financial statements which at balance date is \$185,000 (2010: \$315,000).

At 30 June 2011, the ageing analysis of resident debtors is as follows:

<i>Year</i>	<i>Not yet due</i>	<i>Current</i>	<i>31 – 60 days</i>	<i>61 + days</i>	<i>Impaired</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2011	3,635	232	85	410	(185)	4,177
2010	3,225	282	85	666	(315)	3,943

Resident debtors past due but not considered impaired are: \$310,000 (2010: \$436,000).

The consolidated group has also identified that it is exposed to credit risk with related parties being the Japara Aged Care and Retirement Property Trust ("the Trust"). At balance date, an amount of \$1,172,000 (2010: \$31,000) was receivable from the Trust. Of this balance, \$1,172,000 (2010: \$31,000) has since been received by the consolidated group to the date of signing these financial statements. The receivable balance remaining at the date of signing these financial statements amounts to \$Nil (2010: \$Nil). The consolidated group has therefore determined that its credit risk exposure in this respect is not material.

The consolidated group holds no collateral as security or any other credit enhancements. There are no financial instruments that are impaired as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29: FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Liquidity risk

Liquidity risk is the risk that the consolidated group 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 consolidated group maintains sufficient cash and cash equivalents to meet normal operating requirements. Also, as part of the consolidated group's compliance with the Prudential Liquidity Standard for holding accommodation bonds, the consolidated group maintains a liquidity management strategy to ensure that the consolidated group has sufficient liquidity to enable it to refund accommodation bond balances that are expected to fall due within at least the next twelve months.

Financial liabilities of the consolidated group comprise trade and other payables, dividends payable, deferred tax liabilities, accommodation bonds, ILU resident loan liabilities and payables to related parties. Trade and other payables have no contractual maturities but are typically settled within 30 days or within the terms negotiated. Dividends payable and payables to related parties have no maturity date and are settled upon negotiation with the related party. Accommodation bonds, whilst potentially repayable within 14 days of a resident leaving the aged care facility and therefore classified under "current liabilities" in the balance sheet, are typically replaced by an equivalent or higher accommodation bond receivable from a new incoming resident. It is also unlikely in practice that all accommodation bonds would be refundable within a 12 month period. Based upon the consolidated group's experience and knowledge of the aged care industry sector, typically 40% of all accommodation bonds are refundable within 12 months (and are typically replaced with a similar or greater amount) with the remainder falling due after 12 months (and are typically replaced with a similar or greater amount). ILU resident loan liabilities are subject to loan agreements and whilst repayable within the earlier of 14 days after a new resident replaces the departing resident or six months after resident departure, and therefore classified under "current liabilities" in the balance sheet, are typically replaced by an equivalent or higher resident loan receivable from a new incoming resident. It is also unlikely in practice that all resident loan liabilities would be refundable within a 12 month period. A maturity profile is disclosed in the balance sheet and notes to the financial statements.

(iii) 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. The consolidated group has identified that it is exposed to interest rate risk and price risk, but has no exposure to foreign currency risk. Market risk is managed and monitored by 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 consolidated group.

Interest rate risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, primarily relates to the consolidated group's bank debt. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The consolidated group reviews its bank borrowings on a monthly basis and monitors its position in respect of fixing interest rates or leaving them as floating rates.

Price risk

The consolidated group has assessed that the price risk that it is materially exposed to relates to the risk that the Commonwealth Government, through the Department of Health & Ageing, alters the rate of funding provided to Approved Providers of residential aged care services. As government funding represents over 65% of the consolidated group's revenue, there is an exposure to a fluctuation in the rate of government funding, which would have a direct impact on the revenue of the consolidated group. Price risk arises from the possibility that changes in government funding will affect future cash flows or the fair values of financial instruments. Whilst the consolidated group is not able to influence Commonwealth Government policy directly, it participates in aged care industry public awareness discussions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29: FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instrument composition and maturity analysis

The consolidated group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

Consolidated group	Weighted Average Effective Interest Rate		Floating Interest Rate		Maturing within 1 year		Non-interest Bearing		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	%	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets:										
Cash and cash equivalents	4.16	3.35	17,448	12,416	-	-	-	-	17,448	12,416
Receivables	-	-	-	-	-	-	7,864	6,427	7,864	6,427
Other financial assets	-	-	-	-	-	-	4,429	3,180	4,429	3,180
Deferred tax assets	-	-	-	-	-	-	9,914	12,877	9,914	12,877
Amounts receivable from related parties	-	-	-	-	-	-	2,172	31	2,172	31
Total Financial Assets			17,448	12,416	-	-	24,379	22,515	41,827	34,931
Financial Liabilities:										
Bank loans and overdrafts	6.96	6.29	53,409	73,481	370	298	-	-	53,779	73,779
Accruals and deferred income	-	-	-	-	-	-	18,577	18,583	18,577	16,583
Current tax liabilities	-	-	-	-	-	-	1,306	-	1,306	-
Deferred tax liabilities	-	-	-	-	-	-	4,797	4,690	4,797	4,690
Trade and sundry payables	-	-	-	-	-	-	3,478	5,075	3,478	5,075
Rounding	-	-	-	-	-	-	1	-	1	-
Accommodation bonds & ILU loans	-	-	-	-	-	-	164,919	156,104	164,919	156,104
Employee benefits	-	-	-	-	-	-	15,153	13,015	15,153	13,015
Equipment loans	-	7.20	-	-	-	-	-	9	-	9
Total Financial Liabilities			53,409	73,481	370	298	208,231	197,476	262,010	271,255

Japara Holdings Pty Ltd and Controlled Entities

ABN 18 110 466 889

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29: FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities have the following maturity profiles:

	2011	2010
	\$'000	\$'000
Less than 6 months	245,510	231,480
6 months to 1 year	6,803	25,840
1 to 5 years	9,697	13,935
	262,010	271,255

Sensitivity analysis

The consolidated group has performed a sensitivity analysis relating to its exposure to interest rate risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

(a) Interest rate risk sensitivity analysis

The consolidated group has performed a sensitivity analysis on its income statement and balance sheet based upon a reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the income statement and balance sheet is the effect of the assumed changes in interest rates on the interest income and interest expense for one year, based on the floating rate financial assets held at 30 June 2011 and 30 June 2010. The sensitivity has been calculated using a change in interest rates of 100 basis points increase and decrease.

At balance date, the effect on profit / (loss) after tax and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2011	2010
	\$'000	\$'000
Change in profit / (loss) after tax – higher / (lower)		
- Increase in interest rate by 1.00%	(254)	(427)
- Decrease in interest rate by 1.00%	254	427
Change in equity – higher / (lower)		
- Increase in interest rate by 1.00%	(254)	(427)
- Decrease in interest rate by 1.00%	254	427

Japara Holdings Pty Ltd and Controlled Entities

ABN 18 110 466 889

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29: FINANCIAL INSTRUMENTS (CONTINUED)

(b) Price risk sensitivity analysis

The consolidated group has performed a sensitivity analysis on its income statement and balance sheet based upon reasonably possible change in levels of government funding, with all other variables held constant. The sensitivity of the income statement and balance sheet is the effect of the assumed changes in levels of government funding on the revenue of the consolidated group, based on the annualised amount of government funding received for the period ended 30 June 2011 and 30 June 2010. The sensitivity has been calculated using a change in the level of government funding of 5.00% increase and decrease.

At balance date, the effect on profit / (loss) after tax and equity as a result of changes in the level of government funding, with all other variables remaining constant would be as follows:

	2011	2010
	\$'000	\$'000
Change in profit / (loss) after tax – higher / (lower)		
- Increase in government funding by 5.00%	5,360	4,914
- Decrease in government funding by 5.00%	(5,360)	(4,914)
Change in equity – higher / (lower)		
- Increase in government funding by 5.00%	5,360	4,914
- Decrease in government funding by 5.00%	(5,360)	(4,914)

NOTE 30: COMPANY DETAILS

The registered office and principal place of business of the parent entity is:

HWT Tower Level 20, 40 City Road

SOUTHBANK, VIC 3006

Japara Holdings Pty Ltd and Controlled Entities

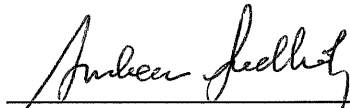
ABN 18 110 466 889

DIRECTORS' DECLARATION

In the opinion of the directors of Japara Holdings Pty Ltd (the "Company"):

1. The financial statements and notes, as set out in the financial report on pages 8 to 55, are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the financial position of the Company and the consolidated group as at 30 June 2011 and of their performance for the year ended on that date; and
 - b. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.
3. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



(Mark) Andrew Sudholz – Director

Melbourne

Dated this 30th day of November 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JAPARA HOLDINGS PTY LTD

Report on the Financial Report

We have audited the accompanying financial report of Japara Holdings Pty Ltd (the company) and Japara Holdings Pty Ltd and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

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

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

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

‘value beyond numbers’

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Japara Holdings Pty Ltd, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

- a. the financial report of Japara Holdings Pty Ltd and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Expiry of Financing Facilities and Restructure of Business

Without qualification to the opinion expressed above, we draw attention to the matters outlined in the Directors' Report and Note 25 (a), (b), and (c) to the financial report. At the date of signing this audit report the proposed sale of the Japara Aged Care & Retirement Property Trust and the Japara Holdings Pty Ltd consolidated group will not proceed. Furthermore, the Directors of Japara Property Management Limited in its capacity as the responsible entity of the Japara Aged Care & Retirement Property Trust and the Directors of Japara Holdings Pty Ltd consolidated group have decided not to pursue a restructure of the combined businesses. As at the date of signing the financial report the key bankers of the afore mentioned entities have accepted a mandate to arrange three to four year syndicated term facilities to refinance the group. The current loan facility for the parent entity matures on 1 March 2012.


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GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne

30 November 2011