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

2012 Annual Financial Report
For the financial year ended 30 June 2012

2012 Annual Financial Report

Contents

DIRECTORS' REPORT

Your directors present their report on the consolidated group for the financial year ended 30 June 2012.

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 A.M.

Allan Reid (appointed 2 April 2012)

Raymond Schoer (appointed 2 April 2012)

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 2012, 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 $12,384,000 (2011: $10,198,000).

The number of approved aged care places (beds) and independent living units operated by the consolidated group was 2,954 (2011: 2,950) at the reporting date. Revenue for the current financial year of $225,566,000 (2011: $213,270,000) has increased by 5.8% (2011: 9.6% increase) compared to the previous year primarily due to increases in funding received from the Federal government as a result of higher care need classifications of residents. Total expenses from ordinary activities increased to $207,608,000 (2011: $198,653,000), an increase of 4.5% (2011: 6.2% increase); this percentage increase is less than the percentage increase in revenue resulting in profit before income tax increasing to $17,958,000 (2011: $14,617,000 before income tax).

During the year the consolidated group completed the construction of the 13 bedroom extension at one of the aged care facilities that the consolidated group leases and operates at a total cost of $1,941,000, which has been accounted for as a leasehold improvement. An occupancy permit for the extension was awarded in April 2012.

The consolidated group settled on the purchase of 30 pre-1997 high care places (bed licenses) in August 2012 at a total cost of $1,500,000. These places have been acquired to be utilised once a proposed extension to an existing aged care facility has been constructed.

During the year, 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. All costs incurred to 30 June 2012 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. As the majority of the costs had been incurred and expensed during the year ended 30 June 2011, the impact on the results to 30 June 2012 was insignificant.

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.

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.

DIRECTORS' REPORT (CONTINUED)

Events after the reporting period

On 2 July 2012, the consolidated group entered into a three year term syndicated loan facility agreement with two major Australian banks to refinance the consolidated group's existing debt facilities. The total syndicated loan facility amount is $50,000,000, representing a Tranche A amount of $30,000,000 and a Tranche B amount of $20,000,000. The Tranche A facility was fully drawn down on 5 July 2012 to refinance the consolidated group's existing debt facilities. The Tranche B facility has been made available by the banking syndicate to provide the consolidated group with a revolving development loan to enable it to finance its ongoing and proposed construction projects. As at the date of signing this report, the consolidated group had drawn down $820,000 of the Tranche B facility. Principal repayments under the Tranche A facility are required to be made quarterly in arrears, with principal repayment amounts totalling $12,000,000 in year one, $13,000,000 in year two and $5,000,000 in year three. The Tranche B facility is subject to principal repayments upon completion of each development project. Both the Tranche A and Tranche B syndicated loan facilities mature on 1 July 2015.

On the same date, Japara Property Management Limited as Responsible Entity for the Japara Aged Care & Retirement Property Trust (the "Trust") and on behalf of the Trust entered into a three year term syndicated facility with the same two major Australian banks to refinance the Trust's existing debt facilities. The total syndicated facility amount is $140,000,000, of which $125,500,000 was drawn down on 5 July 2012. No further amounts have been drawn down to the date of this report. The interest payable under the syndicated facility was at a floating interest rate, however the Directors of Japara Property Management Limited elected to hedge against potential future interest rate increases. Accordingly the Trust entered into a three year swap agreement which swaps the floating interest rate for a fixed interest rate for 80% of the syndicated facility amount. Under the syndicated facility agreement, no principal repayments are required during the first two years, with repayments of $1,000,000 per month being scheduled in each of the final nine months of the syndicated facility term. These repayments are guaranteed in full by the consolidated group. The syndicated loan facility matures on 1 July 2015.

In August 2012 the construction of a 63 bed extension at one of the aged care facilities leased and operated by the consolidated group commenced. The project is being managed by the consolidated group on behalf of the landlord, the Japara Aged Care & Retirement Property Trust. The construction contract amounts to $10,250,000 and will be financed through the revolving development loan provided by the consolidated group's banking syndicate. Upon completion, the total project cost will be shared between the lessee and the landlord in accordance with the terms of the development agreement and the agreement for lease. The project is scheduled to be completed towards the end of the 2013 calendar year.

The consolidated group continues to review further development opportunities by extensions to existing aged care facilities and building entire new aged care facilities. Each of these future projects is subject to a feasibility study, financing, the award of a planning permit and entering into a construction contract, amongst other criteria.

On 28 August 2012, Japara Holdings Pty Ltd and its Controlled Entities entered into a settlement deed resolving the legal proceedings between the majority shareholders of Japara Holdings Pty Ltd and a former director of Japara Holdings Pty Ltd. As part of the settlement process, at a general meeting of the members of Japara Holdings Pty Ltd, approval was given for the financial assistance to be provided by the consolidated group by way of a loan made to a related party to enable it to purchase the entire shareholding in Japara Holdings Pty Ltd held by a related party of the former director. The terms of the settlement deed are confidential; however the result is that all claims by each party against the other have been withdrawn and the former director no longer has any interest in the shares of Japara Holdings Pty Ltd.

In October 2012 a total ordinary and employee dividend of $3,000,000, franked to the maximum permissible, was declared and paid.

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.

DIRECTORS' REPORT (CONTINUED)

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 2012 (2011: $Nil) in respect of ordinary and employee shares. A total dividend of $3,000,000 in respect of ordinary shares and employee shares has been declared and paid since the end 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 (2011: 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

On 28 August 2012, Japara Holdings Pty Ltd and its Controlled Entities entered into a settlement deed resolving the legal proceedings between the majority shareholders of Japara Holdings Pty Ltd and a former director of Japara Holdings Pty Ltd. On 29 August 2012, the Supreme Court of Victoria made orders by consent that the proceeding is discontinued.

During the year the consolidated group successfully recovered an amount of $535,000 which had been paid as a deposit upon the exchange of contracts for the purchase of the freehold property and business of an aged care facility. The consolidated group had commenced legal proceedings to recover the deposit as the acquisition did not proceed.

During the year, the consolidated group also successfully recovered interest of $75,000 relating to the delayed refund of the deposit.

The consolidated group continued to pursue through the courts recovery of costs incurred in recovering this deposit and interest. As at reporting date, the consolidated group had accrued an amount of costs receivable of $80,000 (2011: $Nil), all of which was successfully recovered in July 2012, with all legal proceedings in respect of this matter now having been resolved.

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 29th day of November 2012

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AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 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 2012, 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

NEXIA MELBOURNE
A.B.N. 16 847 721 257

GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

29 November 2012

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Japara Holdings Pty Ltd and Controlled Entities

ABN 18 110 466 889

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Revenue from ordinary activities	2	**225,566**	213,270
Details of expenditure:	3		
Employee benefits expense		**(145,268)**	(136,303)
Occupancy costs		**(29,805)**	(29,143)
Cost of services		**(15,881)**	(14,325)
Depreciation, amortisation and impairment		**(4,948)**	(5,734)
Finance costs		**(5,200)**	(6,833)
Administrative expenses		**(6,506)**	(6,315)
Total expenses from ordinary activities		**(207,608)**	(198,653)
Profit before income tax		**17,958**	14,617
Income tax expense	4	**(5,574)**	(4,419)
Profit for the year		**12,384**	10,198
Share buy-back, net of tax		**(493)**	-
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the year		**11,891**	10,198
Profit attributable to members of the group		**11,891**	10,198
Total comprehensive income attributable to members of the group		**11,891**	10,198

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 2012

	Note	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash assets	5	**26,585**	17,448
Trade and other receivables	6	**21,861**	9,036
Other current assets	7	**3,201**	3,529
Land held for sale	8	**-**	900
Total current assets		**51,647**	30,913
Non-current assets			
Trade and other receivables	6	**-**	1,000
Property, plant and equipment	9	**55,465**	54,460
Investment property	10	**10,183**	10,151
Deferred tax assets	16	**10,057**	9,914
Intangibles	11	**173,092**	172,729
Other non-current assets	12	**1,037**	1,174
Total non-current assets		**249,834**	249,428
TOTAL ASSETS		**301,481**	280,341
LIABILITIES			
Current liabilities			
Trade and other payables	13	**19,533**	17,487
Borrowings	14	**34,999**	53,779
Other financial liabilities	15	**184,657**	164,919
Current tax liability	16	**4,539**	1,306
Provisions	17	**16,384**	13,867
Other current liabilities	18	**4,751**	4,569
Total current liabilities		**264,863**	255,927
Non-current liabilities			
Borrowings	14	**-**	-
Deferred tax liabilities	16	**4,873**	4,797
Provisions	17	**1,530**	1,286
Total non-current liabilities		**6,403**	6,083
TOTAL LIABILITIES		**271,266**	262,010
NET ASSETS		**30,215**	18,331
EQUITY			
Issued capital	19	**113**	120
Retained earnings		**30,102**	18,211
TOTAL EQUITY		**30,215**	18,331

Japara Holdings Pty Ltd and Controlled Entities

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Issued Capital	Retained Earnings	Total
	$'000	$'000	$'000
Balance at 1 July 2010	120	8,013	8,133
Profit attributable to members of parent entity	-	10,198	10,198
Sub-total	120	8,013	8,133
Dividends paid or provided for	-	-	-
Balance at 30 June 2011	120	18,211	18,331
Balance at 1 July 2011	**120**	**18,211**	**18,331**
Profit attributable to members of parent entity	**-**	**12,384**	**12,384**
Share buy-back	**(7)**	**(493)**	**(500)**
Sub-total	**113**	**30,102**	**30,215**
Dividends paid or provided for	**-**	**-**	**-**
Balance at 30 June 2012	**113**	**30,102**	**30,215**

The accompanying notes form part of these financial statements.

Japara Holdings Pty Ltd and Controlled Entities

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		**219,067**	207,852
Payments to suppliers and employees		**(190,409)**	(182,204)
Income tax paid		**(2,409)**	(42)
Interest received		**1,957**	1,161
Financing costs paid		**(4,932)**	(7,213)
Net cash provided by operating activities	23	**23,274**	19,554
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property		**(2,038)**	(375)
Purchase of bed licences		**(1,500)**	-
Purchase of plant and equipment	9	**(1,977)**	(1,786)
Proceeds from sale of property, plant and equipment		**923**	7
Capital works in progress	9	**(1,020)**	(71)
Proceeds from sale of business		**933**	-
Deposits paid		**(81)**	-
Deposits reimbursed		**535**	-
Net cash provided by / (used in) investing activities		**(4,225)**	(2,225)
CASH FLOW FROM FINANCING ACTIVITIES			
Loans made to other related parties		**(15,700)**	(338)
Loans repaid by other related parties		**1,669**	-
Proceeds from bank borrowings		**32,471**	2,249
Repayment of bank borrowings		**(51,251)**	(22,258)
Advances made to shareholders		**(600)**	(500)
Share buy-back		**(7)**	-
Due diligence costs paid		**(2,144)**	(3,067)
Due diligence costs reimbursed by other related parties		**3,041**	-
Net proceeds from accommodation bonds		**23,336**	11,504
Net (outflows) / proceeds from ILU resident loans		**(727)**	113
Net cash provided by / (used in) financing activities		**(9,912)**	(12,297)
Net increase in cash held		**9,137**	5,032
Cash at beginning of financial year		**17,448**	12,416
Cash at end of financial year	5	**26,585**	17,448

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 2012 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 29 November 2012.

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 continued to be 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.

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 2011, effective 28 June 2011, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 2012

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.

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.

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.

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.

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 unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

Accommodation bond liabilities are recorded at an amount equal to the proceeds received, net of retention and any other amounts deducted from the bond in accordance with the *Aged Care Act 1997.*

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 unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

ILU resident loan liabilities are recorded at an amount equal to the proceeds received, net of the accrued deferred management fee.

Deferred management fees crystallise upon the termination of the loan licence agreement. As such, the deferred management fee receivables are recorded at present value based upon an expected occupancy period until termination of the loan licence agreement. Therefore deferred management fees contain both current and non-current elements.

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 2012

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

The Australian Accounting Standards Board has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the consolidated group. The Directors of the consolidated group have decided not to early adopt any of the new and amended pronouncements. The Directors' assessment of the new and amended pronouncements that are relevant to the consolidated group but applicable in future reporting periods is set out below:

– AASB 9: Financial Instruments (December 2010) and 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] (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 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;
  - 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.

  The consolidated group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

– 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.

Since the consolidated 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 2010–8: 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 and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

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 are not expected to significantly impact the consolidated group.

– AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 3, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The consolidated group has not yet been able to reasonably estimate the impact of this Standard on its financial statements however there is not expected to be any significant impact.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed). As the consolidated group has no joint operations or joint ventures, the amendments are not expected to significantly impact the consolidated group.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the consolidated group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the consolidated group.

– AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurements.

  AASB 13 requires:

  - inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
  - enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

  These Standards are not expected to significantly impact the consolidated group.

– AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

  The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

  This Standard affects presentation only and is therefore not expected to significantly impact the consolidated group.

– AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

  These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The consolidated group does not have any defined benefit plans and so is not impacted by the amendment.

  AASB 119 (September 2011) also includes changes to:

  (a) require only those benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service to be classified as short-term employee benefits. All other employee benefits are to be classified as other long-term employee benefits, post-employment benefits or termination benefits, as appropriate; and

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

(i) for an offer that may be withdrawn – when the employee accepts;

(ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and

(iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

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

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. As at reporting date, an impairment of $500,000 (2011: $Nil) has been recognised in the financial statements in respect of bed licences.

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. If there are indicators of impairment, an impairment assessment will be performed. At 30 June 2012 there were no indicators of impairment of CRIs. An impairment charge of $Nil (2011: $1,071,000) has been recognised in respect of CRIs at reporting date.

The recoverable amount of bed licences and goodwill 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 (a) refers to the debt facilities of the consolidated group with its bank. Due to the successful refinancing of the consolidated group's debt facilities on 2 July 2012, the directors of the Group believe that it is appropriate for the financial statements to be prepared on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2: REVENUE

	2012 $'000	2011 $'000
Operating activities		
— service fee income	**219,146**	208,404
— property acquisition and management fee income	**1,407**	1,427
— rent income	**576**	562
— asset revaluation movement	**31**	-
— sundry income	**2,510**	1,618
Total operating revenue	**223,670**	212,011
Non-operating activities		
Interest income:		
— bank	**1,145**	1,107
— other	**751**	152
Total non-operating revenue	**1,896**	1,259
Total revenue	**225,566**	213,270

NOTE 3: PROFIT BEFORE INCOME TAX

	2012 $'000	2011 $'000
a. **Employee benefits expense**		
Wages and leave expenses	**119,673**	111,978
Superannuation contributions	**10,360**	9,671
Agency staff expenses	**4,334**	4,847
Hire of staff costs	**205**	181
Payroll tax and other staff costs	**10,696**	9,626
Total employee benefits expense	**145,268**	136,303
b. **Occupancy costs**		
Rent of premises under operating leases	**22,554**	21,733
Rent of premises – IFRS straight-lining	**(22)**	534
Rates and taxes	**985**	926
Utilities	**4,224**	3,942
Other occupancy costs	**2,064**	2,008
Total occupancy costs	**29,805**	29,143

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: PROFIT BEFORE INCOME TAX (CONTINUED)

		2012 $'000	2011 $'000
c.	**Cost of services**		
	Contract cleaning	**39**	36
	Contract laundry	**72**	66
	Contract catering	**1,363**	1,301
	Food supplies	**6,023**	5,881
	Medical and health expenses	**6,017**	5,100
	Other service costs	**2,367**	1,941
	Total cost of services	**15,881**	14,325
d.	**Depreciation, amortisation and impairment**		
	Plant and equipment - depreciation	**2,856**	2,732
	Leasehold improvements - amortisation	**101**	82
	Freehold buildings - depreciation	**900**	907
	Freehold land and buildings - impairment	**-**	158
	Bed licences - impairment	**500**	-
	Customer related intangibles - amortisation	**590**	784
	Customer related intangibles - impairment	**-**	1,071
	Total depreciation, amortisation and impairment	**4,948**	5,734
e.	**Finance costs**		
	Bank facility establishment fees	**968**	1,305
	Bank interest expense	**3,379**	4,391
	Finance charges – HP agreement	**-**	2
	Other interest expense	**683**	862
	Other interest expense – related parties	**170**	273
	Total finance costs	**5,200**	6,833
f.	**Administrative expenses**		
	Legal, professional, insurance and management fees	**3,767**	3,306
	Advertising expenses	**232**	256
	IT expenses	**201**	124
	Office supplies, printing and stationery expenses	**832**	677
	Communication costs	**390**	440
	Other administrative expenses	**1,084**	1,512
	Total administrative expenses	**6,506**	6,315

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: PROFIT BEFORE INCOME TAX (CONTINUED)

	2012 $'000	2011 $'000
Remuneration of the auditor		
Audit of financial statements	**233**	183
Other services	**133**	96
Total fees payable to Nexia Melbourne	**366**	279

NOTE 4: INCOME TAX EXPENSE

a. **The components of tax expense comprise:**

	2012 $'000	2011 $'000
Current tax expense	**5,648**	3,904
Deferred tax expense / (benefit)	**(68)**	515
(Over) / under provision of tax from prior years	**(6)**	-
Income tax expense	**5,574**	4,419

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:**

	2012 $'000	2011 $'000
Profit before income tax	**17,958**	14,617
Prima facie tax on profit before income tax at 30% (2011: 30%)	**5,387**	4,385
Add tax effect of:		
— Non-allowable tax income	**(3)**	(3)
— Non-allowable tax expenses	**57**	34
— ILU charge on loan movement	**-**	3
— (Over) / under provision of tax from prior years	**(6)**	-
— Tax effect on sale of business	**139**	-
Income tax expense attributable to profit from ordinary activities	**5,574**	4,419

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 5: CASH AND CASH EQUIVALENTS

	2012 $'000	2011 $'000
CURRENT		
Cash at bank and in hand	**26,277**	17,140
Short-term bank deposits	**308**	308
	26,585	17,448

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:

	2012 $'000	2011 $'000
Cash and cash equivalents	**26,585**	17,448
	26,585	17,448

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 the reporting date $646,000 (2011: $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		**4,482**	4,362
Provision for doubtful debts	6a	**(120)**	(185)
		4,362	4,177
Other receivables			
Interest receivable	7a	**89**	150
Sundry debtors	6b	**1,380**	3,537
Amounts receivable from related parties	6c	**16,030**	1,172
		21,861	9,036
NON-CURRENT			
Amounts receivable from related parties	6c	**1,100**	1,000
Provision against amounts receivable from related parties	6c	**(1,100)**	-
		-	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:

	$'000	$'000
Opening balance as at 1 July	**185**	315
Charge for the year	**-**	-
Amounts written off	**(65)**	(130)
Closing balance as at 30 June	**120**	185

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6: TRADE AND OTHER RECEIVABLES (CONTINUED)

b. Sundry debtors includes an amount of $1,056,000 (2011: $2,996,000) relating to due diligence and other associated costs incurred to 30 June 2012 reimbursable by the Japara Aged Care & Retirement Property Trust ("the Trust"). This amount has yet to be invoiced to the Trust. The amount of $2,996,000 as at 30 June 2011 was invoiced to, and paid in full by, the Trust in September 2011.

			2012 $'000	2011 $'000
c.	**Other related parties – unsecured**			
	Current:			
	Other related parties – the Trust		**16,030**	1,172
	Total current		**16,030**	1,172
	Non-current:			
	Other related parties – shareholder	6d	**1,100**	500
	Provision against other related parties - shareholder	6d	**(1,100)**	-
	Sub-total - shareholder		**-**	500
	Other related parties – key management personnel	6e	**-**	500
	Total non-current		**-**	1,000
	Total current and non-current		**16,030**	2,172

d. Under order of the court, the consolidated group made advances to a former director and shareholder during the year totalling $600,000 (2011:$500,000). As a result of the settlement that was reached in August 2012, this amount is no longer recoverable and full provision against its non-recoverability has been made at the reporting date. See note 25 for further details regarding the settlement.

e. A loan of $Nil (2011: $500,000) was made to one of the key management personnel during the year. The loan of $500,000 as at 30 June 2011 was satisfied in full during the year by the consolidated group entering into a share buy-back arrangement with the key management personnel.

NOTE 7: OTHER ASSETS

	Note	2012 $'000	2011 $'000
CURRENT			
Prepayments and accrued income	7a	**2,415**	2,195
Deposits	7b	**68**	565
GST recoverable		**346**	397
Deferred management fee receivable		**372**	372
		3,201	3,529

7a. Included within prepayments and accrued income is an amount of $350,250 (2011: $348,750) relating to accrued but not yet invoiced management fee income receivable from the Japara Aged Care & Retirement Property Trust.

7b. Included in this is an amount of $Nil (2011: $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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 8: LAND HELD FOR SALE

	Note	2012 $'000	2011 $'000
Balance at beginning of year		**900**	-
Transfer from investment property – at fair value	10	-	1,058
Sale of asset		**(900)**	-
Fair value adjustment		-	(133)
Impairment charge - expected selling costs		-	(25)
Closing balance at end of year		-	900

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	2012 $'000	2011 $'000
PROPERTY		
Buildings and leasehold improvements:		
- At cost	**30,772**	28,737
Accumulated depreciation and amortisation	**(3,459)**	(2,458)
Total buildings at written down value	**27,313**	26,279
Land:		
- At cost	**10,200**	10,303
Total land at written down value	**10,200**	10,303
Capital works in progress		
- At cost	**2,204**	1,185
Total capital works in progress	**2,204**	1,185
Total property	**39,717**	37,767
PLANT AND EQUIPMENT		
Plant and equipment:		
- At cost	**29,919**	28,064
Accumulated depreciation	**(14,171)**	(11,371)
Total plant and equipment at written down value	**15,748**	16,693
Total property, plant and equipment	**55,465**	54,460

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 9: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in Carrying Amounts	Building & leasehold improvement	Land at cost	Capital works in progress	Plant & equipment	Total property, plant & equipment
	$'000	$'000	$'000	$'000	$'000
2012					
Balance as at 1 July 2011	**26,279**	**10,303**	**1,185**	**16,693**	**54,460**
Additions at cost	**96**	**-**	**2,960**	**1,977**	**5,033**
Disposal of assets	**-**	**(103)**	**-**	**(67)**	**(170)**
Transfer in from / (out of) Capital WIP	**1,941**	**-**	**(1,941)**	**-**	**-**
Rounding	**(2)**	**-**	**-**	**-**	**(2)**
Depreciation expense	**(1,001)**	**-**	**-**	**(2,855)**	**(3,856)**
Carrying amount as at 30 June 2012	**27,313**	**10,200**	**2,204**	**15,748**	**55,465**
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
Disposals	-	-	-	(492)	(492)
Transfer in from / (out of) Capital WIP	-	-	(325)	-	(325)
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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 10: INVESTMENT PROPERTY

	Note	2012 $'000	2011 $'000
Balance at beginning of year:		**10,151**	10,884
Additions at cost		**-**	-
Fair value adjustment		**31**	-
Rounding		**1**	-
Transfer in from Capital WIP	9	**-**	325
Transfer to land held for sale	8	**-**	(1,058)
Closing balance at end of year		**10,183**	10,151

NOTE 11: INTANGIBLES

	2012 $'000	2011 $'000
Goodwill arising upon business acquisitions		
– at cost	**27,830**	27,877
Net carry value	**27,830**	27,877
Bed licences (aged care facility approved places)		
– at cost	**142,262**	141,262
Net carry value	**142,262**	141,262
Customer related intangibles		
– at cost	**5,905**	7,825
Accumulated amortisation	**(2,905)**	(3,163)
Accumulated impairment	**-**	(1,071)
Rounding	**-**	(1)
Net carry value	**3,000**	3,590
Total Intangibles	**173,092**	172,729

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 11: INTANGIBLES (CONTINUED)

Movements in Carrying Amounts	Goodwill	Bed licences	Customer related intangibles	Total
	$'000	$'000	$'000	$'000
2012				
Balance as at 1 July 2011	**27,877**	**141,262**	**3,590**	**172,729**
Amortisation expense	**-**	**-**	**(590)**	**(590)**
Impairment charge	**-**	**(500)**	**-**	**(500)**
Purchase	**-**	**1,500**	**-**	**1,500**
Disposal	**(47)**		**-**	**(47)**
Carrying amount as at 30 June 2012	**27,830**	**142,262**	**3,000**	**173,092**
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

NOTE 12: OTHER NON-CURRENT ASSETS

	2012	2011
	$'000	$'000
Deferred management fee receivable	**1,037**	1,174
	1,037	1,174

NOTE 13: TRADE AND OTHER PAYABLES

	2012	2011
CURRENT		
Trade payables	**3,583**	3,478
Sundry payables and accrued expenses	**15,950**	14,009
	19,533	17,487

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 14:BORROWINGS	Note	2012	2011
		$'000	$'000
CURRENT			
Bank loans – secured	14a	**34,470**	53,409
Insurance premium financing loan - secured	14a	**529**	370
		34,999	53,779

a. **Security – Bank loans**

The bank loans 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 made. It is secured by the unexpired portion of the insurance policy.

b. **Maturity – Bank loans**

As at the reporting date, there are two (2011: three) separate bank loan facilities. On 2 July 2012 the consolidated group entered into a three year term syndicated loan facility agreement with two major Australian banks to refinance the consolidated group's existing debt facilities. The total syndicated loan facility amount is $50,000,000, representing a Tranche A amount of $30,000,000 and a Tranche B amount of $20,000,000. The Tranche A facility was fully drawn down on 5 July 2012 and together with the consolidated group's own cash resources, the consolidated group's existing debt facilities as at the reporting date were repaid in full. The Tranche B facility has been made available by the banking syndicate to provide the consolidated group with a revolving development loan to enable it to finance its ongoing and proposed construction projects. As at the date of signing this report, the consolidated group had drawn down $820,000 of the Tranche B facility. Principal repayments under the Tranche A facility are required to be made quarterly in arrears, with principal repayment amounts totalling $12,000,000 in year one, $13,000,000 in year two and $5,000,000 in year three. The Tranche B facility is subject to principal repayments upon completion of each development project. Both the Tranche A and Tranche B syndicated loan facilities mature on 1 July 2015.

NOTE 15: OTHER FINANCIAL LIABILITIES	2012	2011
	$'000	$'000
Accommodation bonds	**171,440**	150,529
ILU resident loans	**13,217**	14,390
	184,657	164,919

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 16: TAX

		2012 $'000	2011 $'000
a.	**Liabilities**		
	CURRENT		
	Income tax payable	**4,539**	1,306
	NON-CURRENT		
	Deferred tax liability comprises:		
	Prepayments and accrued income	**601**	628
	Bed licences	**3,665**	3,815
	Property, plant and equipment	**253**	-
	Capital works in progress (interest expense)	**354**	354
	Deferred tax liability	**4,873**	4,797
b.	**Assets**		
	NON-CURRENT		
	Deferred tax asset comprises:		
	Provisions	**5,410**	4,603
	Capitalised borrowing costs	**83**	33
	Capitalised legal costs	**309**	38
	Sundry creditors and accruals	**2,913**	2,859
	Abandoned due diligence costs	**470**	577
	Property, plant and equipment	**-**	534
	Customer related intangibles	**872**	1,270
	Deferred tax asset	**10,057**	9,914
	Net deferred tax asset	**5,184**	5,117
c.	**Reconciliations**		
	i. **Gross movements**		
	The overall movement in the deferred tax account is as follows:		
	Opening balance	**5,117**	8,188
	Credited / (charged) to the income statement	**68**	(515)
	Revenue losses	**-**	(2,556)
	Rounding	**(1)**	-
	Closing balance	**5,184**	5,117

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 16: TAX (CONTINUED)

	2012 $'000	2011 $'000
ii. Current tax liability		
Income tax		
Income tax payable	**10,727**	9,153
Income tax instalment paid during year	**(1,109)**	(42)
Amount offset by tax losses of head entity of Tax Consolidated Group	**(5,079)**	(7,805)
Closing balance	**4,539**	1,306
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	**628**	536
Charged / (credited) to the income statement	**(27)**	92
Closing balance	**601**	628
Bed licences		
Opening balance	**3,815**	3,815
Charged / (credited) to the income statement	**(150)**	-
Closing balance	**3,665**	3,815
Capital works in progress (interest expense)		
Opening balance	**354**	339
Charged / (credited) to the income statement	**-**	15
Closing balance	**354**	354
iv. Deferred tax assets		
The movement in deferred tax assets for each temporary difference during the year / period is as follows:		
Provisions		
Opening balance	**4,603**	4,001
Credited / (charged) to the income statement	**807**	602
Closing balance	**5,410**	4,603
Capitalised borrowing costs		
Opening balance	**33**	305
Credited / (charged) to the income statement	**49**	(272)
Closing balance	**82**	33

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 16: TAX (CONTINUED)

	2012 $'000	2011 $'000
iv. **Deferred tax assets (continued)**		
Capitalised legal costs		
Opening balance	**38**	53
Credited / (charged) to the income statement	**271**	(15)
Closing balance	**309**	38
Sundry creditors and accruals		
Opening balance	**2,859**	2,935
Credited / (charged) to the income statement	**54**	(76)
Closing balance	**2,913**	2,859
Abandoned due diligence costs		
Opening balance	**577**	746
Credited / (charged) to the income statement	**(107)**	(169)
Closing balance	**470**	577
Tax allowances relating to property, plant and equipment		
Opening balance	**534**	1,568
Business acquisitions	**-**	-
Credited / (charged) to the income statement	**(534)**	(1,034)
Closing balance	**-**	534
Unused revenue tax losses		
Opening balance	**-**	2,556
Credited / (charged) to the income statement	**5,010**	5,249
Amount used to offset tax liabilities by head entity of Tax Consolidated Group	**(5,010)**	(7,805)
Closing balance	**-**	-
Customer related intangibles		
Opening balance	**1,270**	714
Credited / (charged) to the income statement	**(398)**	556
Closing balance	**872**	1,270

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 17: PROVISIONS

	2012	2011
	$'000	$'000
CURRENT		
Employee benefits	**16,384**	13,867
NON-CURRENT		
Employee benefits	**1,530**	1,286
	No.	No.
Number of employees at year end	**3,565**	3,447

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

	2012	2011
	$'000	$'000
CURRENT		
Deferred revenue	**4,751**	4,569

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 19: ISSUED CAPITAL

	2012	2011
	$'000	$'000
100,000 (2011: 100,000) fully paid ordinary shares	100	100
850 (2011: 1,350) fully paid employee shares	13	20
	113	120

		No.	No.
a.	**Ordinary shares**	**No.**	**No.**
	At the beginning of reporting year	100,000	100,000
	Shares issued during year	-	-
	At reporting date	100,000	100,000

b.	**Employee shares**	**No.**	**No.**
	At the beginning of reporting year	1,350	1,350
	Shares bought-back during year and cancelled	(500)	-
	At reporting date	850	1,350

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.

During the year Japara Holdings Pty Ltd entered into a share buy-back arrangement in respect of 500 employee shares which were then immediately cancelled.

NOTE 20: CAPITAL AND LEASING COMMITMENTS

	2012	2011
	Land & Buildings	Land & Buildings
Operating lease commitments	$'000	$'000
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable		
— not later than 12 months	22,226	21,382
— between 12 months and five years	89,655	85,065
— greater than five years	41,856	18,635
	153,737	125,082

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 $267,000 (GST exclusive) (2011: $Nil) (GST exclusive).

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"). These bank loans are secured by first mortgages over the freehold properties owned by the Trust. These freehold properties were valued at 30 June 2012 at $233,000,000. At reporting date, the Trust had bank loans amounting to $109,658,000 (2011: $121,558,000). Should the Trust default on its bank facility agreements, then the consolidated group may be called upon to honour the bank facilities. 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 $646,000 (2011: $460,000) of the cash and cash equivalents balance was secured by its bankers. At the date of signing these financial statements, the directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented to the bank.

As at 30 June 2012, the consolidated group operates and manages two (2011: three) retirement village complexes on behalf of the freehold owner, the Japara Aged Care & Retirement Property Trust (the "Trust"), a related party of the consolidated group. The Trust, as freehold owner of the retirement villages, is ultimately legally responsible for the repayment of the ingoing contributions (being a loan provided by the resident to the consolidated group under a loan/licence agreement when the resident moved into an independent living unit) paid by residents of the retirement villages managed by the consolidated group. The consolidated group records the ILU resident loan as a current payable in its financial statements. As the residents of the retirement villages may be able to make a claim against the Trust for repayment of their ingoing contribution should the consolidated group be unable to repay residents loans when they fall due, the consolidated group discloses the receivable as a contingent asset. As at 30 June 2012, the contingent asset amounts to $5,994,000 (2011: $7,914,000). However, should the consolidated group be unable to repay the 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 2012, the consolidated group is therefore contingently liable to the Trust in the sum of $5,994,000 (2011: $7,914,000).

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

	2012 $'000	2011 $'000
Reconciliation of cash flow from operations with profit after income tax		
Profit after income tax	**12,384**	10,198
Non-cash flows in profit:		
Depreciation, amortisation and impairment	**4,947**	5,734
Rental – AIFRS adjustment	**(22)**	534
ILU resident loan revaluation	**-**	9
Net (gain) / loss on disposal of property, plant and equipment	**(1,103)**	485
Abandoned development expenditure	**-**	972
Bond retention revenue	**(2,426)**	(2,252)
Deferred management fee income	**(317)**	(551)
Due diligence costs	**661**	122
Asset revaluation movement	**(31)**	-
Provision against shareholder receivable	**1,150**	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
(Increase)/decrease in trade and term debtors	**(665)**	(1,454)
(Increase)/decrease in other assets	**51**	(166)
(Increase)/decrease in deferred tax assets	**(143)**	2,963
Increase/(decrease) in payables	**2,450**	(204)
Increase/(decrease) in current and deferred tax liabilities	**3,308**	1,414
Increase/(decrease) in provisions	**2,761**	2,138
Finance costs	**269**	(388)
	23,274	19,554

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 24: PARENT ENTITY DISCLOSURES

The parent entity of the Group, as at and throughout the financial years ended 30 June 2012 and 30 June 2011, is Japara Holdings Pty Ltd. Presented below is supplementary information about the parent entity.

	Parent	
	2012	2011
	$'000	$'000
Result of the parent entity		
(Loss) / profit after tax	**(7,310)**	(4,658)
Other comprehensive income	-	-
Total comprehensive income for the year	**(7,310)**	(4,658)
Financial position of the parent entity at year end		
Current assets	**50,721**	41,461
Non-current assets	**50,735**	29,406
Total assets	**101,456**	70,867
Current liabilities	**110,315**	72,482
Non-current liabilities	**90**	16
Total liabilities	**110,405**	72,498
Net (liabilities) / assets	**(8,949)**	(1,631)
Total equity / (deficit) of the parent entity comprising:		
Share capital	**113**	120
Retained earnings	**(9,954)**	(2,643)
Reserves	**892**	892
Total (deficit) / equity	**(8,949)**	(1,631)

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 $18,970,000 (2011: $50,259,000). 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"). These bank loans are secured by first mortgages over the freehold properties owned by the Trust. These freehold properties were valued at 30 June 2012 at $233,000,000. At reporting date, the Trust had bank loans amounting to $109,658,000 (2011: $121,558,000). Should the Trust default on its bank facility agreements, then the consolidated group may be called upon to honour the bank facilities. At the date of signing these financial statements, the Trust was not in default of any of its bank facilities.

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 $339,000 (2011: $152,000) of the cash and cash equivalents balance was secured by its bankers. At the date of signing these financial statements, the directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented to the bank.

As at reporting date the parent entity had entered into contracts relating to capital expenditure commitments to a value of $267,000 (GST exclusive) (2011: $Nil) (GST exclusive).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25: EVENTS AFTER THE REPORTING PERIOD

a. On 2 July 2012, the consolidated group entered into a three year term syndicated loan facility agreement with two major Australian banks to refinance the consolidated group's existing debt facilities. The total syndicated loan facility amount is $50,000,000, representing a Tranche A amount of $30,000,000 and a Tranche B amount of $20,000,000. The Tranche A facility was fully drawn down on 5 July 2012 to refinance the consolidated group's existing debt facilities. The Tranche B facility has been made available by the banking syndicate to provide the consolidated group with a revolving development loan to enable it to finance its ongoing and proposed construction projects. As at the date of signing this report, the consolidated group had drawn down $820,000 of the Tranche B facility. Principal repayments under the Tranche A facility are required to be made quarterly in arrears, with principal repayment amounts totalling $12,000,000 in year one, $13,000,000 in year two and $5,000,000 in year three. The Tranche B facility is subject to principal repayments upon completion of each development project. Both the Tranche A and Tranche B syndicated loan facilities mature on 1 July 2015.

b. On the same date, Japara Property Management Limited as Responsible Entity for the Japara Aged Care & Retirement Property Trust (the "Trust") and on behalf of the Trust entered into a three year term syndicated facility with the same two major Australian banks to refinance the Trust's existing debt facilities. The total syndicated facility amount is $140,000,000, of which $125,500,000 was drawn down on 5 July 2012. No further amounts have been drawn down to the date of this report. The interest payable under the syndicated facility was at a floating interest rate, however the Directors of Japara Property Management Limited elected to hedge against potential future interest rate increases. Accordingly the Trust entered into a three year swap agreement which swaps the floating interest rate for a fixed interest rate for 80% of the syndicated facility amount. Under the syndicated facility agreement, no principal repayments are required during the first two years, with repayments of $1,000,000 per month being scheduled in each of the final nine months of the syndicated facility term. These repayments are guaranteed in full by the consolidated group. The syndicated loan facility matures on 1 July 2015.

c. In August 2012 the construction of a 63 bed extension at one of the aged care facilities leased and operated by the consolidated group commenced. The project is being managed by the consolidated group on behalf of the landlord, the Japara Aged Care & Retirement Property Trust. The construction contract amounts to $10,250,000 and will be financed through the revolving development loan provided by the consolidated group's banking syndicate. Upon completion, the total project cost will be shared between the lessee and the landlord in accordance with the terms of the development agreement and the agreement for lease. The project is scheduled to be completed towards the end of the 2013 calendar year.

   The consolidated group continues to review further development opportunities by extensions to existing aged care facilities and building entire new aged care facilities. Each of these future projects is subject to a feasibility study, financing, the award of a planning permit and entering into a construction contract, amongst other criteria.

d. On 28 August 2012, Japara Holdings Pty Ltd and its Controlled Entities entered into a settlement deed resolving the legal proceedings between the majority shareholders of Japara Holdings Pty Ltd and a former director of Japara Holdings Pty Ltd. As part of the settlement process, at a general meeting of the members of Japara Holdings Pty Ltd, approval was given for the financial assistance to be provided by the consolidated group by way of a loan made to a related party to enable it to purchase the entire shareholding in Japara Holdings Pty Ltd held by a related party of the former director. The terms of the settlement deed are confidential; however the result is that all claims by each party against the other have been withdrawn and the former director no longer has any interest in the shares of Japara Holdings Pty Ltd.

e. In October 2012 a total ordinary and employee dividend of $3,000,000, franked to the maximum permissible, was declared and paid.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25: EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

f. 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 consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

g. The financial report was authorised for issue on 29 November 2012 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 - Chief Executive Officer

Julius Colman

Robert Peck A.M.

Allan Reid (appointed 2 April 2012)

Raymond Schoer (appointed 2 April 2012)

Other key management personnel

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

John McKenna	Chief Financial Officer and Secretary
Julie Reed	Executive Director of Aged Care Services
Jerome Jordan	Executive Director of Operations

NOTE 26: RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel compensation

	Short-term benefits	Post-employment benefit	Other long-term benefits	Total
2012	**$**	**$**	**$**	**$**
Total compensation	**2,419,177**	**218,188**	**-**	**2,637,365**
2011				
Total compensation	1,768,759	156,750	-	1,925,509

As at reporting date an amount of $608,765 (2011: $797,600) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26: RELATED PARTY TRANSACTIONS (CONTINUED)

The amount of the transactions are as follows:	2012	2011
Income receivable by the consolidated group	$	$
Management fees payable by the Trust to the Responsible Entity	**1,407,383**	1,427,015
Reimbursement of costs payable by the Trust to the Responsible Entity	**3,480,371**	470,836
Debt facility fee payable by the Trust to the Responsible Entity	**14,945**	81,618
Interest receivable from the Trust by the consolidated group	**759,432**	-
	5,662,131	1,979,469
Expenses payable by the consolidated group		
Rent payable to the Trust by the consolidated group	**20,088,466**	19,622,758
Interest payable to the Trust by the consolidated group	**170,793**	132,754
	20,259,259	19,755,512
Amounts remaining unpaid as at reporting date are as follows:		
Amounts receivable from the Trust	**17,435,985**	1,520,775
Amounts payable to the Trust	**-**	-

The statement of financial position includes an amount of $1,056,000 (2011: $2,996,000) relating to due diligence and other associated costs in respect of the July 2012 refinancing process incurred to 30 June 2012 (2011: proposed sale and purchase of all the shares in the consolidated group and all the units in the Trust incurred to 30 June 2011) and reimbursable by the Trust. This amount has yet to be invoiced to the Trust. The amount of $2,996,000 as at 30 June 2011 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 advances to a former director and shareholder during the year totalling $600,000 (2011:$500,000). As a result of the settlement that was reached in August 2012, this amount is no longer recoverable and full provision against its non-recoverability has been made at the reporting date. See note 25 for further details regarding the settlement.

A loan of $Nil (2011: $500,000) was made to one of the key management personnel during the year. The loan of $500,000 as at 30 June 2011 was satisfied in full during the year by the consolidated group entering into a share buy-back arrangement with the key management personnel.

Robert Peck A.M. is a principal of the design and architectural practice, peckvonhartel. During the year peckvonhartel provided design and architectural services to the consolidated group and invoiced the consolidated group a total amount of $87,085 (2011: $Nil) GST exclusive. These amounts were charged at arm's length and were fully paid at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 27: SUBSIDIARIES

Name of Entity	Ownership	Class of shares	Equity holding 2012 %	Equity holding 2011 %
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 (Kirralee) 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 (Anglesea) Pty Ltd	Direct	Ordinary	**100**	100
Aged Care Services 34 (Yarra West) Pty Ltd	Direct	Ordinary	**100**	100

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 27: SUBSIDIARIES (CONTINUED)

Name of Entity	Ownership	Class of shares	Equity holding 2012 %	Equity holding 2011 %
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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 (2011: 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 1997*, 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 and an accommodation bond governance system.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 it's 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 $120,000 (2011: $185,000).

At 30 June 2012, the ageing analysis of resident debtors is as follows:

Year	*Not yet due*	*Current*	*31 – 60 days*	*61 + days*	*Impaired*	*Total*
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
2012	**3,699**	**311**	**134**	**339**	**(120)**	**4,363**
2011	3,635	232	85	410	(185)	4,177

Resident debtors past due but not considered impaired are: $353,000 (2011: $310,000).

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 $16,030,000 (2011: $1,172,000) was receivable from the Trust. Of this balance, $16,030,000 (2011: $1,172,000) 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 (2011: $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 2012

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 a third 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 and in aged care industry discussions with the Commonwealth Government about its proposals for changes to funding for the aged care industry.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	%	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets:										
Cash and cash equivalents	**3.85**	4.16	**26,585**	17,448	**-**	-		-	**26,585**	17,448
Receivables	**-**	-	**-**	-	**-**	-	**5,831**	7,864	**5,831**	7,864
Other financial assets	**-**	-	**-**	-	**-**	-	**4,238**	4,703	**4,238**	4,703
Deferred tax assets	**-**	-	**-**	-	**-**	-	**10,057**	9,914	**10,057**	9,914
Amounts receivable from related parties	**-**	-	**-**	-	**-**	-	**16,030**	2,172	**16,030**	2,172
Total Financial Assets			**26,585**	17,448	**-**	-	**36,156**	24,653	**62,741**	42,101
Financial Liabilities:										
Bank loans and overdrafts	**6.66**	6.96	**34,470**	53,409	**529**	370	**-**	-	**34,999**	53,779
Accruals and deferred income	**-**	-	**-**	-	**-**	-	**20,701**	18,578	**20,701**	18,578
Current tax liabilities	**-**	-	**-**	-	**-**	-	**4,539**	1,306	**4,539**	1,306
Deferred tax liabilities	**-**	-	**-**	-	**-**	-	**4,873**	4,797	**4,873**	4,797
Trade and sundry payables	**-**	-	**-**	-	**-**	-	**3,583**	3,478	**3,583**	3,478
Accommodation bonds & ILU loans	**-**	-	**-**	-	**-**	-	**184,657**	164,919	**184,657**	164,919
Employee benefits	**-**	-	**-**	-	**-**	-	**17,914**	15,153	**17,914**	15,153
Total Financial Liabilities			**34,470**	53,409	**529**	370	**236,267**	208,231	**271,266**	262,010

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 29: FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities have the following maturity profiles:

	2012 $'000	2011 $'000
Less than 6 months	**249,237**	245,510
6 months to 1 year	**10,893**	6,803
1 to 5 years	**11,136**	9,697
	271,266	262,010

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 2012 and 30 June 2011. 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:

	2012 $'000	2011 $'000
Change in profit / (loss) after tax – higher / (lower)		
- Increase in interest rate by 1.00%	**(59)**	(254)
- Decrease in interest rate by 1.00%	**59**	254
Change in equity – higher / (lower)		
- Increase in interest rate by 1.00%	**(59)**	(254)
- Decrease in interest rate by 1.00%	**59**	254

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 2012 and 30 June 2011. 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:

	2012	2011
	$'000	$'000
Change in profit / (loss) after tax – higher / (lower)		
- Increase in government funding by 5.00%	**5,637**	5,360
- Decrease in government funding by 5.00%	**(5,637)**	(5,360)
Change in equity – higher / (lower)		
- Increase in government funding by 5.00%	**5,637**	5,360
- Decrease in government funding by 5.00%	**(5,637)**	(5,360)

NOTE 30: COMPANY DETAILS

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

Q1 Building Level 4

1 Southbank Boulevard

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 53, 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 2012 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:

Andrew Sudholz

(Mark) Andrew Sudholz – Director
Melbourne
Dated this 29th day of November 2012

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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 2012, 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.

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.

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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 2012 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.

NEXIA MELBOURNE
A.B.N. 16 847 721 257

GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

29 November 2012