

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

2013 Annual Financial Report
For the financial year ended 30 June 2013

2013 Annual Financial Report

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Japara Holdings Pty Ltd and Controlled Entities
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DIRECTORS' REPORT

Your directors present their report on the consolidated group for the financial year ended 30 June 2013.

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

Raymond Schoer

(Mark) Andrew Sudholz

Julius Colman

Robert Peck A.M.

Allan Reid

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 2013, 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 profit of the consolidated group for the financial year after providing for income tax amounted to \$9,732,000 (2012: \$12,384,000). Profit for the financial year was impacted by a change in Federal Government funding, which is a significant component of the consolidated group's income. The Federal Government withheld an expected annual increase in funding of approximately 1.7%, which had the effect of reducing consolidated group income by approximately \$2,750,000. This meant that the increase in income in the financial year did not keep pace with the increase in expenses, the significant expense being employee wages increasing under existing enterprise bargaining agreements. The decrease in funding is expected to be short term, with the potential benefits of the Federal Government's proposed reform package expected to commence from 1 July 2014. These benefits are explained further under the "Future developments" section of this report.

The number of approved aged care places (beds) and independent living units owned by the consolidated group was 3,014 (2012: 2,954) at the reporting date. As a result of the issues discussed above, revenue for the current financial year of \$231,967,000 (2012: \$225,566,000) increased by 2.8% (2012: 5.8% increase) compared to the previous year and total expenses from ordinary activities increased to \$218,006,000 (2012: \$207,608,000), an increase of 5.0% (2012: 4.5% increase), resulting in profit before income tax decreasing to \$13,961,000 (2012: \$17,958,000 before income tax).

On 2 July 2012, the consolidated group entered into a three year 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 provides the consolidated group with a revolving development loan to enable it to finance its ongoing and proposed construction projects. Principal repayments under the Tranche A facility are 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 Property Trust (the "Trust") and on behalf of the Trust entered into a three year 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. 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 scheduled repayments totalling \$9,000,000 during the final year of the syndicated facility agreement. These repayments are guaranteed in full by the consolidated group. The syndicated loan facility matures on 1 July 2015.

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DIRECTORS' REPORT (CONTINUED)

During the year, construction commenced on a number of developments undertaken by the consolidated group. These developments included two separate 63 and 30 bed extensions to existing aged care facilities leased and operated by the consolidated group. These projects are being managed by the consolidated group on behalf of the landlord, the Japara Aged Care Property Trust. The construction contracts amount to \$18,283,000 and will be financed through the revolving development loan provided by the consolidated group's banking syndicate. Upon completion, the total cost of the projects will be shared between the lessee and the landlord in accordance with the terms of the development agreements and the agreements for lease. The projects are scheduled to be completed in the last quarter of the 2014 financial year.

The consolidated group also began construction of a new 90 bed aged care facility on land already owned by the consolidated group. The construction contract amounts to \$9,732,000 and will be financed through the revolving development loan provided by the consolidated group's banking syndicate. The project is scheduled to be completed in the third quarter of the 2014 financial year.

In February 2013 the construction of a further 5 new Independent Living Units, which is in addition to the previously built 22 Independent Living Units, commenced on land already owned by the consolidated group. The construction contract amounts to \$887,000 and was financed through the consolidated group's cash flows. The project was completed in November 2013.

The consolidated group continues to review further development opportunities in extensions to existing aged care facilities and in 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.

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.

Events after the reporting period

Subsequent to the reporting period the consolidated group has appointed advisors to take advantage of lower interest rates and a better lending environment and to assist in refinancing its banking arrangements and review future capital raising opportunities.

In November 2013 the construction of a further 6 new Independent Living Units, which is in addition to the previously built 27 Independent Living Units, commenced on land already owned by the consolidated group. The construction contract amounts to \$1,125,000 and will be financed through the consolidated group's cash flows. The project is scheduled to be completed by the end of the 2014 financial year.

Subsequent to the reporting date the Directors have discontinued operations at Tamar Park; a cash-generating unit of the consolidated group. Staff, residents and other key stakeholders were consulted regarding the closure of the facility. The consolidated group ensured that all residents were relocated to suitable alternative accommodation prior to closure of the facility. The loss before tax applicable to the consolidated group for the year ended 30 June 2013 relating to the cash-generating unit was \$394,000 (2012: \$391,000).

The Directors are searching for suitable development sites in the vicinity of Tamar Park, located in Tasmania, to build a new aged care facility. The 45 allocated places (bed licences) associated with Tamar Park will be transferred to this new facility upon approval from the Department of Social Services. The carrying value of the 45 bed licences as at 30 June 2013 is \$1,260,000 (2012: \$1,260,000) and is not considered impaired based upon a fair value assessment performed by an external qualified valuer.

Subsequent to 30 June 2013, one of the consolidated group's aged care properties, the Sandhill aged care facility in Tasmania, was bought by the Trust. This was pursuant to a decision by the Directors to accept the offer in November 2013. The contract for sale of real estate was signed in November 2013 for an amount of \$13,500,000 based upon an independent valuation received by the Directors. Settlement occurred in December 2013.

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DIRECTORS' REPORT (CONTINUED)

On 19 August 2013 the consolidated group settled on the purchase of the aged care business at 71 Scott Street, Dandenong, VIC; being an aged care facility with 110 bed licences. The gross purchase price of \$5,850,000 was reduced by settlement adjustments of \$3,350,000 resulting in a net purchase price of \$2,500,000. A deposit of \$150,000 was paid in June 2013.

On 23 December 2013 a final dividend for the year ended 30 June 2013 of \$3,000,000 was declared and paid on the ordinary shares.

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

Future developments

On 28 June 2013, the five Bills forming the Living Longer Living Better package of bills received Royal Assent and passed into law. The passing of these bills has resulted in amendments to the Aged Care Act 1997. The majority of amendments under the reforms are due to be introduced from 1 July 2014. The proposed changes include the introduction of accommodation bonds across all beds and the introduction of new fees. These reforms are designed to give aged care providers access to a wider source of capital and revenue. At the date of signing the financial report, the Directors are reviewing the potential impact that the amendments to the Aged Care Act 1997 that come into effect on 1 July 2014 will have on the consolidated group.

Other 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

An interim dividend of \$3,000,000 was declared and paid for the year ended 30 June 2013 (2012: \$Nil) in respect of ordinary and employee shares. A final dividend for the year ended 30 June 2013 of \$3,000,000 in respect of ordinary 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 (2012: 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 10 August 2012, Japara Holdings Pty Ltd and its Controlled Entities entered into a settlement deed resolving 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. The terms of the settlement deed are confidential; however the result is that all claims by each party against the other in the proceeding were discontinued.

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DIRECTORS' REPORT (CONTINUED)

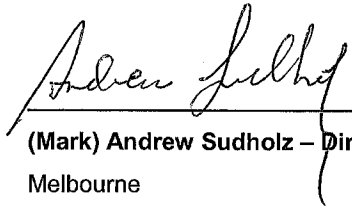
Auditor's independence declaration

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

Rounding of amounts

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

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



(Mark) Andrew Sudholz – Director
Melbourne

Dated this 10th day of January 2014

**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 2013, 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 MELBOURNE
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

10 January 2014

Japara Holdings Pty Ltd and Controlled Entities

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013**

		2013	2012
	Note	\$'000	\$'000
Revenue from ordinary activities	2	231,967	225,566
Details of expenditure:	3		
Employee benefits expense		(153,384)	(145,268)
Occupancy costs		(31,610)	(29,805)
Cost of services		(17,693)	(15,881)
Depreciation, amortisation and impairment		(6,341)	(4,948)
Finance costs		(3,291)	(5,200)
Administrative expenses		(5,687)	(6,506)
Total expenses from ordinary activities		(218,006)	(207,608)
Profit before income tax		13,961	17,958
Income tax expense	4	(4,229)	(5,574)
Profit for the year		9,732	12,384
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year		9,732	12,384
Profit attributable to members of the group		9,732	12,384
Total comprehensive income attributable to members of the group		9,732	12,384

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 2013

	Note	2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	16,720	26,585
Trade and other receivables	6	8,473	21,861
Other assets	7	5,486	3,201
Land held for sale	8	-	-
Total current assets		30,679	51,647
Non-current assets			
Property, plant and equipment	9	64,163	55,465
Investment property	10	10,231	10,183
Deferred tax assets	17	11,026	10,057
Intangibles	11	176,672	173,092
Other assets	12	1,314	1,037
Investments	13	250	-
Total non-current assets		263,656	249,834
TOTAL ASSETS		294,335	301,481
LIABILITIES			
Current liabilities			
Trade and other payables	14	24,555	19,533
Financial liabilities - borrowings	15	18,490	34,999
Financial liabilities – other	16	196,626	184,657
Current tax liability	17	1,457	4,539
Provisions	18	19,190	16,384
Other liabilities	19	4,955	4,751
Total current liabilities		265,273	264,863
Non-current liabilities			
Financial liabilities - borrowings	15	8,250	-
Deferred tax liabilities	17	4,280	4,873
Provisions	18	1,582	1,530
Total non-current liabilities		14,112	6,403
TOTAL LIABILITIES		279,385	271,266
NET ASSETS		14,950	30,215
EQUITY			
Issued capital	20	108	113
Share buy-back reserve	21	(21,500)	-
Retained earnings		36,342	30,102
TOTAL EQUITY		14,950	30,215

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

		Issued Capital	Share Buy- Back Reserve	Retained Earnings	Total
	Note	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2011		120	-	18,211	18,331
Profit attributable to members of parent entity		-	-	12,384	12,384
Buy-back of employee shares		-	-	(493)	(493)
Cancellation of employee shares		(7)	-	-	(7)
Dividends paid or provided for		-	-	-	-
Balance at 30 June 2012		<u>113</u>	<u>-</u>	<u>30,102</u>	<u>30,215</u>
 Balance at 1 July 2012		 113	 -	 30,102	 30,215
Profit attributable to members of parent entity		-	-	9,732	9,732
Buy-back of employee shares		-	-	(492)	(492)
Cancellation of employee shares		(13)	-	-	(13)
Buy-back of ordinary shares	21	-	(21,500)	-	(21,500)
Capital raised		8	-	-	8
Dividends paid or provided for		-	-	(3,000)	(3,000)
Balance at 30 June 2013		<u>108</u>	<u>(21,500)</u>	<u>36,342</u>	<u>14,950</u>

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$'000	2012 \$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		226,729	219,067
Payments to suppliers and employees		(200,287)	(190,409)
Income tax paid		(8,061)	(2,409)
Interest received		1,123	1,957
Financing costs paid		(3,416)	(4,932)
Net cash provided by operating activities	25	16,088	23,274
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property		(700)	(2,038)
Purchase of bed licences		-	(1,500)
Purchase of plant and equipment	9	(2,406)	(1,977)
Proceeds from sale of property, plant and equipment		-	923
Capital works in progress	9	(10,882)	(1,020)
Proceeds from sale of business		-	933
Purchase of units in related parties		(250)	-
Acquisition of Aged Care business	25	171	-
Deposits paid		(150)	(81)
Deposits reimbursed		-	535
Net cash provided by / (used in) investing activities		(14,217)	(4,225)
CASH FLOW FROM FINANCING ACTIVITIES			
Loans made to other related parties		(4,875)	(15,700)
Loans repaid by other related parties		16,400	1,669
Proceeds from bank borrowings		35,740	32,471
Repayment of bank borrowings		(43,999)	(51,251)
Advances made to shareholders		(50)	(600)
Dividends paid		(3,000)	-
Share buy-back		(21,992)	(7)
Due diligence costs paid		(170)	(2,144)
Due diligence costs reimbursed by other related parties		1,055	3,041
Net proceeds from accommodation bonds		8,836	23,336
Net (outflows) / proceeds from ILU resident loans		319	(727)
Net cash provided by / (used in) financing activities		(11,736)	(9,912)
Net increase in cash held		(9,865)	9,137
Cash at beginning of financial year		26,585	17,448
Cash at end of financial year	5	16,720	26,585

The accompanying notes form part of these financial statements.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements and notes represent those of Japara Holdings Pty Ltd and Controlled Entities (the "consolidated group" or "Group").

The separate financial statements of the parent entity, Japara Holdings Pty Ltd, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001 effective as at 28 June 2011.

The financial statements were authorised for issue on 10 January 2014 by the directors of the company.

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest thousand dollars.

Accounting policies

a. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Japara Holdings Pty Ltd at the end of the reporting period. 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.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 28 to the financial statements.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exceptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

b. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the 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.

c. Property, plant and equipment

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

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial year in which they are incurred.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Development works in progress

Capital expenditure incurred in the course of development activities, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the consolidated group's accounting policy. Upon completion the asset is reclassified as property, plant and equipment or leasehold improvements.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the 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
Land	0.0%
Buildings	2.5%
Plant and equipment	4% 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 profit or loss and other comprehensive income.

d. 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 profit or loss and other comprehensive income in the period.

e. 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.

f. 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.

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

g. 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 the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in the statement of profit or loss and other comprehensive income.

The consolidated group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the consolidated group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified into profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the 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 during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the 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.

h. 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 profit or loss and other comprehensive income.

Impairment testing is performed annually for goodwill, customer related intangibles and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

i. 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.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 reporting 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.

j. 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. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

k. 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.

l. 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.

m. 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

n. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

o. Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

p. 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.

q. 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.

r. 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*.

s. 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t. 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.

u. 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.

v. 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).

These Standards are 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.

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 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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
- (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.

- AASB 2012–2: *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 2012–2 principally amends AASB 7: *Financial Instruments: Disclosures* to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2012–3: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard adds application guidance to AASB 132: *Financial Instruments: Presentation* to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2012–5: *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle* (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard amends a number of Australian Accounting Standards as a consequence of the issuance of *Annual Improvements to IFRSs 2009–2011 Cycle* by the International Accounting Standards Board, including:

- AASB 1: *First-time Adoption of Australian Accounting Standards* to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;
- AASB 101: *Presentation of Financial Statements* and AASB 134: *Interim Financial Reporting* to clarify the requirements for presenting comparative information;

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- AASB 116: *Property, Plant and Equipment* to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;
- AASB 132 and Interpretation 2: *Members' Shares in Co-operative Entities and Similar Instruments* to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
- AASB 134 to facilitate consistency between the measures of total assets and liabilities an entity reports for its segments in its interim and annual financial statements.

This Standard is not expected to significantly impact the Group's financial statements.

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

w. 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.

Key estimates — Impairment

In accordance with accounting policy 1(h) impairment testing is performed annually for goodwill and other intangible assets with indefinite useful lives.

The recoverable amount of the cash generating unit to which the assets relate is calculated and if this amount is lower than the carrying value of the assets an impairment loss is recorded.

The recoverable amount of the cash generating unit is based on the higher of the fair value of the cash generating unit and its value-in-use.

The fair value of the cash generating unit is calculated in accordance with both the definitions of Market Value defined by the International Valuation Standards Committee and the regulations of the Corporations Act 2001. Market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction. The valuation is performed by an independent expert.

The value-in-use is calculated as the present value of future cash flows of the cash generating unit which includes a number of assumptions and estimates: a discount rate of 11.5% per annum and an increase in cash flows of 3% per annum. The non-occurrence of the events in relation to the assumptions and estimates may or may not impact on the achievement of the recoverable amount and any resulting impairment of the assets attributable to the cash generating unit.

The carrying amounts of goodwill, bed licences and CRIs at 30 June 2013 were \$29,601,000 (2012: \$27,830,000), \$144,662,000 (2012: \$142,262,000) and \$2,409,000 (2012: \$3,000,000) respectively after an impairment loss of \$Nil was recognised during 2013 (2012: \$500,000). See note 11 for a reconciliation of intangible assets.

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

Having regard to the successful completion of the refinancing process of the consolidated group entering into new three year term syndicated loan facilities with two major Australian banks on 2 July 2012; the substantial and secure cash flow that the aged care facility businesses generate; and their relatively low loan-to-value ratios, the Directors are confident that the Company will have the funds available to meet its future obligations and pay its debts as and when they fall due for a period at least twelve months from the date of signing these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Key estimate – carbon price

In November 2011, the Federal Parliament passed the *Clean Energy Act 2011*, which implements a carbon pricing mechanism from 1 July 2012. Under the mechanism, entities that produce over the threshold level of carbon emissions will be required to purchase permits to offset their carbon emissions.

The Group is not directly impacted by the carbon pricing mechanism because it does not control facilities that produce emissions greater than the threshold level. However, the Group will be indirectly impacted by the mechanism through increases in the prices it pays for energy and materials purchased from suppliers that are impacted by the introduction of the mechanism. The Group also anticipates that it will experience an increase in expenditures related to waste disposal under the carbon pricing mechanism, although any future increases in such costs are likely to be less significant than the anticipated increases in energy and material costs.

Management of the Group has considered whether the introduction of the carbon pricing mechanism is an impairment indicator and has determined that it is not expected to have a significant impact on the estimated net cash flows of the Group's operations or the recoverability of its assets, principally because the Group has the capacity to pass on any increases in production costs through its contracts with customers. Nevertheless, management has adjusted the discount rate it applies when determining the recoverable amount of an asset or cash-generating unit to reflect the uncertainty around price increases, particularly beyond the fixed price phase (2012–2015) of the carbon pricing mechanism.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 2: REVENUE

	2013	2012
	\$'000	\$'000
Operating activities		
— service fee income	227,946	219,146
— property acquisition and management fee income	1,459	1,407
— rent income	452	576
— asset revaluation movement	31	31
— sundry income	1,082	2,510
Total operating revenue	230,970	223,670
Non-operating activities		
Interest income:		
— bank	855	1,145
— other	142	751
Total non-operating revenue	997	1,896
Total revenue	231,967	225,566

NOTE 3: PROFIT BEFORE INCOME TAX

a.	Employee benefits expense		
	Wages and leave expenses	127,153	119,673
	Superannuation contributions	10,904	10,360
	Agency staff expenses	3,799	4,334
	Hire of staff costs	298	205
	Payroll tax and other staff costs	11,230	10,696
	Total employee benefits expense	153,384	145,268
b.	Occupancy costs		
	Rent of premises under operating leases	23,016	22,554
	Rent of premises – IFRS straight-lining	474	(22)
	Rates and taxes	972	985
	Utilities	4,785	4,224
	Other occupancy costs	2,363	2,064
	Total occupancy costs	31,610	29,805

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 3: PROFIT BEFORE INCOME TAX (CONTINUED)

	2013	2012
	\$'000	\$'000
c. Cost of services		
Contract cleaning	65	39
Contract laundry	66	72
Contract catering	1,481	1,363
Food supplies	6,095	6,023
Medical and health expenses	7,339	6,017
Other service costs	2,647	2,367
Total cost of services	17,693	15,881
d. Depreciation, amortisation and impairment		
Plant and equipment - depreciation	3,014	2,856
Leasehold improvements - amortisation	231	101
Freehold buildings - depreciation	1,191	900
Loss on disposal of non-current assets	664	-
Freehold land and buildings - impairment	650	-
Bed licences - impairment	-	500
Customer related intangibles - amortisation	591	590
Total depreciation, amortisation and impairment	6,341	4,948
e. Finance costs		
Bank facility establishment fees	255	968
Bank interest expense	1,951	3,379
Other interest expense	958	683
Other interest expense – related parties	127	170
Total finance costs	3,291	5,200
f. Administrative expenses		
Legal, professional, insurance and management fees	2,523	3,767
Advertising expenses	394	232
IT expenses	320	201
Office supplies, printing and stationery expenses	716	832
Communication costs	540	390
Other administrative expenses	1,194	1,084
Total administrative expenses	5,687	6,506

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 3: PROFIT BEFORE INCOME TAX (CONTINUED)

	2013	2012
	\$'000	\$'000
Remuneration of the auditor		
Audit of financial statements	246	233
Other services	57	133
Total fees payable to Nexia Melbourne	<u>303</u>	<u>366</u>

NOTE 4: INCOME TAX EXPENSE

a. The components of tax expense comprise:

Current tax expense	4,978	5,648
Deferred tax benefit	(749)	(68)
Over provision of tax from prior years	-	(6)
Income tax expense	<u>4,229</u>	<u>5,574</u>

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

Profit before income tax	<u>13,961</u>	<u>17,958</u>
 Prima facie tax on profit before income tax at 30% (2012: 30%)	 4,188	 5,387
Add tax effect of:		
— Non-allowable tax income	6	(3)
— Non-allowable tax expenses	35	57
— Over provision of tax from prior years	-	(6)
— Tax effect on sale of business	-	139
Income tax expense attributable to profit from ordinary activities	<u>4,229</u>	<u>5,574</u>

c. Income tax rate

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

d. Tax consolidation

Relevance of tax consolidation to the consolidated group

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

Relevance of tax consolidation to the parent entity

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

Nature of tax funding arrangements and tax sharing agreements

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

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 5: CASH AND CASH EQUIVALENTS

	2013	2012
	\$'000	\$'000
CURRENT		
Cash at bank and on hand	16,412	26,277
Short-term bank deposits	308	308
	16,720	26,585

Reconciliation of cash

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

Cash and cash equivalents	16,720	26,585
	16,720	26,585

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 \$748,000 (2012: \$646,000) of the cash and cash equivalents balance was secured by its bankers.

NOTE 6: TRADE AND OTHER RECEIVABLES

	Note	\$'000	\$'000
CURRENT			
Resident debtors		5,433	4,482
Provision for doubtful debts	6a	(125)	(120)
		5,308	4,362
Other receivables			
Interest receivable	7a	23	89
Sundry debtors	6b	243	1,380
Amounts receivable from related parties	6c	2,899	16,030
		8,473	21,861

a. Provision for doubtful debts

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

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

Opening balance as at 1 July	120	185
Charge for the year	70	-
Amounts written off	(65)	(65)
Closing balance as at 30 June	125	120

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 6: TRADE AND OTHER RECEIVABLES (CONTINUED)

- b. Sundry debtors includes an amount of \$Nil (2012: \$1,056,000) relating to due diligence and other associated costs incurred to 30 June 2013 reimbursable by the Japara Aged Care Property Trust ("the Trust"). This amount was paid in full by the Trust during the year ended 30 June 2013.

		2013	2012
		\$'000	\$'000
c. Other related parties – unsecured			
<i>Current:</i>			
Other related parties – the Trust		2,899	16,030
Total current		2,899	16,030
<i>Non-current:</i>			
Other related parties – shareholder	6d	-	1,100
Provision against other related parties - shareholder	6d	-	(1,100)
Total non-current		-	-
Total current and non-current		2,899	16,030

- d. Under order of the court, the consolidated group made advances to a former director and shareholder during the year totalling \$50,000 (2012: \$600,000). As a result of the settlement that was reached in August 2012, no further amounts are payable.

NOTE 7: OTHER ASSETS

	Note	2013	2012
		\$'000	\$'000
CURRENT			
Prepayments and accrued income	7a	4,289	2,415
Deposits		218	68
Deferred acquisition costs		32	-
GST recoverable		575	346
Deferred management fee receivable		372	372
		5,486	3,201

- 7a. Included within prepayments and accrued income is an amount of \$374,000 (2012: \$350,000) relating to accrued but not yet invoiced management fee income receivable from the Japara Aged Care Property Trust.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 8: LAND HELD FOR SALE

	2013	2012
Note	\$'000	\$'000
Balance at beginning of year	-	900
Sale of asset	-	(900)
Closing balance at end of year	-	-

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

PROPERTY

Buildings and leasehold improvements:

- At cost	31,496	30,772
Accumulated depreciation and amortisation	(4,882)	(3,459)
Total buildings at written down value	26,614	27,313

Land:

- At cost	9,550	10,200
Total land at written down value	9,550	10,200

Development works in progress

- At cost	13,045	2,204
Total capital works in progress	13,045	2,204

Total property	49,209	39,717
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PLANT AND EQUIPMENT

Plant and equipment:

- At cost	32,139	29,919
Accumulated depreciation	(17,185)	(14,171)
Total plant and equipment at written down value	14,954	15,748

Total property, plant and equipment	64,163	55,465
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 9: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in Carrying Amounts	Building & leasehold improvements \$'000	Land at cost \$'000	Capital works in progress \$'000	Plant & equipment \$'000	Total property, plant & equipment \$'000
2013					
Balance as at 1 July 2012	27,313	10,200	2,204	15,748	55,465
Additions at cost	683	-	10,882	2,406	13,971
Disposal of assets	-	-	-	(669)	(669)
Business acquisition	-	-	-	481	481
Transfer in from / (out of) Capital WIP	41	-	(41)	-	-
Impairment	-	(650)	-	-	(650)
Depreciation expense	(1,422)	-	-	(3,014)	(4,436)
Rounding	(1)	-	-	2	1
Carrying amount as at 30 June 2013	26,614	9,550	13,045	14,954	64,163
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
Disposals 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

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 10: INVESTMENT PROPERTY

Note	2013 \$'000	2012 \$'000
Balance at beginning of year:	10,183	10,151
Additions at cost	17	-
Fair value adjustment	31	31
Rounding	-	1
Closing balance at end of year	10,231	10,183

NOTE 11: INTANGIBLES

Goodwill arising upon business acquisitions

– at cost	29,601	27,830
Net carry value	29,601	27,830

Bed licences (aged care facility approved places)

– at cost	144,662	142,262
Net carry value	144,662	142,262

Customer related intangibles

– at cost	5,905	5,905
Accumulated amortisation	(3,496)	(2,905)
Net carry value	2,409	3,000
Total Intangibles	176,672	173,092

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 11: INTANGIBLES (CONTINUED)

Movements in Carrying Amounts	Goodwill	Bed licences	Customer related intangibles	Total
	\$'000	\$'000	\$'000	\$'000
2013				
Balance as at 1 July 2012	27,830	142,262	3,000	173,092
Amortisation expense	-	-	(591)	(591)
Purchase of business	1,771	2,400	-	4,171
Carrying amount as at 30 June 2013	29,601	144,662	2,409	176,672
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

NOTE 12: OTHER ASSETS

	2013	2012
	\$'000	\$'000
Deferred management fee receivable	1,314	1,037
	1,314	1,037

NOTE 13: INVESTMENTS

Units held in related parties – the Trust	250	-
	250	-

NOTE 14: TRADE AND OTHER PAYABLES

CURRENT

Trade payables	6,863	3,583
Sundry payables and accrued expenses	17,692	15,950
	24,555	19,533

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 15: FINANCIAL LIABILITIES - BORROWINGS	Note	2013	2012
		\$'000	\$'000
CURRENT			
Bank loans – secured	15a	18,490	34,470
Insurance premium financing loan - secured	15a	-	529
		18,490	34,999
NON-CURRENT			
Bank loans – secured	15a	8,250	-
		8,250	-

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

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. 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. As at the date of signing this report, the consolidated group had drawn down \$12,340,000 of the Tranche B facility.

NOTE 16: FINANCIAL LIABILITIES - OTHER	Note	2013	2012
		\$'000	\$'000
Accommodation bonds	16a	183,263	171,440
ILU resident loans	16b	13,363	13,217
		196,626	184,657

a. Accommodation bonds:

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 consolidated group has provided each resident that has entered into an accommodation bond agreement with the consolidated group and/or paid an accommodation bond to the consolidated 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*.

b. ILU resident loans:

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.

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 17: TAX

	2013	2012
	\$'000	\$'000
a. Liabilities		
CURRENT		
Income tax payable	1,457	4,539
NON-CURRENT		
<i>Deferred tax liability comprises:</i>		
Prepayments and accrued income	720	601
Bed licences	3,073	3,665
Property, plant and equipment	386	253
Capital works in progress (interest expense)	101	354
Deferred tax liability	4,280	4,873
b. Assets		
NON-CURRENT		
<i>Deferred tax asset comprises:</i>		
Provisions	6,269	5,410
Capitalised borrowing costs	74	83
Capitalised legal costs	268	309
Sundry creditors and accruals	3,067	2,913
Abandoned due diligence costs	299	470
Customer related intangibles	1,049	872
Deferred tax asset	11,026	10,057
Net deferred tax asset	6,746	5,184
c. Reconciliations		
i. Gross movements		
The overall movement in the deferred tax account is as follows:		
Opening balance	5,184	5,117
Credited / (charged) to the income statement	749	68
Consolidation movement	812	-
Rounding	1	(1)
Closing balance	6,746	5,184

Japara Holdings Pty Ltd and Controlled Entities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 17: TAX (CONTINUED)

	2013 \$'000	2012 \$'000
ii. Current tax liability		
Income tax		
Income tax payable	10,272	10,727
Income tax instalment paid during year	(3,522)	(1,109)
Amount offset by tax losses of head entity of Tax Consolidated Group	(5,293)	(5,079)
Closing balance	<u>1,457</u>	<u>4,539</u>
iii. Deferred tax liability		
The movement in deferred tax liability for each temporary difference during the year is as follows:		
Prepayments and accrued income		
Opening balance	601	628
Transfer	40	-
Charged / (credited) to the income statement	79	(27)
Closing balance	<u>720</u>	<u>601</u>
Tax allowances relating to property, plant and equipment		
Opening balance	253	-
Business acquisition	(182)	-
Transfer	238	-
Charged / (credited) to the income statement	77	253
Closing balance	<u>386</u>	<u>253</u>
Bed licences		
Opening balance	3,665	3,815
Business acquisition	(592)	-
Charged / (credited) to the income statement	-	(150)
Closing balance	<u>3,073</u>	<u>3,665</u>
Capital works in progress (interest expense)		
Opening balance	354	354
Transfer	(279)	-
Charged / (credited) to the income statement	26	-
Closing balance	<u>101</u>	<u>354</u>

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 17: TAX (CONTINUED)

	2013 \$'000	2012 \$'000
iv. Deferred tax assets		
The movement in deferred tax assets for each temporary difference during the year / period is as follows:		
Provisions		
Opening balance	5,410	4,603
Business acquisition	38	-
Credited / (charged) to the income statement	821	807
Closing balance	6,269	5,410
Capitalised borrowing costs		
Opening balance	82	33
Credited / (charged) to the income statement	(8)	49
Closing balance	74	82
Capitalised legal costs		
Opening balance	309	38
Credited / (charged) to the income statement	(41)	271
Closing balance	268	309
Sundry creditors and accruals		
Opening balance	2,913	2,859
Credited / (charged) to the income statement	154	54
Closing balance	3,067	2,913
Abandoned due diligence costs		
Opening balance	470	577
Credited / (charged) to the income statement	(171)	(107)
Closing balance	299	470
Tax allowances relating to property, plant and equipment		
Opening balance	-	534
Credited / (charged) to the income statement	-	(534)
Closing balance	-	-
Unused revenue tax losses		
Opening balance	-	-
Credited / (charged) to the income statement	5,293	5,010
Amount used to offset tax liabilities by head entity of Tax Consolidated Group	(5,293)	(5,010)
Closing balance	-	-

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 17: TAX (CONTINUED)

	2013	2012
	\$'000	\$'000
Customer related intangibles		
Opening balance	872	1,270
Credited / (charged) to the income statement	177	(398)
Closing balance	<u>1,049</u>	<u>872</u>

NOTE 18: PROVISIONS

CURRENT

Employee benefits	<u>19,190</u>	<u>16,384</u>
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NON-CURRENT

Employee benefits	<u>1,582</u>	<u>1,530</u>
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	No.	No.
Number of employees at year end	<u>3,777</u>	<u>3,565</u>

Provision for long-term employee benefits

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

NOTE 19: OTHER LIABILITIES

	2013	2012
	\$'000	\$'000
CURRENT		
Deferred revenue	<u>4,955</u>	<u>4,751</u>

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 20: ISSUED CAPITAL

	2013	2012
	\$'000	\$'000
100,000 (2012: 100,000) fully paid ordinary shares of \$1.00 each	100	100
79,263 (2012: Nil) fully paid ordinary shares of \$0.10 each	8	-
Nil (2012: 850) fully paid employee shares of \$15.00 each	-	13
	<u>108</u>	<u>113</u>

a. Ordinary shares	No.	No.
At the beginning of reporting year	100,000	100,000
\$0.10 fully paid shares issued during year	79,263	-
At reporting date	<u>179,263</u>	<u>100,000</u>
b. Employee shares	No.	No.
At the beginning of reporting year	850	1,350
Shares bought-back during year and cancelled	(850)	(500)
At reporting date	<u>-</u>	<u>850</u>

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

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

NOTE 21: SHARE BUY-BACK RESERVE

	2013	2012
	\$'000	\$'000
Share buy-back	(21,500)	-
	<u>(21,500)</u>	<u>-</u>

During the year, at a general meeting of the members of Japara Holdings Pty Ltd, approval was given for financial assistance to be provided by the consolidated group by way of a loan made to a related party to enable it to purchase shares in Japara Holdings Pty Ltd. In accordance with Australian Accounting Standards, upon consolidation this transaction has been accounted for as a share buy-back resulting in a reserve shown in the Statement of Changes in Equity for an amount of \$21,500,000 (2012: \$Nil).

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 22: CAPITAL AND LEASING COMMITMENTS

	2013	2012
	Land & Buildings	Land & Buildings
	\$'000	\$'000
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable		
— not later than 12 months	22,927	22,226
— between 12 months and five years	80,980	89,655
— greater than five years	32,666	41,856
	136,573	153,737

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.

Capital expenditure commitments

As at the reporting date the consolidated group had entered into contracts relating to capital expenditure. Details of the contracts are included in the table below:

Aged Care Facility	Nature of capital expenditure	Contract amount \$'000	Amount incurred \$'000	Future commitment \$'000	Expected completion date
Mirridong	30 bed extension	7,511	1,749	5,762	June 2014
Millward	63 bed extension	10,772	5,118	5,654	March 2014
Albury	New 90 bed facility	9,732	2,280	7,452	April 2014
Balmoral Mews	5 independent living units	887	453	434	November 2013

In addition to the above commitments, the consolidated group had entered into a business sale agreement in June 2013 to purchase the 110 bed Scottvale aged care business. The gross purchase price of \$5,850,000 was reduced by settlement adjustments of \$3,350,000 resulting in a net purchase price of \$2,500,000. A deposit of \$150,000 was paid in June 2013.

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 23: 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 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 2013 at \$241,000,000 (2012: \$233,000,000). At reporting date, the Trust had bank loans amounting to \$125,500,000 (2012: \$109,658,000). 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 had bank loans amounting to \$115,250,000 and 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 \$748,000 (2012: \$646,000) 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 2013, the consolidated group operates and manages two (2012: two) retirement village complexes on behalf of the freehold owner, the Japara Aged Care 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 2013, the contingent asset amounts to \$6,585,000 (2012: \$5,994,000). 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 2013, the consolidated group is therefore contingently liable to the Trust in the sum of \$6,585,000 (2012: \$5,994,000).

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

NOTE 24: SEGMENT REPORTING

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

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 25: CASH FLOW INFORMATION

	2013	2012
	\$'000	\$'000
Reconciliation of cash flow from operations with profit after income tax		
Profit after income tax	9,732	12,384
Non-cash flows in profit:		
Depreciation, amortisation and impairment	5,027	4,947
Rental – AIFRS adjustment	474	(22)
Net (gain) / loss on disposal of property, plant and equipment	655	(1,103)
Bond retention revenue	(2,524)	(2,426)
Deferred management fee income	(452)	(317)
Due diligence costs	189	661
Asset revaluation movement	619	(31)
Finance costs	(26)	269
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 other receivables	(1,108)	(665)
(Increase)/decrease in other assets	(229)	51
(Increase)/decrease in deferred tax assets	(157)	(143)
Increase/(decrease) in payables	4,830	2,450
Increase/(decrease) in current and deferred tax liabilities	(3,675)	3,308
Increase/(decrease) in provisions	2,733	2,761
	16,088	23,274

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 25: CASH FLOW INFORMATION (CONTINUED)

	Note	2013 \$'000	2012 \$'000
The components of the acquisitions as relating to the consolidated group are as follows:			
CONSIDERATION			
Total consideration (receivable) / payable		(171)	-
Fair value of net assets acquired:			
<u>Non-current assets</u>			
Bed licences		2,400	-
Property, plant and equipment		481	-
Deferred tax asset		812	-
<u>Current liabilities</u>			
Provisions for employee entitlements		(125)	-
Accommodation bonds		(5,510)	-
Fair value of net assets acquired		(1,942)	-
<u>Net goodwill / (discount) arising on acquisitions</u>			
Consideration (receivable) / payable		(171)	-
Less: fair value of net assets		(1,942)	-
Net goodwill / (discount) arising on transactions		1,771	-
<u>Net cash effect</u>			
Total consideration (receivable) / payable		(171)	-
Cash consideration (received) / paid		(171)	-
<u>Goodwill / (discount) arising on acquisitions reconciliation</u>			
Goodwill arising on acquisitions	11	1,771	-
(Discount) arising on acquisitions		-	-
Net goodwill / (discount) arising on transactions		1,771	-

Goodwill arising upon acquisition is recognised in the statement of financial position as an intangible asset.

The assets and liabilities arising from the acquisition are recognised at fair value which is equal to its carrying value.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 26: PARENT ENTITY DISCLOSURES

The parent entity of the Group, as at and throughout the financial years ended 30 June 2013 and 30 June 2012, is Japara Holdings Pty Ltd. Presented below is supplementary information about the parent entity.

	Parent	
	2013	2012
	\$'000	\$'000
Result of the parent entity		
Profit / (Loss) after tax	14,401	(6,817)
Other comprehensive income	-	-
Total comprehensive income for the year	14,401	(6,817)
Financial position of the parent entity at year end		
Current assets	13,954	50,721
Non-current assets	135,581	50,735
Total assets	149,535	101,456
Current liabilities	138,939	110,315
Non-current liabilities	8,649	90
Total liabilities	147,588	110,405
Net assets / (liabilities)	1,947	(8,949)
Total equity / (deficit) of the parent entity comprising:		
Share capital	100	113
Retained earnings	955	(9,954)
Reserves	892	892
Total equity / (deficit)	1,947	(8,949)

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 \$Nil (2012: \$18,970,000). At the date of signing these financial statements, the subsidiaries had bank loans amounting to \$Nil and 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 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 2013 at \$241,000,000 (2012: \$233,000,000). At reporting date, the Trust had bank loans amounting to \$125,500,000 (2012: \$109,658,000). 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 had bank loans amounting to \$115,250,000 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 \$440,000 (2012: \$339,000) 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 \$Nil (GST exclusive) (2012: \$267,000) (GST exclusive).

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 27: EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period the consolidated group has appointed advisors to take advantage of lower interest rates and a better lending environment and to assist in refinancing its banking arrangements and review future capital raising opportunities.

In November 2013 the construction of a further 6 new Independent Living Units, which is in addition to the previously built 27 Independent Living Units, commenced on land already owned by the consolidated group. The construction contract amounts to \$1,125,000 and will be financed through the consolidated group's cash flows. The project is schedule to be completed by the end of the 2014 financial year.

Subsequent to the reporting date the Directors have discontinued operations at Tamar Park; a cash-generating unit of the consolidated group. Staff, residents and other key stakeholders were consulted regarding the closure of the facility. The consolidated group ensured that all residents were relocated to suitable alternative accommodation prior to closure of the facility. The loss before tax applicable to the consolidated group for the year ended 30 June 2013 relating to the cash-generating unit was \$394,000 (2012: \$391,000).

The Directors are searching for suitable development sites in the vicinity of Tamar Park, located in Tasmania, to build a new aged care facility. The 45 allocated places (bed licences) associated with Tamar Park will be transferred to this new facility upon approval from the Department of Social Services. The carrying value of the 45 bed licences as at 30 June 2013 is \$1,260,000 (2012: \$1,260,000) and is not considered impaired based upon a fair value assessment performed by an external qualified valuer.

Subsequent to 30 June 2013, one of the consolidated group's aged care properties, the Sandhill aged care facility in Tasmania, was bought by the Trust. This was pursuant to a decision by the Directors to accept the offer in November 2013. The contract for sale of real estate was signed in November 2013 for an amount of \$13,500,000 based upon an independent valuation received by the Directors. Settlement occurred in December 2013.

On 19 August 2013 the consolidated group settled on the purchase of the aged care business at 71 Scott Street, Dandenong, VIC; being an aged care facility with 110 bed licences. The gross purchase price of \$5,850,000 was reduced by settlement adjustments of \$3,350,000 resulting in a net purchase price of \$2,500,000. A deposit of \$150,000 was paid in June 2013.

On 23 December 2013 a final dividend for the year ended 30 June 2013 of \$3,000,000 was declared and paid on the ordinary shares.

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.

The financial report was authorised for issue on 10 January 2014 by the board of directors.

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 28: RELATED PARTY TRANSACTIONS

a. Parent entity

Japara Holdings Pty Ltd is the ultimate parent entity.

b. Subsidiaries

Interests in subsidiaries are detailed in Note 29.

c. Key management personnel

Directors

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

Raymond Schoer	Independent Chairman
(Mark) Andrew Sudholz	Chief Executive Officer
Julius Colman	Non-Executive Director
Robert Peck A.M.	Non-Executive Director
Allan Reid	Non-Executive Director

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

Key management personnel compensation

	Short-term benefits	Post- employment benefit	Other long- term benefits	Total
2013	\$	\$	\$	\$
Total compensation	2,549,810	119,467	-	2,669,277
2012				
Total compensation	2,419,177	218,188	-	2,637,365

As at reporting date an amount of \$270,422 (2012: \$608,765) 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 28: RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties

Japara Aged Care Property Trust

Japara Property Management Limited, a wholly-owned subsidiary of the parent entity, is the Responsible Entity for the Japara Aged Care 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.

The amount of the transactions are as follows:

	2013	2012
<i>Income receivable by the consolidated group</i>	\$	\$
Management fees payable by the Trust to the Responsible Entity	1,459,005	1,407,383
Reimbursement of costs payable by the Trust to the Responsible Entity	2,098,373	3,480,371
Debt facility fee payable by the Trust to the Responsible Entity	-	14,945
Interest receivable from the Trust by the consolidated group	136,367	759,432
	3,693,745	5,662,131

Expenses payable by the consolidated group

Rent payable to the Trust by the consolidated group	20,695,045	20,088,466
Interest payable to the Trust by the consolidated group	126,964	170,793
	20,822,009	20,259,259

Amounts remaining unpaid as at reporting date are as follows:

Amounts receivable from the Trust	3,272,782	17,435,985
Amounts payable to the Trust	-	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 28: RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions

On 10 August 2012, Japara Holdings Pty Ltd and its Controlled Entities entered into a settlement deed resolving 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. The terms of the settlement deed are confidential; however the result is that all claims by each party against the other in the proceeding were discontinued.

Under order of the court, the consolidated group made advances to a former director and shareholder during the year totalling \$50,000 (2012: \$600,000). 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 was made at 30 June 2012.

During the year, a related party of Raymond Schoer, Schoer Consulting Pty Ltd, acted under a consultancy agreement with Japara Holdings Pty Ltd to provide the services of Raymond Schoer as a director of Japara Holdings Pty Ltd and Japara Property Management Limited. The fee for services within the consultancy agreement amounts to \$125,000 (2012: \$125,000) plus GST per annum. During the year an amount of \$93,750 (2012: \$31,250) was invoiced to and paid by Japara Holdings Pty Ltd.

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 \$111,492 (2012: \$87,085) GST exclusive. These amounts were charged at arm's length and were fully paid at the reporting date.

During the year consultancy fees of \$22,500 (2012: \$Nil) were charged to Japara Holdings Pty Ltd by Marma Pty Ltd; a company of which (Mark) Andrew Sudholz is a director.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 29: CONTROLLED ENTITIES

Name of Entity	Ownership	Class of shares	Equity holding	
			2013 %	2012 %
Aged Care Services Australia Group Pty Ltd	Direct	Ordinary	100	100
Aged Care Services One (Central Park) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Two (Roccoco) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Three (Balmoral Grove) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Four (Park Group) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Five (Narracan Gardens) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Six (Mirridong) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Seven (Kelaston) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Eight (Elanora) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services Nine (George Vowell) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 10 (Kingston Gardens) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 11 (View Hills) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 12 (Albury & District) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 13 (Lakes Entrance) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 14 (Lower Plenty Garden Views) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 15 (Rosanna Views) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 16 (Millward) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 17 (Bonbeach) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 18 (Hallam) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 19 (Goonawarra) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 20 (Bayview Gardens) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 21 (Barongarook Gardens) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 22 (Sandhurst) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 23 (Capel Sands) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 24 (St Judes) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 25 (Springvale) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 26 (Bayview) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 27 (Kirrilee) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 28 (Elouera) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 29 (Mirboo North) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 30 (Brighton) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 31 (Vonlea Manor) Pty Ltd	Direct	Ordinary	100	100
Aged Care Services 32 (Scottvale) 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

Japara Holdings Pty Ltd and Controlled Entities
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 29: CONTROLLED ENTITIES (CONTINUED)

Name of Entity	Ownership	Class of shares	Equity holding	
			2013 %	2012 %
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
CRPSM Pty Ltd ##	Indirect	Ordinary	100	-

All of the above entities are registered in Australia

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

##: No shares in CRPSM Pty Ltd are owned by the consolidated group, however CRPSM Pty Ltd is deemed to be a controlled entity for financial reporting purposes.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 30: 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 31: 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 (2012: 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

(i) Credit risk

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

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

The consolidated group has identified that it does not have any material credit risk exposure to any single non-related party receivable or group of non-related party receivables under financial instruments entered into by the consolidated group. The consolidated group has identified that its single largest customer is the Department of Health & Ageing in respect of funding received. Such funding is received on a monthly basis, in advance at the start of each month, and any funding receivable at balance date is accrued based upon Department of Health & Ageing calculations of balancing funding amounts. The consolidated group has determined that any credit risk associated with the Department of Health & Ageing is insignificant. In respect of other customers, being aged care facility residents, the consolidated group monitors the level of receivables balances on a weekly basis and any associated credit risk is mitigated by their independence of each other and individual immateriality to the consolidated group. The consolidated group's exposure to bad debts is therefore not significant, however a provision for doubtful debts has been raised in the financial statements which at balance date is \$125,000 (2012: \$120,000).

At 30 June 2013, the ageing analysis of resident debtors is as follows:

<i>Year</i>	<i>Not yet due</i>	<i>Current</i>	<i>31 – 60 days</i>	<i>61 + days</i>	<i>Impaired</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2013	4,363	395	115	561	(125)	5,309
2012	3,699	311	134	339	(120)	4,363

Resident debtors past due but not considered impaired are: \$551,000 (2012: \$353,000).

The consolidated group has also identified that it is exposed to credit risk with related parties being the Japara Aged Care Property Trust ("the Trust"). At balance date, an amount of \$3,273,000 (2012: \$17,436,000) was receivable from the Trust. Of this balance, \$3,273,000 (2012: \$17,436,000) 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 (2012: \$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 2013

NOTE 31: 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 2013

NOTE 31: 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	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	%	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets:										
Cash and cash equivalents	2.70	3.85	16,720	26,585	-	-	-	-	16,720	26,585
Receivables	-	-	-	-	-	-	5,574	5,831	5,574	5,831
Other financial assets	-	-	-	-	-	-	6,800	4,238	6,800	4,238
Deferred tax assets	-	-	-	-	-	-	11,026	10,057	11,026	10,057
Amounts receivable from related parties	-	-	-	-	-	-	2,899	16,030	2,899	16,030
Total Financial Assets			16,720	26,585	-	-	26,299	36,156	43,019	62,741
Financial Liabilities:										
Bank loans and overdrafts	6.10	6.66	18,490	34,470	8,250	529	-	-	26,740	34,999
Accruals and deferred income	-	-	-	-	-	-	22,649	20,701	22,649	20,701
Current tax liabilities	-	-	-	-	-	-	1,457	4,539	1,457	4,539
Deferred tax liabilities	-	-	-	-	-	-	4,280	4,873	4,280	4,873
Trade and sundry payables	-	-	-	-	-	-	6,864	3,583	4,280	3,583
Accommodation bonds & ILU loans	-	-	-	-	-	-	196,626	184,657	196,626	184,657
Employee benefits	-	-	-	-	-	-	20,772	17,914	20,772	17,914
Total Financial Liabilities			18,490	34,470	8,250	529	252,648	236,267	279,388	271,266

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities have the following maturity profiles:

	2013	2012
	\$'000	\$'000
Less than 6 months	239,018	249,237
6 months to 1 year	20,325	10,893
1 to 5 years	20,045	11,136
	279,388	271,266

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 statement of financial position based upon a reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the income statement and statement of financial position 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 2013 and 30 June 2012. 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:

	2013	2012
	\$'000	\$'000
Change in profit / (loss) after tax – higher / (lower)		
- Increase in interest rate by 1.00%	(70)	(59)
- Decrease in interest rate by 1.00%	70	59
Change in equity – higher / (lower)		
- Increase in interest rate by 1.00%	(70)	(59)
- Decrease in interest rate by 1.00%	70	59

Japara Holdings Pty Ltd and Controlled Entities

ABN 18 110 466 889

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

NOTE 31: FINANCIAL INSTRUMENTS (CONTINUED)

(b) Price risk sensitivity analysis

The consolidated group has performed a sensitivity analysis on its income statement and statement of financial position based upon reasonably possible change in levels of government funding, with all other variables held constant. The sensitivity of the income statement and statement of financial position 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 2013 and 30 June 2012. 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:

	2013	2012
	\$'000	\$'000
Change in profit / (loss) after tax – higher / (lower)		
- Increase in government funding by 5.00%	5,853	5,637
- Decrease in government funding by 5.00%	(5,853)	(5,637)
Change in equity – higher / (lower)		
- Increase in government funding by 5.00%	5,853	5,637
- Decrease in government funding by 5.00%	(5,853)	(5,637)

NOTE 32: 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

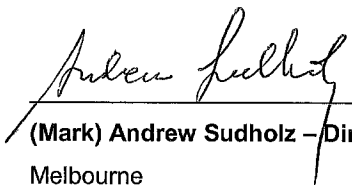
Japara Holdings Pty Ltd and Controlled Entities
ABN 18 110 466 889

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 56, 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 2013 and of their performance for the year ended on that date; and
 - b. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.
3. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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


(Mark) Andrew Sudholz – Director
Melbourne

Dated this 10th day of January 2014

**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 2013, 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.

Nexia Melbourne

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Independence

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

Auditor's Opinion

In our opinion:

- a. the financial report of Japara Holdings Pty Ltd and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2013 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
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

10 January 2014