

JAPARA

Japara Aged Care & Retirement Property Trust

ARSN: 117 176 048

Annual Financial Report

For the Year Ended 30 June 2011

Japara Aged Care & Retirement Property Trust

ARSN: 117 176 048

2011 Annual Financial Report

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Japara Aged Care & Retirement Property Trust

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

DIRECTORS' REPORT

The Directors of Japara Property Management Limited (ABN: 53 113 425 086), the Responsible Entity of the Japara Aged Care & Retirement Property Trust (ARSN: 117 176 048) (the "Trust"), present their report for the Trust for the year ended 30 June 2011.

Directors

The names of the Directors of the Responsible Entity in office during the financial year and until the date of this report are:

Julius Colman – Non-Executive Chairman

(Mark) Andrew Sudholz – Executive Director

Allan Reid – Non-Executive Director

Robert Peck A.M. – Non-Executive Director

The Directors were in office from the beginning of the financial year until the date of this report, unless otherwise stated.

Principal activities

The principal activity of the Trust during the year was to invest funds in accordance with the provisions of the Trust's Constitution.

The Trust invests in high quality aged care and retirement property assets.

The Trust did not have any employees during the year.

There has been no significant change in the nature of this activity during the year.

Trust information

Japara Aged Care & Retirement Property Trust is an Australian registered scheme (ARSN: 117 176 048), and was constituted on 26 April 2005. Japara Property Management Limited (ABN: 53 113 425 086), the Responsible Entity of the Trust, is incorporated and domiciled in Australia.

The registered office of the Responsible Entity is located at Level 20 HWT Tower, 40 City Road, Southbank VIC 3006.

Review of results and operations

Results and distributions

The net asset value and unit value (net asset backing) shows the unit value as at 30 June 2011 at \$1.0555, an increase of 4.83 cents per unit from the unit value as at 30 June 2010 of \$1.0072 (and an increase of 10.75 cents per unit from the unit value as at 30 June 2009 of \$0.9480). The 4.83 cents per unit increase in unit value, together with the 8.0 cents per unit distribution for the year ended 30 June 2011, brings the total return for the year to 12.83 cents per unit, which is an excellent result having regard to the continuing effects of the Global Financial Crisis, the increase in borrowing costs and the costs of the Trust's share of the sale process. Not included in this return is the value of the 15% entitlement in the net equity value of Japara Holdings Pty Ltd which accrues to Trust unitholders upon a liquidity event.

The revaluation of investment properties owned by the Trust resulted in a net overall increase in their value of \$5,908,721 (2010: net increase of \$5,921,357). On 2 July 2010 settlement on the sale of two parcels of non-income producing surplus land was completed, with the net proceeds being used to repay bank debt. The total value of these parcels of surplus land carried in the financial statements as at 30 June 2010 amounted to \$647,760, disclosed as land held for resale. The Trust received net proceeds of \$647,760 upon the settlement of the sale of the surplus land. To this the Trust added a further \$62,240 from its own resources and applied the total amount of \$710,000 to bank debt principal repayment. The Trust also made a further bank debt principal repayment of \$1,967,000 in January 2011. Consequently, the Trust reduced its bank debt by \$2,677,000 during the year ended 30 June 2011. The Trust made no acquisitions of investment property during the year (2010: no acquisitions).

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011 (CONT.)

At 30 June 2011 the independent valuation of the properties in the Trust for mortgage security purposes was \$231,232,500 (2010: \$225,440,000). Total bank debt (i.e. the mortgages over these properties) as at 30 June 2011 was \$121,558,000 (2010: \$124,235,000). This represents a loan to value ratio ("LVR") at 30 June 2011 of 52.6% (2010: 55.1%), significantly below the financial covenant LVR in the bank facility agreement of 64.0% (2010: 64.0%).

The net profit of the Trust for the financial year attributable to unitholders amounted to \$13,173,039 (2010: \$14,714,538). This was after providing an amount of \$967,067 (2010: \$2,026,688) relating to the Trust's share of the legal, due diligence, professional and advisory fees in respect of the proposed purchase of the units in the Trust.

Distributions payable to unitholders in respect of the year ended 30 June 2011 totalled \$7,865,495 (2010: \$7,746,477) which equates to 8.0 cents per unit (2010: 8.0 cents per unit). Interim distributions paid to unitholders during the year in respect of the year ended 30 June 2011 totalled \$5,899,121 (2010: \$5,780,103) which equates to 6.0 cents per unit (2010: 6.0 cents per unit). A final distribution of 2.0 cents per unit (2010: 2.0 cents per unit) was declared for the year ended 30 June 2011 and paid to unitholders on 31 August 2011. The total amount of this final distribution of \$1,966,374 (2010: \$1,966,374) was payable at the reporting date and has been provided for in the Statement of Financial Position.

Indirect Cost Ratio

The Indirect Cost Ratio (ICR) is the ratio of the Trust's management costs over the Trust's average equity (net assets) attributable for the year, expressed as a percentage. Management costs include management fees and other expenses or reimbursements deducted in relation to the Trust, but do not include day to day transactional and operational costs that arise directly as a result of running the Trust. Management costs also do not include those acquisition fees and project management fees that relate to the capital cost of investment properties. Management costs are not paid directly by the unitholders of the Trust.

The ICR for the Trust for the year ended 30 June 2011 is 1.43% (2010: 1.48%).

Fees paid to and interests held by the Responsible Entity and associates

The following fees were payable to the Responsible Entity and its associates out of Trust property during the financial year:

- Management fees for the financial year payable to the Responsible Entity - \$1,427,015 (2010: \$1,355,678);
- Acquisition or disposal fees for the financial year payable to the Responsible Entity - \$Nil (2010: \$9,250);
- Expenses incurred by the Responsible Entity and reimbursable by the Trust in accordance with the Trust's Constitution \$470,836 (2010: \$85,349);
- The interests in the Trust held by the Responsible Entity and its associates at the end of the year are disclosed in Note 16 to the financial statements.

Units on issue

98,318,682 ordinary fully paid units of the Trust were on issue at 30 June 2011 (2010: 98,318,682). During the year no ordinary fully paid units were issued (2010: 11,683,344) by the Trust and no ordinary fully paid units were withdrawn (2010: None).

Trust assets

At 30 June 2011 the Trust held assets to a total value of \$239,822,541 (30 June 2010: \$234,663,099; 1 July 2009: \$226,841,379).

Change in accounting treatment

The Directors have reviewed their treatment of the retirement village gross up adjustment to the value of investment property. This gross up adjustment occurred in the following way:

Under the Retirement Villages Act 1986, the freehold owner of the independent living units, being the Trust, retains the ultimate legal responsibility to the residents for the repayment of their ingoing contributions (being a loan provided by the resident under a loan/licence agreement when they moved into an independent living unit), should the manager of the retirement villages default on these repayments. The liability for this is recognised and disclosed in Note 8 of the financial statements. The gross up amount reflects the amount claimable against the manager of the retirement villages (related entities of the Trust), should the resident make a claim against the freehold title of the property.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011 (CONT.)

The Directors have previously taken the conservative approach of recording the potential liability as an amount currently payable in the statement of financial position. This amount is balanced by a corresponding increase in investment property asset values. However, because, in the opinion of the Directors, the likelihood is remote that the amount, previously treated as a liability, actually becomes payable, they believe it is better treated as a contingent liability (rather than actually recorded as a current payable). As this change in treatment removes both a liability and an asset of equal value, it has no impact on the Trust's net asset value. The adjustment has been made in the 2011 financial year and the relevant comparative amounts in the statement of financial position have also been restated. Further details of this change in accounting treatment are disclosed in Note 7 to the financial statements. The basis for valuation of the assets is disclosed in Note 1 to the financial statements.

Significant changes in the state of affairs

There were no significant changes to the state of affairs of the Trust during the year.

Trust constitution

At a general meeting of unit-holders held on 21 December 2010, unit-holders unanimously passed the resolution to amend the Trust's constitution as detailed in the Notice of Meeting and Explanatory Memorandum dated 29 November 2010.

Significant events after the balance date

Since 30 June 2011, the prospective purchaser of all the units in the Trust advised that it had decided not to pursue the proposed acquisition and that it had accordingly withdrawn from the purchase of all the units in the Trust and also the shares in Japara Holdings Pty Ltd, the owner of 100% of the shares in the Responsible Entity. Therefore, in August 2011 Japara Holdings Pty Ltd and the Trust have closed down the transaction process which was being managed by UBS. All costs incurred to 30 June 2011 have been allocated between the Trust and Japara Holdings Pty Ltd based upon the relative values of the units in the Trust and the shares in Japara Holdings Pty Ltd which were calculated with reference to the offer price from the prospective purchaser and the gross asset values of the Trust and Japara Holdings Pty Ltd.

At the date of these accounts, the Responsible Entity, in conjunction with the Trust and other associated entities, is pursuing a restructure of the combined businesses, which would entail a move to a combined entity whereby the property trust and the business operated by the Trust's tenants would be combined under a common ownership. Unit-holders in the Trust would be given the opportunity to exit and realise their investment or potentially to re-invest in the combined entity. The aim of the Directors is to have this restructure completed before 1 March 2012. Their intent is to have this substantially completed in the 2011 calendar year.

On 14 September 2011 the Trust restructured \$126,000,000 of its liabilities by obtaining bank funding from its primary lender of \$116,158,000 (i.e. reducing by \$5,400,000 its 30 June 2011 bank debt of \$121,558,000). The new loan facility matures on 1 March 2012. The term of this new facility agreement has been set to allow sufficient time for the above mentioned restructure to a combined entity to complete. At the same time as the Trust reduced its first mortgage by \$5,400,000, it also met \$4,500,000 of its other liabilities (as set out in Note 8) by way of a fully drawn loan facility from a related party, Japara Holdings Pty Ltd, of \$10,000,000. This loan matures on 30 June 2012 and has been made on arm's length commercial terms which match the interest rate charged by the bank. At \$116,158,000 of bank debt, the Trust's first mortgage is accordingly at a loan-to-value ratio of just 50.2%.

The Responsible Entity of the Trust is a wholly owned subsidiary of Japara Holdings Pty Ltd. Whilst at the date of these accounts Japara Holdings Pty Ltd and its majority shareholders continue to be involved in legal proceedings concerning a former director of Japara Holdings Pty Ltd, neither the Trust nor the Responsible Entity of the Trust are a party to these proceedings. Nor are any claims made against the Responsible Entity or the Trust as part of these proceedings.

Other than mentioned above and elsewhere in this report, there has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the Trust's operations in future financial years, the results of those operations or the Trust's state of affairs in future financial years.

Japara Aged Care & Retirement Property Trust

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011 (CONT.)

Likely developments and expected results

The investment strategy of the Trust will be maintained in accordance with the Trust Constitution and investment objectives as detailed in the most recent Information Memorandum.

Environmental regulation and performance

The operations of the Trust are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Trust.

Indemnification and insurance of directors and officers

The Constitution of the Responsible Entity requires it to indemnify all current and former officers of the Responsible Entity (but not including auditors) out of the property of the Responsible Entity against:

(a) any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgment is given in that person's favour, or in which the person is acquitted, or in connection with an application in relation to any such proceedings in which the court grants relief to the person under the Corporations Act 2001; and

(b) a liability incurred by the person, as an officer of the Responsible Entity or of a related body corporate, to another person (other than the Responsible Entity or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

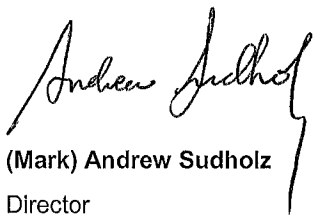
During the financial year, the Responsible Entity paid an insurance premium in respect of a contract insuring each of the directors and officers of the Responsible Entity. The amount of the premium is, under the terms of the insurance contract, confidential. This premium is not paid out of the Trust's assets. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the directors and officers in their capacity as directors and officers of the Responsible Entity or related body corporates. This insurance premium does not cover auditors.

The Trust does not indemnify or insure directors or officers.

Auditor's independence declaration

An independence declaration has been provided to the Directors by the auditor of Japara Aged Care & Retirement Property Trust, Nexia ASR, and is attached to the Directors' Report.

Signed in accordance with a resolution of the Directors of the Responsible Entity.



(Mark) Andrew Sudholz

Director

Melbourne

30 September 2011

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF JAPARA PROPERTY MANAGEMENT LTD
ATF JAPARA AGED CARE & RETIREMENT PROPERTY TRUST**

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

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


NEXIA ASR
ABN 16 847 721 257


George S Dakis
Partner
Audit & Assurance

Melbourne
30 September 2011

‘value beyond numbers’

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other than for the acts or omissions of financial services licensees

Independent member of
NEXIA
INTERNATIONAL

Japara Aged Care & Retirement Property Trust

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	30 June 2011	30 June 2010 (as restated)	1 July 2009 (as restated)
		\$	\$	\$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	4	1,943,998	2,349,177	1,254,759
Trade and other receivables	5	22,076	1,129,850	195,094
Land held for resale	7	-	647,760	1,200,000
Other current assets	6	6,623,967	5,616,312	4,171,526
TOTAL CURRENT ASSETS		8,590,041	9,743,099	6,821,379
NON-CURRENT ASSETS				
Investment property	7	231,232,500	224,920,000	220,020,000
TOTAL NON-CURRENT ASSETS		231,232,500	224,920,000	220,020,000
TOTAL ASSETS		239,822,541	234,663,099	226,841,379
CURRENT LIABILITIES				
Trade and other payables	8	6,647,552	4,118,654	12,209,472
Short-term borrowings	9	121,558,000	50,085,000	13,600,000
Distribution payable	10	1,966,374	1,966,374	1,732,707
TOTAL CURRENT LIABILITIES		130,171,926	56,170,028	27,542,179
NON-CURRENT LIABILITIES				
Long-term borrowings	9	-	74,150,000	113,000,000
Unitholder funds	10	109,650,615	104,343,071	86,299,200
TOTAL NON-CURRENT LIABILITIES		109,650,615	178,493,071	199,299,200
TOTAL LIABILITIES		239,822,541	234,663,099	226,841,379
NET ASSETS		-	-	-
EQUITY				
Contributed equity		-	-	-
TOTAL EQUITY		-	-	-

The accompanying notes form part of these financial statements.

Japara Aged Care & Retirement Property Trust

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
Income	2		
Rental revenue		20,185,887	20,875,783
Interest receivable		115,919	81,824
Total revenue		20,301,806	20,957,607
Other income - unrealised gains in fair value of investment properties		7,005,139	5,921,357
Total income		27,306,945	26,878,964
Expenses	2		
Accounting and audit fees		36,840	28,415
Financing costs relating to bank funding		10,335,420	8,288,374
Financing costs relating to related party funding		81,618	(27,669)
Consultancy and legal fees		112,317	50,934
Management fees		1,427,015	1,355,678
Repairs and maintenance		42,266	19,040
Other expenses		34,945	12,464
Equity raising fees expensed		-	10,629
Due diligence and other associated costs expensed		967,067	2,312,035
Loss on disposal of non-current assets		-	114,526
Unrealised losses in fair value of investment properties		1,096,418	-
Total expenses		14,133,906	12,164,426
Net profit attributable to unitholders before financing costs		13,173,039	14,714,538
Financing costs relating to unitholders			
Distributions paid to unitholders relating to the financial year	10	5,899,121	5,780,103
Net unrealised gains / (losses) – undistributable	10	5,908,721	5,921,357
Rent receivable under IFRS straight lining – undistributable	10	563,129	1,144,940
Net movement in other undistributable reserves	10	(2,995,756)	-
Net movement in distributable reserves	10	1,831,450	(98,236)
Distributions payable to unitholders relating to the financial year	10	1,966,374	1,966,374
Total financing costs relating to unitholders		13,173,039	14,714,538
Net profit attributable to unitholders after financing costs		-	-
Other comprehensive income		-	-
Change in net assets attributable to unitholders		-	-

The accompanying notes form part of these financial statements.

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

	Note	2011 \$	2010 \$
Balance at 1 July 2009		-	-
Net profit attributable to unitholders after distributions		-	-
Balance at 30 June 2010		-	-
Net profit attributable to unitholders after distributions		-	-
Balance at 30 June 2011		-	-

In accordance with AASB132 Financial Instruments: Disclosure and Presentation, unitholders funds are classified as a financial liability and accordingly the Trust has no equity for financial statement presentation purposes.

The accompanying notes form part of these financial statements.

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from tenants		20,402,565	18,951,036
Payments to suppliers	14a	(608,961)	(4,439,061)
Interest received		118,986	77,896
Finance costs paid		(10,258,312)	(8,527,099)
Net cash provided by (used in) operating activities	14	9,654,278	6,062,772
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments towards purchase of investment properties		(206,274)	(896,274)
Receipts from sale of surplus land		647,760	1,775,474
Refunds of overpaid stamp duty		324,900	-
Due diligence costs paid		(283,348)	-
Net cash provided by (used in) investing activities		483,038	879,200
CASH FLOW FROM FINANCING ACTIVITIES			
Net proceeds from unit funds raised		-	9,347,098
Repayment of bank borrowings		(2,677,000)	(2,365,000)
Repayments of loans to related parties		-	(5,316,842)
Distributions paid to unitholders		(7,865,495)	(7,512,810)
Net cash provided by (used in) financing activities		(10,542,495)	(5,847,554)
Net increase / (decrease) in cash and cash equivalents		(405,179)	1,094,418
Cash and cash equivalents at 1 July		2,349,177	1,254,759
Cash and cash equivalents at 30 June	4	1,943,998	2,349,177

The accompanying notes form part of these financial statements.

Japara Aged Care & Retirement Property Trust

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The financial report of the Trust complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

The financial report covers Japara Aged Care & Retirement Property Trust (the "Trust") which is a unit trust established and domiciled in Australia. The Trust is an Australian registered scheme (ARSN: 117 176 048), and was constituted on 26 April 2005. Japara Property Management Limited (ABN: 53 113 425 086), the Responsible Entity of the Trust, is incorporated and domiciled in Australia.

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

The financial statements were approved by the Board of Directors of the Responsible Entity on 30 September 2011.

The following is a summary of the material accounting policies adopted by the Trust in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting policies

a. Land held for resale

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 are expensed. Profits less costs to sale are brought to account on the signing of an unconditional contract of sale.

b. Investment properties

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). 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 Trust.

Once initially recognised, investment properties are stated at fair value at each balance date. Any gain or loss arising from a change in fair value is recognised in the Statement of Comprehensive Income in the period.

Under IFRS the property assets held by the Trust are classified as investment properties. They are initially recorded at cost (including acquisition costs such as stamp duty, and the costs of establishing finance). Once initially recorded, the property assets are thereafter carried at fair value. Fair value is based on the property assets as a going concern and in current use.

Basis of fair value assessment

Independent valuations are obtained on all property assets owned by the Trust each year.

Japara Aged Care & Retirement Property Trust

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Under the applicable standard, the fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arms length transaction, and which reflects the property's current use and market conditions at the reporting date.

The Directors of the Responsible Entity consider information from a variety of sources in determining the fair value of each property and for the collective value of all assets within each asset class. The primary source, in an active market for similar properties or portfolios in the same location and condition and subject to similar lease and other contracts, is from current prices.

Other sources include:

1. current prices in an active market for properties or portfolios of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
2. recent prices of similar properties or portfolio's on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
3. discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and by available external evidence such as current market rents for similar properties in the same location and condition, or yields on similar portfolios in the same asset class, and using discount rates that reflect current market assessments of the amount and timing of the cash flows.

In some cases, these various sources may suggest different conclusions about the fair value of the property assets held. The Directors of the Responsible Entity consider the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.

In particular the Directors of the Responsible Entity take some key factors into account as they apply this methodology to the portfolio of aged care facilities and retirement village assets of the Trust and vacant land held. These include:

- The strategy of the Trust which is around accumulation, achieving a critical mass and a proposed time in the future when a liquidity event is planned which aims to realise the benefit derived from building a significant portfolio. Market experience has shown that at times the value of a portfolio of properties, particularly large portfolios, may attract a higher transaction price than if the properties were offered individually;
- Valuers will value properties for the purposes of a contemporary sale, on a stand alone basis, and not necessarily for the purposes of establishing a going concern value for inclusion in statutory accounts. Valuations based on sale can often take account of or reflect short-term factors influencing the property markets generally, the sector or external economic factors that may not necessarily impact long-term holders of property assets, nor take into account the property value in the context of it being part of a much larger diversified portfolio of properties in the class;
- Where current independent valuations are not available, an analysis of values is performed based on the evidence available, including market yields. Yields used for each property reflect:
 - Location of the properties;
 - Quality of the properties; and
 - Evidence from transactions underway in the market and negotiations currently underway.

Japara Aged Care & Retirement Property Trust

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

- Recognition that the key asset of the Trust is the significant income stream from the rents. The properties held are simply the assets that support that income stream. The going concern value of the property portfolio is supported by a fundamentally strong diverse cash flow, to which a market capitalisation rate (yield) is capable of being applied. The appropriate yield should be available from a variety of market evidence;
- Discounted cash flow (DCF) is the common methodology adopted in valuing aged care assets both individually and as a portfolio of like assets. Typically when undertaking a DCF analysis on a portfolio of assets the discount rate (or ROI/yield required) will be lower than a rate applied to an individual asset. This is a result of portfolio theory identifying a lower risk profile because of:
 - "Unsystematic risk – also known as 'diversifiable' risk, is the risk associated with investing in an individual asset. This risk is reduced in a portfolio - through diversification – which results in more stable cash flow streams to the investor; and
 - The more stable income streams and diversity typically enable more debt (a cheaper source of funding than equity) to be included in the capital structure. This can increase the return on equity invested".As a result the enterprise value of a portfolio of assets may be higher than the sum of the individual assets (*the portfolio effect*). The portfolio effect can be more pronounced as the portfolio grows and asset/cashflow diversification increases; and
- Vacant land is considered a separate asset class and separated from the portfolio in performing the going concern review. Fair value should be based upon its use to the Trust - that is as an income producing asset, not held for resale.

Determination of fair value

Based on the methodology outlined above, the following steps are undertaken when determining the fair value of the property assets held by the Trust:

- Independent valuations are obtained for all properties held by the Trust. Where a property has been owned for less than six months, the independent valuation performed for acquisition purposes is used; and
- Directors obtain advice and make an assessment of the yield that the income stream from the portfolio considered as a whole would achieve in the capital markets. This yield is then applied to the income stream from the properties to determine the valuation of the portfolio as if it were a single asset.

The resulting valuations are then benchmarked against available evidence to ensure the properties are recorded at fair value.

The fair value of the property assets held by the Trust is disclosed in Note 7 of the financial statements.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

c. Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the Trust becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Trust commits itself to either the purchase or sale of 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 fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is 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*.

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

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that 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 item in profit or loss.

The Trust does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are 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.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

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

Held-to-maturity investments are included in non-current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as current assets.

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

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be 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.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(v) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Trust assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

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 Trust 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 discharged, cancelled or expired. 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.

d. **Impairment of assets**

At each reporting date, the Trust 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 income statement.

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

e. **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 on the balance sheet.

f. **Revenue**

Rental income earned on investment properties is recognised on an accruals basis in accordance with the lease agreements.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

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g. Financing costs

Financing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of sale.

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

h. 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 balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

i. Income tax

Under current Australian income tax legislation, the Trust is not liable for income tax, provided that the taxable income is fully distributed to unitholders each year. Tax allowances for building, plant and equipment depreciation are distributed to unitholders in the form of tax deferred components of distributions.

j. Comparative figures

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

k. New accounting standards for application in future periods

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

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

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

The key changes made to accounting requirements include:

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

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- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

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

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

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

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

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

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

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

Since the Trust is a managed investment scheme that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

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

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

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

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

This Standard is not expected to impact the Trust.

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

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

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

This Standard is not expected to impact the Trust.

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

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

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

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

This Standard is not expected to impact the Trust.

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

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

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

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

This Standard makes amendments to AASB 112: Income Taxes.

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

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

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

The amendments are not expected to impact the Trust.

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

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

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

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

This Standard is not expected to impact the Trust.

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

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

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

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

This Standard is not expected to impact the Trust.

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

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

Critical accounting estimates and judgments

The Trust evaluates 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 internally.

Key estimates — impairment

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

Key judgements – bank facilities and refinancing

At the date of these accounts, the Responsible Entity, in conjunction with the Trust and other associated entities, is pursuing a restructure of the combined businesses, which would entail a move to a combined entity whereby the property trust and the business operated by the Trust's tenants would be combined under a common ownership. Unit-holders in the Trust would be given the opportunity to exit and realise their investment or potentially to re-invest in the combined entity. The aim of the Directors is to have this restructure completed before 1 March 2012. Their intent is to have this substantially completed in the 2011 calendar year.

Having regard to the status of the process of restructuring to a combined entity, discussions with the Trust's bankers and with other banks and financial institutions and discussions with substantial unit-holders in the Trust, the substantial and secure cash flow that these aged care facilities enjoy, and their relatively low loan-to-value ratios, the Directors of the Responsible Entity are confident that the Trust 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.

Further information regarding the above is contained in Note 9 of the financial statements.

Prior period adjustment

The Trust has changed its accounting treatment in respect of the retirement village gross-up adjustment and it no longer recognises this amount in the statement of financial position. Further details are disclosed in Note 7 (note (ii)) to the financial statements. There is no impact to the statement of comprehensive income, statement of changes in equity or statement of cash flows for this change in accounting treatment.

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

	Previous Policy	Adjustment	Revised Policy
1 July 2009	\$	\$	\$
Investment property	227,845,000	(7,825,000)	220,020,000
Trade and other payables	20,034,472	(7,825,000)	12,209,472
 30 June 2010			
Investment property	232,825,000	(7,905,000)	224,920,000
Trade and other payables	12,023,654	(7,905,000)	4,118,654
 30 June 2011			
Investment property	239,146,500	(7,914,000)	231,232,500
Trade and other payables	14,561,552	(7,914,000)	6,647,552

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

NOTE 2: INCOME	Note	2011 \$	2010 \$
Revenue from investment activities			
Rent receivable from tenants (related parties)		19,622,758	19,730,843
Rent receivable under IFRS straight lining		563,129	1,144,940
Total rental revenue		20,185,887	20,875,783
Interest received from external parties		115,919	81,824
Total interest revenue		115,919	81,824
Total revenue		20,301,806	20,957,607
Other income			
Unrealised gains in fair value of investment properties		7,005,139	5,921,357
Total income		27,306,945	26,878,964
Expenses incurred due to investment activities			
Remuneration of auditors			
- audit or review		28,750	26,000
- other services by related practice of auditor		8,090	2,415
		36,840	28,415
Financing costs relating to bank funding		10,335,420	8,288,374
Financing costs relating to related parties		81,618	(27,669)
Consultancy fees		112,317	50,934
Management fees		1,427,015	1,355,678
Repairs and maintenance		42,266	19,040
Other expenses		34,945	12,464
Legal fees relating to aborted equity raising		-	10,629
Due diligence and other associated costs expensed	2a	967,067	2,312,035
Loss on disposal of non-current assets		-	114,526
Unrealised losses in fair value of investment properties		1,096,418	-
Total expenses		14,133,906	12,164,426

2a: As at 30 June 2011, the Trust provided in its Statement of Financial Position and charged fully to the Statement of Comprehensive Income an amount of \$967,067 (2010: \$2,028,688) representing the Trust's share of professional due diligence fees and other associated costs and fees incurred to 30 June 2011 relating to the proposed purchase of the Trust's units by an external third party.

NOTE 3: INCOME TAX EXPENSE

No tax expenses, credits or balances are recorded in the Trust. Income is passed to unitholders as distributions, and unitholders are taxed according to their individual circumstances.

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

NOTE 4: CASH AND CASH EQUIVALENTS

	2011	2010
	\$	\$
CURRENT		
Cash at bank and in hand	1,943,998	2,349,177
	<u>1,943,998</u>	<u>2,349,177</u>

Reconciliation of cash

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

Cash and cash equivalents	1,943,998	2,349,177
	<u>1,943,998</u>	<u>2,349,177</u>

NOTE 5: RECEIVABLES

CURRENT

Sundry debtors	5a	15,223	340,123
Accrued interest receivable		6,853	9,920
Accrued rent receivable from related parties		-	779,807
		<u>22,076</u>	<u>1,129,850</u>

5a: Sundry debtors relates to stamp duty recoverable where objections have been lodged with the State Revenue Office of Victoria (SRO VIC) for certain amounts included within assessments issued by the SRO VIC (see note 12).

NOTE 6: OTHER ASSETS

CURRENT

IFRS straight lining of rental income	6a	5,879,596	5,316,467
Prepaid interest and loan establishment fees	6b	744,371	299,845
		<u>6,623,967</u>	<u>5,616,312</u>

6a: AASB117 "Leases" requires that a lessor under an operating lease recognises lease income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the asset is diminished.

6b: Prepaid interest includes an amount of \$Nil (2010: \$158,360) paid to a related party.

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

NOTE 7: INVESTMENT PROPERTY

	30 June 2011	30 June 2010	1 July 2009
	\$	\$	\$
LAND HELD FOR RESALE			
Land held for resale	-	647,760	1,200,000
INVESTMENT PROPERTY			
Freehold land & buildings and plant & equipment at:			
— Fair value	231,232,500	224,920,000	220,020,000
Total investment property	231,232,500	224,920,000	220,020,000

Details of investment property

Description	Title	Acquisition Date	Original Purchase Cost \$	Fair Value 30 June 2011 \$	Fair Value 30 June 2010 \$
Central Park Aged Care Facility Windsor, Victoria, 3181	Freehold	29-Apr-05	23,168,862	30,300,000	29,200,000
Roccoco Aged Care Facility St Albans Park, Victoria, 3219	Freehold	01-Dec-05	6,069,894	6,760,000	6,560,000
Balmoral Grove Aged Care Facility Grovedale, Victoria, 3216	Freehold	01-Dec-05	12,419,659	10,770,000	10,510,000
Narracan Gardens Aged Care Facility Newborough, Victoria, 3825	Freehold	01-Mar-06	16,370,369	16,490,000	16,120,000
Mirridong Aged Care Facility Bendigo, Victoria, 3550	Freehold	01-Mar-06	4,697,886	5,070,000	5,425,000
Kelaston Aged Care Facility Wendouree, Victoria, 3355	Freehold	01-Mar-06	4,968,220	5,615,000	5,910,000
Elanora Aged Care Facility Brighton, Victoria, 3186	Freehold	08-Feb-07	14,954,392	16,470,000	15,660,000

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

NOTE 7: INVESTMENT PROPERTY (CONT.)

Description	Title	Acquisition Date	Original Purchase Cost \$	Fair Value 30 June 2011 \$	Fair Value 30 June 2010 \$
Woodburn Lodge Retirement Village - Note (ii) Brighton, Victoria, 3186	Freehold	08-Feb-07	1,280,217	1,610,000	1,080,000
George Vowell Aged Care Facility Mt Eliza, Victoria, 3930	Freehold	08-Feb-07	11,000,221	11,520,000	10,720,000
Millward Aged Care Facility Doncaster East, Victoria, 3109	Freehold	30-Apr-07	12,239,848	12,330,000	11,780,000
Sydney Williams Retirement Village – Note (ii) Doncaster East, Victoria, 3109	Freehold	30-Apr-07	1,104,999	550,000	540,000
Bonbeach Aged Care Facility Bonbeach, Victoria, 3196	Freehold	30-Apr-07	6,313,234	6,750,000	6,580,000
Hallam Aged Care Facility Hallam, Victoria, 3803	Freehold	30-Apr-07	6,586,727	6,380,000	6,240,000
Lower Plenty Garden Views Aged Care Facility Lower Plenty, Victoria, 3093	Freehold	01-Jun-07	8,781,897	9,340,000	9,110,000
Rosanna Views Aged Care Facility Rosanna, Victoria, 3084	Freehold	01-Jun-07	9,054,584	9,780,000	9,540,000
Goonawarra Aged Care Facility Sunbury, Victoria, 3429	Freehold	01-Jun-07	11,520,868	11,660,000	11,350,000
Kingston Gardens Aged Care Facility Springvale South, Victoria, 3172	Freehold	01-Aug-07	6,587,721	6,780,000	6,590,000
Springvale Aged Care Facility Springvale, Victoria, 3171	Freehold	03-Sep-07	6,367,323	6,360,000	6,210,000
Bayview Aged Care Facility Carrum Downs, Victoria, 3201	Freehold	03-Sep-07	7,610,146	7,150,000	7,010,000
Kirralee Aged Care Facility Ballarat, Victoria, 3350	Freehold	03-Sep-07	9,290,713	8,715,000	8,515,000
Elouera Aged Care Facility Torquay, Victoria, 3228	Freehold	01-Oct-07	6,033,712	6,190,000	6,000,000
Barongarook Gardens Aged Care Facility Colac, Victoria, 3250	Freehold	01-Oct-07	5,192,075	4,930,000	4,810,000
Barongarook Gardens Retirement Village – Note (ii) Colac, Victoria, 3250	Freehold	01-Oct-07	1,249,784	1,210,000	1,180,000

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

NOTE 7: INVESTMENT PROPERTY (CONT.)

Description	Title	Acquisition Date	Original Purchase Cost \$	Fair Value 30 June 2011 \$	Fair Value 30 June 2010 \$
St Judes Aged Care Facility Narre Warren, Victoria, 3804	Freehold	01-Feb-08	5,473,949	5,502,500	5,350,000
Brighton Aged Care Facility South Brighton, South Australia, 5048	Freehold	29-Feb-08	7,050,084	7,080,000	6,910,000
Sandhurst Aged Care Facility Carrum Downs, Victoria, 3201	Freehold	14-Mar-08	3,043,153	2,630,000	3,389,601
Capel Sands Aged Care Facility Rosebud West, Victoria, 3940	Freehold	14-Mar-08	6,899,882	5,560,000	5,848,159
Strzelecki House Aged Care Facility Mirboo North, Victoria, 3871	Freehold	14-Mar-08	5,154,600	4,790,000	4,590,000
Vonlea Manor Aged Care Facility Norlane, Victoria, 3214	Freehold	07-July-08	3,290,269	2,940,000	2,840,000
Total before retirement village gross up, transfer of land held for resale and development work in progress			223,775,288	231,232,500	225,567,760
Retirement village gross up – Note (ii)	Freehold		-	-	-
Transfer of land held for resale to current assets	Freehold		-	-	(647,760)
TOTAL INVESTMENT PROPERTY as at 30 June			223,775,288	231,232,500	224,920,000

Note (i)

In determining the fair value of the investment properties owned by the Japara Aged Care & Retirement Property Trust (the Trust) as at 30 June 2011, the Directors of the Responsible Entity have applied the policy as outlined in Note 1. Specific issues considered in applying the policy and determining the fair value as at 30 June 2011 included:

1. The purpose and operation of the Trust

- The Trust was established with the intention of accumulating a significant portfolio of high quality aged care and retirement property assets.
- It is a key part of the business plan of the Trust, disclosed to all investors, that a process for a liquidity event be pursued, subject to market conditions and other factors. It is possible that the Trust and its properties will, during the course of the next few months, be combined with the parent entity of the aged care businesses, to form a going concern entity that will give unit-holders the option to sell their units and/or to potentially re-invest in the going concern entity.

2. Independent valuations

- Independent valuations have been performed on each of the Trust owned properties as at 30 June 2011 by Ernst & Young (2010: Ernst & Young).
- The total of the individual independent valuations of all investment properties held by the Trust as at 30 June 2011 was \$231,232,500 (2010: \$225,440,000).

Japara Aged Care & Retirement Property Trust

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

NOTE 7: INVESTMENT PROPERTY (CONT.)

3. Capital market yields

- The directors consider available evidence of yields applying to capital markets transactions as another factor in determining the fair value of the portfolio.
- Market yields are taken at a point in time, and the directors have considered the available evidence in the context of the policy and the long term nature of the investments.
- The Ernst & Young valuation as at 30 June 2011 has valued the investment properties at an average yield of 9.0% (2010: 9.0%).

4. Portfolio impact

- As discussed in the policy there is a known "portfolio effect" where a premium may be obtained when a group of aged care assets is considered for sale as a whole.
- The directors have received independent advice that indicates that this portfolio premium can range from 0% to 10% depending upon the quality and location of the portfolio and the prevailing market conditions.
- The directors have assessed that, having regard to prevailing market conditions, the portfolio effect to be included in the accounts as at 30 June 2011 is \$Nil (2010: \$Nil).

Fair Value of Portfolio

- After considering all the available evidence, and in accordance with the policy adopted, the Directors believe the fair value of the properties held in the Japara Aged Care & Retirement Property Trust is \$231,232,500 fair value comprising underlying value of \$231,232,500 plus portfolio premium of \$Nil (2010: \$225,440,000 fair value comprising underlying value of \$225,440,000 plus portfolio premium of \$Nil).

Note (ii)

The Directors have reviewed their treatment of the retirement village gross up adjustment to the value of investment property. This gross up adjustment occurred in the following way:

Under the Retirement Villages Act 1986, the freehold owner of the independent living units, being the Trust, retains the ultimate legal responsibility to the residents for the repayment of their ingoing contributions (being a loan provided by the resident under a loan/licence agreement when they moved into an independent living unit), should the manager of the retirement villages default on these repayments. The liability for this is recognised and disclosed in Note 8 of the financial statements. The gross up amount reflects the amount claimable against the manager of the retirement villages (related entities of the Trust), should the resident make a claim against the freehold title of the property.

The Directors have previously taken the conservative approach of recording the potential liability as an amount currently payable in the statement of financial position. This amount is balanced by a corresponding increase in investment property asset values. However, because, in the opinion of the Directors, the likelihood is remote that the amount, previously treated as a liability, actually becomes payable, they believe it is better treated as a contingent liability (rather than actually recorded as a current payable). As this change in treatment removes both a liability and an asset of equal value, it has no impact on the Trust's net asset value. The adjustment has been made in the 2011 financial year and the relevant comparative amounts in the statement of financial position have also been restated.

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

NOTE 7: INVESTMENT PROPERTY (CONT.)

Reconciliation - Investment Properties	2011 \$	2010 \$
Carrying amount at the beginning of the financial year – as previously stated	224,920,000	227,845,000
Reversal of 2009 Retirement Village Gross Up	-	(7,825,000)
Carrying amount at the beginning of the financial year – as restated	224,920,000	220,020,000
Acquisitions – contract price	-	-
Expenditure capitalised	403,779	348,643
Transfer of land held for resale to current assets	-	(520,000)
Surplus land sold	-	(690,000)
Net movement in retirement village liability gross up	-	(80,000)
Net unrealised changes in fair value of investment properties 7a	5,908,721	5,921,357
	231,232,500	225,000,000
Reversal of 2010 Retirement Village Gross Up	-	(80,000)
Carrying amount at the end of the financial year	231,232,500	224,920,000
7a. Net unrealised changes in fair value of investment properties are reconciled as follows:		
Unrealised gains in fair value of investment properties	7,005,139	5,921,357
Unrealised losses in fair value of investment properties	(1,096,418)	-
Net unrealised gains / (losses) in fair value of investment properties	5,908,721	5,921,357

Japara Aged Care & Retirement Property Trust

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

NOTE 8: TRADE AND OTHER PAYABLES	30 June 2011	30 June 2010	1 July 2009
	\$	\$	\$
CURRENT			
Trade payables	953,422	36,498	3,106,295
GST payable	430,554	425,811	316,394
Accrued stamp duty payable on investment properties	896,500	910,250	1,325,250
Advances for future ordinary units to be issued	-	-	1,718,083
Sundry payables and accrued expenses	4,018,576	2,714,595	426,608
Amounts owing to associated parties	348,500	31,500	5,316,842
	<u>6,647,552</u>	<u>4,118,654</u>	<u>12,209,472</u>

Trade payables at 30 June 2011 include \$802,845 (2010: \$Nil) owing to the Responsible Entity for management fees and an amount of \$20,680 (2010: \$Nil) owing to a related party in respect of costs incurred by a tenant that are the responsibility of the Trust under the lease agreement.

Sundry payables and accrued expenses include an amount of \$2,995,755 (which has increased from an amount of \$2,028,688 at 30 June 2010) being an accrual of the Trust's share of due diligence and other associated costs (as disclosed in Note 2a of the financial statements) and an amount of \$Nil (2010: \$283,347) for other due diligence costs payable to a related party and an amount of \$348,750 (2010: \$339,000) relating to accrued management fees payable to the Responsible Entity for the quarter ended 30 June 2011.

Amounts owing to associated parties includes an amount of \$348,500 (2010: \$31,500) relating to loan establishment fees paid on behalf of, and recoverable from, the Trust.

As a result of the change in accounting treatment of the retirement village gross up adjustment, "Amounts owing to associated parties" have been reduced by \$7,905,000 as at 30 June 2010 and \$7,825,000 as at 1 July 2009. Further details of this change are disclosed in Note 7 (note (ii)) to the financial statements.

Japara Aged Care & Retirement Property Trust

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

NOTE 9: BORROWINGS

	2011	2010
	\$	\$
CURRENT		
Bank bill facility	121,558,000	50,085,000
NON-CURRENT		
Bank bill facility	-	74,150,000
	<u>121,558,000</u>	<u>124,235,000</u>

9a. The bank bills are secured by a registered first mortgage over the freehold properties of the Trust.

9b. The maturity profile of the bank bills is set out in Note 18 of the financial statements.

At balance date the Trust had a fully drawn loan facility with the Australia & New Zealand Bank ("ANZ") in the sum of \$1,600,000 (2010: \$1,600,000) and a total fully drawn loan facility across 12 separate bill facilities with the Commonwealth Bank of Australia ("CBA") in the sum of \$119,958,000 (2010: \$122,635,000).

On 13 September 2011 the Trust entered into a new loan facility agreement for \$116,158,000 with the CBA with a termination date of 1 March 2012. The entire facility was drawn down by the Trust on 14 September 2011 and together with a loan facility provided by a related party on 14 September 2011, was used to repay the existing loan of \$1,600,000 with the ANZ and refinance the existing multiple bill facilities with the CBA, which is now the sole bank lender to the Trust.

The Trust also entered into a fixed rate swap agreement with the CBA to fix the entire CBA loan facility at a rate of 5.995% plus margin to the termination date of the agreement. The CBA loan facility was entered into in order to allow the Responsible Entity, in conjunction with the Trust and other associated entities, to pursue a restructure of the combined businesses, which would entail a move to a combined entity whereby the property trust and the business operated by the Trust's tenants would be combined under a common ownership. The present goal of the Directors is to have this restructure completed before the end of the 2011 calendar year.

Having regard to the status of the process of restructuring to a combined entity, discussions with the Trust's bankers and with other banks and financial institutions and discussions with substantial unit-holders in the Trust, the substantial and secure cash flow that these aged care facilities enjoy, and their relatively low loan-to-value ratios, the Directors of the Responsible Entity are confident that the Trust 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 2011

NOTE 10: UNITHOLDER FUNDS

The following table provides a reconciliation of the Trust's unitholder funds as if it was equity.

Unitholder funds	2011	2010
Funds raised net of raising costs capitalised	\$	\$
Balance as at 1 July	97,780,740	86,704,930
Funds raised during year	-	11,075,810
Balance as at 30 June	97,780,740	97,780,740
Undistributable reserves / (deficit)		
Balance as at 1 July	6,545,429	(520,868)
Unrealised gains/(losses) on revaluation of investment properties	5,908,721	5,921,357
Rent receivable under IFRS straight lining	563,129	1,144,940
Development and due diligence costs expensed	(2,995,755)	-
Balance as at 30 June	10,021,524	6,545,429
Distributable reserves		
Balance as at 1 July	16,902	115,138
Distributable income for year	9,696,944	7,648,241
Distributions paid for year	(5,899,121)	(5,780,103)
Distributions payable for year	(1,966,374)	(1,966,374)
Balance as at 30 June	1,848,351	16,902
Total net assets attributable to unitholders	109,650,615	104,343,071

Japara Aged Care & Retirement Property Trust

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

NOTE 10: UNITHOLDER FUNDS (CONT.)

Distributions

In accordance with the Trust's constitution, the Responsible Entity of the Trust determines its distributable income to unitholders. Distributions are payable at the end of each quarter. Distributable income includes realised capital gains and losses arising from the disposal of investments. Unrealised gains and losses on investments that are recognised in income, income that arises as a result of IFRS straight lining of rental income and development and acquisition costs expensed are transferred to net assets attributable to unitholders and are not assessable or distributable until realised.

The balance of distributable reserves to 30 June 2011 is \$1,848,351 (2010: \$16,902).

The revaluation of investment properties owned by the Trust resulted in a net overall increase in their value of \$5,908,721 (2010: net increase of \$5,921,357). As previously reported to investors, the Directors have assessed that the portfolio effect to be included in the accounts as at 30 June 2011 is \$Nil (2010: \$Nil).

10a. Movements in units issued to unitholders	\$	No. of Fully Paid Ordinary Units
- Funds raised / units on issue at 1 July 2010	100,947,337	98,318,682
- Funds raised / units issued during year	-	-
Total funds raised / units on issue at 30 June 2011	100,947,337	98,318,682
10b. Net asset backing	2011	2010
Net asset backing (net asset value / number of units on issue)	\$1.0555	\$1.0072
Numbers used in calculation (refer notes below):		
Net Asset Value	\$103,771,019	\$99,026,604
Number of Units	98,318,682	98,318,682

- Notes:
- For the purposes of determining distributions to unitholders and net asset backing, balance sheet values are determined in accordance with the Trust's constitution. As a result, the impact of changes in accounting policies in accordance with IFRS are added back to / reduced from the net asset value. The amount deducted from total net assets attributable to unitholders as at 30 June 2011 is \$5,879,596 (2010: \$5,316,467) which relates wholly to IFRS straight lining of rent accrued income.
 - As at 30 June 2011 and 30 June 2010 all units on issue were ordinary units fully paid.

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

NOTE 10: UNITHOLDER FUNDS (CONT.)

10c. Indirect cost ratio	2011	2010
Indirect cost ratio	1.4339%	1.4839%
Numbers used in calculation:		
Fees & Recovered Expenses	\$1,508,633	\$1,441,758
Average Equity	\$105,211,153	\$97,156,810

The Indirect cost ratio (ICR) is the ratio of the Trust's management costs over the Trust's average equity (net assets) attributable for the year, expressed as a percentage. The ICR has decreased in 2011 compared to 2010 as fees and recovered expenses have risen by only 4.6% whilst the average equity of the Trust has risen by 8.3% due to the increase in the fair value of investment properties and a full year of new units that were issued during 2010. As total assets did not significantly change until the revaluation of the investment properties at 30 June 2011, the management fees paid to the Responsible Entity did not significantly change.

Management costs include management fees and other expenses or reimbursements deducted in relation to the Trust, but do not include day to day transactional and operational costs that arise directly as a result of running the Trust. Management costs also do not include those acquisition fees and project management fees that relate to the capital cost of investment properties. Management costs are not paid directly by the unitholders of the Trust.

10d. Trust constitution

At a general meeting of unit-holders held on 21 December 2010, unit-holders unanimously passed the resolution to amend the Trust's constitution as detailed in the Notice of Meeting and Explanatory Memorandum dated 29 November 2010.

NOTE 11: OPERATING LEASE INCOME COMMITMENTS

Operating lease arrangements

The Trust, as lessor, has entered into operating leases with tenants for 10 year periods with option periods provided in all cases. The lease agreements provide for fixed rental increases of 2.5% per annum with market rental reviews at each five year interval provided the rent does not fall below the rent at the most recent review.

	2011	2010
	\$	\$
Receivable:		
- not later than 12 months	21,520,373	20,624,158
- between 12 months and five years	79,844,819	80,720,551
- greater than five years	18,448,327	35,566,449
	<u>119,813,519</u>	<u>136,911,158</u>

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

NOTE 12: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent asset – stamp duty interest

The Responsible Entity believes that the Trust has paid, or has provided for in the financial statements as at 30 June 2011, any and all stamp duty liabilities that it is aware of that is payable, in respect of land that it has purchased. In June 2011 the Trust received two notices of assessment from the State Revenue Office of Victoria (SRO VIC) being for the last two remaining transfers of land that had yet to be assessed by the SRO VIC. Whilst both of the assessments were paid in full by the Trust in July 2011 and the SRO VIC has registered the transfers of land, the Trust has nevertheless objected to the assessments in respect of the interest component that was included within the two assessments, amounting to \$304,786, of which \$19,051 was due from, and reimbursed to the Trust by, a related party. The SRO VIC has sought to charge this interest, which is at a reduced level without penalty tax, as the settlement took place in June 2007 and the assessments were only raised in June 2011. The Trust believes that the interest charge is excessive and should be remitted back to the Trust in full or at least reduced substantially. As at the date of this report, the Trust has received no further correspondence from the SRO VIC regarding this matter. The Trust has therefore charged its share of the interest of \$285,735 (2010: \$Nil) to the statement of comprehensive income. However, the Trust believes that a contingent asset exists, for a sum up to \$285,735, once the objection has been determined. Should any or this entire amount be remitted back to the Trust by the SRO VIC, then the Trust will credit it back to the statement of comprehensive income in the period that it is receivable.

Contingent liability and contingent asset – retirement village resident loans

As explained in the Directors' Report and Note 7 to the financial statements, the Trust owns the freehold of three retirement village complexes. Related entities manage the retirement villages on behalf of the Trust. Under the Retirement Villages Act 1986, the freehold owner of the independent living units, being the Trust, retains the ultimate legal responsibility to the residents for the repayment of their ingoing contributions (being a loan provided by the resident under a loan/licence agreement when they moved into an independent living unit), should the manager of the retirement villages default on these repayments. The Directors have previously taken the conservative approach of recording this potential liability as an amount currently payable in the statement of financial position. This amount was balanced by a corresponding increase in investment property asset values. However, because, in the opinion of the Directors, the likelihood is remote that the amount, previously treated as a liability, actually becomes payable, they believe it is better treated as a contingent liability (rather than actually recorded as a current payable). The Trust is therefore contingently liable at balance date in the sum of \$7,914,000 (2010: \$7,905,000). These amounts would only become payable to the related entities (acting as agent for the resident) should the resident make a claim against the freehold title under the Retirement Villages Act 1986. In that event, the Trust would have a claim against the related entity for an equal amount and this contingent asset at balance date amounts to \$7,914,000 (2010: \$7,905,000).

Contingent liability – professional fees

The agreement entered into with UBS to manage the sales process of the units in the Trust and the shares in Japara Holdings Pty Ltd, was terminated in early September 2011 after the proposed purchaser withdrew from the prospective acquisition. If a transaction, as envisaged by the engagement letter with UBS, involving the units in the Trust is subsequently concluded by September 2012, a fee may be payable to UBS and the Trust may be contingently liability for its share of any fee that may be payable to UBS.

If a restructure of the Japara Holdings Pty Ltd business and the Trust to a going concern entity is concluded, the Trust may be liable for its share of any fees payable to ANZ Mergers & Acquisitions under an agreement that was entered into with them in relation to moving to a going concern entity.

Due to the uncertain outcomes and the variations in the possible range of fees payable, if any at all, it is not possible to assess the amounts that the Trust may be contingently liable.

Other than mentioned above, the Trust reports that there is no potential financial effect of contingent liabilities or contingent assets as at the signing date of this report.

Japara Aged Care & Retirement Property Trust

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

NOTE 13: SEGMENT REPORTING

The Trust operates predominantly in one business and geographical segment being the investment in Residential Aged Care Facilities and Retirement Accommodation property throughout Australia.

NOTE 14: CASH FLOW INFORMATION

	2011	2010
	\$	\$
Reconciliation of net profit attributable to unitholders to net cash flow from operating activities		
Net profit attributable to unitholders	13,173,039	14,714,538
Non-cash flows in profit		
IFRS rent straight lining adjustment	(563,129)	(1,144,940)
Loss/(gain) on disposal of surplus land & buildings	-	114,526
Unrealised (gains) / losses in fair value of investment properties – net movement	(5,908,721)	(5,921,357)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase) / decrease in receivables	782,873	(783,735)
Increase / (decrease) in payables	1,039,681	(3,081,948)
Due diligence costs expensed	967,067	2,312,035
Increase / (decrease) in financing costs payable	158,726	(266,394)
Increase / (decrease) in GST payable	4,742	109,418
Equity raising fees expensed	-	10,629
	9,654,278	6,062,772

14a. The Statement of Cash Flows on page 11 of the financial statements shows payments to suppliers during the year of \$608,961 (2010: \$4,439,061). These payments are lower than the prior financial period as the figure for the year ended 30 June 2010 includes the payment to the Responsible Entity of various acquisition fees, management fees and development fees which had been invoiced to the Trust and included in trade payables as at 30 June 2009.

Japara Aged Care & Retirement Property Trust

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

NOTE 15: EVENTS AFTER BALANCE SHEET DATE

- a) Since 30 June 2011, the prospective purchaser of all the units in the Trust advised that it had decided not to pursue the proposed acquisition and that it had accordingly withdrawn from the purchase of all the units in the Trust and also the shares in Japara Holdings Pty Ltd, the owner of 100% of the shares in the Responsible Entity. Therefore, in August 2011 Japara Holdings Pty Ltd and the Trust have closed down the transaction process which was being managed by UBS. All costs incurred to 30 June 2011 have been allocated between the Trust and Japara Holdings Pty Ltd based upon the relative values of the units in the Trust and the shares in Japara Holdings Pty Ltd which were calculated with reference to the offer price from the prospective purchaser and the gross asset values of the Trust and Japara Holdings Pty Ltd.
- b) At the date of these accounts, the Responsible Entity, in conjunction with the Trust and other associated entities, is pursuing a restructure of the combined businesses, which would entail a move to a combined entity whereby the property trust and the business operated by the Trust's tenants would be combined under a common ownership. Unit-holders in the Trust would be given the opportunity to exit and realise their investment or potentially to re-invest in the combined entity. The aim of the Directors is to have this restructure completed before 1 March 2012. Their intent is to have this substantially completed in the 2011 calendar year.
- c) On 14 September 2011 the Trust restructured \$126,000,000 of its liabilities by obtaining bank funding from its primary lender of \$116,158,000 (i.e. reducing by \$5,400,000 its 30 June 2011 bank debt of \$121,558,000). The new loan facility matures on 1 March 2012. The term of this new facility agreement has been set to allow sufficient time for the above mentioned restructure to a combined entity to complete. At the same time as the Trust reduced its first mortgage by \$5,400,000, it also met \$4,500,000 of its other liabilities (as set out in Note 8) by way of a fully drawn loan facility from a related party, Japara Holdings Pty Ltd, of \$10,000,000. This loan matures on 30 June 2012 and has been made on arm's length commercial terms which match the interest rate charged by the bank. At \$116,158,000 of bank debt, the Trust's first mortgage is accordingly at a loan-to-value ratio of just 50.2%.
- d) The Responsible Entity of the Trust is a wholly owned subsidiary of Japara Holdings Pty Ltd. Whilst at the date of these accounts Japara Holdings Pty Ltd and its majority shareholders continue to be involved in legal proceedings concerning a former director of Japara Holdings Pty Ltd, neither the Trust nor the Responsible Entity of the Trust are a party to these proceedings. Nor are any claims made against the Responsible Entity or the Trust as part of these proceedings.
- e) Other than mentioned above and elsewhere in the financial report, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.
- f) The financial report was approved by the directors of the Responsible Entity on the 30 September 2011.

NOTE 16: RELATED PARTY TRANSACTIONS

a. Related parties

Directors of the trustee company and Responsible Entity, Japara Property Management Limited, who held office during the financial year are as follows:

- | | |
|-----------------|-------------------------|
| - Julius Colman | - Allan Reid |
| - Robert Peck | - (Mark) Andrew Sudholz |

Entities associated with Julius Colman, Allan Reid, Robert Peck and (Mark) Andrew Sudholz are also unitholders and therefore beneficiaries of the Trust.

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NOTE 16: RELATED PARTY TRANSACTIONS (CONT.)

- A number of wholly owned subsidiaries of Japara Holdings Pty Ltd are the tenants of the properties owned by the Trust, and pay a monthly rent to the Trust on an arm's length commercial basis.
- Japara Property Management Limited is the trustee of the Trust, and receives fees from the Trust for its acquisition and management activities performed on behalf of the Trust.
- Japara Developments Pty Ltd 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.

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

NOTE 16: RELATED PARTY TRANSACTIONS (CONT.)

As at 30 June 2011, an amount of \$348,750 (2010: \$339,000) was included in the Statement of Financial Position as an accrued expense in respect of management fees for the quarter ended 30 June 2011 (2010: quarter ended 30 June 2010).

As at 30 June 2011, an amount of \$802,845 (2010: \$Nil) was included in the Statement of Financial Position as a trade payable in respect of management fees owed. Subsequent to balance date, this amount was settled by the Trust in full.

As at 30 June 2011, an amount of \$348,500 (2010: \$31,500) was included in the Statement of Financial Position relating to loan establishment fees paid on behalf of, and recoverable from, the Trust. This amount has been settled in full by the Trust subsequent to balance date.

(ii) Interest

	2011	2010
Interest received from wholly owned subsidiaries of Japara Holdings Pty Ltd, which is a related party of the Trust	\$132,754	\$141,420

The Trust has been reimbursed by wholly owned subsidiaries of Japara Holdings Pty Ltd, which is a related party of the Trust, during the year for the interest paid on funds to acquire surplus land on the same title as aged care facilities purchased in prior periods. Subdivision of the properties is in progress, and when completed, the property will be sold to associated entities at fair market value or sold to an external third party at fair market value.

	2011	2010
Interest paid by the Trust to the Responsible Entity (debt facility fee)	\$81,618	\$86,060

The Trust has also paid interest to Japara Holdings Pty Ltd and a wholly owned subsidiary of Japara Holdings Pty Ltd, both of which are related parties to the Trust, upon funds loaned to the Trust to provide funding for the purchase of investment properties. The amount of interest (received)/paid by the Trust during the year amounted to \$Nil (2010: \$(113,749)).

(iii) Rent

	2011	2010
Rent has been paid in cash to the Trust by a number of wholly-owned subsidiaries of Japara Holdings Pty Ltd, which is a related party of the Responsible Entity.	\$19,622,758	\$18,951,036

Rent paid is in the normal course of business and on normal terms and conditions. At 30 June 2011, the Trust has accrued an amount of \$Nil (2010: \$779,807) for rent receivable from related parties.

(iv) Due diligence and other associated costs

	2011	2010
An accrual for fees to be recharged by Japara Holdings Pty Ltd, which is a related party of the Responsible Entity, in respect of the Trust's estimated share of these costs. Subsequent to balance date, this amount was settled by the Trust in full.	\$2,995,755	\$2,312,035

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

NOTE 17: FINANCIAL RISK MANAGEMENT

a. Financial risk management objectives, policies and processes

Inherent within the Trust's activities are the risks that arise from holding financial instruments. These are managed through a process of ongoing identification, measuring and monitoring. The Trust's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from related parties, bills, leases and derivatives, which all arise directly from its operations. The main purpose of non-derivative financial instruments is to raise finance for the Trust operations.

The Responsible Entity of the Trust is responsible for identifying and controlling risks that arise from these financial instruments. As such the Responsible Entity has identified that the key areas of risk are credit risk, liquidity risk and market risk, with further information on each risk category disclosed below. The Responsible Entity has set up a compliance committee which, amongst other responsibilities, is tasked to identify, monitor, control and hence mitigate risk, within the framework of the Trust's constitution, the Responsible Entity's financial services licence and the investment mandate. Information is reported to all relevant parties within the Responsible Entity on a regular basis including the compliance committee, key management and the Board of Directors. All risk management policies are approved and reviewed by the Board of Directors on a regular basis.

b. Credit risk

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

With respect to credit risk arising from the financial assets of the Trust, other than derivatives, the Trust'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 Note 18, Financial Instruments. 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.

A credit risk for the Trust would be non-performance by the lessee under the various lease agreements that the Trust has entered into and the concentration of risk associated with those lessees. Each lessee is a related party of the Responsible Entity and each lessee operates within the aged care industry in Australia. The Trust has taken comprehensive steps to mitigate this risk by ensuring that each tenant is financially sound at lease inception; regular ongoing monitoring of financial performance of each tenant; that each lease is guaranteed by the ultimate parent entity of the tenant; that the tenant is an Approved Provider under the Aged Care Act 1997; that the tenant maintains this status throughout the lease term; and by having lease terms that give the Trust significant rights in the event of breach of the lease which would reduce any financial exposure. These rights include the right to terminate the lease and offer the lease to another (external) Approved Provider and the right to approve (or disapprove) a sale of the business by the tenant to another tenant. The Trust may decline approval unless similar rent is paid, or may grant approval on the condition that the current tenant makes up any shortfall in rent.

The Responsible Entity has determined that as at reporting date and as at the date of these accounts each tenant has the capacity to meet its obligations under each lease agreement and no provision for impairment (2010: \$Nil) is required.

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

Japara Aged Care & Retirement Property Trust

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

NOTE 17: FINANCIAL RISK MANAGEMENT (CONT.)

c. Liquidity risk

Liquidity risk is the risk that the Trust 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 Trust maintains sufficient cash and cash equivalents and access to borrowing facilities to meet normal operating requirements.

Under the terms of its Constitution, the Trust has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them. In addition, the Responsible Entity may waive fees (in whole or part) or may defer payment for any period.

Financial liabilities of the Trust comprise bank bills, trade and other payables, distributions payable and unitholder liabilities. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days for trade and other payables and 60 days for distributions payable. A maturity profile is disclosed in Note 18, Financial Instruments.

Unitholder funds are classified as non-current as in accordance with the Constitution of the Trust, a unitholder only has a right to withdraw from the Trust if the Responsible Entity has effected a withdrawal offer.

d. 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, property values and equity prices. The Responsible Entity has identified that the Trust is exposed to interest rate risk and property value risk. Market risk is managed and monitored by using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established financing and investment strategies.

The Trust'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, is as follows:

Interest rate risk

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 Trust manages its exposure to fluctuations in interest rates by utilising a mixture of fixed and floating rate debt. At 30 June 2011, approximately 59% (2010: 76%) of total debt (excluding unitholder funds) is fixed rate. Subsequent to the balance date, the Trust has now fixed 100% of its debt (see Note 9) and therefore from the period from 14 September 2011 to 1 March 2012 the Trust will not be impacted by any future changes in interest rates during this period.

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

If interest rates were 100 basis points higher, the effect on income would be a decrease of \$712,000 (2010: \$272,000 decrease).

If interest rates were 100 basis points lower, the effect on income would be an increase of \$712,000 (2010: \$272,000 increase).

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

NOTE 17: FINANCIAL RISK MANAGEMENT (CONT.)

Property value risk

Property value risk arises from the possibility that changes in property values will affect future cash flows or the fair values of investment properties. The Trust manages its exposure to fluctuations in property values by performing detailed due diligence on each property prior to purchase. Due diligence comprises obtaining detailed building surveys, mechanical and electrical surveys, independent property valuations and ensuring that the property is of a good quality in a good location. The Trust also ensures that it maintains and enhances the property and that any tenants do not breach their lease agreement.

The Trust has performed a sensitivity analysis on the Trust's income statement based upon a reasonably possible change in property values, with all other variables held constant. The sensitivity of the income statement is the effect of the assumed changes in property values on the revaluation movement for one year, based on the fair value of investment property held at 30 June 2011 and 30 June 2010. The sensitivity has been calculated using a change in property values of 2.5% increase and decrease.

If property values were 2.5% higher, the effect on income would be an increase of \$5,750,000 (2010: \$5,600,000 increase).

If property values were 2.5% lower, the effect on income would be a decrease of \$5,750,000 (2010: \$5,600,000 decrease).

Bank debt facilities term extension risk

Bank debt term facilities risk arises from the possibility that breaches in debt facilities may affect future cash flows or that upon expiry of facilities they are not renewed or are renewed with increased margins. The Trust manages its exposure to this risk by monitoring its bank facilities and lending covenants and having regular meetings and open dialogue with its lenders.

The Trust proactively monitors its lending facilities and maintains contingency plans and alternative financing options to ensure that it is in a strong position to enter into refinancing negotiations as and when necessary.

Further information regarding this risk and how it is being mitigated is contained in Note 9 of the financial statements.

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

NOTE 18: FINANCIAL INSTRUMENTS

FINANCIAL ASSETS:

			Fixed Interest Rate Maturing			
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Non-interest Bearing	Total
2010	%	\$	\$	\$	\$	\$
Financial assets:						
Cash and cash equivalents	3.42%	2,349,177	-	-	-	2,349,177
Receivables	0.00%	-	-	-	6,746,162	6,746,162
Total financial assets		2,349,177	-	-	6,746,162	9,095,339

FINANCIAL ASSETS:

			Fixed Interest Rate Maturing			
	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	1 to 5 Years	Non-interest Bearing	Total
2011	%	\$	\$	\$	\$	\$
Financial assets:						
Cash and cash equivalents	4.41%	1,943,998	-	-	-	1,943,998
Receivables	0.00%	-	-	-	6,646,043	6,646,043
Total financial assets		1,943,998	-	-	6,646,043	8,590,041

Japara Aged Care & Retirement Property Trust

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

NOTE 18: FINANCIAL INSTRUMENTS (CONT.)

FINANCIAL LIABILITIES:

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing (i)		Non-interest Bearing	Total
			Within 1 Year	1 to 5 Years		
2010	%	\$	\$	\$	\$	\$
Financial liabilities:						
Bank bills secured	6.75%	29,585,000	23,450,000	71,200,000	-	124,235,000
Trade and other payables	0.00%	-	-	-	6,085,028	6,085,028
Unitholder funds	7.78%	104,343,071	-	-	-	104,343,071
Total financial liabilities		133,928,071	23,450,000	71,200,000	6,085,028	234,663,099

FINANCIAL LIABILITIES:

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing (i)		Non-interest Bearing	Total
			Within 1 Year	1 to 5 Years		
2011	%	\$	\$	\$	\$	\$
Financial liabilities:						
Bank bills secured	7.23%	50,358,000	71,200,000	-	-	121,558,000
Trade and other payables	0.00%	-	-	-	8,613,926	8,613,926
Unitholder funds	7.79%	109,650,615	-	-	-	109,650,615
Total financial liabilities		160,008,615	71,200,000	-	8,613,926	239,822,541

Bank bills secured have the following maturity profiles:

	2011	2010
	\$	\$
Within 1 year – see note (i) below	121,558,000	50,085,000
Between 1 and 2 years	-	47,750,000
Between 2 and 3 years	-	26,400,000
Between 3 and 4 years	-	-
	121,558,000	124,235,000

Note (i)

See Note 9b for further information regarding the maturity profile of bank bill facilities.

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

NOTE 18: FINANCIAL INSTRUMENTS (CONT.)

Net fair values

For financial assets and liabilities the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. Financial assets where the carrying amount exceeds net fair values have not been written down as the Trust intends to hold these assets to maturity.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Aggregate net fair values of financial assets and liabilities approximate the carrying values in the financial statements.

NOTE 19: TRUST DETAILS

The principal place of business and registered office of the Responsible Entity is Level 20, HWT Tower, 40 City Road, Southbank VIC 3006.

The Trust's principal activities are investing in Residential Aged Care Facilities and Retirement Accommodation property.

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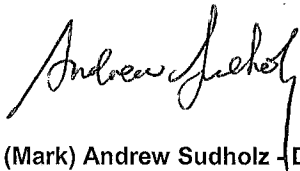
DIRECTORS' DECLARATION

DIRECTORS' DECLARATION OF THE TRUSTEE COMPANY

In the opinion of the directors of Japara Property Management Limited, the Responsible Entity of Japara Aged Care & Retirement Property Trust (the "Trust"):

1. The financial statements and notes, as set out on pages 8 to 44 are in accordance with the Corporations Act 2001, including:
 - giving a true and fair view of the Trust's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
 - complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
2. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
3. There are reasonable grounds to believe that the Trust 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 of Japara Property Management Limited and signed on its behalf by:



(Mark) Andrew Sudholz - Director

Melbourne

Dated this 30th day of September 2011

**INDEPENDENT AUDITOR'S REPORT
TO THE TRUSTEES OF JAPARA AGED CARE AND RETIREMENT PROPERTY TRUST**

We have audited the accompanying financial report of Japara Aged Care and Retirement Property Trust (the trust), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the trustee company for the trust.

The directors' of trustee company responsibility

The directors of the trustee company are responsible for the preparation and true and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Trust Deed and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances

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

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

‘value beyond numbers’

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of trustee company on 30 September 2011, 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 Aged Care and Retirement Property Trust is in accordance with the Trust Deed and the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the trust's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the Trust Deed and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with international financial reporting standards as disclosed in Note 1.

Expiry of Financing Facilities and Restructure of Business

Without qualification to the opinion expressed above, we draw attention to the matters outlined in the Directors' Report and Notes 1, 9 and 15 (a), (b), and (c) to the financial report. At the date of signing this audit report, the responsible entity of the Japara Aged Care & Retirement Property Trust and the Japara Holdings Pty Ltd consolidated group are pursuing a restructure of the combined businesses. The Directors aim to have the restructure completed by 1 March 2012; the date at which the current loan facility matures.


Nexia ASR
ABN 16 847 721 257


GEORGE S. DAKIS
Partner
Audit & Assurance

30 September 2011
Melbourne