

JAPARA

Japara Aged Care & Retirement Property Trust

ARSN: 117 176 048

Annual Financial Report

For the Year Ended 30 June 2012

2012 Annual Financial Report

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Japara Aged Care & Retirement Property Trust

ARSN: 117 176 048

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

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 2012.

Directors

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

Raymond Schoer – Non-Executive Chairman (appointed 2 April 2012)

(Mark) Andrew Sudholz – Executive Director

Julius Colman – Non-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 primarily in property assets in the aged care sector and where associated and incidental, in property assets in the retirement village sector.

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 Q1 Building Level 4, 1 Southbank Boulevard, Southbank VIC 3006.

Review of results and operations

Results and distributions

The net asset value and unit value (net asset backing) as at 30 June 2012 is \$1.0718, an increase of 1.63 cents per unit from the unit value as at 30 June 2011 of \$1.0555 (and an increase of 6.46 cents per unit from the unit value as at 30 June 2010 of \$1.0072). The 1.63 cents per unit increase in unit value, together with the 8.5 cents per unit distribution for the year ended 30 June 2012 (2011: 8.0 cents per unit distribution), brings the total return for the year to 10.13 cents per unit (2011: 12.83 cents per unit), which is a pleasing 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 three year term refinancing 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 \$3,190,051 (2011: net increase of \$5,908,721) on a like for like basis excluding the disposal of the Woodburn Lodge independent living units which was recorded at fair value at 30 June 2011 at \$1,610,000. On 1 February 2012 settlement occurred on the sale of the Woodburn Lodge independent living units. The net cash proceeds from the sale amounted to \$2,624,316 which when compared to the carrying amount in the financial statements of \$1,610,000 and a provision of \$150,000 relating to relocating underground gas and water pipes as a condition of the sale, resulted in a profit on disposal of \$864,316. The Trust applied \$800,000 of the net proceeds to bank debt principal repayment. The Trust made no acquisitions of investment property during the year (2011: no acquisitions).

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012 (CONT.)

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. The bank loan facility, which originally matured on 1 March 2012, was extended to 5 July 2012 to allow further time for the Trust to finalise a new three year term bank loan facility. The new three year bank loan facility was executed on 2 July 2012. A discussion of this new bank loan facility is included in the "Significant events after the reporting period" section of this report, on page 5.

At 30 June 2012 the independent valuation of the properties in the Trust for mortgage security purposes was \$233,022,500 (2011: \$231,232,500). Total bank debt (i.e. the mortgages over these properties) as at 30 June 2012 was \$109,658,000 (2011: \$121,558,000). This represents a loan to value ratio ("LVR") at 30 June 2012 of 47.1% (2011: 52.6%), significantly below the financial covenant LVR in the bank facility agreement of 60.0% (2011: 64.0%).

The net profit of the Trust for the financial year attributable to unitholders before undistributable revaluation movements amounted to \$6,866,266 (2011: \$7,264,318). The reduction in 2012 compared to 2011 was primarily attributable to the increase in financing costs associated with the short-term refinancing of the Trust's bank debt prior to arranging the new syndicated bank three year term loan facility agreement that was executed on 2 July 2012.

Distributable income for the year ended 30 June 2012 was \$7,830,856 (2011: \$9,696,944). When added to undistributed income from previous years of \$1,848,351 (2011: \$16,902), total distributable income available for unitholders was \$9,679,207 (2011: \$9,713,846).

Distributions payable to unitholders in respect of the year ended 30 June 2012 totalled \$8,357,088 (2011: \$7,865,495) which equates to 8.5 cents per unit (2011: 8.0 cents per unit). Interim distributions paid to unitholders during the year in respect of the year ended 30 June 2012 totalled \$6,144,918 (2011: \$5,899,121) which equates to 6.25 cents per unit (2011: 6.0 cents per unit). A final distribution of 2.25 cents per unit (2011: 2.0 cents per unit) was declared for the year ended 30 June 2012 and paid to unitholders on 31 August 2012. The total amount of this final distribution of \$2,212,170 (2011: \$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 2012 is 1.41% (2011: 1.43%) (see note 10c on page 31).

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: \$1,407,383 (2011: \$1,427,015);
- Acquisition or disposal fees for the financial year payable to the Responsible Entity: \$Nil (2011: \$Nil);
- Expenses incurred by the Responsible Entity and reimbursable by the Trust in accordance with the Trust's Constitution: \$439,668 (2011: \$470,836);
- The Trust's share of due diligence, refinancing, legal and professional fees reimbursable by the Trust: \$1,100,476 (2011: \$967,067);
- 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 2012 (2011: 98,318,682). During the year no ordinary fully paid units were issued (2011: Nil) by the Trust and no ordinary fully paid units were withdrawn (2011: None).

Trust assets

At 30 June 2012, after having sold the Woodburn Lodge independent living units for net cash proceeds of \$2,624,316, the Trust held assets to a total value of \$241,548,258 (30 June 2011: \$239,822,541).

Japara Aged Care & Retirement Property Trust

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012 (CONT.)

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

There have been no changes to the Trust's constitution since the general meeting of unit-holders held on 21 December 2010 where 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 reporting period

On 2 July 2012 the Trust entered into a three year term syndicated facility with two major Australian banks to refinance its existing debt facilities. The total syndicated facility amount is \$140,000,000, of which \$125,500,000 was drawn down on 5 July 2012. No further amounts have been drawn down to the date of this report. The interest payable under the syndicated facility was at a floating interest rate, however the Directors of the Responsible Entity elected to hedge against potential future interest rate increases. Accordingly the Trust entered into a three year swap agreement which swaps the floating interest rate for a fixed interest rate for 80% of the syndicated facility amount. Under the syndicated facility agreement, no principal repayments are required during the first two years, with repayments of \$1,000,000 per month being scheduled in each of the final nine months of the syndicated facility term. These repayments are guaranteed by the Responsible Entity. The syndicated facility matures on 1 July 2015.

At the same time as the Trust entered into this syndicated facility agreement, Japara Holdings Pty Ltd, the parent of the Responsible Entity, entered into a syndicated loan facility agreement with the same two major Australian banks for a syndicated facility amount of \$30,000,000. Japara Holdings Pty Ltd and its Controlled Entities, which are predominantly tenants of the Trust's properties and therefore the source of its rental income, have guaranteed the Trust's syndicated facility agreement. The Trust, however, is not a party to, nor a guarantor of, the syndicated facility agreement entered into by Japara Holdings Pty Ltd and its Controlled Entities.

The Responsible Entity of the Trust is a wholly owned subsidiary of Japara Holdings Pty Ltd. On 28 August 2012 Japara Holdings Pty Ltd and its Controlled Entities entered into a settlement deed resolving the legal proceedings between the majority shareholders of Japara Holdings Pty Ltd and a former director of Japara Holdings Pty Ltd. The terms of the settlement deed are confidential; however the result is that all claims by each party against the other have been withdrawn. The Trust has never been a party to the legal proceedings and is not a party to the settlement deed.

At the date of this financial report, the Responsible Entity, in conjunction with the Trust, is proposing to pursue an equity raising to provide funds for the acquisition of additional properties in the aged care sector.

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.

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.

Japara Aged Care & Retirement Property Trust

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012 (CONT.)

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 Melbourne, 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

26 September 2012

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 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 2012, there have been:

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


NEXIA MELBOURNE
ABN 16 847 721 257


GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

28 September 2012

Japara Aged Care & Retirement Property Trust

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Note	30 June 2012 \$	30 June 2011 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	2,474,649	1,943,998
Trade and other receivables	5	5,575	22,076
Other current assets	6	6,045,534	6,623,967
TOTAL CURRENT ASSETS		8,525,758	8,590,041
NON-CURRENT ASSETS			
Investment property	7	233,022,500	231,232,500
TOTAL NON-CURRENT ASSETS		233,022,500	231,232,500
TOTAL ASSETS		241,548,258	239,822,541
CURRENT LIABILITIES			
Trade and other payables	8	3,928,244	6,647,552
Short-term borrowings	9	124,058,000	121,558,000
Distribution payable	10	2,212,170	1,966,374
TOTAL CURRENT LIABILITIES		130,198,414	130,171,926
NON-CURRENT LIABILITIES			
Long-term borrowings	9	-	-
Unitholder funds	10	111,349,844	109,650,615
TOTAL NON-CURRENT LIABILITIES		111,349,844	109,650,615
TOTAL LIABILITIES		241,548,258	239,822,541
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 2012

	Note	2012 \$	2011 \$
Income	2		
Rental revenue		20,179,405	20,185,887
Interest receivable		85,222	115,919
Total revenue		20,264,627	20,301,806
Other income:			
- unrealised gains in fair value of investment properties		3,886,849	7,005,139
- gain on disposal of non current assets		864,316	-
Total income		25,015,792	27,306,945
Expenses	2		
Accounting and audit fees		41,925	36,840
Financing costs relating to bank funding		10,635,971	10,335,420
Financing costs relating to related party funding		774,376	81,618
Consultancy and legal fees		28,148	112,317
Management fees		1,407,382	1,427,015
Repairs and maintenance		72,607	42,266
Other expenses		201,792	34,945
Due diligence, refinancing and other associated costs expensed	2b	1,100,476	967,067
Unrealised losses in fair value of investment properties		696,798	1,096,418
Total expenses		14,959,475	14,133,906
Net profit attributable to unitholders before financing costs		10,056,317	13,173,039
Financing costs relating to unitholders			
Distributions paid to unitholders relating to the financial year	10	6,144,918	5,899,121
Net unrealised gains / (losses) – undistributable	10	3,190,051	5,908,721
Rent receivable under IFRS straight lining – undistributable	10	90,939	563,129
Net movement in other undistributable reserves	2b & 10	(1,055,528)	(2,995,756)
Net movement in distributable reserves	10	(526,233)	1,831,450
Distributions payable to unitholders relating to the financial year	10	2,212,170	1,966,374
Total financing costs relating to unitholders		10,056,317	13,173,039
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 2012

	Note	2012 \$	2011 \$
Balance at 1 July 2010		-	-
Net profit attributable to unitholders after distributions		-	-
Balance at 30 June 2011		-	-
Net profit attributable to unitholders after distributions		-	-
Balance at 30 June 2012		-	-

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 2012

	Note	2012 \$	2011 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from tenants		20,088,466	20,402,565
Payments to suppliers	14a	(1,653,904)	(608,961)
Interest received		86,501	118,986
Finance costs paid		(10,660,252)	(10,258,312)
Net cash provided by (used in) operating activities	14	7,860,811	9,654,278
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments towards improvements of investment properties		(405,982)	(206,274)
Payments of stamp duty upon purchase of investment properties		(896,500)	-
Receipts from sale of non-current assets/surplus land		2,624,316	647,760
Refunds of overpaid stamp duty		-	324,900
Due diligence and other associated costs paid		(3,040,703)	(283,348)
Net cash provided by (used in) investing activities		(1,718,869)	483,038
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new bank borrowings		116,158,000	-
Repayment of bank borrowings		(128,058,000)	(2,677,000)
Proceeds of loans from related parties		15,700,000	-
Repayment of loans to related parties		(1,300,000)	-
Distributions paid to unitholders	(i)	(8,111,291)	(7,865,495)
Net cash provided by (used in) financing activities		(5,611,291)	(10,542,495)
Net increase / (decrease) in cash and cash equivalents		530,651	(405,179)
Cash and cash equivalents at 1 July		1,943,998	2,349,177
Cash and cash equivalents at 30 June	4	2,474,649	1,943,998

Note (i)

The cash distributions paid during the year of \$8,111,291 includes distributions paid from current year distributable income of \$6,144,918 and accrued distributions from 2011 distributable income of \$1,966,373. Further details of distributions paid and payable are shown in note 10.

The accompanying notes form part of these financial statements.

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

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 26 September 2012.

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.

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

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, is valuations performed by independent qualified valuers.

Other sources may include:

1. current prices in an active market for similar properties in the same location and condition and subject to similar lease or other contracts;
2. 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
3. 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
4. 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 may 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 may 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;
- If 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:
 - o Location of the properties;
 - o Quality of the properties; and

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

- o Evidence from transactions underway in the market and negotiations currently underway.
- 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.

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

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

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.

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

k. **New Accounting Standards for Application in Future Periods**

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

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

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;

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

- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

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

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

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

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

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

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

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

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

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

As no tax expenses, credits or balances are recorded in the Trust, the amendments are not expected to impact the Trust.

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Responsible Entity has not yet been able to reasonably estimate the impact of this Standard on the Trust's financial statements.

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AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

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

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

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

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

AASB 13 requires:

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

These Standards are not expected to significantly impact the Trust as the fair value measurements used in measuring its freehold properties will continue to be the same. However, changes to disclosures may be required.

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

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

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

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

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

AASB 119 (September 2011) also includes changes to:

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

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- (b) the accounting for termination benefits to require an entity to recognise an obligation for such benefits at the earlier of:
 - (i) for an offer that may be withdrawn – when the employee accepts;
 - (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
 - (iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

As the Trust has no employees, there is no expectation that this Standard will impact the Trust.

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

Having regard to the successful completion of the refinancing process and the Trust entering into a new three year term syndicated loan facility with two major Australian banks on 2 July 2012, the substantial and secure cash flow that the Trust's aged care facilities receive, 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.

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

NOTE 2: INCOME	Note	2012	2011
		\$	\$
Revenue from investment activities			
Rent receivable from tenants (related parties)		20,088,466	19,622,758
Rent receivable under IFRS straight lining		90,939	563,129
Total rental revenue		20,179,405	20,185,887
Interest received from external parties		85,222	115,919
Total interest revenue		85,222	115,919
Total revenue		20,264,627	20,301,806
Other income			
Unrealised gains in fair value of investment properties		3,886,849	7,005,139
Gain on disposal of non-current assets		864,316	-
Total income		25,015,792	27,306,945
Expenses incurred due to investment activities			
Remuneration of auditors			
- audit or review		27,700	28,750
- other services by related practice of auditor		14,225	8,090
		41,925	36,840
Financing costs relating to bank funding		10,635,971	10,335,420
Financing costs relating to related parties	2a	774,376	81,618
Consultancy fees		28,148	112,317
Management fees		1,407,382	1,427,015
Repairs and maintenance		72,607	42,266
Other expenses		201,792	34,945
Due diligence, refinancing and other associated costs expensed	2b	1,100,476	967,067
Unrealised losses in fair value of investment properties		696,798	1,096,418
Total expenses		14,959,475	14,133,906

2a: To assist the Trust in successfully arranging the three year term bank financing in July 2012, Japara Holdings Pty Ltd loaned funds to the Trust as part of the September 2012 interim refinancing. Notwithstanding that this loan was unsecured and ranked behind the bank's first mortgage secured loan, the interest rate charged by Japara Holdings Pty Ltd on this loan was at the same interest rate charged by the bank. Further details regarding this loan are disclosed in note 9 and note 16(ii).

2b: As at 30 June 2012, the Trust provided in its Statement of Financial Position and charged fully to the Statement of Comprehensive Income an amount of \$1,055,528 (2011: \$967,067) representing the Trust's share of professional due diligence fees and other associated costs and charges incurred to 30 June 2012 relating to the three year term syndicated facility agreement executed on 2 July 2012 (2011: proposed purchase of the Trust's units by an external third party).

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

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.

NOTE 4: CASH AND CASH EQUIVALENTS

Note

2012

2011

\$

\$

CURRENT

Cash at bank and in hand

2,474,649

1,943,998

2,474,649

1,943,998

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

2,474,649

1,943,998

2,474,649

1,943,998

NOTE 5: RECEIVABLES

CURRENT

Sundry debtors

5a

-

15,223

Accrued interest receivable

5,575

6,853

5,575

22,076

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

5,970,534

5,879,596

Prepaid interest and loan establishment fees

75,000

744,371

6,045,534

6,623,967

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.

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

NOTE 7: INVESTMENT PROPERTY

2012

2011

\$

\$

INVESTMENT PROPERTY

Freehold land & buildings and plant & equipment at:

— Fair value

233,022,500

231,232,500

Total investment property

233,022,500

231,232,500

Details of investment property

Description	Title	Acquisition Date	Original Purchase Cost \$	Fair Value 30 June 2012 \$	Fair Value 30 June 2011 \$
Central Park Aged Care Facility Windsor, Victoria, 3181	Freehold	29-Apr-05	23,168,862	31,080,000	30,300,000
Roccoco Aged Care Facility St Albans Park, Victoria, 3219	Freehold	01-Dec-05	6,069,894	6,750,000	6,760,000
Balmoral Grove Aged Care Facility Grovedale, Victoria, 3216	Freehold	01-Dec-05	12,419,659	10,750,000	10,770,000
Narracan Gardens Aged Care Facility Newborough, Victoria, 3825	Freehold	01-Mar-06	16,370,369	16,090,000	16,490,000
Mirridong Aged Care Facility Bendigo, Victoria, 3550	Freehold	01-Mar-06	4,697,886	5,100,000	5,070,000
Kelaston Aged Care Facility Wendouree, Victoria, 3355	Freehold	01-Mar-06	4,968,220	5,645,000	5,615,000
Elanora Aged Care Facility Brighton, Victoria, 3186	Freehold	08-Feb-07	14,954,392	16,970,000	16,470,000

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

NOTE 7: INVESTMENT PROPERTY (CONT.)

Description	Title	Acquisition Date	Original Purchase Cost \$	Fair Value 30 June 2012 \$	Fair Value 30 June 2011 \$
Woodburn Lodge Retirement Village - Note (ii) Brighton, Victoria, 3186	Freehold	08-Feb-07	1,280,217	-	1,610,000
George Vowell Aged Care Facility Mt Eliza, Victoria, 3930	Freehold	08-Feb-07	11,000,221	11,750,000	11,520,000
Millward Aged Care Facility Doncaster East, Victoria, 3109	Freehold	30-Apr-07	12,239,848	12,600,000	12,330,000
Sydney Williams Retirement Village – Note (ii) Doncaster East, Victoria, 3109	Freehold	30-Apr-07	1,104,999	570,000	550,000
Bonbeach Aged Care Facility Bonbeach, Victoria, 3196	Freehold	30-Apr-07	6,313,234	6,910,000	6,750,000
Hallam Aged Care Facility Hallam, Victoria, 3803	Freehold	30-Apr-07	6,586,727	6,520,000	6,380,000
Lower Plenty Garden Views Aged Care Facility Lower Plenty, Victoria, 3093	Freehold	01-Jun-07	8,781,897	9,570,000	9,340,000
Rosanna Views Aged Care Facility Rosanna, Victoria, 3084	Freehold	01-Jun-07	9,054,584	10,020,000	9,780,000
Goonawarra Aged Care Facility Sunbury, Victoria, 3429	Freehold	01-Jun-07	11,520,868	11,950,000	11,660,000
Kingston Gardens Aged Care Facility Springvale South, Victoria, 3172	Freehold	01-Aug-07	6,587,721	6,950,000	6,780,000
Springvale Aged Care Facility Springvale, Victoria, 3171	Freehold	03-Sep-07	6,367,323	6,520,000	6,360,000
Bayview Aged Care Facility Carrum Downs, Victoria, 3201	Freehold	03-Sep-07	7,610,146	7,300,000	7,150,000
Kirralee Aged Care Facility Ballarat, Victoria, 3350	Freehold	03-Sep-07	9,290,713	8,715,000	8,715,000
Elouera Aged Care Facility Torquay, Victoria, 3228	Freehold	01-Oct-07	6,033,712	6,340,000	6,190,000
Barongarook Gardens Aged Care Facility Colac, Victoria, 3250	Freehold	01-Oct-07	5,192,075	4,940,000	4,930,000
Barongarook Gardens Retirement Village – Note (ii) Colac, Victoria, 3250	Freehold	01-Oct-07	1,249,784	1,210,000	1,210,000

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

NOTE 7: INVESTMENT PROPERTY (CONT.)

Description	Title	Acquisition Date	Original Purchase Cost \$	Fair Value 30 June 2012 \$	Fair Value 30 June 2011 \$
St Judes Aged Care Facility Narre Warren, Victoria, 3804	Freehold	01-Feb-08	5,473,949	5,622,500	5,502,500
Brighton Aged Care Facility South Brighton, South Australia, 5048	Freehold	29-Feb-08	7,050,084	7,270,000	7,080,000
Sandhurst Aged Care Facility Carrum Downs, Victoria, 3201	Freehold	14-Mar-08	3,043,153	2,690,000	2,630,000
Capel Sands Aged Care Facility Rosebud West, Victoria, 3940	Freehold	14-Mar-08	6,899,882	5,700,000	5,560,000
Strzelecki House Aged Care Facility Mirboo North, Victoria, 3871	Freehold	14-Mar-08	5,154,600	4,680,000	4,790,000
Vonlea Manor Aged Care Facility Norlane, Victoria, 3214	Freehold	07-July-08	3,290,269	2,810,000	2,940,000
TOTAL INVESTMENT PROPERTY as at 30 June			223,775,288	233,022,500	231,232,500

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 2012, 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 2012 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 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 may, at some time in the future, 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 2012 by Ernst & Young (2011: Ernst & Young).
- The total of the individual independent valuations of all investment properties held by the Trust as at 30 June 2012 was \$233,022,500 (2011: \$231,232,500).

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

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 2012 has valued the investment properties at an average yield of 9.2% (2011: 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 2012 is \$Nil (2011: \$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 \$233,022,500 fair value comprising underlying value of \$233,022,500 plus portfolio premium of \$Nil (2011: \$231,232,500 fair value comprising underlying value of \$231,232,500 plus portfolio premium of \$Nil).

	Note	2012 \$	2011 \$
Reconciliation - Investment Properties			
Carrying amount at the beginning of the financial year		231,232,500	224,920,000
Expenditure capitalised		209,949	403,779
Sale of Woodburn Lodge property		(1,610,000)	-
Net unrealised changes in fair value of investment properties	7a	3,190,051	5,908,721
		1,790,000	231,232,500
Carrying amount at the end of the financial year		233,022,500	231,232,500

7a. Net unrealised changes in fair value of investment properties are reconciled as follows:

Unrealised gains in fair value of investment properties	3,886,849	7,005,139
Unrealised losses in fair value of investment properties	(696,798)	(1,096,418)
Net unrealised gains / (losses) in fair value of investment properties	3,190,051	5,908,721

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

NOTE 8: TRADE AND OTHER PAYABLES

	2012	2011
	\$	\$
CURRENT		
Trade payables	1,581,037	953,422
GST payable	50,899	430,554
Accrued stamp duty payable on investment properties	-	896,500
Sundry payables and accrued expenses	2,212,571	4,018,576
Amounts owing to associated parties	83,737	348,500
	<u>3,928,244</u>	<u>6,647,552</u>

Trade payables at 30 June 2012 include \$1,546,470 (2011: \$802,845) owing to the Responsible Entity for management fees and an amount of \$Nil (2011: \$20,680) 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 \$1,055,528 (which has decreased from an amount of \$2,995,755 at 30 June 2011) being an accrual of the Trust's share of due diligence and other associated costs (as disclosed in Note 2b of the financial statements) and an amount of \$350,250 (2011: \$348,750) relating to accrued management fees payable to the Responsible Entity for the quarter ended 30 June 2012.

Amounts owing to associated parties includes an amount of \$Nil (2011: \$348,500) relating to loan establishment fees paid on behalf of, and recoverable from, the Trust and an amount of \$83,747 (2011: \$Nil) in accrued unpaid interest for the month of June 2012 payable to Japara Holdings Pty Ltd.

Japara Aged Care & Retirement Property Trust

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

NOTE 9: BORROWINGS

	Note	2012 \$	2011 \$
CURRENT			
Bank loan facility		109,658,000	121,558,000
Related party loan	16(ii)	14,400,000	-
		124,058,000	121,558,000
NON-CURRENT			
Bank loan facility		-	-
		124,058,000	121,558,000

9a. The bank loan facility is secured by a registered first mortgage over the freehold properties of the Trust. The related party loan is unsecured.

9b. The maturity profile of the bank loan facility and the related party loan is set out in Note 18 of the financial statements.

At balance date the Trust had a fully drawn loan facility with the Commonwealth Bank of Australia ("CBA") in the sum of \$109,658,000 (2011: \$119,958,000) and a fully drawn loan facility with the Australia & New Zealand Bank ("ANZ") in the sum of \$Nil (2011: \$1,600,000).

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, which was subsequently extended to 5 July 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.

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 initial termination date of the agreement, being 1 March 2012. The entire CBA loan facility between 1 March 2012 and 5 July 2012 then reverted to a floating interest rate.

On 2 July 2012 the Trust entered into a three year term syndicated facility with two major Australian banks to refinance its existing debt facilities. The total syndicated facility amount is \$140,000,000, of which \$125,500,000 was drawn down on 5 July 2012. No further amounts have been drawn down to the date of this report. The interest payable under the syndicated facility was at a floating interest rate, however the Directors of the Responsible Entity elected to hedge against potential future interest rate increases. Accordingly the Trust entered into a three year swap agreement which swaps the floating interest rate for a fixed interest rate for 80% of the syndicated facility amount. Under the syndicated facility agreement, no principal repayments are required during the first two years, with repayments of \$1,000,000 per month being scheduled in each of the final nine months of the syndicated facility term. These repayments are guaranteed by the Responsible Entity. The syndicated facility matures on 1 July 2015.

Having regard to the successful completion of the refinancing process and the Trust entering into a new three year term syndicated loan facility with two major Australian banks on 2 July 2012, the substantial and secure cash flow that the Trust's aged care facilities receive, 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 2012

NOTE 10: UNITHOLDER FUNDS

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

Unitholder funds	2012	2011
Funds raised net of raising costs capitalised	\$	\$
Balance as at 1 July	97,780,740	97,780,740
Funds raised during year	-	-
Balance as at 30 June	97,780,740	97,780,740
Undistributable reserves		
Balance as at 1 July	10,021,524	6,545,429
Unrealised gains/(losses) on revaluation of investment properties	3,190,051	5,908,721
Rent receivable under IFRS straight lining	90,938	563,130
Development and due diligence costs expensed	(1,055,528)	(2,995,756)
Balance as at 30 June	12,246,985	10,021,524
Distributable reserves		
Balance as at 1 July	1,848,351	16,902
Distributable income for year	7,830,856	9,696,944
Distributions paid for year	(6,144,918)	(5,899,121)
Distributions payable for year	(2,212,170)	(1,966,374)
Balance as at 30 June	1,322,119	1,848,351
Total net assets attributable to unitholders	111,349,844	109,650,615

Japara Aged Care & Retirement Property Trust

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

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 2012 is \$1,322,119 (2011: \$1,848,351).

The revaluation of investment properties owned by the Trust resulted in a net overall increase in their value of \$3,190,051 (2011: net increase of \$5,908,721). As previously reported to investors, the Directors have assessed that the portfolio effect to be included in the accounts as at 30 June 2012 is \$Nil (2011: \$Nil).

10a. Movements in units issued to unitholders	\$	No. of Fully Paid Ordinary Units
- Funds raised / units on issue at 1 July 2011	100,947,337	98,318,682
- Funds raised / units issued during year	-	-
Total funds raised / units on issue at 30 June 2012	100,947,337	98,318,682
10b. Net asset backing	2012	2011
Net asset backing (net asset value / number of units on issue)	\$1.0718	\$1.0555
Numbers used in calculation (refer notes below):		
Net Asset Value	\$105,379,310	\$103,771,019
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 2012 is \$5,970,534 (2011: \$5,879,596) which relates wholly to IFRS straight lining of rent accrued income.
 - As at 30 June 2012 and 30 June 2011 all units on issue were ordinary units fully paid.

Japara Aged Care & Retirement Property Trust

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

NOTE 10: UNITHOLDER FUNDS (CONT.)

10c. Indirect cost ratio	2012	2011
Indirect cost ratio	1.4077%	1.4339%
Numbers used in calculation:		
Fees & Recovered Expenses	\$1,537,630	\$1,508,633
Average Equity	\$109,233,776	\$105,211,153

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 slightly in 2012 compared to 2011 as fees and recovered expenses have risen by only 1.9% whilst the average equity of the Trust has risen by 3.8% due to the increase in the fair value of investment properties and the gain on the sale of the Woodburn Lodge ILUs. As total assets did not significantly change until the revaluation of the investment properties at 30 June 2012, 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

There have been no changes to the Trust's constitution since the general meeting of unit-holders held on 21 December 2010 where 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.

	2012	2011
	\$	\$
Receivable:		
- not later than 12 months	20,333,585	21,520,373
- between 12 months and five years	84,591,508	79,844,819
- greater than five years	37,798,893	18,448,327
	142,723,986	119,813,519

Japara Aged Care & Retirement Property Trust

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

NOTE 12: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent asset – stamp duty interest

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 registered the transfers of land, the Trust had 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 sought to charge this interest, which was 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 believed that the interest charge was excessive and should be remitted back to the Trust in full or at least reduced substantially. As at 30 June 2011, the Trust had therefore charged its share of the interest of \$285,735 (2010: \$Nil) to the statement of comprehensive income and therefore at 30 June 2011 the Trust believed that a contingent asset existed, for a sum up to \$285,735, once the objection had been determined. During the year ended 30 June 2012, the Trust was successful in its objection and the SRO VIC remitted a sum of \$264,941 back to the Trust, which has been credited to the statement of comprehensive income. As at 30 June 2012 there is no further contingent asset.

Contingent liability and contingent asset – retirement village resident loans

As at 30 June 2012, the Trust owns the freehold of two (2011: 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. However, in the opinion of the Directors, as the likelihood is remote that the amount actually becomes payable, it is 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 \$5,994,000 (2011: \$7,914,000). 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. This corresponding contingent asset at balance date amounts to \$5,994,000 (2011: \$7,914,000).

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. Under the terms of the agreement with UBS, if a transaction involving the units in the Trust is subsequently concluded, a fee may be payable to UBS and the Trust may be contingently liable for its share of any fee that may be payable to UBS.

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 2012

NOTE 13: SEGMENT REPORTING

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

NOTE 14: CASH FLOW INFORMATION

	2012	2011
	\$	\$
Reconciliation of net profit attributable to unitholders to net cash flow from operating activities		
Net profit attributable to unitholders	10,056,317	13,173,039
Non-cash flows in profit		
IFRS rent straight lining adjustment	(90,939)	(563,129)
Loss/(gain) on disposal of surplus land & buildings	(864,316)	-
Unrealised (gains) / losses in fair value of investment properties – net movement	(3,190,051)	(5,908,721)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase) / decrease in receivables	1,278	782,873
Increase / (decrease) in payables	477,606	1,039,681
Due diligence and refinancing costs expensed	1,100,476	967,067
Increase / (decrease) in financing costs payable	750,095	158,726
Increase / (decrease) in GST payable	(379,655)	4,742
	7,860,811	9,654,278

14a. The Statement of Cash Flows on page 11 of the financial statements shows payments to suppliers during the year of \$1,653,904 (2011: \$608,961). These payments are higher than the prior financial period as the figure for the year ended 30 June 2011 includes the payment to the Responsible Entity of management fees, due diligence fees and development fees which had been invoiced to the Trust, not paid at 30 June 2011, and so were included in trade payables as at 30 June 2011.

Japara Aged Care & Retirement Property Trust

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

NOTE 15: EVENTS AFTER REPORTING PERIOD

- a) On 2 July 2012 the Trust entered into a three year term syndicated facility with two major Australian banks to refinance its existing debt facilities. The total syndicated facility amount is \$140,000,000, of which \$125,500,000 was drawn down on 5 July 2012. No further amounts have been drawn down to the date of this report. The interest payable under the syndicated facility was at a floating interest rate, however the Directors of the Responsible Entity elected to hedge against potential future interest rate increases. Accordingly the Trust entered into a three year swap agreement which swaps the floating interest rate for a fixed interest rate for 80% of the syndicated facility amount. Under the syndicated facility agreement, no principal repayments are required during the first two years, with repayments of \$1,000,000 per month being scheduled in each of the final nine months of the syndicated facility term. These repayments are guaranteed by the Responsible Entity. The syndicated facility matures on 1 July 2015.
- b) At the same time as the Trust entered into this syndicated facility agreement, Japara Holdings Pty Ltd, the parent of the Responsible Entity, entered into a syndicated loan facility agreement with the same two major Australian banks for a syndicated facility amount of \$30,000,000. Japara Holdings Pty Ltd and its Controlled Entities, which are predominantly tenants of the Trust's properties and therefore the source of its rental income, have guaranteed the Trust's syndicated facility agreement. The Trust, however, is not a party to, nor a guarantor of, the syndicated facility agreement entered into by Japara Holdings Pty Ltd and its Controlled Entities.
- c) The Responsible Entity of the Trust is a wholly owned subsidiary of Japara Holdings Pty Ltd. On 28 August 2012 Japara Holdings Pty Ltd and its Controlled Entities entered into a settlement deed resolving the legal proceedings between the majority shareholders of Japara Holdings Pty Ltd and a former director of Japara Holdings Pty Ltd. The terms of the settlement deed are confidential; however the result is that all claims by each party against the other have been withdrawn. The Trust has never been a party to the legal proceedings and is not a party to the settlement deed.
- d) At the date of this financial report, the Responsible Entity, in conjunction with the Trust, is proposing to pursue an equity raising to provide funds for the acquisition of additional properties in the aged care sector.
- 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 26 September 2012.

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:

- | | |
|---|-------------------------|
| - Raymond Schoer (appointed 2 April 2012) | - (Mark) Andrew Sudholz |
| - Julius Colman | - Allan Reid |
| - Robert Peck | |

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

Japara Aged Care & Retirement Property Trust

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

NOTE 16: RELATED PARTY TRANSACTIONS (CONT.)

Directors of the Responsible Entity, Mr Schoer, Mr Colman, Mr Peck, Mr Reid and Mr Sudholz, are also directors of Japara Holdings Pty Ltd. Japara Holdings Pty Ltd has a 100% interest in subsidiaries which have had dealings with the Trust during the period:

- 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.

b. Transactions with directors

Remuneration of directors

No income was received or is receivable by directors of the trustee company from the Trust or any related party in connection with the management of the Trust, or from the Trust in connection with the management of a related party.

Distributions

Entities associated with directors who are also unitholders were entitled to participate in distributions from the Trust in their normal capacity as unitholders.

c. Key management personnel disclosures

The Trust does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Trust. The Responsible Entity of the Trust is Japara Property Management Limited, which is considered the key management personnel (KMP) of the Trust.

The following were directors of the Responsible Entity at any time during the year and unless otherwise indicated were KMP of the Responsible Entity for the entire year.

Non-executive directors

Mr Raymond Schoer	Chairman	Appointed 2 April 2012
Mr Julius Colman		
Mr Allan Reid		
Mr Robert Peck		

Executive directors

Mr (Mark) Andrew Sudholz	Managing Director
--------------------------	-------------------

No remuneration is paid directly by the Trust to the KMP of the Responsible Entity. The Trust has no investment in the Responsible Entity or its associates. During the year ended 30 June 2012 and as at 30 June 2012, neither the Responsible Entity nor any of its associated companies held any units in the Trust (2011: Nil). Subsequent to the reporting date and as at the date of signing the financial report, Japara Holdings Pty Ltd owned 237,225 ordinary fully paid units in the Trust.

Fees and other transactions

(i) Revenue

Revenue was brought to account by the Responsible Entity or its' related parties in relation to the following services provided to the Trust on normal terms and conditions:

	2012	2011
Provision of services by the Responsible Entity to the Trust:	\$	\$
Management fees	1,407,383	1,427,015
Reimbursement of costs	484,616	470,836

Japara Aged Care & Retirement Property Trust

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

NOTE 16: RELATED PARTY TRANSACTIONS (CONT.)

As at 30 June 2012, an amount of \$350,250 (2011: \$348,750) was included in the Statement of Financial Position as an accrued expense in respect of management fees for the quarter ended 30 June 2012 (2011: quarter ended 30 June 2011).

As at 30 June 2012, an amount of \$1,546,470 (2011: \$802,845) was included in the Statement of Financial Position as a trade payable in respect of management fees owed. As at the date of signing the financial report this amount remained unpaid.

As at 30 June 2012, an amount of \$Nil (2011: \$348,500) was included in the Statement of Financial Position relating to loan establishment fees paid on behalf of, and recoverable from, the Trust. This amount was repaid in full by the Trust during the financial year.

(ii) Interest

	2012	2011
	\$	\$
Interest received from wholly owned subsidiaries of Japara Holdings Pty Ltd, which is a related party of the Trust	170,793	132,754

The Trust has been reimbursed by a wholly owned subsidiary 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.

	2012	2011
	\$	\$
Interest incurred by the Trust to the Responsible Entity (debt facility fee)	14,945	81,618
Interest incurred by the Trust to Japara Holdings Pty Ltd	759,432	-

Interest was charged to the Trust by Japara Holdings Pty Ltd, a related party of the Trust, upon funds loaned to the Trust to assist in the interim refinancing of the Trust's bank debt. Notwithstanding that this loan was unsecured and ranked behind the bank's first mortgage secured loan, the interest rate charged by Japara Holdings Pty Ltd on this loan was at the same interest rate charged by the bank. The amount of interest charged to the Trust during the year amounted to \$759,432 (2011: \$Nil) of which \$83,737 (2011: \$Nil) remained unpaid at reporting date. Japara Holdings Pty Ltd loaned a total of \$15,700,000 (2011: \$Nil) to the Trust during the year, of which the Trust repaid \$1,300,000 (2011: \$Nil) during the year. As at reporting date, the loan balance amounted to \$14,400,000 (2011: \$Nil) and as at the date of signing the financial report, the Trust had repaid \$14,000,000 of this loan resulting in a balance owing at the date of signing the financial report of \$400,000.

(iii) Rent

	2012	2011
	\$	\$
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.	20,088,466	19,622,758

Rent paid is in the normal course of business and on normal terms and conditions. At 30 June 2012, the Trust has accrued an amount of \$Nil (2011: \$Nil) for rent receivable from related parties.

(iv) Due diligence, refinancing and other associated costs

	2012	2011
	\$	\$
An accrual for fees to be recharged by the Responsible Entity (2011: by Japara Holdings Pty Ltd), in respect of the Trust's estimated share of these costs. As at the date of signing this financial report the amount as at 30 June 2012 remained unpaid. The amount owing as at 30 June 2011 was repaid in full during the financial year.	1,055,528	2,995,755

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

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 (2011: \$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 2012

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 2012, none (2011: 59%) of the total debt (excluding unitholder funds) is fixed rate. Subsequent to the balance date, the Trust has now fixed 80% of its debt (see Note 9) and therefore from the period from 5 July 2012 the Trust will be minimally impacted by any future changes in interest rates.

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 2012 and 30 June 2011. 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 \$1,072,000 (2011: \$712,000 decrease).

If interest rates were 100 basis points lower, the effect on income would be an increase of \$1,072,000 (2011: \$712,000 increase).

Japara Aged Care & Retirement Property Trust

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

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 2012 and 30 June 2011. 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 \$5,825,000 (2011: \$5,750,000 increase).

If property values were 2.5% lower, the effect on income would be a decrease of \$5,825,000 (2011: \$5,750,000 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.

Japara Aged Care & Retirement Property Trust

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

NOTE 18: FINANCIAL INSTRUMENTS

FINANCIAL ASSETS:

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing		Non-interest Bearing	Total
			Within 1 Year	1 to 5 Years		
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

FINANCIAL ASSETS:

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing		Non-interest Bearing	Total
			Within 1 Year	1 to 5 Years		
2012	%	\$	\$	\$	\$	\$
Financial assets:						
Cash and cash equivalents	4.10%	2,474,649	-	-	-	2,474,649
Receivables	0.00%	-	-	-	6,051,109	6,051,109
Total financial assets		2,474,649	-	-	6,051,109	8,525,758

Japara Aged Care & Retirement Property Trust

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

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		
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

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		
2012	%	\$	\$	\$	\$	\$
Financial liabilities:						
Bank loans secured	7.65%	109,658,000	-	-	-	109,658,000
Trade and other payables	0.00%	-	-	-	6,056,678	6,056,678
Unitholder funds	8.28%	111,349,844	-	-	-	111,349,844
Related party loans	7.82%	14,400,000	-	-	83,737	14,483,737
Total financial liabilities		235,407,844	-	-	6,140,415	241,548,259

Bank loans secured have the following maturity profiles:

	2012	2011
	\$	\$
Within 1 year – see note (i) below	109,658,000	121,558,000
Between 1 and 2 years	-	-
Between 2 and 3 years	-	-
	109,658,000	121,558,000

Note (i)

See Note 9b for further information regarding the maturity profile of bank and related party loan facilities.

Japara Aged Care & Retirement Property Trust

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

NOTE 18: FINANCIAL INSTRUMENTS (CONT.)

Note (ii)

The weighted average effective interest rate of bank loans for the year ended 30 June 2012 has increased to 7.65% (2011: 7.23%) as a result of the increase in margin charged by the Trust's banker due to the September 2012 interim refinancing. Since the Trust successfully refinanced its bank debt in July 2012 and entered into swap arrangements to fix 80% of its bank loans, the Trust estimates that its weighted average effective interest rate for the year ended 30 June 2013 will fall to around 6.38%.

As a result of increasing the distribution rate since 1 January 2012 from an annualised rate of 8.0 cents per unit to an annualised rate of 9.0 cents per unit, the weighted average effective interest rate on unitholder's funds has increased from 7.79% during the year ended 30 June 2011 to 8.28% for the year ended 30 June 2012. Assuming that the distribution rate is maintained at the annualised rate of 9.0 cents per unit for the whole of the year ended 30 June 2013, the estimated weighted average effective rate will be approximately 8.75%.

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 Q1 Building Level 4, 1 Southbank Boulevard, Southbank VIC 3006.

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

Japara Aged Care & Retirement Property Trust

ARSN: 117 176 048

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 42 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 2012 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 26th day of September 2012

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

Report on the Financial Report

We have audited the accompanying financial report of Japara Aged Care and Retirement Property Trust (the "Scheme"), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

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Auditor's Opinion

In our opinion:

- a. the financial report of Japara Aged Care and Retirement Property Trust is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Scheme's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



NEXIA MELBOURNE
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

28 September 2012