

JAPARA

Japara Aged Care Property Trust
(formerly known as Japara Aged Care &
Retirement Property Trust)
ARSN: 117 176 048

Annual Financial Report
For the Year Ended 30 June 2013

2013 Annual Financial Report

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Japara Aged Care Property Trust

(formerly known as Japara Aged Care & Retirement Property Trust)

ARSN: 117 176 048

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

DIRECTORS' REPORT

The Directors of Japara Property Management Limited (ABN: 53 113 425 086), the Responsible Entity of the Japara Aged Care Property Trust (ARSN: 117 176 048) (the "Trust"), present their report for the Trust for the year ended 30 June 2013.

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 – Independent Chairman

(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 Property Trust (formerly known as 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 2013 is \$1.0886, an increase of 1.68 cents per unit from the unit value as at 30 June 2012 of \$1.0718. The 1.68 cents per unit increase in unit value, together with the 9.0 cents per unit distribution for the year ended 30 June 2013 (2012: 8.5 cents per unit distribution), brings the total return for the year to 10.68 cents per unit (2012: 10.13 cents per unit), which is a pleasing result. 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 \$2,364,366 (2012: \$3,190,051) on a like-for-like basis excluding disposals of \$Nil (2012: \$1,610,000). On 6 February 2013 the Trust settled the purchase of the Anglesea Aged Care facility for a consideration of \$5,000,000.

Japara Aged Care Property Trust

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013 (CONT.)

Refinancing

The Trust's bank loan facility, which originally matured on 1 March 2012, was extended to 5 July 2012 to allow for the Trust to finalise a new three-year term bank loan facility. On 2 July 2012 the Trust entered into a three-year term syndicated facility with two major Australian banks in the sum of \$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, but 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. The syndicated facility matures on 1 July 2015.

Valuations

At 30 June 2013 the independent valuation of the properties in the Trust for financial reporting purposes was \$240,790,000 (2012: \$233,022,500). Total bank debt (i.e. the mortgages over these properties) as at 30 June 2013 was \$125,500,000 (2012: \$109,658,000). This represents a loan to value ratio ("LVR") at 30 June 2013 of 53.5% (2012: 47.1%), significantly below the financial covenant LVR in the bank facility agreement of 60.0% (2012: 60.0%).

Income and Distributions

The net profit of the Trust for the financial year attributable to unitholders before undistributable revaluation movements amounted to \$9,889,130 (2012: \$6,866,266). The increase in 2013 compared to 2012 was primarily a reflection of the reduction in financing costs in 2013 associated with 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 2013 was \$9,505,516 (2012: \$7,830,856). When added to undistributed income from previous years of \$1,322,119 (2012: \$1,848,351), total distributable income available for unitholders was \$10,827,635 (2012: \$9,679,207).

Distributions payable to unitholders in respect of the year ended 30 June 2013 totalled \$8,878,315 (2012: \$8,357,088) which equates to 9.0 cents per unit (2012: 8.5 cents per unit). Interim distributions paid to unitholders during the year in respect of the year ended 30 June 2013 totalled \$6,636,511 (2012: \$6,144,918) which equates to 6.75 cents per unit (2012: 6.25 cents per unit). A final distribution of 2.25 cents per unit (2012: 2.25 cents per unit) was declared for the year ended 30 June 2013 and paid to unitholders on 31 August 2013. The total amount of this final distribution of \$2,241,804 (2012: \$2,212,170) 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 2013 is 1.37% (2012: 1.41%) (see note 11c on page 30).

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: \$1,459,005 (2012: \$1,407,383);
- Acquisition or disposal fees for the financial year payable to the Responsible Entity: \$Nil (2012: \$Nil);
- Expenses incurred by the Responsible Entity and reimbursable by the Trust in accordance with the Trust's Constitution: \$1,139,622 (2012: \$484,616) See note 17c(i) on page 34;
- The Trust's share of due diligence, refinancing, legal and professional fees reimbursable by the Trust: \$35,739 (2012: \$1,100,476);
- The interests in the Trust held by the Responsible Entity and its associates at the end of the year are disclosed in Note 17 to the financial statements.

Japara Aged Care Property Trust

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013 (CONT.)

Units on issue

In April 2013 Japara Property Management Limited in its capacity as the responsible entity for the Trust, issued an Information Memorandum ("IM") in connection with an offer of units in the Trust ("Offer"). Japara Property Management Limited is seeking to raise new capital from existing and new unitholders.

Funds raised will be used by the Trust to undertake accretive acquisitions, brownfields expansion and reduce leverage.

104,363,571 ordinary fully paid units of the Trust were on issue at 30 June 2013 (2012: 98,318,682).

During the year 6,044,889 ordinary units were issued (2012: Nil) by the Trust in connection with the offer and no ordinary fully paid units were withdrawn (2012: None).

Since 30 June 2013 a further 35,791,046 units of the Trust have been issued in connection with the offer.

Trust assets

At 30 June 2013, the Trust held assets to a total value of \$253,532,562 (30 June 2012: \$241,548,258).

Significant changes in the state of affairs

There were no significant changes to the state of affairs of the Trust during the year other than disclosed in the Review of results and operations.

Trust constitution

A general meeting of unitholders was held on 31 January 2013 where unitholders unanimously passed the resolution to amend the Trust's constitution as detailed in the Notice of Meeting and Explanatory Memorandum dated 7 January 2013.

The constitution was amended to replace the existing fee structure as follows:

- The management fee structure based on 0.275% pa of gross asset value and 3.75% pa of net rental income was replaced with a single management fee of 0.6% pa of gross asset value;
- The provision which allowed the Responsible Entity to retain up to 5% of application monies as an application fee was deleted;
- The provision which allowed the Responsible Entity to deduct up to 5% of withdrawal proceeds as a withdrawal fee was deleted;
- The provision which allowed the Responsible Entity to charge an acquisition fee equal to 5% of the net purchase price of any property acquired by the Trust was deleted;
- The provision which allowed the Responsible Entity to charge a disposal fee equal to 2.5% of the total sale proceeds of any property sold by the Trust was deleted; and
- The provision which provided for a fee of 3% of the gross asset value of the Trust to be paid to the Responsible Entity on its removal was deleted.

Significant events after the reporting period

In April 2013 Japara Property Management Limited in its capacity as the responsible entity for the Trust, issued an Information Memorandum ("IM") in connection with an offer of units in the Trust ("Offer") to raise new capital from existing and new unitholders.

As at the date of signing this report a total of \$45,208,481 (41,835,935 units) has been raised relating to the Offer and we are continuing the capital raising program.

Japara Property Management Limited in its capacity as the Responsible Entity for the Trust, has appointed advisors to assist in refinancing the Trust's banking arrangements with a view to extending the term of the current facility and obtaining reduced margins whilst maintaining the current facility limit.

On 19 August 2013 the Trust paid \$9.7 million for the settlement of the purchase of the 110 bed aged care facility at 71 Scott Street, Dandenong, VIC. The total acquisition cost amounted to \$9.9 million plus stamp duty and associated due diligence fees; \$200,000 was held on deposit as at 30 June 2013.

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.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013 (CONT.)

Likely developments and expected results

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

Environmental regulation and performance

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

Indemnification and insurance of directors and officers

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

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

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

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

The Trust does not indemnify or insure directors or officers.

Proceedings on Behalf of the Trust

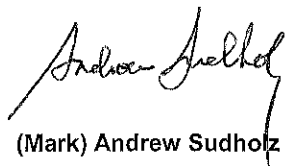
No person has applied for leave of court to bring proceedings on behalf of the Trust or intervene in any proceedings to which the Responsible Entity is a party for the purpose of taking responsibility on behalf of the Trust for all or any part of those proceedings.

The Trust was not a party to any such proceedings during the year.

Auditor's independence declaration

An independence declaration has been provided to the Directors by the auditor of the Japara Aged Care 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

30 September 2013

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF JAPARA PROPERTY MANAGEMENT LTD, RESPONSIBLE ENTITY
FOR JAPARA AGED CARE PROPERTY TRUST**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013, there have been:

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



NEXIA MELBOURNE
ABN 16 847 721 257



GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

30 September 2013

Japara Aged Care Property Trust

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	Note	30 June 2013 \$	30 June 2012 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	3,895,091	2,474,649
Trade and other receivables	5	1,337,784	5,575
Other assets	6	7,509,687	6,045,534
TOTAL CURRENT ASSETS		12,742,562	8,525,758
NON-CURRENT ASSETS			
Investment property	7	240,790,000	233,022,500
TOTAL NON-CURRENT ASSETS		240,790,000	233,022,500
TOTAL ASSETS		253,532,562	241,548,258
CURRENT LIABILITIES			
Trade and other payables	8	2,914,270	3,928,244
Borrowings	9	2,875,000	124,058,000
Other financial liabilities	10, 11(b)(ii)	1,710,601	-
Distribution payable	11	2,241,804	2,212,170
TOTAL CURRENT LIABILITIES		9,741,675	130,198,414
NON-CURRENT LIABILITIES			
Borrowings	9	125,500,000	-
TOTAL NON-CURRENT LIABILITIES		125,500,000	-
TOTAL LIABILITIES		135,241,675	130,198,414
NET ASSETS		118,290,887	111,349,844
NET ASSETS ATTRIBUTED TO UNITHOLDERS	(i)		
Unitholder funds	11	103,057,203	97,780,740
Undistributed income	11	16,944,285	13,569,104
Other reserves	10	(1,710,601)	-
TOTAL EQUITY		118,290,887	111,349,844

Note (i)

Units issued by the Trust are classified under current accounting standard as equity. In the Financial Report for the year ended 30 June 2012 units issued were classified as liabilities in accordance with the then accounting standards.

The accompanying notes form part of these financial statements.

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

	Note	2013 \$	2012 \$
Income	2		
Rental revenue		21,114,398	20,179,405
Interest receivable		89,628	85,222
Total revenue		21,204,026	20,264,627
Other income:			
- unrealised gains in fair value of investment properties		3,844,366	3,886,849
- gain on disposal of non current assets		-	864,316
Total income		25,048,392	25,015,792
Expenses	2		
Accounting and audit fees		30,960	41,925
Financing costs relating to bank funding		8,467,532	10,635,971
Financing costs relating to related party funding		136,367	774,376
Consultancy and legal fees		510,840	28,148
Management fees		1,459,005	1,407,382
Repairs and maintenance		273,036	72,607
Other expenses		82,059	201,792
Due diligence, refinancing and other associated costs expensed	2b	355,097	1,100,476
Unrealised losses in fair value of investment properties	7a	1,480,000	696,798
Total expenses		12,794,896	14,959,475
Net profit for the year		12,253,496	10,056,317
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value loss on hedging instruments entered into for cash flow hedge	10, 11(b)(ii)	(1,710,601)	-
Total comprehensive income for the year		10,542,895	10,056,317
Distribution of Profits			
Profit attributable to unitholders		12,253,496	10,056,317
Distributions paid to unitholders relating to the financial year	11	(6,636,511)	(6,144,918)
Distributions payable to unitholders relating to the financial year	11	(2,241,804)	(2,212,170)
Net unrealised gains / (losses) – undistributable	11	(2,364,366)	(3,190,051)
Rent receivable under IFRS straight lining – undistributable	11	(419,353)	(90,939)
Net movement in other undistributable reserves	2b,11	35,739	1,055,528
Undistributed profits for the year		627,201	(526,233)

The accompanying notes form part of these financial statements.

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STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTED TO UNITHOLDERS FOR THE YEAR ENDED 30 JUNE 2013

	Note	Unitholders' Funds	Undistributed Income	Other Reserves	Total Equity
		\$	\$	\$	\$
Balance at 1 July 2011		97,780,740	11,869,875	-	109,650,615
Net profit attributable to unitholders		-	10,056,317	-	10,056,317
Other comprehensive income		-	-	-	-
Total comprehensive income		-	10,056,317	-	10,056,317
Transactions with unitholders					
Distributions to unitholders	11	-	(8,357,088)	-	(8,357,088)
Balance at 30 June 2012		97,780,740	13,569,104	-	111,349,844
Net profit attributable to unitholders		-	12,253,496	-	12,253,496
Other comprehensive income		-	-	(1,710,601)	(1,710,601)
Total comprehensive income		-	12,253,496	(1,710,601)	10,542,895
Transactions with unitholders					
Application for units	11	6,528,481	-	-	6,528,481
Fund raising costs capitalised	11	(1,252,018)	-	-	(1,252,018)
Distributions to unitholders	11	-	(8,878,315)	-	(8,878,315)
Balance at 30 June 2013		103,057,203	16,944,285	(1,710,601)	118,290,887
			(i)	(ii)	

Note (i)

Undistributed Income at 30 June 2013 of \$16,944,285 (2012: \$13,569,104) includes undistributable income of \$14,994,965 (2012: \$12,246,985). Undistributable income comprises unrealised gains on the revaluation of Investment Property and unrealised accrued rental income arising from the requirement to recognise lease income on a straight-line basis over the lease term. See note 11 of this report for further details.

Note (ii)

Other reserves represent the net fair value of hedging instruments entered into for a cash flow hedge. See note 10 of this report for further details.

The accompanying notes form part of these financial statements.

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$	2012 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from tenants		20,695,045	20,088,466
Payments to suppliers	15a	(3,784,235)	(1,653,904)
Interest received		87,418	86,501
Interest paid	9c	(8,259,181)	(10,660,252)
Net cash provided by (used in) operating activities	15	8,739,047	7,860,811
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchase of investment property		(5,227,858)	-
Payments towards improvements of investment properties		(403,134)	(405,982)
Payments of stamp duty upon purchase of investment properties		(291,500)	(896,500)
Receipts from sale of non-current assets/surplus land		-	2,624,316
Due diligence and other associated costs paid		(1,091,266)	(3,040,703)
Net cash provided by (used in) investing activities		(7,013,758)	(1,718,869)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new bank borrowings		125,500,000	116,158,000
Repayment of bank borrowings		(109,658,000)	(128,058,000)
Proceeds of loans from related parties		4,880,677	15,700,000
Repayment of loans to related parties		(16,405,677)	(1,300,000)
Proceeds from issue of unit capital		4,226,835	-
Distributions paid to unitholders	(i)	(8,848,682)	(8,111,291)
Net cash provided by (used in) financing activities		(304,847)	(5,611,291)
Net increase / (decrease) in cash and cash equivalents		1,420,442	530,651
Cash and cash equivalents at 1 July		2,474,649	1,943,998
Cash and cash equivalents at 30 June	4	3,895,091	2,474,649

Note (i)

The cash distributions paid during the year of \$8,848,682 includes distributions paid from current year distributable income of \$6,636,512 and accrued distributions from 2012 distributable income of \$2,212,170. Further details of distributions paid and payable are shown in note 11 of this report.

The accompanying notes form part of these financial statements.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial statements were approved by the Board of Directors of the Responsible Entity on 30 September 2013.

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 Profit or Loss and Other 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.

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

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

Basis of fair value assessment

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

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;

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

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

- 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:
 - Location of the properties;
 - Quality of the properties; and
 - 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.

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(formerly known as Japara Aged Care & Retirement Property Trust)

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

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 2013

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

(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. **Unitholders' Funds**

As units issued by the Trust satisfy all of the criteria for recognition as puttable financial instruments under paras 16A and 16B of AASB 132: *Financial Instrument: Presentation*, unitholders' funds are classified as equity. Units are measured at their issue price. In the Financial Report for the year ended 30 June 2012 units issued were classified as liabilities in accordance with the then accounting standards.

e. **Hedge accounting**

The Trust designates certain hedging instruments namely interest rate swap arrangements. Interest rate swap arrangements are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Trust documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Trust documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 18d in the financial report sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow

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

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

hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Trust revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

f. 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.

g. 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.

h. Revenue

Rental income earned on investment properties is recognised on a straight-line basis over the term of the relevant lease except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are delivered.

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).

i. 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.

j. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

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

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

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

k. 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.

l. Comparative figures

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

m. 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)*.

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;
- 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.

These Standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012-6: *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (issued in September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015. In light of this change to the mandatory effective date, the Trust is expected to adopt AASB 9 and AASB 2010-7 for the annual reporting period ending 31 December 2015. Although the Responsible Entity anticipates that the

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

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

adoption of AASB 9 and AASB 2010–7 may have a significant impact on the Trust's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

- 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) (as amended by AASB 2012–10) and AASB 2011–7: *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (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. This Standard is not expected to significantly impact the Trust's financial statements.

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

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's financial statements.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. The revisions made to AASB 127 and AASB 128 are not expected to significantly impact the Trust's financial statements.

- AASB 13: *Fair Value Measurement* and AASB 2011–8: *Amendments to Australian Accounting Standards arising from AASB 13* (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 expected to result in more detailed fair value disclosures but are not expected to significantly impact the amounts recognised in the Trust's financial statements.

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

AASB 2012–2 principally amends AASB 7: *Financial Instruments: Disclosures* to require entities to include information that will enable users of their financial statements to evaluate the effect or potential

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

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

effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

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

- AASB 2012-3: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014). This Amending Standard adds application guidance to AASB 132: *Financial Instruments: Presentation* to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

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

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

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

- AASB 1: *First-time Adoption of Australian Accounting Standards* to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;
- AASB 101: *Presentation of Financial Statements* and AASB 134: *Interim Financial Reporting* to clarify the requirements for presenting comparative information;
- AASB 116: *Property, Plant and Equipment* to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;
- AASB 132 and Interpretation 2: *Members' Shares in Co-operative Entities and Similar Instruments* to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
- AASB 134 to facilitate consistency between the measures of total assets and liabilities and entity reports for its segments in its interim and annual financial statements.

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

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 2013

NOTE 2: INCOME

	Note	2013 \$	2012 \$
Revenue from investment activities			
Rent receivable from tenants (related parties)		20,695,045	20,088,466
Rent receivable under IFRS straight lining (related parties)		419,353	90,939
Total rental revenue		21,114,398	20,179,405
 Interest received from external parties		 89,628	 85,222
Total interest revenue		89,628	85,222
Total revenue		21,204,026	20,264,627
Other income			
Unrealised gains in fair value of investment properties		3,844,366	3,886,849
Gain on disposal of non-current assets		-	864,316
Total income		25,048,392	25,015,792
 Expenses incurred due to investment activities			
Remuneration of auditors			
- audit or review		26,500	27,700
- other services by related practice of auditor		4,460	14,225
		30,960	41,925
Financing costs relating to bank funding		8,467,532	10,635,971
Financing costs relating to related parties	2a	136,367	774,376
Consultancy fees		510,840	28,148
Management fees		1,459,005	1,407,382
Repairs and maintenance		273,036	72,607
Other expenses		82,059	201,792
Due diligence, refinancing and other associated costs expensed	2b	355,097	1,100,476
Unrealised losses in fair value of investment properties		1,480,000	696,798
Total expenses		12,794,896	14,959,475

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 17(ii).

2b: As at 30 June 2013, the Trust provided in its Statement of Financial Position and charged fully to the Statement of Profit or Loss and Other Comprehensive Income an amount of \$35,739 (2012: \$1,055,528) representing the Trust's share of professional due diligence fees and other associated costs and charges incurred to 30 June 2013 relating to the three year term syndicated facility agreement executed on 2 July 2012.

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

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	2013	2012
		\$	\$
CURRENT			
Cash at bank and in hand		3,895,091	2,474,649
		<u>3,895,091</u>	<u>2,474,649</u>

Reconciliation of cash

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

Cash and cash equivalents		3,895,091	2,474,649
		<u>3,895,091</u>	<u>2,474,649</u>

NOTE 5: TRADE AND OTHER RECEIVABLES

CURRENT

Sundry debtors	5a	1,329,999	-
Accrued interest receivable		7,785	5,575
		<u>1,337,784</u>	<u>5,575</u>

5a: Sundry debtors relates to unit capital held in trust by the Responsible Entity as at 30 June 2013 (which was paid over to the Trust on 2 July 2013).

NOTE 6: OTHER ASSETS

CURRENT

IFRS straight lining of rental income	6a	6,389,887	5,970,534
Prepaid interest and loan establishment fees		919,800	75,000
Deposit on purchase of 71 Scott St, Dandenong	6b	200,000	-
		<u>7,509,687</u>	<u>6,045,534</u>

6a: AASB117 "Leases" requires that a lessor under an operating lease recognises lease income on a straight-line basis over the lease term i.e. the income is recorded as an annual average of the total lease income over the lease term. This means that the Trust is required to record as income, not only the amount that the Trust invoices but also an unrealised amount that represents the straight lining effect. The application of AASB 117 has resulted in rental income recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2013 of \$21,114,398 (2012: \$20,179,405) while cash received for rental income invoiced during the year was \$20,695,045 (2012: \$20,088,466); the difference between the rental income recognised and the rental income invoiced is unrealised income and recorded within other assets. The \$6,389,887 (2012: \$5,970,534) included within other assets represents an accumulation of unrealised rental income since the inception of the leases.

6b: A deposit of \$200,00 (2012: \$Nil) was paid during the year upon signing the Real Estate contract to purchase the 110 bed aged care facility at 71 Scott Street, Dandenong, VIC. This acquisition settled on 19 August 2013 (see note 16c).

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

NOTE 7: INVESTMENT PROPERTY

2013	2012
\$	\$

INVESTMENT PROPERTY

Freehold land & buildings and plant & equipment at:

— Fair value

240,790,000	233,022,500
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Total investment property

240,790,000	233,022,500
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Details of investment property

Description	Title	Acquisition Date	Original Purchase Cost \$	Fair Value 30 June 2013 \$	Fair Value 30 June 2012 \$
Central Park Aged Care Facility Windsor, Victoria, 3181	Freehold	29-Apr-05	23,168,862	30,920,000	31,080,000
Roccoco Aged Care Facility St Albans Park, Victoria, 3219	Freehold	01-Dec-05	6,069,894	6,740,000	6,750,000
Balmoral Grove Aged Care Facility Grovedale, Victoria, 3216	Freehold	01-Dec-05	*12,419,659	11,020,000	10,750,000
Narracan Gardens Aged Care Facility Newborough, Victoria, 3825	Freehold	01-Mar-06	16,370,369	15,870,000	16,090,000
Mirridong Aged Care Facility Bendigo, Victoria, 3550	Freehold	01-Mar-06	*4,697,886	5,240,000	5,100,000
Kelaston Aged Care Facility Wendouree, Victoria, 3355	Freehold	01-Mar-06	4,968,220	5,775,000	5,645,000
Elanora Aged Care Facility Brighton, Victoria, 3186	Freehold	08-Feb-07	14,954,392	17,940,000	16,970,000
George Vowell Aged Care Facility Mt Eliza, Victoria, 3930	Freehold	08-Feb-07	11,000,221	11,680,000	11,750,000
Millward Aged Care Facility Doncaster East, Victoria, 3109	Freehold	30-Apr-07	12,239,848	12,870,000	12,600,000
Sydney Williams Retirement Village Doncaster East, Victoria, 3109	Freehold	30-Apr-07	1,104,999	520,000	570,000
Bonbeach Aged Care Facility Bonbeach, Victoria, 3196	Freehold	30-Apr-07	6,313,234	7,090,000	6,910,000

*Included within original cost was vacant land surplus to the requirements of the Trust which has subsequently been sold in prior reporting periods.

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

NOTE 7: INVESTMENT PROPERTY (CONT.)

Description	Title	Acquisition Date	Original Purchase Cost \$	Fair Value 30 June 2013 \$	Fair Value 30 June 2012 \$
Hallam Aged Care Facility Hallam, Victoria, 3803	Freehold	30-Apr-07	6,586,727	6,670,000	6,520,000
Lower Plenty Garden Views Aged Care Facility Lower Plenty, Victoria, 3093	Freehold	01-Jun-07	8,781,897	9,810,000	9,570,000
Rosanna Views Aged Care Facility Rosanna, Victoria, 3084	Freehold	01-Jun-07	9,054,584	10,270,000	10,020,000
Goonawarra Aged Care Facility Sunbury, Victoria, 3429	Freehold	01-Jun-07	11,520,868	12,250,000	11,950,000
Kingston Gardens Aged Care Facility Springvale South, Victoria, 3172	Freehold	01-Aug-07	6,587,721	7,180,000	6,950,000
Springvale Aged Care Facility Springvale, Victoria, 3171	Freehold	03-Sep-07	6,367,323	6,690,000	6,520,000
Bayview Aged Care Facility Carrum Downs, Victoria, 3201	Freehold	03-Sep-07	7,610,146	6,500,000	7,300,000
Kirralie Aged Care Facility Ballarat, Victoria, 3350	Freehold	03-Sep-07	9,290,713	8,915,000	8,715,000
Elouera Aged Care Facility Torquay, Victoria, 3228	Freehold	01-Oct-07	6,033,712	6,500,000	6,340,000
Barongarook Gardens Aged Care Facility Colac, Victoria, 3250	Freehold	01-Oct-07	5,192,075	5,070,000	4,940,000
Barongarook Gardens Retirement Village Colac, Victoria, 3250	Freehold	01-Oct-07	1,249,784	1,210,000	1,210,000
St Jukes Aged Care Facility Narre Warren, Victoria, 3804	Freehold	01-Feb-08	5,473,949	5,820,000	5,622,500
Brighton Aged Care Facility South Brighton, South Australia, 5048	Freehold	29-Feb-08	7,050,084	7,450,000	7,270,000
Sandhurst Aged Care Facility Carrum Downs, Victoria, 3201	Freehold	14-Mar-08	*3,043,153	2,760,000	2,690,000
Capel Sands Aged Care Facility Rosebud West, Victoria, 3940	Freehold	14-Mar-08	*6,899,882	5,690,000	5,700,000
Strzelecki House Aged Care Facility Mirboo North, Victoria, 3871	Freehold	14-Mar-08	*5,154,600	4,570,000	4,680,000
Vonlea Manor Aged Care Facility Norlane, Victoria, 3214	Freehold	07-July-08	3,290,269	2,820,000	2,810,000
Anglesea Aged Care Facility Anglesea, Victoria, 3230	Freehold	06-Feb-13	5,302,963	4,950,000	-
TOTAL INVESTMENT PROPERTY as at 30 June			224,078,251	240,790,000	233,022,500

*Included within original cost was vacant land surplus to the requirements of the Trust which has subsequently been sold in prior reporting periods.

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

NOTE 7: INVESTMENT PROPERTY (CONT.)

Note (i)

Original purchase cost includes the purchase price of the property plus all costs associated with acquisition including stamp duty and due diligence expenses.

In determining the fair value of the investment properties owned by the Japara Aged Care Property Trust (the Trust) as at 30 June 2013, 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 2013 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 also 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 unitholders 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 2013 by Ernst & Young (2012: Ernst & Young).
- The total of the individual independent valuations of all investment properties held by the Trust as at 30 June 2013 was \$240,790,000 (2012: \$233,022,500).

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 2013 has valued the investment properties at an average yield of 9.3% (2012: 9.2%).

4. Portfolio impact

- As discussed in the policy, at times there may be a "portfolio effect" on value, particularly in buoyant market conditions, 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 2013 is \$Nil (2012: \$Nil).

Fair Value of Portfolio

- Having regard to the policy and all the available evidence, the Directors have adopted the independent Ernst & Young valuation and believe the fair value of the properties held in the Japara Aged Care Property Trust is \$240,790,000 fair value comprising underlying value of \$240,790,000 plus portfolio premium of \$Nil (2012: \$233,022,500 fair value comprising underlying value of \$233,022,500 plus portfolio premium of \$Nil).

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

NOTE 7: INVESTMENT PROPERTY (CONT.)

➤

Reconciliation - Investment Properties	Note	2013 \$	2012 \$
Carrying amount at the beginning of the financial year		233,022,500	231,232,500
Expenditure capitalised		403,134	209,949
Purchase of investment property		5,000,000	-
Sale of investment property		-	(1,610,000)
Net unrealised changes in fair value of investment properties	7a	2,364,366	3,190,051
		<u>7,767,500</u>	<u>1,790,000</u>
Carrying amount at the end of the financial year		<u>240,790,000</u>	<u>233,022,500</u>

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

(i)

Unrealised gains in fair value of investment properties	3,844,366	3,886,849
Unrealised losses in fair value of investment properties	(1,480,000)	(696,798)
Net unrealised gains / (losses) in fair value of investment properties	<u>2,364,366</u>	<u>3,190,051</u>

(i) Net unrealised changes in fair value of investment properties of \$2,364,366 (2012: \$3,190,051) represent the annual movement in the fair value of the investment properties that is recognised in the Statement of Profit or Loss and Other Comprehensive Income. Included within the unrealised losses in fair value of investment properties for the year of \$1,480,000 (2012: \$696,798) is an amount of \$950,000 (2012: \$Nil) relating to roof rectification works at the Bayview Aged Care Facility (see note (ii) below).

(ii) Subsequent to the reporting date, engineers performed an assessment of the Bayview Aged Care facility in preparation for a planned extension of the property. Works are required to replace the roof of the facility as a result of the assessment. This condition existed at the reporting date and therefore an adjustment has been made to the fair value of the property in the amount of \$950,000 (the estimated costs to complete the works). The works have commenced and are expected to be completed in November 2013.

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

NOTE 8: TRADE AND OTHER PAYABLES

	Note	2013	2012
		\$	\$
CURRENT			
Trade payables	8a	104,660	1,581,037
GST payable		124,270	50,899
Sundry payables and accrued expenses	8b	2,661,308	2,212,571
Amounts owing to associated parties	8c	24,032	83,737
		<u>2,914,270</u>	<u>3,928,244</u>

- 8a. Trade payables at 30 June 2013 include \$Nil (2012: \$1,546,470) owing to the Responsible Entity for management fees.
- 8b. Sundry payables and accrued expenses include an amount of \$Nil (which has decreased from an amount of \$1,055,528 at 30 June 2012) 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 \$373,750 (2012: \$348,750) relating to accrued management fees payable to the Responsible Entity for the quarter ended 30 June 2013. Also included in sundry payables and accrued expenses is an amount of \$1,889,520 (2012: \$Nil) relating to interest payable on the syndicated loan facility (see note 9).
- 8c. Amounts owing to associated parties of \$24,032 (2012: \$83,747) relate to accrued unpaid interest for the month of June 2013 payable to Japara Holdings Pty Ltd. The amount was paid in full in July 2013.

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

NOTE 9: BORROWINGS

	Note	2013	2012
		\$	\$
CURRENT			
Bank loan facility	9a,9b	-	109,658,000
Related party loan	17(ii)	2,875,000	14,400,000
		2,875,000	124,058,000
NON-CURRENT			
Bank loan facility	9a,9b	125,500,000	-
		128,375,000	124,058,000

9a. The bank loan facility is secured by registered first mortgages 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 19 of the financial statements.

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.

9c. Interest paid on borrowings during the year was \$6,954,181 (2012: \$9,199,802) and loan establishment fees paid were \$1,305,000 (2012: \$1,460,450) amounting to a total of \$8,259,181 (2012: \$10,660,252).

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

NOTE 10: OTHER FINANCIAL LIABILITIES

Derivatives that are designated and effective as hedging instruments carried at fair value	Note	2013	2012
		\$	\$
Interest rate swaps	11b(ii)	1,710,601	-
		<u>1,710,601</u>	<u>-</u>

Also see note 18(d) for further information on the interest rate swaps.

NOTE 11: UNITHOLDER FUNDS

The following table provides a reconciliation of the Trust's unitholder funds.

Unitholder funds	2013	2012
Funds raised net of raising costs capitalised	\$	\$
Balance as at 1 July	97,780,740	97,780,740
Funds raised during year	6,528,481	-
Fund raising costs capitalised	(1,252,018)	-
Balance as at 30 June	103,057,203	97,780,740
Undistributed income		
<i>Undistributable reserves</i>		
Balance as at 1 July	12,246,985	10,021,524
Unrealised gains/(losses) on revaluation of investment properties	2,364,366	3,190,051
Rent receivable under IFRS straight lining	419,353	90,938
Development and due diligence costs expensed	(35,739)	(1,055,528)
Balance as at 30 June	14,994,965	12,246,985
<i>Distributable reserves</i>		
Balance as at 1 July	1,322,119	1,848,351
Distributable income for year	9,505,516	7,830,856
Distributions paid for year	(6,636,511)	(6,144,918)
Distributions payable for year	(2,241,804)	(2,212,170)
Balance as at 30 June	1,949,320	1,322,119
Total undistributed income as at 30 June*	16,944,285	13,569,104
Other reserves		
Net fair value loss on hedging instruments entered into for a cash flow hedge	11b(ii)	(1,710,601)
Total net assets attributable to unitholders	118,290,887	111,349,844

* Undistributed Income at 30 June 2013 of \$16,944,285 (2012: \$13,569,104) includes undistributable income of \$14,994,965 (2012: \$12,246,985). Undistributable income comprises unrealised gains on the revaluation of Investment Property and unrealised accrued rental income arising from the requirement to recognise lease income on a straight-line basis over the lease term.

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

NOTE 11: UNITHOLDER FUNDS (CONT.)

Equity raising

In April 2013 Japara Property Management Limited in its capacity as the responsible entity for the Trust, issued an Information Memorandum ("IM") in connection with a proposed offer of units in the Trust ("Offer"). Japara Property Management Limited is seeking to raise new capital from existing and new unit holders.

Funds raised will be used by the Trust to undertake accretive acquisitions, brownfields expansion and reduce leverage.

Funds raised and units issued during the year were issued in connection with the Offer.

As at the date of signing this report \$45,208,481 (41,835,935 units) has been raised relating to the Offer. The capital raising program is ongoing.

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 2013 is \$1,949,320 (2012: \$1,322,119).

The revaluation of investment properties owned by the Trust resulted in a net overall increase in their value of \$2,364,366 (2012: \$3,190,051). As previously reported to investors, the Directors have assessed that the portfolio effect to be included in the accounts as at 30 June 2013 is \$Nil (2012: \$Nil).

11a. Movements in units issued to unitholders	\$	No. of Ordinary Units
- Funds raised / units on issue at 1 July 2011	100,947,337	98,318,682
- Funds raised / units issued during year	-	-
- Funds raised / units on issue at 1 July 2012	100,947,337	98,318,682
- Funds raised / units issued during year	6,528,481	6,044,889
Total funds raised / units on issue at 30 June 2013	107,475,818	104,363,571

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

NOTE 11: UNITHOLDER FUNDS (CONT.)

11b. Net asset backing	2013	2012
Net asset backing (net asset value / number of units on issue)	\$1.0886	\$1.0718

Numbers used in calculation (refer notes below):

Net asset value	\$113,611,601	\$105,379,310
Number of units	104,363,571	98,318,682

- (i) 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 2013 is \$6,389,887 (2012: \$5,970,534) which relates wholly to IFRS straight lining of rent accrued income.

- (ii) In addition to the IFRS straight lining adjustment to Net Asset Value, \$1,710,601 (2012: \$Nil) relating to the hedging instruments carried at fair value (note 10) has been added to the net asset value.

The fair value of interest rate swap contracts outstanding at the end of the reporting period has been taken to a hedge accounting reserve and has reduced the Net Asset Value by \$1,710,601 (2012: \$Nil). The remaining term of the interest rate swap contract as at 30 June 2013 is two years. At the date of signing this report there has been no commitment made by Japara Property Management Limited in its capacity as the Responsible Entity for the Trust, to settle the contract early therefore the liability will not be settled in cash and has been added back to the net asset value.

Should the contract be settled early, the debt will crystallise in which case the unit price may be impacted.

- (iii) As at 30 June 2013, 103,132,090 units on issue were fully paid and 1,231,481 units on issue were held in Trust (see note 5a). At 30 June 2012 all units on issue were fully paid.

11c. Indirect cost ratio	2013	2012
Indirect cost ratio	1.3715%	1.4077%

Numbers used in calculation:

Fees & recovered expenses	\$1,539,489	\$1,537,630
Average equity	\$112,518,909	\$109,233,776

The Indirect cost ratio (ICR) is the ratio of the Trust's management costs over the Trust's average equity (net assets) attributable for the year, expressed as a percentage. The ICR has decreased in 2013 compared to 2012 as fees and recovered expenses have remained consistent whilst the average equity of the Trust has risen by 3.1% due to the increase in the fair value of investment properties and the increase in unit capital. As total assets did not significantly change until the revaluation of the investment properties at 30 June 2013, 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.

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

NOTE 11: UNITHOLDER FUNDS (CONT.)

11d. Trust constitution

A general meeting of unitholders was held on 31 January 2013 where unitholders unanimously passed the resolution to amend the Trust's constitution as detailed in the Notice of Meeting and Explanatory Memorandum dated 7 January 2013.

The constitution was amended to replace the existing fee structure as follows:

- The management fee structure based on 0.275% pa of gross asset value and 3.75% pa of net rental income was replaced with a single management fee of 0.6% pa of gross asset value;
- The provision which allowed the Responsible Entity to retain up to 5% of application monies as an application fee was deleted;
- The provision which allowed the Responsible Entity to deduct up to 5% of withdrawal proceeds as a withdrawal fee was deleted;
- The provision which allowed the Responsible Entity to charge an acquisition fee equal to 5% of the net purchase price of any property acquired by the Trust was deleted;
- The provision which allowed the Responsible Entity to charge a disposal fee equal to 2.5% of the total sale proceeds of any property sold by the Trust was deleted; and
- The provision which provided for a fee of 3% of the gross asset value of the Trust to be paid to the Responsible Entity on its removal was deleted.

NOTE 12: COMMITMENTS FOR EXPENDITURE

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.

	Note	2013	2012
		\$	\$
Receivable:			
- not later than 12 months		21,307,424	20,333,585
- between 12 months and five years		76,175,767	84,591,508
- greater than five years		29,928,231	37,798,893
		<u>127,411,422</u>	<u>142,723,986</u>

Capital expenditure commitments

		2013	2012
		\$	\$
Investment property	12a	9,700,000	-
		<u>9,700,000</u>	<u>-</u>

12a. On 7 June 2013 the Trust signed a Contract of Sale to purchase the 110 bed aged care facility at 71 Scott Street, Dandenong, VIC ("Scottvale"). On 19 August 2013 the Trust paid \$9.7 million for the settlement of the purchase. The total acquisition cost amounted to \$9.9 million plus stamp duty and associated due diligence fees; \$200,000 was held on deposit as at 30 June 2013 (Note 6).

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

NOTE 13: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liability and contingent asset – retirement village resident loans

As at 30 June 2013, the Trust owns the freehold of two (2012: two) 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 retirement village complex, 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 within the retirement village complex), 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 (2012: \$5,994,000). 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 (2012: \$5,994,000).

NOTE 14: SEGMENT REPORTING

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

NOTE 15: CASH FLOW INFORMATION

	2013	2012
	\$	\$
Reconciliation of net profit attributable to unitholders to net cash flow from operating activities		
Net profit attributable to unitholders	12,253,496	10,056,317
Non-cash flows in profit		
IFRS rent straight lining adjustment	(419,353)	(90,939)
Loss/(gain) on disposal of surplus land & buildings	-	(864,316)
Unrealised (gains) / losses in fair value of investment properties – net movement	(2,364,366)	(3,190,051)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase) / decrease in receivables	(2,210)	1,278
Increase / (decrease) in payables	(1,501,706)	477,606
Due diligence and refinancing costs expensed	355,097	1,100,476
Increase / (decrease) in financing costs payable	344,717	750,095
Increase / (decrease) in GST payable	73,372	(379,655)
	8,739,047	7,860,811

15a. The Statement of Cash Flows on page 10 of the financial statements shows payments to suppliers during the year of \$3,784,235 (2012: \$1,653,904). These payments are higher than the prior financial period as the figure for the year ended 30 June 2012 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 2012, and so were included in trade payables as at 30 June 2012.

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

NOTE 16: EVENTS AFTER REPORTING PERIOD

- a. In April 2013 Japara Property Management Limited in its capacity as the Responsible Entity for the Trust, issued an Information Memorandum ("IM") in connection with an offer of units in the Trust ("Offer"). Japara Property Management Limited is seeking to raise new capital from existing and new unitholders.

As at the date of signing this report \$45,208,481 (41,835,935 units) has been raised relating to the Offer and the Directors are continuing with the capital raising program.

- b. As at the date of signing this report Japara Property Management Limited in its capacity as the responsible entity for the Trust, has appointed advisors to assist in refinancing the Trust's banking arrangements with a view to obtaining longer term funding at lower rates.
- c. On 19 August 2013 the Trust paid \$9.7 million for the settlement of the purchase of 71 Scott Street, Dandenong, VIC. The total acquisition cost amounted to \$9.9 million plus stamp duty and associated due diligence fees; \$200,000 was held on deposit as at 30 June 2013.

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.

The financial report was approved by the Directors of the Responsible Entity on 30 September 2013.

NOTE 17: 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 | - (Mark) Andrew Sudholz |
| - Julius Colman | - Allan Reid |
| - Robert Peck A.M | |

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

The 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 management activities performed on behalf of the Trust.
- Japara Developments Pty Ltd acts as project manager for the Trust on certain property developments undertaken by the Trust and receives a fee calculated on an arm's length commercial basis for providing this service.

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

NOTE 17: RELATED PARTY TRANSACTIONS (CONT.)

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 table sets out the relevant interest in Units of the Trust for each director of the Responsible Entity.

	30 June 2013	30 June 2012
	No. of Ordinary Units	No. of Ordinary Units
<i>Non-executive directors</i>		
Mr Raymond Schoer (Chairman)	-	-
Mr Julius Colman	9,667,422	7,544,026
Mr Allan Reid	2,218,245	2,218,245
Mr Robert Peck A.M	809,995	559,995
<i>Executive directors</i>		
Mr (Mark) Andrew Sudholz (Managing Director)	1,856,631	856,631

On 30 September 2013 the interests of Mr Colman and Mr Sudholz in the ordinary units of the Trust increased by 550,000 and 471,699 respectively.

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 2013 and as at 30 June 2013, Japara Holdings Pty Ltd acquired 237,225 ordinary fully paid units in the Trust (2012: Nil). Distributions of \$21,350 were paid to Japara Holding Pty Ltd during the year in relation to its unit holding in the Trust. Neither the Responsible Entity nor any other associated companies held any units in the Trust (2012: Nil).

On 1 July 2013, Japara Holdings Pty Ltd subscribed \$3,000,000 and acquired 2,777,778 ordinary fully paid units in the Trust in connection with the offer detailed in note 11. On 18 September 2013, Japara Holdings Pty Ltd acquired a further 2,985,486 ordinary fully paid units for \$3,250,000 in connection with the offer detailed in note 11.

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 and in accordance with the Constitution of the Trust. Reimbursement of costs have increased this year as they include costs associated with the current capital raising exercise (note 11):

	2013	2012
Provision of services by the Responsible Entity to the Trust:	\$	\$
Management fees	1,459,005	1,407,383
Reimbursement of costs	1,139,622	484,616

Japara Aged Care Property Trust

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

NOTE 17: RELATED PARTY TRANSACTIONS (CONT.)

As at 30 June 2013, an amount of \$373,750 (2012: \$350,250) was included in the Statement of Financial Position as an accrued expense in respect of management fees for the quarter ended 30 June 2013 (2012: quarter ended 30 June 2012).

As at 30 June 2013, an amount of \$Nil (2012: \$1,546,470) was included in the Statement of Financial Position as a trade payable in respect of management fees owed.

(ii) Interest

	2013	2012
	\$	\$
Interest incurred by the Trust to the Responsible Entity (debt facility fee)	-	14,945
Interest incurred by the Trust to Japara Holdings Pty Ltd	136,367	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 \$136,367 (2012: \$759,432) of which \$24,032 (2012: \$83,737) remained unpaid at reporting date. Japara Holdings Pty Ltd loaned a total of \$4,880,677 (2012: \$15,700,000) to the Trust during the year, of which the Trust repaid \$16,405,677 (2012: \$1,300,000) during the year. As at reporting date, the loan balance amounted to \$2,875,000 (2012: \$14,400,000). Subsequent to the reporting date the loan has been repaid in full.

	2013	2012
	\$	\$
Interest received from wholly owned subsidiaries of Japara Holdings Pty Ltd, which is a related party of the Trust	126,964	170,793

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 ended 30 June 2013 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 has been completed. The intention is to sell the surplus land to associated entities at fair market value or to be sold to an external third party at fair market value. No formal plan has been agreed upon at the date of signing the report.

(iii) Rent

	2013	2012
	\$	\$
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 Trust.	20,695,045	20,088,466

Rent paid is in the normal course of business and on normal terms and conditions. At 30 June 2013, the Trust has accrued an amount of \$Nil (2012: \$Nil) for rent receivable from related parties.

(iv) Due diligence, refinancing and other associated costs

	2013	2012
	\$	\$
An accrual for fees to be recharged by the Responsible Entity, in respect of the Trust's estimated share of these costs. The amount owing as at 30 June 2012 was repaid in full during the financial year.	-	1,055,528

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

NOTE 18: 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 19, 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 (2012: \$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.

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

NOTE 18: 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 19, Financial Instruments.

Unitholder funds are classified as equity as in accordance accounting standards, 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 Trust has 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 2013, 87.2% (2012: 0.0%) of the total debt (excluding unitholder funds) is at a fixed rate.

Interest rate swap contracts

Under interest rate swap contracts, the Trust agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Trust to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

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

NOTE 18: FINANCIAL RISK MANAGEMENT (CONT.)

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

Cash flow hedges

Outstanding
receive floating
pay fixed
contracts

	Average contracted fixed interest rate		Notional principle value		Fair value	
	30/06/2013	30/06/2012	30/06/2013	30/06/2012	30/06/2013	30/06/2012
	%	%	\$	\$	\$	\$
2 to 5 years	6.37%	-	112,000,000	-	(1,710,601)	-
			112,000,000	-	(1,710,601)	-

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the local interbank rate of Australia. The Trust will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Trust's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

The Trust has performed a sensitivity analysis on the Trust's Statement of Profit or Loss and Other Comprehensive Income 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 2013 and 30 June 2012. 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 \$96,000 (2012: \$1,072,000 decrease).

If interest rates were 100 basis points lower, the effect on income would be an increase of \$96,000 (2012: \$1,072,000 increase).

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

NOTE 18: 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 2013 and 30 June 2012. 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 \$6,020,000 (2012: \$5,820,000 increase).

If property values were 2.5% lower, the effect on income would be a decrease of \$6,020,000 (2012: \$5,820,000 decrease).

Bank debt facilities term extension risk

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

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

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

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

NOTE 19: FINANCIAL INSTRUMENTS

NON-DERIVATIVE 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		
2013		\$	\$	\$	\$	\$
Financial assets:						
Cash and cash equivalents	2.89%	3,895,091	-	-	-	3,895,091
Receivables	0.00%	-	-	-	8,847,471	8,847,471
Total financial assets		3,895,091	-	-	8,847,471	12,742,562

NON-DERIVATIVE 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

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

NOTE 19: FINANCIAL INSTRUMENTS (CONT.)

NON-DERIVATIVE 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		
2013		\$	\$	\$	\$	\$
Financial liabilities:						
Bank bills secured	6.33%	13,500,000	-	112,000,000	-	125,500,000
Trade and other payables	0.00%	-	-	-	5,132,042	5,132,042
Related party loans	6.07%	2,875,000	-	-	24,032	2,899,032
Total financial liabilities		136,015,887	-	112,000,000	5,156,074	253,171,961

NON-DERIVATIVE 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
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:

	2013	20112
	\$	\$
Within 1 year – see note (i) below	-	109,658,000
Between 1 and 2 years	9,000,000	-
Between 2 and 3 years	116,500,000	-
	125,500,000	109,658,000

Note (i)

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

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

NOTE 19: FINANCIAL INSTRUMENTS (CONT.)

Note (ii)

The weighted average effective interest rate of bank loans for the year ended 30 June 2013 has decreased to 6.33% (2012: 7.65%) as a result of decreasing interest rates throughout the year.

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 20: 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 Property Trust

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DIRECTORS' DECLARATION

DIRECTORS' DECLARATION OF THE TRUSTEE COMPANY

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

1. The financial statements and notes, as set out on pages 7 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 2013 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

30 September 2013

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

Report on the Financial Report

We have audited the accompanying financial report of Japara Aged Care Property Trust (the "Scheme"), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Nexia Melbourne

Level 18, 530 Collins Street, Melbourne VIC 3000
p +61 3 9608 0100, f +61 3 9608 0192
info@nexiamelbourne.com.au, www.nexia.com.au

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*Independent Auditor's Report
To the Unitholders of Japara Aged Care Property Trust*

Independence

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

Auditor's Opinion

In our opinion:

- a. the financial report of Japara Aged Care 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 2013 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; 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

30 September 2013