

## ASX APPENDIX 4E

### Results for Announcement to the Market

#### Preliminary final report

#### For the year ended 30 June 2016

This Appendix 4E, together with the attached Annual Financial Report for the year ended 30 June 2016 (**Annual Financial Report**), comprise the information required to be given to the ASX in accordance with Listing Rule 4.3A.

#### Reporting period

Reporting period: The year ended 30 June 2016

Previous corresponding reporting period: The year ended 30 June 2015

#### Comparison to previous period

	<b>Increase/ (decrease)</b>	<b>30 June 2016 \$'000</b>	<b>30 June 2015 \$'000</b>	<b>Change %</b>
Revenue from ordinary activities	Increase	327,266	281,249	16.4
Profit from ordinary activities after tax attributable to members	Increase	30,375	28,839	5.3
Net profit for the year attributable to members	Increase	30,375	28,839	5.3

For an explanation of the figures and changes reported above refer to the Directors' Report included within the Annual Financial Report.

#### Dividends

	<b>Amount per share (cents)</b>	<b>Franked amount per share at 30% tax rate (cents)</b>	<b>Payment Date</b>	<b>Record Date</b>
2016 final dividend	5.75	5.75	31/10/16	28/09/16
2016 interim dividend	5.75	5.75	16/05/16	08/04/16

A dividend reinvestment plan (**DRP**) was introduced during the year ended 30 June 2016 and will operate in respect of the 2016 final dividend. No discount will be applied when determining the price at which shares will be issued under the DRP for this dividend. The last date for receipt of an election notice to participate in the DRP for the 2016 final dividend is 29 September 2016.

**Net tangible assets per security**

Net tangible assets per ordinary share as at 30 June 2016 were 25.3 cents (2015: 43.7 cents). The downward movement in net tangible assets per security is due to the accounting treatment of resident places obtained during the year as part of the Profke Aged Care Group acquisition (refer Note F1 of the Annual Financial Report).

**Entities over which control has been gained during the period**

On 1 December 2015, the Company acquired Noosa Nursing Home Pty Ltd (now known as Aged Care Services 39 (Noosa) Pty Ltd) as part of the Profke Aged Care Group acquisition (refer note F1 to the 2016 Annual Financial Report).

**Commentary on the results for the year**

Please refer to the 2016 Annual Financial Report attached and Media Release.

**Status of audit**

The Annual Financial Report for the year ended 30 June 2016 has been audited. The audit opinion is unqualified.

**Japara Healthcare Limited  
and  
Controlled Entities  
ABN 54 168 631 052**

**Annual Financial Report  
For the year ended 30 June 2016**

## **Annual Financial Report**

### **For the year ended 30 June 2016**

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## CHAIRMAN'S REVIEW

Dear Shareholders,

On behalf of the Directors, I am pleased to present the 2016 Annual Report for Japara Healthcare Limited.

### **Our priority is delivering high quality care for our residents**

Japara Healthcare's commitment to care remains the cornerstone of our strategy and underpins our ability to deliver strong and sustainable returns for our shareholders. We are continuing to see people entering residential aged care at a later age, with greater care needs than they have had in the past. Our high-care focused operating model ensures that we can facilitate 'ageing in place' by supporting residents with complex healthcare needs and providing specialised services to residents with dementia. We have a team of registered nurses rostered to work on every shift in every facility, who are supported by a dedicated team of enrolled nurses and carers.

Beyond our clinical healthcare services, we are always developing and delivering new ways to meet our residents' lifestyle, wellbeing and social needs. We want to make it easier for families and friends to spend quality time with residents in our facilities, so we are introducing new features such as living areas in residents' private rooms and communal playgrounds in some of our new and refurbished homes. We are also continuing to enhance the lifestyle and wellbeing choices available for our residents. A number of our in-house chefs have completed training with Maggie Beer, leading to fresh and innovative new menu options. New technologies for the comfort of dementia residents are being trialed across a number of our homes.

### **Expanding our capacity to cater to growing demand**

Japara Healthcare's strategy is to deliver new and upgraded facilities progressively by refurbishing older homes to meet residents' contemporary lifestyle and clinical care needs; developing brownfield extensions to existing facilities to add required capacity; designing and constructing greenfield projects in attractive, under-served metropolitan locations; and acquiring and integrating new facilities into our network.

I am pleased to report that the Group's refurbishment and development projects have strong momentum. Two facility refurbishments were completed during the year, and we are continuing to work hard to upgrade and modernise older homes with another five brownfield projects currently underway. We have also added to our greenfield development pipeline, with four well-positioned metropolitan sites secured during the year, enhancing our existing networks in Victoria and New South Wales.

We remain on track to develop over 900 new places by the end of FY19. Importantly, Japara Healthcare has already secured most of the sites and licenses needed to achieve this target.

Japara Healthcare has continued its strategic and disciplined approach to acquisitions during the year. Our strategy is focused on opportunities that enhance our national footprint and present compelling opportunities for value creation when integrated with the Group's broader portfolio. In December 2015, we purchased the 587 place Profke Aged Care Group, which has pleasingly performed ahead of our initial expectations. We have now added 845 places to our portfolio through acquisitions since our IPO in 2014, and will continue to assess acquisition opportunities that create value for our shareholders.

### **Solid financial performance, 100% dividend payout ratio maintained**

I am pleased to report that the Group delivered another solid financial result in FY16, which again demonstrates our management team's ability to respond to the evolving regulatory environment. Revenue of \$327.3 million was up by 16.4% over last year and EBITDA of \$56.1 million was up 10.9%, despite the impact of the removal of the Payroll Tax and Dementia supplements in FY15.

The Board has determined an increase in total dividends for the year to 11.5 cents per share, up 4.5% on FY15. The dividend is in line with our stated policy of distributing up to 100% of net profit after tax to shareholders, reflecting the Board's confidence in the opportunities ahead.

As a highly cash generative business with a strong and conservative balance sheet, Japara Healthcare remains well placed to deliver on our diversified growth strategy and provide attractive and sustainable returns to our shareholders.

### **Looking forward to the opportunities ahead**

As Australia continues to navigate the challenges of an ageing population, we look forward to working constructively with the community, our peers, and the government to ensure that Australia continues to have a high quality and sustainable residential aged care sector.

We believe there are a number of opportunities for experienced operators across the broader continuum of care to help ensure our elderly population is well cared for, and we look forward to exploring strategic relationships in this area.

I would like to take this opportunity to thank the management team, and our dedicated team of over 5,000 nurses, carers, and other facility staff for their commitment to providing excellent care for our residents over the course of the year.

Finally, I would like to thank you, our shareholders, for your support of Japara Healthcare, and I look forward to meeting with you at the Company's Annual General Meeting if you have the opportunity to attend.



**Linda Bardo Nicholls AO**

Chairman

22 August 2016

## MANAGING DIRECTOR AND CEO'S REVIEW

Dear Shareholders,

This year, Japara Healthcare has delivered sound revenue and earnings growth, while remaining firmly focused on the implementation of our growth strategy to deliver new and improved facilities to meet the increasing demand from Australia's ageing population.

### Revenue and EBITDA growth delivered, 100% dividend payout ratio maintained

Total revenue of \$327.3 million was up 16.4%, reflecting a moderate increase in income from care and accommodation over the year and an uplift from our recent acquisitions. This was a pleasing result given the impact of the removal of the Payroll Tax and Dementia supplements in FY15, which contributed \$5.2 million in revenue in the prior year.

Occupancy remained steady on an underlying basis at 94.4%, excluding the impact of facilities undergoing refurbishment. EBITDA increased by 10.9% to \$56.1 million, which included a \$4.4 million contribution from Profke, ahead of the guidance provided at the time of acquisition. Staff costs as a percentage of revenue increased marginally to 67.1% (FY15: 66.4%), reflecting our high care focus and the increasing acuity profile of our residents.

Group net profit after tax increased to \$30.4 million, equating to earnings per share of 11.5 cents. The Board has maintained a dividend payout ratio of 100% in FY16, declaring total dividends of 11.5 cents per share (FY15: 11.0 cents per share).

### Financial summary:

	FY16	FY15	Change
	\$m	\$m	%
<b>Total revenue</b>	327.3	281.3	16.4
<b>Total expenses</b>	271.2	230.7	17.6
<b>EBITDA</b>	56.1	50.6	10.9
<b>NPAT</b>	30.4	28.8	5.6

### High-care model meets growing resident healthcare needs

The fundamentals of the residential aged care industry remain favourable, with over 82,000 new places forecast to be required over the next decade to meet the needs of Australia's ageing population. Additionally, we are seeing people enter residential aged care at a later age, with more chronic and complex health conditions, and an increasing prevalence of dementia.

Our strong care focus provides an important foundation to ensure we can continue to deliver sustainable growth, and we are continuing to invest in training programs for our staff and innovation in our services to support our capabilities in complex healthcare delivery.

**Opportunities continue to emerge**

Japara Healthcare's strategy is focused on growing and enhancing our existing portfolio of residential aged care facilities, together with the continuous improvement of the product and service offering for our residents.

This year, we continued to roll out our additional service offering across the business. While this has been progressing well, we have identified a number of opportunities to improve our offer, and are planning to reposition and expand this program in FY17.

The industry is continuing to evolve to offer consumers more choice and control over the services they receive and to better integrate residential aged care with other healthcare services provided across the broader continuum of care. We remain well placed to develop new products and services for residents to capitalise on these opportunities over the medium term.

Due to the high quality and location of our facilities we see good opportunity for uplift in capital from Refundable Accommodation Deposits (RADs) and increasing revenue from Daily Accommodation Payments (DAPs) and additional services.

**Expanding our capacity and strengthening our development pipeline**

Japara Healthcare has continued to implement its strategy to significantly expand our portfolio through development of new facilities to meet future demand (greenfields) and through refurbishments and extensions of a number of our existing facilities (brownfields).

Our brownfield program continues to add capacity and progressively modernise our facilities to meet the contemporary needs and expectations of today's residents. During the year, 54 new places were added as we completed brownfield projects at Trevu in South Australia and Bayview in Victoria. Five further brownfields are currently underway, with four of these to be completed in FY17.

The Company's greenfield strategy is focused on enhancing our existing portfolio by building new high quality facilities in attractive metropolitan locations. Site selection is supported by extensive internal research on local demand dynamics, which are expected to underpin strong occupancy and pricing when new facilities are opened. We have now secured most of the required sites to deliver our current pipeline of over 900 places by the end of FY19.

Japara Healthcare's success in the Department of Health's 2015 Aged Care Approvals Round (ACAR) saw the Company awarded provisional licences for an additional 313 places. Together with licences already held, this means that we have most of the licences to deliver the current development pipeline.

The Company also expects to benefit from an uplift in Significant Refurbishment income as we continue to invest in our portfolio to maintain asset lifecycle and quality of accommodation.

Overall, our developments are self-funding through RADs, with bank debt drawn to fund the construction which is then repaid with the incoming RADs when facilities are opened.

**Strong track record of value-accretive acquisitions**

The Company has continued its strong track record of value accretive acquisitions, successfully completing its purchase of the Profke portfolio in December 2015. The acquisition added 587 places to our portfolio, expanding our national presence into Queensland and increasing our footprint in New South Wales.

As highlighted at the time of acquisition, we see significant potential to improve and enhance the Profke business through the implementation of Japara Healthcare's operating model and the upgrade and reconfiguration of a number of facilities. The Profke business is being successfully integrated and we are pleased to confirm our expectation that its annualised EBITDA contribution will reach approximately \$9.5 million within 18 months.

Japara Healthcare will continue to assess acquisition opportunities that meet our strict acquisition criteria, with a focus on targets with strong care fundamentals, which expand our national footprint, offer the potential for business improvement under our ownership, and importantly, are value accretive for our shareholders.



## **Outlook**

Looking ahead, Japara Healthcare expects to continue to deliver sustainable earnings growth in FY17, with EBITDA expected to grow at a similar rate to FY16.

The Company expects to benefit from the full year contribution from recent acquisitions, and a further contribution from brownfield and greenfield developments in FY17. Due to the timing of the planned delivery of the development pipeline over the course of the year, contributions from developments completed in FY17 are expected to increase further in FY18 and beyond.

In the third year since the Living Longer Living Better reforms were implemented, the transition to post-reform income (DAPs, additional services and significant refurbishment), from pre-reform income (such as bond retention and accommodation charges) will continue, with the mix of revenue continuing to skew toward post-reform income streams.

Following moderate growth in income from care and accommodation in FY16, we are anticipating low single-digit ACFI growth in FY17, reflecting our residents' growing clinical healthcare requirements. Additionally, we expect to make further investments in capability in the year ahead to support the business' development and growth strategy.

As the residential aged care sector continues to change, Japara Healthcare is well placed to deliver sustainable earnings growth with a sound, diversified growth strategy underpinned by a focus on high quality resident care. The Company has a prudent approach to fiscal management, maintains a conservative balance sheet, and has diverse sources of capital to support the exciting growth strategy ahead.

## **Thank you**

The dedication and commitment of our team of over 5,000 nurses, carers and other staff across the country is central to our ability to provide high quality care and wellbeing services to our residents. I would like to thank each of you for your valued contribution during the year.

To our shareholders, I would like to extend my gratitude for your continued support of Japara Healthcare in FY16, and I look forward to seeing you at our upcoming AGM.



**Andrew Sudholz**

Managing Director and CEO

22 August 2016

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report

For the year ended 30 June 2016

The directors present their report together with the consolidated financial statements of Japara Healthcare Limited (**the Company**) and its controlled entities (**the Group**) for the financial year ended 30 June 2016 and the Independent Auditor's Report thereon.

### 1. Directors

The directors of the Company at any time during the financial year and up to the date of this report were:

#### **Linda Bardo Nicholls AO**

BA (Econ), MBA,  
FAICD (Life)  
Non-Executive Chairman  
*Director since 19 March  
2014*

Linda is a senior executive and company director with more than 30 years experience across Australia, New Zealand and the United States. Presently, Linda has directorships with Fairfax Media, Medibank Private, and the Olivia Newton John Cancer Research Institute.

Previously, she has held the position of Chairman at some of Australia's most well-regarded companies, including Healthscope, Yarra Trams and Australia Post, and was a director of Pacific Brands Group, St George Bank and Sigma Pharmaceuticals Group.

Linda holds a Masters of Business Administration from Harvard Business School and a Bachelor of Arts in Economics from Cornell University and is a Life Fellow of the Australian Institute of Company Directors.

During the last three years she has also been a director of Keolis-Downer Group, Low Carbon Australia Limited and the Walter and Eliza Hall Institute of Medical Research.

#### **Other Current Australian Listed Company Directorships:**

Medibank Private (appointed 31 March 2014), Fairfax Media (appointed 26 February 2010).

#### **Former Australian Listed Company Directorships in Last 3 Years:**

Pacific Brands Group (resigned 15 July 2016), Sigma Pharmaceuticals Group (resigned 9 December 2015).

#### **Andrew Sudholz**

FPI, MAICD  
Managing Director and  
Chief Executive Officer  
(CEO)  
*Director since 19 March  
2014*

Andrew is a founding shareholder and executive director of the Company. Andrew has more than 30 years experience in the real estate, healthcare and professional services industries.

Prior to the establishment of the Group, Andrew was a global partner of the Arthur Andersen Group, a national partner of Ernst & Young's Real Estate Advisory Services Group and the state general manager of the Triden Corporation.

He is also a fellow of the Australian Property Institute, a former president of the Victorian division and national board member of the Property Council of Australia and is currently a member of the Australian Institute of Company Directors.

Andrew holds an Associate Diploma of Valuations from the Royal Melbourne Institution of Technology.

Andrew has not held any other directorships of listed companies in the last three years.

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued)

For the year ended 30 June 2016

### 1. Directors (continued)

#### **Richard England**

FCA, MAICD

Non-Executive Director

*Director since 19 March 2014*

Chairman of the Audit, Risk and Compliance Committee and member of the Remuneration and Nomination Committee and the Zero Harm Committee.

Richard has more than 20 years experience as a non-executive director and Chairman of many ASX listed and unlisted companies across the financial services, banking, healthcare and insurance industries.

Richard is currently the chairman of Ruralco Holdings and is a non-executive director of Nanosonics and Macquarie Atlas Roads.

Prior to embarking on his career as a director, Richard was a Chartered Accountant in Public Practice and a partner at Ernst & Young, where he was the national director of Corporate Recovery and Insolvency.

He is Chairman of Indigenous Art Code Limited, the company administering the Indigenous Australian Art Commercial Code of Conduct.

Richard is a Fellow of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors.

During the last three years Richard has also been a director of Chandler Macleod Group.

#### **Other Current Australian Listed Company Directorships:**

Ruralco Holdings (appointed 9 July 2002), Nanosonics (appointed 5 February 2010), Macquarie Atlas Roads (appointed 1 June 2010).

#### **Former Australian Listed Company Directorships in Last 3 Years:**

Chandler MacLeod Group (resigned 16 April 2015).

#### **David Blight**

BAppSc

Non-Executive Director

*Director since 19 March 2014*

Chairman of the Remuneration and Nomination Committee and member of the Audit, Risk and Compliance Committee and the Zero Harm Committee.

David is currently Managing Director and CEO of ARA Australia Pty Ltd, the Australian business of the Singapore listed ARA Group. ARA is an Asia Pacific real estate investment management firm with over \$30 billion in funds under management.

His previous roles include Vice Chairman of ING Real Estate and Global Chairman and CEO of ING Real Estate Investment Management based in The Netherlands. He has also held senior executive positions with Armstrong Jones, Mirvac Group and APN Property Group. David has more than 30 years experience in the real estate industry, across all major global markets and property sectors.

David holds a Bachelor of Applied Science in Property Resource Management (Valuation) from the University of South Australia and is a Board member of APREA (Australian Chapter).

David has not held any other directorships of listed companies in the last three years.

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued)

For the year ended 30 June 2016

### 1. Directors (continued)

#### JoAnne Stephenson

BComm, LLB, CA,

MAICD

Non-executive Director

*Appointed as a Director*

*on 1 September 2015*

Chairman of the Zero Harm Committee and member of the Audit, Risk and Compliance Committee and the Remuneration and Nomination Committee.

JoAnne holds a Bachelor of Commerce and Bachelor of Laws (Honours) from the University of Queensland and is a member of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors.

She has over 25 years of extensive experience in financial services having been a partner with KPMG and has key strengths in finance, accounting, risk management and governance.

She is currently a Non-Executive Director of ASX listed Asaleo Care Limited and Challenger Limited, Chair of the Audit and Risk Committee of the Department of Health and Human Services (Victoria), Chair of the Melbourne Chamber Orchestra and the Independent Chair of two Latitude Insurance entities in Australia.

JoAnne was also previously a Non-Executive Director of the Peter MacCallum Cancer Institute.

#### **Other Current Australian Listed Company Directorships:**

Asaleo Care (appointed 30 May 2014), Challenger (appointed 8 October 2012).

#### Tim Poole

BComm, CA

Non-Executive Director

*Appointed as a Director*

*on 19 March 2014 and*

*retired as a Director on 1*

*September 2015*

Tim began his career in 1990 at Price Waterhouse before a long and successful period (1995 to 2007) helping to build Hastings Funds Management where he became Managing Director in 2005.

Tim is Chairman of Aurizon Holdings Limited, Westbourne Credit Management Limited, McMillan Shakespeare Limited and Lifestyle Communities Limited.

He was formerly Chairman of Asciano Limited and a Non-Executive Director of Newcrest Mining Limited, and Victoria Racing Club Limited.

Tim holds a Bachelor of Commerce from the University of Melbourne and is a member of Chartered Accountants Australia and New Zealand.

#### **Other Current Australian Listed Company Directorships:**

Aurizon Holdings (appointed 1 July 2015), McMillan Shakespeare (appointed 17 December 2013) and Lifestyle Communities (appointed 19 November 2007).

#### **Former Australian Listed Company Directorships in Last 3 Years:**

Newcrest Mining (resigned 30 July 2015).

### 2. Company secretaries

#### Bruce Paterson

Bruce has over 25 years corporate experience in senior roles with listed and unlisted companies. Prior to joining Japara Healthcare, he was Company Secretary of a Top 200 ASX listed professional services company, Crowe Horwath Australasia Limited for 14 years.

Bruce was appointed as lead Company Secretary of the Company in December 2015.

He has a Bachelor of Business in Accounting and a Graduate Diploma in Company Secretarial Practices. Bruce is a Fellow of the Governance Institute of Australia, the Institute of Chartered Secretaries & Administrators and CPA Australia.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2016

#### 2. Company secretaries (continued)

##### Chris Price

Chris was appointed as Chief Financial Officer of the Company in June 2015 and as a Company Secretary in July 2015.

Chris has over 25 years experience in the financial services, professional services and manufacturing sectors. Most recently he was Managing Director of ASX listed professional services firm Crowe Horwath Australasia Limited, having previously served as the Company's Chief Financial Officer for seven years.

He is a member of Chartered Accountants Australia and New Zealand and has a Bachelor of Business from RMIT University.

#### 3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors during the financial year are:

Director	Board Meetings		Audit, Risk and Compliance Committee Meetings		Remuneration and Nomination Committee Meetings		Zero Harm Committee Meetings	
	A	B	A	B	A	B	A	B
Linda Bardo Nicholls*	12	12	6	6	4	4	2	2
Andrew Sudholz*	12	12	6	6	4	4	2	2
Richard England	12	12	6	6	4	4	2	2
David Blight	12	12	6	6	4	4	2	2
JoAnne Stephenson	9	10	4	4	3	3	2	2
Tim Poole	2	2	2	2	1	1	n/a	n/a

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the financial year

\* - Attended Committee meetings by invitation

#### 4. Principal activities

The principal activities of the Group during the financial year was that of owner, operator and developer of residential aged care facilities. No significant change in the nature of these activities occurred during the financial year.

#### 5. Operating and financial review

##### Overview of the Group

The Group is one of the largest private sector residential aged care operators in Australia with over 4,700 resident places and approvals for places nationally across 43 facilities located in Victoria, New South Wales, Queensland, South Australia and Tasmania.

In conjunction with the business of providing aged care services, the Group also operates 180 Independent Living Units (ILUs) across five retirement villages, located adjacent to its aged care facilities. Retirement village revenue accounts for less than 1% of the Group's operations by revenue.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2016

#### 5. Operating and financial review (continued)

Since inception in 2005, the Group has successfully expanded its business and achieved significant growth in earnings by:

- Development and expansion of facilities;
- Selective acquisition of facilities; and
- Implementation of the Group's care and operating model.

In 2014 the Group was restructured resulting in an Initial Public Offering of Ordinary Shares (**IPO**). Japara Healthcare Limited was admitted to the official list of ASX Limited on 17 April 2014.

The Group's provision of care is underpinned by an operating model that is designed to facilitate ageing-in-place by servicing the full spectrum of resident care needs. It specialises in high acuity care including dementia. This operating model is aimed at achieving:

- above industry average occupancy levels through providing a high standard of resident care;
- eligible Government care funding matched to resident acuity; and
- cash flow generation to meet working capital requirements, facilitate future growth and provide returns to shareholders.

#### Funding sources

The Group derives funding from two main sources, being operating funding (Government funding, resident contributions and accommodation charges) and capital funding (Refundable Accommodation Deposits (**RADs**)).

##### **Government and resident contributions**

As an Approved Provider of residential aged care services as determined by the Department of Health (**Department**), each of the Group's facilities is eligible to receive funding contributions from the Government. Funding is in the form of subsidies and supplements for approved residents in funded places, on a per resident per day basis. It includes care and accommodation components. The Group derived circa 72% (2015: 72%) of its revenue from Government care funding during the financial year.

The Group also receives contributions from residents for the provision of a full spectrum of aged care services, optional additional services and daily accommodation payments. Resident fees made up approximately 28% (2015: 28%) of the Group's revenue for the 2016 financial year.

##### **Refundable Accommodation Deposits (RADs)/Accommodation bonds**

RADs (which replaced Accommodation bonds from 1 July 2014) account for a significant component of the Group's capital funding. The Group maintains a conservative RAD management regime with the average value of incoming RADs set with reference to the median house price in the relevant Local Government Authority (**LGA**).

During the 2016 financial year the Group used capital funding received from RADs for the following purposes:

- financing capital works for aged care facilities in line with its brownfield and greenfield development strategy;
- financing the acquisition of the Profke Aged Care Group; and
- repaying bank debt used to finance both capital works for aged care facilities and the acquisition of the Profke Aged Care Group.

The Group maintains a disciplined approach to capital expenditure, with all key capital projects subject to strict approval protocols. Capital expenditure comprises expenditure on asset enhancement and replacement programs and general maintenance projects. It also includes growth capital expenditure comprising brownfield and greenfield development projects and acquisition of aged care facilities.

Residents have the option to either pay a RAD, a Daily Accommodation Payment (**DAP**), or a combination of both. The DAP is calculated on a daily basis and charged monthly and recognised in revenue as a resident contribution. The value of a DAP is calculated with reference to the room value using an interest rate set by the Government.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2016

#### 5. Operating and financial review (continued)

##### **Bank debt**

The Group may borrow money from time to time in order to finance its activities. During the financial year, the Group, together with its existing bankers, executed a new Syndicated Facility Agreement and Multi-Option Facility Agreement (**Bank Facilities**). These new Bank Facilities were negotiated to assist finance for planned short and medium term brownfield and greenfield developments program of the Group.

##### **Key costs**

The Group's key cost relates to labour, which is approximately 67% (2015: 66%) of total revenue for the financial year. Other costs include medical supplies, catering, cleaning, consumables, repairs and maintenance, energy, utilities and corporate costs.

As one of the largest operators of residential aged care services in Australia, the Group leverages its ability to achieve cost advantages through internalisation and centralisation of certain functions, economies of scale and Group buying power.

##### **Review of operations**

	2016 \$'000	2015 \$'000	Change %
Revenue and other income	327,266	281,249	16.4
Earnings Before Interest, Tax, Depreciation and Amortisation ( <b>EBITDA</b> )	56,102	50,590	10.9
Net Profit After Tax ( <b>NPAT</b> )	30,375	28,839	5.3

Net profit amounts have been calculated in accordance with Australian Accounting Standards (**AASBs**).

##### **Operational highlights**

Increases in revenue, EBITDA and NPAT in the year were achieved through:

- A moderate year-on-year uplift in income from care and accommodation;
- The acquisition of the Profke Aged Care Group, which contributed operating EBITDA of \$4.4 million; and
- Steady occupancy with average occupancy of 94.4%, excluding sites acquired in the financial year and sites under development (2015: 94.8%) which was generally in line with expectations.

This is a pleasing result following the Government's decision to cease the Dementia supplement and the Payroll Tax supplement effective 31 July 2014 and 1 January 2015 respectively, which contributed \$0.6 million and \$4.6 million respectively to revenue in FY2015.

The Group operates a care-centric business model as described earlier above. The vast majority of the Group's workforce is unionised and in FY2016 wage costs increased by approximately 3.25% in accordance with Enterprise Bargaining Agreements (**EBAs**). Staff costs as a percentage of the Group's revenue for the financial year were 67% (2015: 66%).

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2016

#### 5. Operating and financial review (continued)

##### Review of financial position

A summary of the audited Statement of Financial Position is set out below:

	2016 \$'000	2015 \$'000	Change %
Total assets	1,069,994	915,799	16.8
Total liabilities	537,689	385,760	39.4
Net assets	532,305	530,039	0.4

The Group's total assets increased by 16.8% during the financial year. This was primarily due to the acquisition of the Profke Aged Care Group, which included four residential aged care facilities accommodating over 500 residents. Other material increases in assets resulted from the Group's capital expenditure on purchasing land, and brownfield and greenfield development expenditure in line with the Group's growth strategy.

Total liabilities increased by 39.4%, which was mainly due to:

- an increase in the RAD/accommodation bond liability of \$80.6 million; and
- a bank loan balance at 30 June 2016 of \$59.5 million.

Net RAD cash inflows for the financial year were \$54.9 million, which represents an increase in both number of RAD payers and average RAD value, and includes RADs received from 54 new places opened across two sites. The acquisition of the Profke Aged Care Group also increased the RAD liability by a further \$25.2 million.

During the financial year \$36.5 million of the Bank Facilities was drawn down to fund brownfield and greenfield developments and \$37.5 million was drawn down to fund part of the purchase of the Profke Aged Care Group, \$12.5 million of which was repaid within the year. A total of \$59.5 million was drawn down against the Bank Facilities as at the reporting date.

The Group's current liabilities exceed current assets by \$431.0 million (2015: \$315.8 million) as at 30 June 2016. This mainly arises because of the requirement to classify resident obligations relating to RADs/accommodation bonds and ILU resident loans as current liabilities, whereas, the property, plant and equipment, investment properties and intangible assets to which they relate are required to be classified as non-current assets.

The Group maintains a minimum level of liquidity to ensure RADs/accommodation bonds are able to be refunded as required and its working capital requirements are generally consistent throughout the course of a financial year with no significant variations. The Group's cash position is expected to provide sufficient liquidity to meet the Group's current anticipated cash requirements.

Over time, the Group may seek additional funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risk.

##### Business strategies and prospects for future financial years

The Group is committed to maximising the value in its current portfolio through **organic growth** while maintaining a high level of resident care in line with its care and operating model as described earlier in the overview of the Group.

In addition to organic growth the Group has an expansion plan which centres on increasing the size of its aged care portfolio through **brownfield and greenfield developments** and through **the acquisition of existing aged care facilities**.



## **Japara Healthcare Limited and Controlled Entities**

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### **Directors' Report (continued)**

**For the year ended 30 June 2016**

#### **5. Operating and financial review (continued)**

The Group is a supporter of reform that appropriately balances the community need for high quality residential aged care and the sector's financial sustainability. In FY2016 the Government highlighted the importance of the continuum of care model and the goal of enabling a seamless transition between home and residential care. The Group will continue to build on current relationships with complementary businesses and will look to develop relationships and opportunities across the care continuum in the medium term.

##### ***Organic growth***

###### **i. Additional services**

In FY2015 the Group introduced a suite of additional services that are available to its residents. Revenue from additional services has grown year-on-year and is expected to generate further revenue growth from resident contributions as they access these services. These services include hairdressing, pay TV, superior room furnishings, concierge services and various non-clinical therapy services and are now offered to all residents including those who occupy the pre-reform "high care" places in the Group's existing portfolio. In addition the majority of the Group's brownfield and greenfield developments will include additional service offerings once these are completed.

###### **ii. Cost reduction initiatives**

The Group reviews each of its major supplier and service contracts as they come to the end of their term. Further costs savings are expected as these supply and service contracts are re-tendered.

###### **iii. Occupancy levels**

The Group has historically maintained high occupancy levels, and continues to target incremental improvement in occupancy across its portfolio. A dedicated client services team works with the facility managers on a daily basis to maintain a close relationship with the Group's resident consumer base and referral network. Benchmarking occupancy levels across the Group and amongst its competitors is used for strategic direction and initiatives.

The Group continues to provide care and services that are closely aligned with consumer demands and is proactive in strategic marketing activities to ensure the Group's high occupancy objective is met. In addition, the Group's growth strategy is targeted towards undersupplied regions, as identified by its internal research team, which helps support high occupancy levels across the Group.

###### **iv. RAD/DAP funding**

The Group has received strong net RAD inflows during the year totalling \$54.9 million. Further new capital is anticipated to be received from new RADs linked to newly delivered operational places, as well as RAD uplift emanating from the existing portfolio. Specifically, the Group's portfolio comprises a significant number of places which were previously licensed as "high care" places and could not be charged an accommodation bond. Since 1 July 2014 a large number of these places can now attract a RAD under the aged care reform. The capital from RADs on these places was partly received in FY2015 and FY2016, and more is expected to be received over the next year.

##### ***Brownfield and greenfield developments***

The Group's current development program is to deliver over 900 new places to the market by the end of FY2019. In FY2016 the development of 30 new places and significant refurbishment of existing places at the Group's Bayview facility in Carrum Downs, Victoria, was completed and 24 operational places were added to the portfolio upon the completion of the new 69 place facility at Trevu, South Australia. A further five projects should be completed in FY2017.

The Group will utilise the 751 resident places that it was allocated during the Department's 2014 & 2015 Aged Care Approvals Rounds to meet its circa 900 place development program with the balance to be obtained either transferred from its current facilities with non-operational places (current non-operational places held: 228), from future Aged Care Approvals Rounds or by acquisition.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2016

#### 5. Operating and financial review (continued)

It is estimated that the brownfield and greenfield construction costs of future developments will be repaid by the RAD inflows received from residents entering these facilities post completion.

During FY2016 and up to the date of signing this report the Group has secured land for greenfield developments in Newport, Mt Waverley and Rye in Victoria and Belrose in New South Wales and will continue to look for land in under supplied areas in FY2017.

At the date of this report the following development projects are in the construction or planning phase:

- Kirralee, Ballarat, Victoria - 13 place extension and significant refurbishment, expected completion September 2016;
- George Vowell, Mt Eliza, Victoria - 34 place extension and significant refurbishment, expected completion October 2016;
- St Judes, Narre Warren, Victoria - 30 place extension and significant refurbishment, expected completion November 2016;
- Central Park, Windsor, Victoria - significant refurbishment of the entire facility, expected completion December 2016;
- Riverside, Launceston, Tasmania - 90 place new build expected to be completed May 2017;
- Kingston Gardens, Springvale South, Victoria - 56 place extension and significant refurbishment, expected to be completed in FY2018;
- Glen Waverley, Victoria - 60 place new build expected to be completed in FY2018;
- Rye, Victoria - 95 place new build expected to be completed in FY2018;
- Newport, Victoria - 120 place new build expected to be completed in FY2018;
- Belrose, New South Wales - 110 place new build (45 net new places) expected to be completed in FY2019; and
- Mt Waverley, Victoria - 125 place new build (95 net new places) expected to be completed in FY2019.

As these projects are completed, the Group will also receive funding from the Significant Refurbishment accommodation supplement which provides a potential additional \$19 per day for each concessional resident in newly built or significantly refurbished facilities.

The Group remains on track to deliver new places in line with its brownfield and greenfield program.

#### **Acquisitions of existing aged care facilities**

The Group continues to review acquisition opportunities of existing aged care facilities. The Group targets individual or groups of facilities where shareholder value can be enhanced through operational improvements, specifically the implementation of the Group's care and operating model, Group buying power and removal of duplicated administration costs. This was demonstrated following the Group's acquisition and successful integration of the Profke Aged Care Group during FY2016 (see note F1 of the financial statements), adding 587 resident places to the Group.

#### *A disciplined and selective approach*

The Group has established policies and procedures for the acquisition of additional aged care facilities. As part of the due diligence process, pricing is confirmed by independent valuations undertaken by the Group's panel of valuers for both the business and real estate components. The Group undertakes formal legal, financial, property, operational and compliance due diligence on each facility before completing any acquisition.

Typically, management targets facilities where expertise can be applied in the short-term to improve the performance of the facility. The Group utilises its existing infrastructure and compliance platform to successfully execute acquisitions including the application of strict investment criteria to identify and filter acquisition opportunities, subject to market conditions and availability of capital.

The Group's key acquisition investment criteria include:

- **Demand:** facilities in locations that have unmet demand;
- **Network enhancement:** facilities in locations that enhance the Group's national presence;

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2016

#### 5. Operating and financial review (continued)

- **Strong care fundamentals:** facilities that have strong care fundamentals and accreditation histories, as well as strong governance around care delivery and ACFI funding;
- **Growth:** operational facilities that provide potential for long term growth from income and RADs;
- **Cash flow:** facilities that have a substantial income flow; and
- **Value creation:** facilities that provide an opportunity for strategic value enhancement and asset management strategies to enhance returns to investors through:
  - purchasing undervalued assets which may be mispriced due to complexities of ownership, capital structure, planning controls or ineffective management processes;
  - asset management through asset repositioning, refurbishment, extension and re-development of existing assets; and
  - effective deal sourcing including opportunities that are off-market or subject to capital constraints, utilising the Group's network of contacts and market intelligence.

The Group will consider the acquisition of single aged care facilities or multi-facility portfolios where the investment criteria are met.

#### **Material business risks**

##### ***Change of regulatory framework***

The Australian aged care industry is highly regulated and significantly funded by the Federal Government. Regulatory and funding changes may have an adverse impact on the way the Group promotes, manages and operates its facilities, and its financial performance.

In addition, there is a risk that other participants in the industry may, through their actions and business practices cause future regulatory changes that will have an adverse impact on the Group's financial performance and future prospects.

The Group has limited control over this area of risk but seeks to influence regulatory decision-making through submissions and consultation at senior Government levels including within Treasury, Health and Aged Care departments. The CEO has direct responsibility for managing regulatory risk and is the Company's delegate on the Aged Care Guild which seeks to support ongoing investment in the industry to meet future demand. The CEO develops strategies, with the support of the Board, in anticipation of and to mitigate risk in regulatory change.

##### ***Reduction in occupancy levels***

In the ordinary course of its business, the Group faces the risk that occupancy levels may fall below expectations. Reduced occupancy levels may adversely affect the Group's financial performance as it would reduce the amount of Government care funding to which the Group is entitled, resident contributions, accommodation payments and RADs. A decrease in occupancy levels may also result in an increase in financing costs. Either of these occurrences would be likely to lead to a decline in the Group's profitability.

Occupancy levels are monitored daily at a facility level and reported to line management weekly. Facility Managers are responsible for their facilities' occupancy levels, which is a KPI for performance assessment purposes. Facilities are supported by line management and a dedicated client services team who have access to referrer networks and direct marketing resources. The Group Executive of Operations has overall responsibility for occupancy levels and reports directly to the CEO. The Board is provided with occupancy data on a monthly basis including trend analysis and action plans to address declines in occupancy. As a further strategy to counter reductions in occupancy levels, the Group plans its greenfield developments by only building in undersupplied geographic markets supported by independent research.

##### ***Health and safety***

The wellbeing, health and safety of residents, facility staff and visitors are critical to the Group for its on-going business operations. A poor or unsafe workplace can lead to injuries and discontentment amongst residents, relatives and staff, resulting in adverse financial performance, potential litigation and reputation issues for the Group.

## **Japara Healthcare Limited and Controlled Entities**

ABN 54 168 631 052

### **Directors' Report (continued)**

**For the year ended 30 June 2016**

#### **5. Operating and financial review (continued)**

The Group delivers care and services to its residents through a comprehensive and robust process which is supported by policies and procedures which comply with the Aged Care Act. Facility staff are under the control and supervision of qualified Facility Managers and receive regular on-going training to safeguard and promote the wellbeing, health and safety of both residents and themselves. Monthly audits and post incident investigations are conducted to identify and address risks of injury or illness. A head office team provides work, health and safety, human resources and operational support to the facilities. The Group Executive of Aged Care Services has overall responsibility for resident care services whilst the Group General Manager of Human Resources has overall responsibility for staff wellbeing. Both executives report directly to the CEO and provide monthly reports to the Board on the wellbeing, health and safety of residents and staff. The Board has recently established a Zero Harm Committee with the objective to ensure that the Company's commitment to Zero Harm is embedded across the Group and policies, procedures and practices for resident safety, clinical care and workplace health and safety are in place and overseen. Statistical reports showing injury frequency rates, near misses and other care and wellbeing indicators are provided to the Committee quarterly.

##### ***Loss of key personnel***

The Group relies on a high quality management team with significant aged care industry experience. The loss of key members of the Group's management team could adversely affect the Group's ability to operate its facilities and its business to the current standard.

This could undermine the Group's ability to effectively comply with regulations and may also result in a reduction in demand for the Group's aged care services from new and existing residents. Either of these occurrences may adversely impact on the Group's financial performance and position.

The Group has processes in place to manage the potential loss of key personnel. The Board has responsibility for CEO succession planning whilst the CEO has responsibility for succession planning of other key personnel with the support of the executive leadership team. The Board is required to be immediately advised of any resignation or termination of a key person via the Company Secretary or CEO. The Company's short term incentive (**STI**) and long term incentive (**LTI**) arrangements for key personnel are overseen by the Remuneration and Nomination Committee. These arrangements can assist with retention through the deferral of payment of cash STI's over a 2 year period and the vesting of LTI's over a 3 year period. Key personnel also have extended termination of employment notice periods in their employment contracts to allow for an orderly transition of the role.

##### ***Loss of approvals or accreditation***

Aged care facilities are required to be operated by Approved Providers and accredited in various ways. These approvals are generally subject to regular review and may be revoked in certain circumstances. Aged care facilities must be operated by an Approved Provider, certified and accredited to attract Government care and accommodation funding. If the Group does not comply with regulation and is unable to secure accreditation for the operation of its aged care facilities and resident places in the future, or if any of its existing accreditation or approvals are adversely amended or revoked, this may affect Government funding, breach bank lending covenants and therefore adversely impact the financial performance and position and future prospects of the Group.

The Group has robust policies and procedures in place covering all 44 accreditation standards. Facility staff are educated and regularly trained to ensure these standards are upheld and are supported by a quality control team. When the Group acquires a new facility, it undertakes a review of accreditation standards within three months using a gap analysis process to identify risks. New facilities are transitioned to Group standards with the support of the quality control team. The Group Executive of Aged Care Services has overall responsibility for ensuring accreditation standards are maintained and reports directly to the CEO. The Board is provided with regular reports on the outcomes of periodic Government accreditation audits with learning communicated across the Group. The STI and LTI arrangements for the executive leadership team, which includes the Group Executive of Aged Care Services and the CEO, have a gateway hurdle that the Group must maintain on-going accreditation and compliance standards.

## **Japara Healthcare Limited and Controlled Entities**

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### **Directors' Report (continued)**

**For the year ended 30 June 2016**

#### **5. Operating and financial review (continued)**

##### ***Reputational damage***

The Group operates in a commercially sensitive industry in which its reputation could be adversely impacted should it, or the aged care industry generally, suffer from any adverse publicity. Such publicity may lead to a reduction in the number of existing residents at the Group's facilities or the Group's ability to attract new residents to its facilities, both of which occurrences may adversely impact the Group's financial performance and position and future prospects.

Robust controls and processes are in place around resident care, health and safety issues. The Group seeks to avoid reputational incidents through a strong operating and control environment. When potential incidents are identified or become known they are promptly reported through the Group Executive of Aged Care Services to the other executive leadership team members and to the Board in accordance with standing policy. The executive leadership team, under the CEO's direction, is responsible for developing appropriate strategy and response. The CEO and Chief Financial Officer have authority under the Group's Communication Strategy for commenting externally on reputational related matters. The Group engages external public relations advisors and other experts as required to assist with strategy, response and handling. From an industry perspective, the Company supports and is also supported by the Aged Care Guild of which it is an active member. The Guild is proactive in raising concerns and providing positions and responses to industry related matters.

#### **6. Dividends**

Dividends paid or determined for payment on ordinary shares are as follows:

Final dividend of 5.75 cents per share (2015: 5.5 cents)	\$15,162,000
Interim dividend of 5.75 cents per share (2015: 5.5 cents)	\$15,125,000

The interim dividend paid during FY2016 was fully franked (FY2015: unfranked). The final dividend for FY2016 will be fully franked (FY2015: fully franked).

#### **7. Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Group during the year other than as disclosed elsewhere in this report.

#### **8. Events subsequent to reporting date**

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years.

#### **9. Likely developments**

Information relating to the likely developments in the operations of the Group and the expected results of those operations in future financial years is set out in section 5 and elsewhere in this report.

#### **10. Environmental regulation**

The Group's operations have a modest environmental impact and accordingly, are not subject to any particular and significant environmental regulation under either Commonwealth or State legislation.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2016

#### 11. Indemnification and insurance of officers

##### Indemnification

The Company has agreed to indemnify the current directors and officers of the Company, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company and its controlled entities, to the full extent permitted by law. The Company has also agreed to meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The Company has also agreed to meet the full amount of any such liabilities, including costs and expenses.

##### Insurance premiums

During the financial year, the Group paid a premium in respect of a contract insuring current and former directors and officers of the Group against certain liabilities that may be incurred by such directors and officers in the discharge of their duties to the extent permitted by the *Corporations Act 2001*.

Details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' contract of insurance have not been disclosed as this is prohibited under its terms.

The Company has not provided any indemnity or insurance for the auditor of the Company.

#### 12. Non-audit services

During the year, KPMG, the Group's auditor, has performed certain other services in addition to its statutory duties. Other services are performed by KPMG where the Group considers that KPMG is best qualified or positioned to perform those services and that the performance of those services would not compromise auditor independence requirements.

The directors have considered the other services provided during the year by the auditor and in accordance with written advice provided by the Audit, Risk and Compliance Committee, are satisfied that the provision of those other services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* due to the following:

- the other services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the Group Auditor for audit and non-audit services provided during the year are set out below:

	2016	2015
	\$'000	\$'000
Audit and review of financial statements	380	335
Acquisition and due diligence fees	595	-
Debt financing advisory fee	-	190
Taxation compliance fees	134	57
Other advisory services	53	33
	<b>1,162</b>	<b>615</b>

#### 13. Proceedings on behalf of the Group

No proceedings have been brought or intervened in on behalf of the Company with leave of Court under section 237 of the *Corporations Act 2001*.

## **Japara Healthcare Limited and Controlled Entities**

ABN 54 168 631 052

### **Directors' Report (continued)**

**For the year ended 30 June 2016**

#### **14. Lead Auditor's Independence Declaration**

The Lead Auditor's Independence Declaration is set out on page 17 and forms part of this Directors' Report for the financial year ended 30 June 2016.

#### **15. Rounding off**

The Group is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

#### **Remuneration Report**

The Remuneration Report is set out in section 16 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 22 August 2016



Linda Bardo Nicholls AO  
*Chairman*



Andrew Sudholz  
*Managing Director and CEO*



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Japara Healthcare Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 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.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'Darren Scammell'.

Darren Scammell

*Partner*

Melbourne

22 August 2016



## Letter from the Chairman of the Remuneration and Nomination Committee

Dear Shareholders,

On behalf of the Board, we are pleased to present the Japara Healthcare Limited Remuneration Report for the year ended 30 June 2016.

As the Directors' Report outlines, the Group produced a post-tax profit of \$30.4 million, reflecting a 5.6% increase on the prior year. This was a particularly pleasing result achieved against a challenging backdrop, with a full period impact of the removal of the Payroll Tax and Dementia supplements in the prior year.

The Group continued its focus on the provision of a high level of care across the portfolio. Nine facilities across the portfolio were re-accredited for a further 3 years, and the Group continued to implement its growth strategy adding a further 54 resident places through the completion of developments and a further 587 resident places from the acquisition of the Profke Aged Care Group on 1 December 2015. Pleasingly, the Group has maintained a strong balance sheet and a structured care and operating model that enables it to adapt to the challenging environment.

### **FY2016 remuneration performance outcomes**

- On average, Executives earned 83 percent of their maximum Short-Term Incentive (**STI**);
- Under the FY2016 Long-Term Incentive (**LTI**) Plan, Executives were granted performance rights that are tested against gateway and performance hurdles. The gateway hurdles set were met for FY2016 and the performance hurdles will be measured at the end of the 3 year period to 30 June 2018;
- No performance rights vested during FY2016.

### **FY2017 remuneration settings**

The Board is committed to ensuring that the remuneration arrangements of the Group are directly linked to the results and objectives of the business and that its employees are compensated fairly and competitively for their contributions. The 2017 remuneration settings have been benchmarked against a comparator group comprising ASX 200 companies that have similar characteristics to Japara Healthcare, not only in industry sector but also in scale and complexity. The relevant changes to remuneration settings for Executives for FY2017 are:

- An increase in salaries for selected Executives averaging 3.7%;
- No increase in the STI opportunity;
- The LTI EPS compound growth hurdle has been adjusted. We have maintained the minimum hurdle of 5% per annum EPS compound growth however, full vesting will now occur when EPS compound growth of 10% per annum for the 3 years ending 30 June 2019 is reached. The changes to the LTI conditions for the CEO are subject to shareholder approval at the Group's AGM;
- A 5% increase in base non-executive Directors' fees for the year commencing 1 July 2016, and a 12.5% increase in the Chairman's fees, reflecting a market based adjustment to levels agreed in 2014.

Nurses and other facility staff employed by the Group are covered under various Enterprise Bargaining Agreements which stipulate wage increases throughout FY2017 of up to 3.25%.

The Board has given extensive consideration to the altered LTI performance hurdles in light of the changing funding dynamics and regulatory changes in the market. The Board is satisfied the KPI's set in both the STI and LTI for Executives are directly linked to the objectives of the business and are structured to reward superior performance.

The Board recommends this Remuneration Report to you and asks that you support our remuneration policies and practices by voting in favour of this Report at our 2016 Annual General Meeting.



**David Blight**

Chairman, Remuneration and Nomination Committee  
22 August 2016

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued) For the year ended 30 June 2016

#### 16. Remuneration Report - Audited

##### 16.1. Key management personnel

This remuneration report sets out the remuneration arrangements of key management personnel in accordance with the *Corporations Act 2001* and Australian Accounting Standards for the year ended 30 June 2016 (**FY2016**). Key management personnel (**KMP**) are those people who have the authority and responsibility for planning, directing and controlling the Group's activities, either directly or indirectly.

Table 1 – Key management personnel for FY2016

Name	Position
<b>Senior executives</b>	
Andrew Sudholz	CEO and Managing Director ( <b>CEO</b> )
Chris Price	Chief Financial Officer ( <b>CFO</b> )
Jerome Jordan	Group Executive of Operations
Julie Reed	Group Executive of Aged Care Services
Ashley van Winkel	Group General Manager of Human Resources (became a KMP member on 28 October 2015)
<b>Independent non-executive directors</b>	
Linda Bardo Nicholls AO	Chairman
Richard England	Chairman of the Audit, Risk and Compliance Committee
David Blight	Chairman of the Remuneration and Nomination Committee
JoAnne Stephenson (appointed 1 September 2015)	Chairman of the Zero Harm Committee
Tim Poole (resigned 1 September 2015)	

##### 16.2. Remuneration framework and governance

###### *Board*

The Board is responsible for determining the remuneration policy for executives and non-executive directors and approving the amounts for payments and equity based awards.

The remuneration policy is designed to align director and executive objectives with business and shareholder objectives including offering executives short term incentive (**STI**) and long term incentive (**LTI**) plans based on key performance areas linked to performance, growth and financial results.

###### *Remuneration and Nomination Committee*

The Remuneration and Nomination Committee (**the Committee**) assists the Board by considering remuneration related matters including the remuneration of the non-executive directors, the CEO and other senior executives (**Executives**) as set out in the Committee's Charter. The Committee comprises only non-executive directors all of whom are independent from management.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2016

#### 16.2. Remuneration framework and governance (continued)

The main responsibilities of the Committee with respect to remuneration include:

- Review and recommend to the board of directors (**the Board**) arrangements for the Executives, including contract terms, annual remuneration and participation in the Company's STI and LTI plans;
- Review and recommend to the Board STI strategy, performance targets and bonus payments;
- Recommend to the Board whether offers are to be made under any or all of the Company's employee equity incentive plans in respect of a financial year; and
- Review and recommend to the Board the remuneration, travel and reimbursement arrangements for non-executive directors.

#### *Services from remuneration consultants*

The Committee considers the advice of independent remuneration consultants and other external providers as required. This advice is used for informed decision making purposes and is not a substitute for thorough consideration and debate of remuneration matters by the Committee.

During FY2016, KPMG was engaged by the Remuneration and Nomination Committee to provide benchmarking data for CEO and non-executive director remuneration, and to provide ad hoc advice in relation to market practice in various other areas.

The Board is satisfied that the services provided by KPMG were free from undue influence by members of the key management personnel about whom the recommendations may relate.

The work undertaken by KPMG in FY2016 did not constitute a remuneration recommendation for the purposes of the *Corporations Act*.

#### 16.3. FY2016 Remuneration summary

##### *Fixed remuneration outcomes*

Details of the remuneration of Executives, prepared in accordance with statutory obligations and accounting standards, are set out in Table 10 in *section 16.4.3* of this report.

The Board recognises that the statutory table may not provide a clear indication of the actual value of remuneration earned by Executives during the year. As such, Table 2 below summarises the actual amounts the Executives received in FY2016. This includes their fixed remuneration for FY2016 and any other payments or entitlements received during the year.

The key difference between remuneration amounts presented in Table 2 below and Table 10 in *section 16.4.3* is that the former is based on actual entitlements paid to the individual and the latter requires that the movement in leave provisions be recognised in the financial statements as part of the employee benefit expense.

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2016

#### 16.3. FY2016 Remuneration summary (continued)

Table 2 – Fixed remuneration paid in FY2016

	Cash salary <sup>1</sup> \$'000	Super-annuation \$'000	Other \$'000	Total fixed remuneration paid \$'000	Reconciliation to statutory total fixed remuneration	
					Movement in leave provisions \$'000	Total fixed remuneration statutory <sup>2</sup> \$'000
<b>A. Sudholz</b>						
FY2016	919	38	14	<b>971</b>	27	<b>998</b>
FY2015	924	33	14	<b>971</b>	(65)	<b>906</b>
<b>C. Price</b>						
FY2016	434	41	-	<b>475</b>	5	<b>480</b>
FY2015 (from 22 June 2015)	10	1	-	<b>11</b>	1	<b>12</b>
<b>J. Jordan</b>						
FY2016	405	30	17	<b>452</b>	(26)	<b>426</b>
FY2015	404	31	17	<b>452</b>	17	<b>469</b>
<b>J. Reed</b>						
FY2016	413	33	21	<b>467</b>	(27)	<b>440</b>
FY2015	413	31	23	<b>467</b>	(6)	<b>461</b>
<b>A. van Winkel</b>						
FY2016 (from 28 October 2015)	150	14	-	<b>164</b>	(4)	<b>160</b>

1. Cash salary includes salary and fees and leave entitlements paid in the year.

2. Total fixed remuneration – statutory is detailed in Table 10.

#### STI performance outcomes

The percentage of the maximum potential STI awarded to each Executive for FY2016 is as follows. Further detail on the STI bonus is included in *section 16.4.2*.

Table 3 – STI performance outcomes

Name	Percentage of maximum potential STI awarded %
A. Sudholz	95
C. Price	90
J. Jordan	70
J. Reed	70
A. van Winkel	90

#### LTI performance outcomes

A number of performance rights were granted to Executives during FY2016. Performance rights granted in FY2016 have not yet vested nor been forfeited as the performance rights only vest on satisfaction of performance conditions which are to be tested in future financial periods. Full details of LTI arrangements are included in *section 16.4.2*.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2016

#### 16.4. Executive Remuneration Structure

##### 16.4.1 Principles of Executive remuneration packages

The remuneration structures outlined below have been determined by the Board in accordance with its remuneration policy. These structures are designed to attract and retain suitably skilled and experienced candidates, reward the achievement of stretch objectives, and help achieve the broader outcome of creation of value for shareholders through alignment of objectives. The remuneration structures take into account:

- the capability and experience of the Executive;
- the Executive's ability to influence performance;
- the Group's performance including:
  - Group Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**) and Net Profit After Tax (**NPAT**);
  - growth in earnings per share; and
  - compliance with relevant legislation and regulation; and
- the remuneration of the comparator group.

The comparator group is made up of ASX 200 companies that have similar characteristics to Japara Healthcare, not only in industry sector but also in the scale and complexity of the business.

Table 4 below represents the target remuneration mix for Executives. For 'At risk' components the target percentage is the maximum incentive achievable. LTI performance rights are issued at **face value** at the beginning of the performance period. The amount presented in Table 4 below is based on the **fair value** of the LTI performance rights granted in the period using the Black-Scholes valuation methodology.

Table 4 – Target mix of remuneration components

	Fixed remuneration	At risk		Total
		Short-term incentive	Long-term incentive	
CEO	40.0%	20.0%	40.0%	<b>100.0%</b>
CFO	40.0%	20.0%	40.0%	<b>100.0%</b>
Other senior executives	58.8%	23.5%	17.7%	<b>100.0%</b>

##### 16.4.2 Executive remuneration and performance outcomes

###### i) Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), leave entitlements and employer contributions to superannuation. Remuneration levels are reviewed annually or on promotion by the Remuneration and Nomination Committee.

###### ii) Performance linked remuneration (at risk)

Performance linked remuneration includes both STIs and LTIs and is designed to reward senior executives for exceeding their targets. The STI is an "at risk" bonus provided in the form of cash. The LTI is in the form of a performance-based Equity Incentive Plan.

The Board has the discretion to vary the "at risk" performance-based elements of remuneration, including STIs and LTIs, at any time, where it is considered appropriate.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2016

#### 16.4.2 Executive remuneration and performance outcomes (continued)

##### **Strategic objectives**

The Group is committed to delivering the highest quality of clinical aged care for its residents and profitably increase its capacity to meet the growing community need for residential aged care. To meet the growing need for residential aged care the Group has five areas of growth that it is focused on:

- (i) Enhancing the existing portfolio;
- (ii) Brownfield and greenfield developments;
- (iii) Selective acquisitions;
- (iv) Strategic relationships; and
- (v) Future services and products.

Performance hurdles are set by the Board to ensure that the strategic priorities outlined above are achieved. Each Executive is given performance conditions depending upon their responsibilities.

##### **Group financial performance**

Table 5 below shows indicators of the Group's full year financial performances since listing on the Australian Securities Exchange in April 2014:

*Table 5 – Group full year financial performance indicators*

Financial measure	2016 \$'000	2015 \$'000
EBITDA (\$'000)	56,102	50,590
NPAT (\$'000)	30,375	28,839
EPS (cents)	11.54	10.97
Dividends per share (cents)	11.50	11.00
Year end share price (\$)	2.55	2.57

The above indicators show the Group's financial growth over the two full financial years since listing. A review of the Group's operations during FY2016 and of the results of those operations and financial position of the Group is contained in the Operating and Financial Review in Section 5 of this Directors' Report.

The Directors believe that the Company's remuneration policy has positively contributed to its performance and growth as outlined above and remains appropriate having regard to the Group's strategy and operating environment.

##### **STI bonus**

The Remuneration and Nomination Committee sets financial and non-financial performance hurdles for each Executive. There are also common gateway hurdles in place to ensure that threshold financial performance measures and compliance standards are met prior to award of any STI bonus. Should performance hurdles be met, the STI bonus is paid subject to the Board's final discretion.

The FY2016 STI bonus is payable over two periods; 50% following the end of the performance year and the remaining 50% deferred for a further 12 months (subject to the Executive's continued employment during that period unless the Board otherwise determines). This deferred payment arrangement provides the Group with a retention mechanism for its Executives.

The Remuneration and Nomination Committee annually reviews and makes a recommendation to the Board on STI bonus participation by Executives.

##### **STI performance conditions**

STI gateway and performance hurdles are designed to drive successful financial and business outcomes, with reference to a combination of objectives set by the Board for the year.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2016

#### 16.4.2 Executive remuneration and performance outcomes (continued)

##### Gateway hurdles

The following common gateway hurdles were also set for each Executive:

- The Group maintaining ongoing aged care accreditation and compliance;
- No material breach with regulatory guidelines across the Group's business; and
- The Group's EBITDA for FY2016 must meet or exceed a threshold target (subject to any adjustments for abnormal or unusual profit items that the Board, in its discretion, consider appropriate).

Where all gateway hurdles are met, the Remuneration and Nomination Committee assesses performance against the performance hurdles set out below to determine the value of STI bonus payable.

##### Performance hurdles

The Board set financial and non-financial Key Performance Indicators (**KPIs**) that are aligned to the overall business strategy. The Board's assessment of the Group's performance against these KPIs determines the quantum of the annual STI pool.

The KPIs for Executives for FY2016 comprised:

- **Financial** - being return on invested capital performance, revenue growth, capital management, cost control and RAD/DAP uplift;
- **Growth** - being the increase in operational places and improvement in acquired businesses and the execution of the development program; and
- **Organisational** - being aged care accreditation and compliance outcomes, systems and staff development initiatives related to the Group's care model.

The value of the STI opportunity for each Executive is in line with the target mix remuneration components as set out in *section 16.4.1*.

The Remuneration and Nomination Committee and the Board assess the performance of the CEO against the gateway and performance hurdles at year end.

The CEO assesses the performance of the other Executives throughout the year and presents a summary assessment against the gateway and performance hurdles to the Remuneration and Nomination Committee for review at year end.

The Board considers the method of assessing STI performance conditions appropriate as the CEO has oversight of his direct reports and the day to day operation of the Group, whilst the Board and the Remuneration and Nomination Committee have overall responsibility for determining whether Executives have met the gateway and performance hurdles set for the year.

##### STI performance outcomes

In accordance with the procedure set out above, an assessment was undertaken of the performance of each Executive against their FY2016 gateway and performance hurdles.

Table 6 – FY2016 STI achieved by performance category

Performance category	A. Sudholz		C. Price		J. Jordan		J. Reed		A. van Winkel	
	A	B	A	B	A	B	A	B	A	B
Financial	25%	25%	55%	55%	85%	55%	40%	10%	25%	15%
Growth	50%	50%	25%	25%	15%	15%	30%	30%	15%	15%
Organisational	25%	20%	20%	10%	-	-	30%	30%	60%	60%
<b>Total</b>	<b>100%</b>	<b>95%</b>	<b>100%</b>	<b>90%</b>	<b>100%</b>	<b>70%</b>	<b>100%</b>	<b>70%</b>	<b>100%</b>	<b>90%</b>

A Maximum % of STI achievable

B Actual % of STI achieved

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2016

#### 16.4.2 Executive remuneration and performance outcomes (continued)

Table 7 – FY2016 STI payment compared with the maximum potential STI payment

Name	STI Payment \$'000	Maximum potential STI payment \$'000
A. Sudholz	457	481
C. Price	225	250
J. Jordan	123	176
J. Reed	123	176
A. van Winkel	88	97

#### LTI plan

The Group operates an Equity Incentive Plan (**EIP**) for LTI purposes. Performance rights are issued under the EIP to Executives for nil consideration and each performance right entitles the holder to acquire one share in the Company for nil consideration at the end of the performance period subject to the satisfaction of certain conditions.

The Board believes that participation in the EIP encourages Executives to focus on creating long-term value for shareholders and to remain employed with the Group.

The **key terms** of the EIP are as follows:

- offers may be made at the Board's discretion under the long-term incentive plan;
- the Board has discretion to set individual terms and conditions on which it will offer performance rights;
- Executives must not sell, transfer, encumber, hedge or otherwise deal with the performance rights;
- Executives will be free to deal with any shares allocated on vesting of the performance rights, subject to the requirements of the Group's Policy for Dealing in Securities;
- if an Executive ceases employment for cause or due to resignation, unless the Board determines otherwise, any unvested performance rights will be automatically forfeited; and
- in the event of a takeover or change of control of the Company, any unvested performance rights may vest at the Board's discretion.

An EIP based LTI arrangement assists to align the interest of Executives and shareholders through common share ownership. The Group has adopted a policy requiring Executives to hold shares in the Company equivalent to one year's prevailing base salary which can be acquired over a 5 year period. It is the intention that the EIP be used for this purpose.

#### Performance rights granted in FY2016

Table 8 – Summary of performance rights granted in FY2016

Name	Performance rights granted No.
A. Sudholz	365,779
C. Price	190,114
J. Jordan	50,190
J. Reed	50,190
A. van Winkel	27,802

The number of rights granted to each Executive was based on the LTI portion of remuneration as set out in Table 4 divided by the volume weighted average price of the Company's shares over the 10 days ended 30 June 2015, being \$2.63.



## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2016

#### 16.4.2 Executive remuneration and performance outcomes (continued)

##### *LTI performance conditions*

The performance rights are subject to the same gateway hurdles as the STI bonus (as set out earlier above). An Earnings Per Share (**EPS**) based performance hurdle also applies (as set out below) which determines the proportion of performance rights eligible to vest where the gateway hurdles have been achieved.

The performance rights are subject to a performance period of three years from 1 July 2015 to 30 June 2018 (**performance period**).

If the gateway hurdles are not met or the minimum performance hurdle is not satisfied, none of the performance rights will vest. Any performance rights that remain will lapse.

##### *EPS vesting condition*

The vesting of performance rights to the Executives is subject to an EPS hurdle which requires a minimum 5% compound annual growth in EPS over the performance period. EPS is calculated using the Group's NPAT in accordance with Australian Accounting Standards and the weighted average number of shares on issue during the financial year (see note B4 to the Company's 2016 Financial Statements). The EPS hurdle is measured by comparing Group EPS in the base year (in this case FY2015) to Group EPS in the final year of the performance period (FY2018). The vesting schedule is set out below.

Table 9 – EPS hurdle summary

Compound annual growth rate of Group EPS over the performance period	% of performance rights eligible to vest
Below 5%	Nil
At 5%	20%
Between 5% and 20%	Between 20% and 100% increasing on a straight line basis
At or in excess of 20%	100%

The EPS performance hurdle was set by the Board. The EPS growth bands reflect the minimum and stretch targets sought to be achieved over the performance period, taking into account prevailing market conditions and outlook, as well as the performance achieved by the Company for the 2015 financial year. In setting the EPS performance hurdles, the Board also sought to strike an appropriate balance between setting a challenging yet achievable hurdle and motivating exceptional performance linked to creation of sustainable shareholder returns.

In the Board's view, the potential value attaching to the rights upon vesting provides significant incentive to the Executives to achieve the required hurdles, which in turn should generate superior growth in Group earnings and shareholder wealth.

##### *LTI performance outcomes*

As stated above, the gateway hurdles were met in FY2016. The EPS vesting condition for the FY2016 performance rights will be tested at the end of the performance period (1 July 2015 to 30 June 2018).

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2016

#### 16.4.3. Total executive remuneration

Table 10 – Total executive remuneration for FY2016 and FY2015

The remuneration of Executives calculated in accordance with applicable accounting standards for FY2016 was as follows:

	Short-term benefits		Post-employment benefits		Long-service leave entitlements Accrued	Total fixed remuneration	At risk			Total fixed and at risk remuneration
	Salary & fees Paid	Non-monetary benefits Paid	Superannuation benefits Paid	Annual leave entitlements Accrued			STI - Bonus payable in cash	STI - Bonus deferred for 12 months	LTI - Share-based payments accrued	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Andrew Sudholz</b>										
FY2016	864	14	38	67	15	998	228	229	83	1,538
FY2015	777	14	33	67	15	906	-	-	(25)	881
<b>Chris Price</b> (from 22 June 2015)										
FY2016	406	-	41	33	-	480	112	113	43	748
FY2015	10	-	1	1	-	12	-	-	-	12
<b>Jerome Jordan</b>										
FY2016	342	17	30	30	7	426	61	62	12	561
FY2015	384	17	31	30	7	469	-	-	(6)	463
<b>Julie Reed</b>										
FY2016	349	21	33	30	7	440	61	62	12	575
FY2015	370	23	31	30	7	461	-	-	(6)	455
<b>Ashley van Winkel</b> (from 28 October 2015)										
FY2016	133	-	14	11	2	160	44	44	6	254
<b>FY2016</b>	<b>2,094</b>	<b>52</b>	<b>156</b>	<b>171</b>	<b>31</b>	<b>2,504</b>	<b>506</b>	<b>510</b>	<b>156</b>	<b>3,676</b>
<b>FY2015</b>	<b>1,541</b>	<b>54</b>	<b>96</b>	<b>128</b>	<b>29</b>	<b>1,848</b>	<b>-</b>	<b>-</b>	<b>(37)</b>	<b>1,811</b>

In accordance with AASB 2 *Share-based payments*, the values provided in the shaded column have been calculated using the Black-Scholes valuation methodology (see Note C3). The FY2015 comparative figures are negative as the FY2014 LTI performance rights were forfeited in FY2015.

The Group's policy in relation to the proportion of remuneration that is performance related is discussed in section 16.4.1 and details of the long-term incentive plans are set out in section 16.4.2.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

#### Remuneration report (continued)

For the year ended 30 June 2016

#### 16.5. Executives' employment arrangements

The Executives are employed under service agreements. These agreements outline the components of remuneration but do not prescribe how remuneration levels are modified year to year. The Remuneration and Nomination Committee reviews remuneration levels annually, taking into account cost-of-living changes, changes in scope and responsibilities of roles and competitive market factors.

Details of the Executives' employment termination notice periods are set out in Table 11 below. Notwithstanding these arrangements, the Group may immediately terminate an Executive's employment without notice and payment in lieu for serious misconduct. On termination of employment, the Executives are entitled to receive their statutory entitlements of accrued annual and long-service leave, together with any superannuation benefits. Where the employment of an Executive (other than the CEO and CFO) is terminated due to redundancy they will be entitled to a severance payment equivalent to between 6-12 months gross salary.

Table 11 – Executives' employment termination notice periods

Executive	Employee notice period	Employer notice period
A. Sudholz	12 months	12 months (or payment in lieu)
C. Price	6 months	6 months (or payment in lieu)
Other	3 months	3 months (or payment in lieu)

#### 16.6. Non-executive directors remuneration

Under the Company's Constitution, the Board may decide the remuneration which each non-executive director is entitled to receive from the Group for services as a non-executive director. However, the total amount provided to all non-executive directors for their services must not exceed, in aggregate in any financial year, the amount fixed by the shareholders of the Company. This amount was fixed at \$1,000,000 at a general meeting of the Company on 4 April 2014.

The annual base director fees paid by the Group in FY2016 were \$200,000 to the non-executive chairman, \$100,000 to each other non-executive director and an additional \$20,000 to the chair of each standing Committee of the Board. Non-executive directors' fees have not been increased since the Company listed on the Australian Securities Exchange in 2014.

Non-executive directors did not receive nor are eligible for performance related remuneration.

Remuneration benchmarking for non-executive directors was conducted in FY2016. The comparator group used was made up of ASX 200 companies that have similar characteristics to Japara Healthcare, not only in industry sector but also in the scale and complexity of the business.

The Board has adopted a policy requiring non-executive directors to hold shares in the Company equivalent to one year's director's fees which can be acquired over a 5 year period. This policy seeks to align non-executive interests with shareholders more generally.

During FY2016, a voluntary non-executive director share purchase plan was established under which non-executive directors can elect to commit at least 20% of their after-tax fees to acquire shares in the Company on-market. This plan supports non-executive directors in building their shareholdings in the Company.

# Japara Healthcare Limited and Controlled Entities

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## Directors' Report (continued)

### Remuneration report (continued)

For the year ended 30 June 2016

#### 16.6. Non-executive directors remuneration (continued)

The remuneration of non-executive directors included within employee benefits expense in the Statement of Profit or Loss and Other Comprehensive Income for FY2016 was as follows:

Table 12 – Non-executive directors' remuneration for FY2016 and FY2015

	Short-term benefits		Post-employment benefits	
	Fees	Non-monetary benefits	Superannuation benefits	Total fees paid
	\$'000	\$'000	\$'000	\$'000
<b>Linda Bardo Nicholls AO (Chairman)</b>				
FY2016	183	-	17	200
FY2015	183	-	17	200
<b>Richard England</b>				
FY2016	110	-	10	120
FY2015	110	-	10	120
<b>David Blight</b>				
FY2016	110	-	10	120
FY2015	110	-	10	120
<b>JoAnne Stephenson (appointed 1 September 2015)</b>				
FY2016	85	-	8	93
<b>Tim Poole (resigned 1 September 2015)</b>				
FY2016	16	-	2	18
FY2015	91	-	9	100
<b>Total non-executive directors' remuneration</b>				
<b>FY2016</b>	<b>504</b>	<b>-</b>	<b>47</b>	<b>551</b>
<b>FY2015</b>	<b>494</b>	<b>-</b>	<b>46</b>	<b>540</b>

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration report (continued)

For the year ended 30 June 2016

#### 16.7. Other benefits

Key management personnel may be reimbursed for reasonable travel and other expenses incurred in attending to the Group's affairs, including attending and returning from meetings of directors or committees or general meetings. There are no retirement benefit schemes for directors, other than statutory superannuation contributions.

#### 16.8. Key management personnel shareholdings in the Company

The movement during the year in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Table 13 – KMP shareholdings in the Company during the year

	Held at 1 July 2015	Shares acquired on exercise of bonus rights	Other net change	Held at 30 June 2016
	No. of shares	No. of shares	No. of shares	No. of shares
<b>Non-executive directors</b>				
Linda Bardo Nicholls AO	46,500	-	34,348	<b>80,848</b>
Richard England	31,250	-	14,244	<b>45,494</b>
David Blight	50,000	-	-	<b>50,000</b>
JoAnne Stephenson	-	-	593	<b>593</b>
<b>Managing Director &amp; CEO</b>				
Andrew Sudholz	16,246,592		(546,591)	<b>15,700,001</b>
<b>Other key management personnel</b>				
Chris Price	-	-	-	-
Jerome Jordan	-	50,000	-	<b>50,000</b>
Julie Reed	10,000	100,000	-	<b>110,000</b>
Ashley van Winkel	10,000	16,000	-	<b>26,000</b>

**Japara Healthcare Limited and Controlled Entities**

**ABN 54 168 631 052**

**Directors' Report (continued)**  
**Remuneration Report (continued)**  
**For the year ended 30 June 2016**

**16.9. Other statutory disclosures - Analysis of movements in equity instruments held by key management personnel**

The movement during the year in the number of rights over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows. Non-executive directors have not been included in the table as they are not entitled to rights over ordinary shares in the Company:

*Table 14 – Equity instruments held by KMP's during the year*

	Performance/ Bonus Rights	Date of grant	Vesting date	Held at 1 July 2015 No. of rights	Granted/ (forfeited) No. of rights	Exercised No. of rights	Held at 30 June 2016 No. of Rights <sup>2</sup>	Vested during FY2016 No. of rights	Vested and exercisable at 30 June 2016 No. of rights
<b>Managing Director &amp; CEO</b>									
Andrew Sudholz	Performance	29/02/2016	30/06/2018	-	365,779	-	<b>365,779</b>	-	-
<b>Other key management personnel</b>									
Chris Price	Performance	29/02/2016	30/06/2018	-	190,114	-	<b>190,114</b>	-	-
Jerome Jordan	Performance	29/02/2016	30/06/2018	-	50,190	-	<b>50,190</b>	-	-
	Bonus <sup>1</sup>	17/04/2014	17/04/2016	50,000	-	(50,000)	-	<b>50,000</b>	-
Julie Reed	Performance	29/02/2016	30/06/2018	-	50,190	-	<b>50,190</b>	-	-
	Bonus <sup>1</sup>	17/04/2014	17/04/2016	100,000	-	(100,000)	-	<b>100,000</b>	-
Ashley van Winkel	Performance	29/02/2016	30/06/2018	16,000	27,802	(16,000)	<b>27,802</b>	<b>16,000</b>	-

1. Upon the successful listing of the Company on the Australian Securities Exchange, Jerome Jordan and Julie Reed received a one-off offer bonus in recognition of their contribution to the success of the Japara Group as set out in the Prospectus dated 11 April 2014.
2. All rights are for ordinary shares of the Company, which are exercisable on a one-for-one basis.

## Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2016

		2016	2015
	Note	\$'000	\$'000
Revenue	B2	325,276	278,262
Other income	B2	1,990	2,987
<b>Total revenue and other income</b>		<b>327,266</b>	<b>281,249</b>
Employee benefits expense	C1	(219,696)	(186,742)
Resident costs		(25,776)	(22,860)
Occupancy costs		(15,767)	(13,384)
Depreciation and amortisation expense	D1	(11,959)	(9,718)
Administrative expenses		(8,887)	(7,315)
Other expenses	B3	(1,038)	(358)
<b>Earnings before interest and tax</b>		<b>44,143</b>	<b>40,872</b>
Finance income		844	1,292
Finance costs	B3	(3,199)	(2,825)
<b>Profit before income tax</b>		<b>41,788</b>	<b>39,339</b>
Income tax expense	B5	(11,413)	(10,500)
<b>Profit for the year</b>		<b>30,375</b>	<b>28,839</b>
Other comprehensive income, net of income tax		-	-
<b>Total comprehensive income for the year</b>		<b>30,375</b>	<b>28,839</b>
<b>Profit attributable to members of the Group</b>		<b>30,375</b>	<b>28,839</b>
<b>Total comprehensive income attributable to members of the Group</b>		<b>30,375</b>	<b>28,839</b>
<b>Earnings per share</b>			
Basic earnings per share (cents)	B4	11.54	10.97
Diluted earnings per share (cents)	B4	11.51	10.94

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Statement of Financial Position

As at 30 June 2016

		2016	2015
	Note	\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	E4	24,568	53,878
Trade and other receivables		13,744	10,168
Current tax receivable		787	-
Other assets		5,645	3,237
<b>Total current assets</b>		<b>44,744</b>	<b>67,283</b>
<b>Non-current assets</b>			
Trade and other receivables		2,804	2,607
Other financial assets		-	1,078
Non-current assets held for sale		1,697	1,997
Property, plant and equipment	D1	513,059	383,797
Investment property	D3	31,669	31,549
Deferred tax assets	B5	10,469	12,300
Intangible assets	D2	465,552	415,188
<b>Total non-current assets</b>		<b>1,025,250</b>	<b>848,516</b>
<b>TOTAL ASSETS</b>		<b>1,069,994</b>	<b>915,799</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		19,855	16,657
Other liabilities		10,879	9,498
Borrowings	E5	1,350	-
Current tax payable		-	4,432
Other financial liabilities	E6	413,582	325,251
Employee provisions	C2	30,101	27,217
<b>Total current liabilities</b>		<b>475,767</b>	<b>383,055</b>
<b>Non-current liabilities</b>			
Borrowings	E5	58,150	-
Employee provisions	C2	3,772	2,705
<b>Total non-current liabilities</b>		<b>61,922</b>	<b>2,705</b>
<b>TOTAL LIABILITIES</b>		<b>537,689</b>	<b>385,760</b>
<b>NET ASSETS</b>		<b>532,305</b>	<b>530,039</b>
<b>EQUITY</b>			
Issued capital		518,732	517,848
Retained earnings		13,573	12,191
<b>TOTAL EQUITY</b>		<b>532,305</b>	<b>530,039</b>

The accompanying notes form part of these financial statements.



## Statement of Changes in Equity

For the Year Ended 30 June 2016

2016

	Issued capital \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2015</b>	<b>517,848</b>	<b>12,191</b>	<b>530,039</b>
<b>Comprehensive income</b>			
Profit attributable to members of the Group	-	30,375	30,375
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>30,375</b>	<b>30,375</b>
<b>Transactions with owners of the Company</b>			
Shares issued during the year	1,852	-	1,852
Dividends	-	(29,592)	(29,592)
Shares bought back during the year, net of tax	(968)	-	(968)
Equity settled share-based payment	-	599	599
<b>Total transactions with owners of the Company</b>	<b>884</b>	<b>(28,993)</b>	<b>(28,109)</b>
<b>Balance at 30 June 2016</b>	<b>518,732</b>	<b>13,573</b>	<b>532,305</b>

2015

	Issued capital \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2014</b>	<b>516,755</b>	<b>(2,768)</b>	<b>513,987</b>
<b>Comprehensive income</b>			
Profit attributable to members of the Group	-	28,839	28,839
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>28,839</b>	<b>28,839</b>
<b>Transactions with owners of the Company</b>			
Issue of shares	1,093	-	1,093
Dividends	-	(14,468)	(14,468)
Equity settled share-based payment	-	588	588
<b>Total transactions with owners of the Company</b>	<b>1,093</b>	<b>(13,880)</b>	<b>(12,787)</b>
<b>Balance at 30 June 2015</b>	<b>517,848</b>	<b>12,191</b>	<b>530,039</b>

## Statement of Cash Flows

For the Year Ended 30 June 2016

		2016	2015
	Note	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		318,019	275,995
Payments to suppliers and employees		(265,786)	(234,918)
Income taxes refunded/(paid)		(13,688)	684
Interest received		864	1,204
Finance costs paid		(2,750)	(2,782)
<b>Net cash provided by operating activities</b>	G5	<u>36,659</u>	<u>40,183</u>
<b>Cash flows from investing activities</b>			
Purchase of land & buildings		(34,259)	(9,796)
Proceeds from sale of land		1,089	758
Purchase of plant and equipment		(5,387)	(4,040)
Capital works in progress		(40,719)	(18,224)
Purchase of resident places		(2,313)	(493)
Acquisition of aged care business, net of cash		(64,158)	(23,879)
Other acquisitions and acquisition related costs		(6,598)	(6,326)
<b>Net cash used by investing activities</b>		<u>(152,345)</u>	<u>(62,000)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		1,852	-
Equity raising costs		-	(1,291)
Shares bought back during the year		(1,383)	-
Dividends paid	E7(b)	(29,592)	(14,468)
Net proceeds/(repayments) of bank borrowings	E5(a)	59,500	(14,000)
Proceeds from RADs & ILU resident loans		162,347	154,111
Repayment of RADs/accommodation bonds & ILU resident loans		(107,420)	(76,779)
Proceeds from other financial assets		1,072	15
<b>Net cash provided by financing activities</b>		<u>86,376</u>	<u>47,588</u>
<b>Net increase/(decrease) in cash and cash equivalents held</b>		<u>(29,310)</u>	<u>25,771</u>
Cash and cash equivalents at beginning of the year		53,878	28,107
<b>Cash and cash equivalents at end of the year</b>	E4	<u>24,568</u>	<u>53,878</u>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **A About this Report**

#### **A1 Reporting entity**

Japara Healthcare Limited ("the Company") is a company domiciled in Australia. The Company was incorporated on 19 March 2014. The consolidated financial statements comprise the Company and its subsidiaries (collectively "the Group" and individually "Group companies").

The Company's registered office is at Q1 Building, Level 4, 1 Southbank Boulevard, SOUTHBANK, VIC, 3006, AUSTRALIA.

The Group is a for-profit entity and is primarily involved in the provision of residential aged care services throughout Australia (see note B1).

#### **A2 Basis of accounting**

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations associated with all financial liabilities.

The Group's current liabilities exceed current assets by \$431,023,000 as at 30 June 2016 (2015: \$315,722,000). This mainly arises because of the requirement to classify obligations relating to refundable accommodation deposits ("RADs"), accommodation bonds and independent living unit ("ILU") resident loans of \$404,582,000 (2015: \$325,251,000) as current liabilities (refer note E6 for further details), whereas, the investment properties, property, plant and equipment, and intangible assets to which they relate are required to be classified as non-current assets.

Note E3(b) explains that liquidity risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. This is also achieved by maintaining a liquidity management strategy to ensure that the Group has sufficient liquidity to enable it to refund accommodation bonds and RADs that are expected to fall due within the next twelve months.

The financial statements were authorised for issue by the Board of Directors on 22 August 2016. Details of the Group's accounting policies are included in their respective notes.

#### **A3 Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

#### **A4 Use of estimates and judgements**

In preparing these Financial Statements, management has made estimates, judgements and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **A About this Report (continued)**

#### **A4 Use of estimates and judgements (continued)**

##### *Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Chief Financial Officer has overall responsibility for overseeing all significant fair value measurements, including Level 3 measurements.

The finance team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the finance team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit, Risk & Compliance Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

*Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

*Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about estimates, judgements and assumptions that affect the application of the Group's accounting policies within the year ended 30 June 2016 are included in the following notes:

- Note C3 – Share-based payment arrangements: Measurement of fair value;
- Note D2 – Impairment review: Calculation of value-in-use;
- Note D3 – Investment property: Measurement of fair value;
- Note E2 – Financial instruments: Measurement of fair value; and
- Note F1 – Assets and liabilities acquired from Profke Aged Care Group: Measurement of fair value.

### **B Business Performance**

#### **B1 Segment reporting**

The consolidated group operates predominantly in one business and geographical segment being the provision of residential aged care services throughout Australia. Segment information reported to key management personnel is substantially similar to information provided in this financial report.

#### **B2 Revenue and other income**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue comprises daily Federal Government care funding and resident fees, the majority of which are determined in accordance with Federal Government authorised rates. These fees are regulated by the Federal Government and are

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### B Business Performance (continued)

#### B2 Revenue and other income (continued)

accrued by the Group during the resident's period of occupancy. Revenue from the rendering of a service or supply of a good is recognised upon the delivery of the service or good to the resident.

Finance income is accrued daily, based on the principal amount and prevailing interest rate.

All revenue is stated net of the amount of GST.

#### (a) Reconciliation of revenue and other income

	Note	2016 \$'000	2015 \$'000
<b>Revenue</b>			
Government care funding		235,682	200,392
Resident fees		89,594	77,870
<b>Total revenue</b>		<b>325,276</b>	<b>278,262</b>
<b>Other income</b>			
Increase in fair value of investment property	D3(a)	91	772
Discount on acquisition		920	727
Other income		979	1,488
<b>Total other income</b>		<b>1,990</b>	<b>2,987</b>

#### B3 Expenses

Expenses are recognised in accordance with the basis of accounting outlined in note A2.

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

All other financing costs are recognised in profit or loss in the period in which they are incurred.

#### (a) Reconciliation of other expenses and finance costs

	2016 \$'000	2015 \$'000
<b>Other expenses</b>		
Acquisition and due diligence costs	809	104
Loss on disposal of non-current assets	229	254
<b>Total other expenses</b>	<b>1,038</b>	<b>358</b>
<b>Finance costs</b>		
Loan establishment fees	386	542
Loan interest expense	1,336	1,039
RAD/accommodation bond settlement interest expense	1,444	1,079
Increase in fair value of Independent Living Unit liability	33	165
<b>Total finance costs</b>	<b>3,199</b>	<b>2,825</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **B Business Performance (continued)**

#### **B4 Earnings per share**

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares on issue during the period after eliminating treasury shares.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares on issue for the effect of dilutive ordinary shares.

#### **(a) Calculation of earnings per share**

##### **(i) Profit attributable to ordinary shareholders**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit for the period attributable to ordinary shareholders</b>	<b>30,375</b>	<b>28,839</b>

##### **(ii) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS**

	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	<b>263,127,389</b>	262,962,730
Weighted average number of dilutive rights outstanding	<b>684,075</b>	682,000
<b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b>	<b>263,811,464</b>	263,644,730

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **B Business Performance (continued)**

#### **B5 Income tax expense**

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled based on tax rates that have been enacted or substantially enacted by the end of the reporting period. Deferred tax expense/(income) is charged/(credited) in profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The Group and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the Group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the head of the tax consolidated group.

#### **(a) The major components of tax expense/(income) comprise:**

		<b>2016</b>	<b>2015</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Current tax expense	B5(f)	<b>9,244</b>	6,670
Deferred tax expense	B5(b)	<b>1,690</b>	4,049
Under/(over) provision in respect of prior years		<b>479</b>	(219)
<b>Income tax expense for continuing operations</b>		<b>11,413</b>	10,500

#### **(b) Deferred tax expense included in income tax expense comprise:**

		<b>2016</b>	<b>2015</b>
		<b>\$'000</b>	<b>\$'000</b>
Deferred tax charge for the year	B5(a)	<b>1,690</b>	4,049
Deferred tax under provision in respect of prior years		<b>891</b>	-
<b>Total deferred tax charge for the year</b>		<b>2,581</b>	4,049

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **B Business Performance (continued)**

#### **B5 Income tax expense (continued)**

**(c) The prima facie taxable profit from ordinary activities before income tax is reconciled to the income tax expense in the financial statements as follows:**

Profit before income tax	<b>41,788</b>	39,339
Prima facie tax on profit at the statutory tax rate of 30% (2015: 30%)	<b>12,536</b>	11,802
<b>Add/(less):</b>		
<b>Tax effect of:</b>		
- non-deductible tax expenses	<b>1,153</b>	496
- under/(over) provision of income tax in prior year	<b>479</b>	(219)
- gain on acquisition of business - non-taxable	<b>(2,173)</b>	(1,369)
- other non-taxable income	<b>(178)</b>	(210)
- other deductions	<b>(404)</b>	-
<b>Income tax expense</b>	<b>11,413</b>	10,500
Weighted average effective tax rate	<b>27%</b>	27%

#### **(d) Income tax rate**

The tax rate used in the above reconciliations is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under the Australian tax law.

#### **(e) Tax consolidation**

##### *Relevance of tax consolidation to the consolidated group*

The Group formed a tax consolidated group which commenced on 16 April 2014.

##### *Relevance of tax consolidation to the Company*

The Company commenced operations in April 2014. It is the head entity of the tax consolidated group.

##### *Nature of tax funding arrangements and tax sharing agreements*

The tax consolidated group has entered into income tax sharing and funding agreements effective from 16 April 2014 whereby each company in the group contributes to the income tax payable in proportion to their contribution to profit before tax of the consolidated group. The income tax liability/receivable of the subsidiary is recorded in the books of account of Japara Healthcare Limited as an intercompany payable or receivable with the subsidiary.



## Notes to the Financial Statements

For the Year Ended 30 June 2016

### B Business Performance (continued)

#### B5 Income tax expense (continued)

##### (f) Gross movements in current tax

	Note	2016 \$'000	2015 \$'000
The overall movement in current tax is as follows:			
Opening balance		(4,432)	2,702
Balance acquired through a business combination		(52)	-
Income tax payable charged to profit or loss	B5(a)	(9,244)	(6,670)
Income tax receivable credited to equity		415	-
Income tax amounts paid during the period		13,714	2,797
Income tax amounts received during the period		(26)	(3,480)
Over provision of income tax paid in prior period		412	219
<b>Closing balance</b>		<b>787</b>	<b>(4,432)</b>

##### (g) Deferred tax assets/(liabilities)

	Opening balance \$'000	Charged to income \$'000	Charged directly to equity \$'000	Business combinations \$'000	Closing balance \$'000
<b>2015</b>					
Provisions	9,468	(476)	-	665	9,657
Deferred borrowing costs	171	52	-	-	223
Deferred legal costs	162	(30)	-	-	132
Sundry creditors and accruals	745	(130)	-	-	615
ILU resident loans	452	-	-	-	452
Deferred equity raising costs	5,854	(1,121)	-	-	4,733
Property, plant and equipment	(439)	(1,952)	-	-	(2,391)
Capital works in progress (interest expense)	(140)	-	-	-	(140)
Deferred management fee receivable	(589)	(392)	-	-	(981)
	<b>15,684</b>	<b>(4,049)</b>	<b>-</b>	<b>665</b>	<b>12,300</b>
<b>2016</b>					
Provisions	9,657	195	-	748	10,600
Deferred borrowing costs	223	(111)	-	-	112
Deferred legal costs	132	149	-	-	281
Sundry creditors and accruals	615	(10)	-	-	605
ILU resident loans	452	-	-	-	452
Deferred equity raising costs	4,733	(1,638)	2	-	3,097
Property, plant and equipment	(2,391)	(1,150)	-	-	(3,541)
Capital works in progress (interest expense)	(140)	-	-	-	(140)
Deferred management fee receivable	(981)	(16)	-	-	(997)
	<b>12,300</b>	<b>(2,581)</b>	<b>2</b>	<b>748</b>	<b>10,469</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **C Employee Remuneration**

#### **C1 Employee benefits expense**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Wages and leave expenses	<b>181,881</b>	154,447
Superannuation contributions	<b>16,926</b>	14,285
Payroll tax expense	<b>9,758</b>	8,293
Agency staff costs	<b>4,176</b>	3,653
Workcover expense	<b>5,381</b>	5,161
Share-based payment expense	<b>156</b>	(43)
Other staff costs	<b>1,418</b>	946
<b>Total employee benefits expense</b>	<b>219,696</b>	186,742

#### **C2 Employee provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at reporting date.

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy any vesting requirements. Those cash flows are discounted using corporate bond yields with terms to maturity that match the expected timing of cash flows.

#### **(a) Reconciliation of employee provisions**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Provision for annual leave	<b>20,386</b>	18,792
Provision for long service leave	<b>9,715</b>	8,425
	<b>30,101</b>	27,217
<b>Non-current</b>		
Provision for long service leave	<b>3,772</b>	2,705

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **C Employee Remuneration (continued)**

#### **C3 Share-based payment arrangements**

The grant-date fair value of equity-settled share-based payment awards granted to employees of the Group is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

##### **(a) Description of equity-settled share option arrangements**

During the year ended 30 June 2016, the Group had the following share-based payment arrangements:

##### **(i) Rights Plan**

The Company's Rights Plan is a Long Term Incentive ("LTI") plan under which eligible employees of the Group that are invited by the Board to participate in the Rights Plan are provided with performance rights. There were no performance rights on issue at the beginning of the year under the Rights Plan. During the year, 684,075 performance rights have been issued to senior executives under the Rights Plan.

##### **(ii) Loan Plan**

The Company's Loan Plan is an LTI plan under which the Chief Executive Officer ("CEO") and any other employee as determined by the Board are entitled to acquire Loan Shares in the Company. There are currently no loan shares on issue.

Previously granted loan shares had been forfeited in the year ended 30 June 2015. During the year ended 30 June 2016, the loan shares were sold to the trustee of the Rights Plan by the CEO, with the proceeds from sale being applied to fully offset the outstanding loan. Loan shares have the same rights as ordinary shares. Participants will be provided with a limited recourse loan from the Company for the sole purpose of subscribing for loan shares in the Company. The loan is recognised as a financial asset in the financial statements of the Group when the loan shares vest. Eligibility to participate in the Loan Plan and the number of Loan Shares (and the associated loan amount) to be acquired by each participant will be determined by the Board.

##### **(iii) Offer Bonus**

On 17 April 2014, following the successful listing of the Company on the Australian Securities Exchange a number of employees of the Group received a one-off offer bonus in recognition of their contribution to the Initial Public Offering. The offer bonus was delivered partly as a cash payment in the period ended 30 June 2014 and partly as performance rights under the Company's Rights Plan. A total of 745,300 rights were issued, of which 671,100 of these rights vested on 18 April 2016 under the terms of the issue. The remaining 74,200 did not vest and were cancelled. The vesting rights were converted into an equivalent number of ordinary shares in the Company which were acquired by the trustee of the Rights Plan.

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Notes to the Financial Statements

For the Year Ended 30 June 2016

#### C Employee Remuneration (continued)

##### C3 Share-based payment arrangements (continued)

##### (b) Reconciliation of outstanding rights

	Rights Plan		Loan Plan		Offer Bonus		Total	
	Number of rights 2016	Number of rights 2015	Number of rights 2016	Number of rights 2015	Number of rights 2016	Number of rights 2015	Number of rights 2016	Number of rights 2015
	'000	'000	'000	'000	'000	'000	'000	'000
Outstanding at the beginning of the year	-	198	-	547	682	712	682	1,457
Granted during the year	684	-	-	-	-	-	684	-
Forfeited during the year	-	(198)	-	(547)	(11)	(30)	(11)	(775)
Exercised during the year	-	-	-	-	(671)	-	(671)	-
<b>Total</b>	<b>684</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>682</b>	<b>684</b>	<b>682</b>

No outstanding rights were exercisable at the reporting date (2015: Nil). The weighted average exercise price for rights outstanding at 30 June 2016 was \$Nil (2015: \$Nil). All rights outstanding as at 30 June 2016 were granted to key management personnel.

**Notes to the Financial Statements****For the Year Ended 30 June 2016****C Employee Remuneration (continued)****C3 Share-based payment arrangements (continued)****Use of estimates and judgements****Share based payment arrangements: Measurement of fair value****Rights Plan**

During the year 684,075, rights were granted to key management personnel under the Rights Plan. The fair value of the performance rights was calculated by an independent expert, Mercer Consulting, using a discounted cashflow methodology. The following inputs were used to estimate the fair value of the share based payment arrangements for the year:

Grant date	29 February 2016
Share price at grant date	\$3.05
Exercise price	\$Nil
Dividend yield	4.40%

The fair value of the rights granted under the Rights Plan on 29 February 2016 is \$2.73 each.

**C4 Key management personnel**

Key management personnel remuneration included within the Financial Statements for the year is shown below:

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Short-term employee benefits	<b>3,103</b>	2,337
Post employment benefits	<b>204</b>	117
Other short-term benefits	<b>223</b>	165
Other long-term benefits	<b>541</b>	30
Share-based payments	<b>156</b>	(43)
<b>Total</b>	<b>4,227</b>	2,606

**(a) Key management personnel transactions**

During the year, the CEO settled a loan receivable amounting to \$1,078,000 relating to loan shares issued under the Group's Loan Plan (see note C3(a)(ii)). The loan was settled in full exchange for the shares issued under the Loan Plan.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **D Asset Management**

#### **D1 Property, plant and equipment**

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial year in which they are incurred.

#### **Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leased plant and equipment and leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the equipment and improvements.

The depreciation rates used for each class of depreciable asset are shown below:

<b>Fixed asset class</b>	<b>Depreciation rate</b>
Freehold land	0.0%
Buildings	2.0%
Plant and equipment	4.0% to 25.0%
Property improvements	2.0% to 25.0%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the Statement of Profit or Loss and Other Comprehensive Income.

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### D Asset Management (continued)

#### D1 Property, plant and equipment (continued)

##### (a) Movements in carrying amounts of property, plant and equipment

		Land and Buildings	Property Improvements	Plant and Equipment	Motor Vehicles	Capital Works in Progress	Total
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>							
<b>Year ended 30 June 2016</b>							
Balance at the beginning of the year		348,262	5,773	16,988	192	12,582	383,797
Additions		34,217	173	5,387	-	40,678	80,455
Additions through business combinations	F1(a)(ii)	58,650	-	3,001	-	-	61,651
Disposals - written down value		(650)	(30)	(188)	(17)	-	(885)
Transfers		8,677	716	-	-	(9,393)	-
Depreciation expense		(7,365)	(371)	(4,140)	(83)	-	(11,959)
<b>Balance at the end of the year</b>		<b>441,791</b>	<b>6,261</b>	<b>21,048</b>	<b>92</b>	<b>43,867</b>	<b>513,059</b>
<b>Year ended 30 June 2015</b>							
Balance at the beginning of the year		316,527	6,130	15,253	323	2,566	340,799
Additions		9,056	-	4,004	-	18,160	31,220
Additions through business combinations		21,600	-	1,302	-	-	22,902
Disposals - written down value		(550)	(2)	(254)	-	-	(806)
Transfers		8,144	-	-	-	(8,144)	-
Transfers to held for sale		(600)	-	-	-	-	(600)
Depreciation expense		(5,915)	(355)	(3,317)	(131)	-	(9,718)
<b>Balance at the end of the year</b>		<b>348,262</b>	<b>5,773</b>	<b>16,988</b>	<b>192</b>	<b>12,582</b>	<b>383,797</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **D Asset Management (continued)**

#### **D1 Property, plant and equipment (continued)**

##### **(b) Property, plant and equipment under construction**

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

During the year, the Group completed construction of an extension and significant refurbishment of the Bayview aged care facility. Costs totalling \$8,677,000 were reclassified from capital works in progress to land and buildings upon completion of construction.

#### **D2 Intangible assets**

##### **Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the fair value of the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

##### **Resident places**

Resident places are issued by the Government to Approved Providers and can also be purchased from third parties. Resident places are stated at cost or fair value at acquisition less any accumulated impairment losses. The resident places are not amortised as the directors believe that they have a long indeterminate life and are not expected to diminish in value over time. Accordingly, no depreciable amount exists that requires amortisation.

The carrying amounts of the resident places are reviewed at the end of each reporting period to ensure that they are not valued in excess of their recoverable amounts.

##### **Impairment review of non-financial assets**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment testing is performed annually for goodwill and other intangible assets with indefinite useful lives including resident places.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.



## Notes to the Financial Statements

For the Year Ended 30 June 2016

### D Asset Management (continued)

#### D2 Intangible assets (continued)

##### (a) Movements in carrying amounts of intangible assets

	Goodwill \$'000	Resident places \$'000	Total \$'000
<b>Year ended 30 June 2016</b>			
Balance at the beginning of the year	260,746	154,442	415,188
Additions at cost	-	2,381	2,381
Additions through business combinations	-	47,983	47,983
<b>Closing value at 30 June 2016</b>	<b>260,746</b>	<b>204,806</b>	<b>465,552</b>
<b>Year ended 30 June 2015</b>			
Balance at the beginning of the year	260,746	124,040	384,786
Additions at cost	-	493	493
Additions through business combinations	-	29,909	29,909
<b>Closing value at 30 June 2015</b>	<b>260,746</b>	<b>154,442</b>	<b>415,188</b>

#### Use of estimates and judgements

##### Impairment review: Calculation of value-in-use

For the purpose of impairment testing of intangible assets with an indefinite useful life the Group has identified one CGU; this is consistent with the operating segment identified in note B1.

The recoverable amount of the CGU was based upon its value-in-use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The recoverable amount was determined to be higher than the carrying amount and therefore no impairment loss was recognised.

The post tax discount rate of 8.85% (2015: 10.18%) was determined based on the cash rate target adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the CGU.

Three years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined at 2.5% (2015: 3.0%), consistent with an assumption a market participant would make.

Budgeted EBITDA was based upon expectation of future outcomes taking into account past experience, adjusted for anticipated revenue growth and occupancy rates.

The estimated recoverable amount of the CGU exceeded its carrying amount. Management has identified that a reasonable possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	2016 %	2015 %
Change in discount rate	1.28	1.06
Change in long-term growth rate	(1.66)	(1.42)

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **D Asset Management (continued)**

#### **D3 Investment property**

Investment property is held to generate long-term rental yields and capital growth. Investment property is carried at fair value. Changes to fair value are recorded in the Statement of Profit or Loss and Other Comprehensive Income as other income/expenses.

##### **(a) Reconciliation of carrying amount**

Investment property comprises Independent Living Units ("ILUs") located across five retirement villages. Four retirement villages are subject to loan licence agreements which confer the right to occupancy of the unit, until such time as the resident's occupancy terminates and the occupancy rights are transferred to another resident. Upon entry a resident will loan the Group an amount equal to the fair value of the unit. On termination the resident is entitled to repayment of the loan inclusive of any uplift in fair value since the agreement date less the deferred management fee. The remaining retirement village is subject to 49 year lease agreements with no loan agreement - it is carried at fair value with reference to external valuations.

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	<b>31,549</b>	23,312
Additions resulting from capitalised expenditure	<b>29</b>	5
Additions through business combinations	-	7,460
Fair value adjustments	B2(a) <b>91</b>	<b>772</b>
<b>Balance at end of year</b>	<b>31,669</b>	<b>31,549</b>

#### **Use of estimates and judgements**

##### **Investment property: Measurement of fair values**

The fair value of investment property of \$31,669,000 (2015: \$31,549,000) has been categorised as Level 3 based on the inputs to the valuation technique used (see note A4).

Due to the frequency of residents entering and departing from a unit, the fair value of each unit within a retirement village under a loan licence agreement is based upon the most recent loan received for a similar unit.

### **E Capital structure and financing**

#### **E1 Capital management**

The Group's principal sources of funds are cash flows from operations and RADs. The Group may finance its ongoing operations with operating cash flows or bank borrowings or a combination.

Over time, the Group may seek debt funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risk on long-term borrowings. Quantitative and qualitative disclosures about market risk sensitive instruments are included in note E3.

The Group's working capital requirements are generally consistent throughout the course of the year and there are no significant variations.

The Group maintains a disciplined approach to capital expenditure, with all key capital projects subject to strict approval protocols. Capital expenditure comprises expenditure on asset enhancement and replacement programs and general maintenance projects (maintenance expenditure funded from operational cash flows) as well as growth capital expenditure comprising brownfields and greenfields development projects and acquisition of aged care facilities (funded via equity, borrowings, RAD inflows, operating cash flows or any combination of these, as appropriate).

The Group may borrow money from time to time in order to finance activities.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **E Capital structure and financing (continued)**

#### **E2 Financial instruments**

##### **Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset (e.g. 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 either at fair value, amortised cost using the effective interest rate method or at cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

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

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

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

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

##### *Financial liabilities*

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

##### *Impairment of financial assets*

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

##### *Financial assets at amortised cost*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Impairment on loans and receivables is reduced through the use of a provision account, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Subsequent recoveries of amounts previously written off are credited against the relevant expense in profit or loss.

##### *Available-for-sale financial assets*

A significant or prolonged decline in value of an available-for-sale asset below its cost is objective evidence of impairment, in this case, the cumulative loss that has been recognised in Other Comprehensive Income is reclassified from equity to profit or loss as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to Other Comprehensive Income.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **E Capital structure and financing (continued)**

#### **E2 Financial instruments (continued)**

##### **Use of estimates and judgements**

##### **Financial instruments: Measurement of fair values**

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

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

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

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

##### **Derecognition of financial assets**

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Group no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or 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.

##### **(a) Financial instruments material to the financial statements**

The following financial instruments are material to the financial statements:

- Note E4 - Cash;
- Note E5 - Borrowings; and
- Note E6 - Other financial liabilities.

The carrying amounts of financial assets and financial liabilities are a reasonable approximation of fair value.

#### **E3 Financial risk management**

Inherent within the Group's activities are the risks that arise from holding financial instruments. These are managed through a process of ongoing identification, measuring and monitoring. The Group's financial instruments consist mainly of deposits with banks, bank loans, accounts receivable and payable, and RADs/accommodation bonds, which all arise directly from its operations. The main purpose of non-derivative financial instruments is to raise finance for the Group's operations. The Group does not have any derivative financial instruments at balance date.

The Directors of the Group are responsible for identifying and controlling risks that arise from these financial instruments. As such the Group has identified that the key areas of risk are credit risk, liquidity risk and market risk (which can be analysed further into interest rate risk, currency risk and price risk), with further information on each risk category disclosed below. The Directors of the consolidated group, amongst other responsibilities, are tasked to identify, monitor, control and hence mitigate risk, within the framework of the Group's operational mandate and compliance with legislation and industry specific regulations. Information is reported to all relevant parties within the Group on a regular basis including key

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### E Capital structure and financing (continued)

#### E3 Financial risk management (continued)

management, the Board of Directors and the Audit, Risk and Compliance Committee. All risk management policies are approved and reviewed by the Audit, Risk and Compliance Committee under the authority of the Board on a regular basis.

The Group's exposure to financial risk at the reporting date is as follows:

	Weighted average effective interest rate	Floating interest rate	Maturing within one year	Maturing after one year	Non-interest bearing	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2016</b>						
<b>Financial assets</b>						
Cash and cash equivalents	1.87	24,568	-	-	-	24,568
Receivables	-	-	-	-	16,548	16,548
<b>Total financial assets</b>		<b>24,568</b>	<b>-</b>	<b>-</b>	<b>16,548</b>	<b>41,116</b>
<b>Financial liabilities</b>						
Accruals	-	-	-	-	(11,091)	(11,091)
Trade and other payables	-	-	-	-	(11,895)	(11,895)
RADs/accommodation bonds & ILU loans	0.40	-	(40,925)	-	(363,657)	(404,582)
Bank loan	3.42	-	(1,350)	(58,150)	-	(59,500)
Other financial liabilities	-	-	-	-	(9,000)	(9,000)
<b>Total financial liabilities</b>		<b>-</b>	<b>(42,275)</b>	<b>(58,150)</b>	<b>(395,643)</b>	<b>(496,068)</b>
<b>2015</b>						
<b>Financial assets</b>						
Cash and cash equivalents	2.24	53,878	-	-	-	53,878
Receivables	-	-	-	-	12,775	12,775
Other financial assets	-	-	-	-	1,078	1,078
<b>Total financial assets</b>		<b>53,878</b>	<b>-</b>	<b>-</b>	<b>13,853</b>	<b>67,731</b>
<b>Financial liabilities</b>						
Accruals	-	-	-	-	(10,276)	(10,276)
Trade and other payables	-	-	-	-	(9,331)	(9,331)
RADs/accommodation bonds & ILU loans	0.40	-	(31,933)	-	(293,318)	(325,251)
<b>Total financial liabilities</b>		<b>-</b>	<b>(31,933)</b>	<b>-</b>	<b>(312,925)</b>	<b>(344,858)</b>

#### (a) Credit risk

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

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

The Group has identified that it does not have any material credit risk exposure to any single non-related party receivable or group of non-related party receivables under financial instruments entered into by the Group. The Group has identified that

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### E Capital structure and financing (continued)

#### E3 Financial risk management (continued)

##### (a) Credit risk (continued)

its single largest customer is the Department of Health in respect of funding received. Such funding is received on a monthly basis, in advance at the start of each month, and any funding receivable at balance date is accrued based upon Department of Health calculations of balancing funding amounts. The Group has determined that any credit risk associated with the Department of Health is insignificant. In respect of other customers, being aged care facility residents, the Group monitors the level of receivables balances on an ongoing basis and any associated credit risk is mitigated by their independence of each other and individual immateriality to the Group. As a result of the 1 July 2014 Federal Government reforms relating to funding of the aged care industry, more residents are now contributing greater amounts towards their aged care costs. This is primarily as a result of increases in the levels of means and assets testing of residents. There have been delays in the Federal Government's assessments of the amounts that are payable by individual residents due to the implementation of new Centrelink and Medicare IT systems used to calculate fees using the new methodology. This has resulted in delays by some residents in paying their means tested care fees as they are querying the Federal Government's calculations of the amounts that they owe. The figures below take into account the fact that approximately \$1,800,000 (2015: \$1,000,000) of the aged debtors greater than 61+ days can be offset against RADs or accommodation bonds paid by a resident prior to it being refunded to the relevant resident upon discharge. The Group's overall exposure to bad debts is therefore largely mitigated because of the ability to offset any outstanding receivable against the RAD/accommodation bond balance, however a provision for doubtful debts has been raised in the financial statements which at reporting date is \$357,000 (2015: \$418,000).

At 30 June 2016, the ageing analysis of resident debtors is as follows:

	Not yet due	Current	31 - 60 days	61+ days	Impaired	Total
<b>Year</b>						
<b>2016 (\$'000)</b>	<b>5,857</b>	<b>639</b>	<b>635</b>	<b>2,336</b>	<b>(357)</b>	<b>9,110</b>
<b>2016 (%)</b>	<b>64</b>	<b>7</b>	<b>7</b>	<b>26</b>	<b>(4)</b>	<b>100</b>
2015 (\$'000)	5,137	707	269	1,853	(418)	7,548
2015 (%)	68	9	4	25	(6)	100

##### (b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. In addition, the Group maintains sufficient cash and cash equivalents to meet normal operating requirements. Also, as part of the Group's compliance with the User Rights Principles 1997, the Group maintains a liquidity management strategy to ensure that the Group has sufficient liquidity to enable it to refund RAD and accommodation bond balances that are expected as and when they fall due.

Financial liabilities of the Group comprise trade and other payables, dividends payable, RADs, accommodation bonds and ILU resident loan liabilities. Trade and other payables have no contractual maturities and are typically settled within 30 days or within the terms negotiated. RADs and accommodation bonds are potentially repayable within 14 days of a resident leaving the aged care facility and therefore classified under "current liabilities" in the Statement of Financial Position. However, on average, each resident occupies a place for approximately 26 months (2015: 29 months), resulting in approximately 46.2% (2015: 41.4%) of RADs and accommodation bonds being replaced in any 12 month period. In addition, any RAD or accommodation bond payable is typically replaced by an equivalent or higher RAD receivable from a new incoming resident. ILU resident loan liabilities are subject to loan agreements and whilst repayable within the earlier of 14 days after a new ILU resident replaces the departing ILU resident or six months after ILU resident departure, and therefore classified under "current liabilities" in the Statement of Financial Position, are typically replaced by an equivalent or higher ILU resident loan receivable from a new incoming ILU resident. It is also unlikely in practice that all ILU resident loan liabilities would be refundable within a 12 month period.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **E Capital structure and financing (continued)**

#### **E3 Financial risk management (continued)**

##### **(c) Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and prices. Financial instruments affected by market risk include cash, loans and borrowings and RADs and accommodation bonds. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all operational activities are undertaken in accordance with established internal and external guidelines, financing and investment strategies of the Group.

##### **Interest rate risk**

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, primarily relates to the Group's bank debt. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group reviews its bank borrowings on a monthly basis and monitors its position in respect of fixing interest rates or leaving them as floating rates in accordance with its interest rate hedging policy. As at 30 June 2016, the Group has bank borrowings of \$59,500,000 (2015: \$Nil).

##### *Interest rate risk sensitivity analysis*

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position based upon a reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in interest rates on the interest income and interest expense for the year, based on the floating rate financial assets held at 30 June 2016. The sensitivity has been calculated using a change in interest rates of 100 basis points increase and decrease.

At reporting date, the effect on profit or loss after tax and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	<b>2016</b>		<b>2015</b>	
	<b>+1.00%</b>	<b>-1.00%</b>	<b>+1.00%</b>	<b>-1.00%</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss)	<b>(531)</b>	<b>531</b>	154	(154)
Equity	<b>(531)</b>	<b>531</b>	154	(154)

##### **Price risk**

The Group has assessed that it is materially exposed to the risk that the Federal Government, through the Department of Health, may alter the rate of funding provided to Approved Providers of residential aged care services. As Government funding represents approximately 72% (2015: 72%) of the Group's revenue, a fluctuation in the rate of Government funding may have a direct impact on the revenue of the Group. Whilst the Group is not able to influence Government policy directly, it and members of its senior management team, participate in aged care industry public awareness discussions and in aged care industry dialogue with the Government about its proposals for changes to funding for the aged care industry.

##### *Price risk sensitivity analysis*

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position based upon reasonably possible changes in levels of Government funding, with all other variables held constant. The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in levels of Government funding on the revenue of the Group, based on the amount of Government funding received for the year ended 30 June 2016. The sensitivity has been calculated using a change in the level of Government funding of 1.00% increase and decrease.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### E Capital structure and financing (continued)

#### E3 Financial risk management (continued)

At reporting date, the effect on profit or loss after tax and equity as a result of changes in the level of Government funding, with all other variables remaining constant would be as follows:

	2016		2015	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Profit/(loss)	1,650	(1,650)	1,403	(1,403)
Equity	1,650	(1,650)	1,403	(1,403)

#### E4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the Statement of Financial Position.

Included within cash at bank and on hand is an amount that is reserved for the refund of RAD/accommodation bond liabilities in accordance with the Aged Care Act 1997. For more information on RAD/accommodation bond liabilities see note E6.

#### E5 Borrowings

	2016	2015
	\$'000	\$'000
<b>Current</b>		
Bank loan	1,350	-
<b>Total current borrowings</b>	1,350	-
Non-current borrowings		
Bank loan	58,150	-
<b>Total non-current borrowings</b>	58,150	-
<b>Total borrowings</b>	59,500	-

#### (a) Syndicated facility agreement

On 11 February 2016, the Group, together with its existing bankers, executed a new Syndicated Facility Agreement and Multi-Option Facility Agreement (the "Bank Facilities"). These new Bank Facilities have been negotiated to allow for the planned short and medium term brownfield and greenfield developments strategy of the Group. The new Bank Facilities are an amendment and restatement of the pre-existing agreements with the following key amendments:

- An increase in the expiry date of the Bank Facilities from 5 August 2017 to 30 September 2020;
- An increase in the total available facility amounts from \$105,000,000 to \$220,000,000;
- The increase in the total available facility amount of \$115,000,000 is to assist in funding the Group's accelerated brownfield and greenfield development program;
- The addition of an accordion feature allowing the flexibility to increase the total available facility amounts during the term of the Bank Facilities;
- A reduction in the margin; and
- Several other changes to reflect the increase in size of the Group compared to the time when the pre-existing agreements were negotiated in 2014.



## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **E Capital structure and financing (continued)**

#### **E5 Borrowings (continued)**

##### **(a) Syndicated facility agreement (continued)**

The Bank Facilities are secured by first mortgages over the freehold properties owned by the Group.

During the year, \$34,500,000 was drawn down to fund brownfield and greenfield developments and \$37,500,000 was drawn down to fund part of the purchase of the Profke Aged Care Group (see F1), \$12,500,000 of which was repaid within the year. A total of \$59,500,000 was drawn down against the Bank Facilities as at the reporting date. Subsequent to this date, a further \$6,000,000 has been drawn down to fund brownfield and greenfield developments.

#### **E6 Other financial liabilities**

##### **Refundable Accommodation Deposit ("RAD")/Accommodation Bond liabilities**

RADs/accommodation bonds are non-interest bearing deposits made by some aged care facility residents to the Group upon admission. These deposits are liabilities which fall due and payable when the resident leaves the facility. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

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

##### **Independent Living Unit ("ILU") Resident loan liabilities**

ILU Resident loans are non-interest bearing payments made by retirement village residents to the Group upon signing of a licence agreement to occupy an ILU. These payments are liabilities which fall due and payable upon termination of the licence less the deferred management fee calculated in accordance with the licence. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

ILU Resident loan liabilities are recorded at fair value.

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT</b>		
RADs/accommodation bonds	<b>383,521</b>	302,948
ILU resident loans	<b>21,061</b>	22,303
Other financial liabilities	F1(a)(iv) <b>9,000</b>	-
<b>Total</b>	<b>413,582</b>	<b>325,251</b>

##### **(a) RADs/Accommodation bonds**

The Group has provided each resident that has entered into a RAD/accommodation bond agreement with the Group and/or paid a RAD/accommodation bond to the Group with a written guarantee of future refund of the RAD/accommodation bond balance in accordance with the RAD/accommodation bond agreement and in compliance with the prudential requirements set out under the *Aged Care Act 1997*.

#### **E7 Issued capital**

##### **(a) Ordinary shares**

	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
At the beginning of the reporting period	<b>263,046,592</b>	262,500,001
Issued during the period	<b>642,865</b>	546,591
<b>At the end of the reporting period</b>	<b>263,689,457</b>	<b>263,046,592</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### E Capital structure and financing (continued)

#### E7 Issued capital (continued)

##### (a) Ordinary shares (continued)

##### Ordinary shares

Holders of these shares are entitled to dividends as determined from time to time and are entitled to one vote per share at general meetings of the Company.

The Company does not have authorised capital or par value in respect of its shares.

##### *Issue of ordinary shares*

In April 2016:

- the Trustee of the Rights Plan received 546,591 ordinary shares from the CEO as settlement for a loan granted under the Group's Loan Plan (see note C3(a)(ii));
- the Trustee of the Rights Plan purchased a further 124,509 ordinary shares on market;
- the Group issued 671,100 ordinary shares to employees granted rights under the IPO bonus offer in April 2014 (see note C3(a)(iii)).

In May 2016, the Group issued 642,865 ordinary shares under its Dividend Reinvestment Plan.

##### (b) Dividends

	2016 \$'000	2015 \$'000
The following dividends were determined and paid:		
Final 2015 fully franked ordinary dividend of 5.50 (2014: Nil) cents per share	14,468	-
Interim fully franked ordinary dividend of 5.75 (2015: 5.50) cents per share	15,124	14,468
<b>Total</b>	<b>29,592</b>	<b>14,468</b>
Proposed final 2016 fully franked ordinary dividend of 5.75 (2015: 5.50) cents per share to be paid 31 October 2016	15,162	14,468

The proposed final dividend for 2016 was determined after the end of the reporting period and therefore has not been provided for in the financial statements. There are no income tax consequences arising from this dividend at 30 June 2016.

##### Franking account

	2016 \$'000	2015 \$'000
The franking credits available for subsequent financial years at a tax rate of 30%	3,341	2,338

The ability to use the franking credits is dependent upon the ability to determine and pay dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of \$3,341,000 (2015: \$2,338,000) franking credits.

**Notes to the Financial Statements****For the Year Ended 30 June 2016****F Group structure****F1 Business combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note D2). Any discount on acquisition purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

**(a) Profke Aged Care Group**

On 1 December 2015, the Group acquired the Profke Aged Care Group, which consisted of:

- 100% of the shares and voting rights of Noosa Nursing Home Pty Ltd, a company that owns and operates an aged care facility in Noosa, Queensland (230 resident places);
- The business and assets of another three aged care facilities, 1 in Queensland and 2 in New South Wales – Gympie (130 resident places), Coffs Harbour (147 resident places) and South West Rocks (80 resident places); and
- The titles to all land and buildings on which each of the abovementioned businesses operate.

**(i) Consideration transferred**

The purchase price (net of RAD/accommodation bond liabilities) for the Profke Aged Care Group was \$77,253,000 (excluding acquisition costs and settlement adjustments). Settlement adjustments amounted to a net reduction in the purchase price of \$4,095,000 resulting in a net consideration of \$73,158,000. Of this net consideration, \$37,500,000 was drawn down under the Syndicated Facility Agreement to fund the acquisition; settlement of \$9,000,000 of the consideration is deferred until 1 June 2017 and the remaining \$26,658,000 was funded from cash.

**(ii) Identifiable assets and liabilities assumed**

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition date:

	<b>1 December 2015 \$'000</b>
Trade and other receivables	61
Property, plant and equipment	61,651
Deferred tax assets	748
Intangible assets - resident places	47,983
Trade and other payables	(2,358)
Other financial liabilities - RADs/accommodation bonds	(25,247)
Provisions	(2,440)
<b>Total identifiable assets and liabilities assumed</b>	<b>80,398</b>

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **F Group structure (continued)**

#### **F1 Business combinations (continued)**

##### **Use of estimates and judgements**

##### **Assets and liabilities acquired from Profke Aged Care Group: Measurement of fair values**

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

###### *Property, plant and equipment*

Property, plant and equipment have been valued by an independent expert.

Land and buildings have been valued using a combination of the direct comparison and capitalisation approaches.

Plant and equipment has been valued at the depreciated replacement cost which reflects adjustments for physical deterioration as well as functional and economic obsolescence.

###### *Intangible assets*

Intangible assets represent resident places valued using a going concern market value of the Profke Aged Care Group to determine the value of the resident places as at 1 December 2015. The valuation was based upon a discounted cash flow, with the value of the resident places determined after the fair value of the tangible assets was deducted from the valuation. Five year forecast cash flows generated by the Profke Aged Care Group, a discount rate of 10.18% and a long term growth rate into perpetuity of 3.0% were used in the discounted cash flow model. Using this methodology, a going concern market value of the business of \$84,495,000 was ascertained.

##### **(iii) Discount on acquisition**

A discount on acquisition, net of acquisition-related costs, has been recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of 'Other income' as follows:

		<b>2016</b>
	<b>Note</b>	<b>\$'000</b>
Fair value of identifiable assets	F1(a)(ii)	<b>80,398</b>
Consideration	F1(a)(i)	<b>(73,158)</b>
Discount on acquisition		<b>7,240</b>
Less acquisition-related costs		<b>(6,320)</b>
<b>Total</b>		<b>920</b>

Acquisition and integration related costs include legal fees, due diligence, stamp duty and the costs incurred by the acquisition department associated with the acquisition of the Profke Aged Care Group.

##### **(iv) Acquisition of Profke Aged Care Group, net of cash acquired**

	<b>2016</b>
	<b>\$'000</b>
Net Consideration	<b>73,158</b>
Less deferred consideration	<b>(9,000)</b>
<b>Total purchase price paid, net of cash acquired</b>	<b>64,158</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### F Group structure (continued)

#### F2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

#### (a) List of subsidiaries

Name of entity	Ownership	Equity holding 2016
Japara Holdings Pty Ltd	Direct	100%
Japara Property Holdings Pty Ltd	Direct	100%
Japara Aged Care Property Trust	Direct	100%
Aged Care Services Australia Group Pty Ltd	Indirect	100%
Aged Care Services One (Central Park) Pty Ltd	Indirect	100%
Aged Care Services Two (Roccoco) Pty Ltd	Indirect	100%
Aged Care Services Three (Balmoral Grove) Pty Ltd	Indirect	100%
Aged Care Services Four (Park Group) Pty Ltd	Indirect	100%
Aged Care Services Five (Narracan Gardens) Pty Ltd	Indirect	100%
Aged Care Services Six (Mirridong) Pty Ltd	Indirect	100%
Aged Care Services Seven (Kelaston) Pty Ltd	Indirect	100%
Aged Care Services Eight (Elanora) Pty Ltd	Indirect	100%
Aged Care Services Nine (George Vowell) Pty Ltd	Indirect	100%
Aged Care Services 10 (Kingston Gardens) Pty Ltd	Indirect	100%
Aged Care Services 11 (View Hills) Pty Ltd	Indirect	100%
Aged Care Services 12 (Albury & District) Pty Ltd	Indirect	100%
Aged Care Services 13 (Lakes Entrance) Pty Ltd	Indirect	100%
Aged Care Services 14 (Lower Plenty Garden Views) Pty Ltd	Indirect	100%
Aged Care Services 15 (Rosanna Views) Pty Ltd	Indirect	100%
Aged Care Services 16 (Millward) Pty Ltd	Indirect	100%
Aged Care Services 17 (Bonbeach) Pty Ltd	Indirect	100%
Aged Care Services 18 (Hallam) Pty Ltd	Indirect	100%
Aged Care Services 19 (Goonawarra) Pty Ltd	Indirect	100%
Aged Care Services 20 (Bayview Gardens) Pty Ltd	Indirect	100%
Aged Care Services 21 (Barongarook Gardens) Pty Ltd	Indirect	100%
Aged Care Services 22 (Sandhurst) Pty Ltd	Indirect	100%
Aged Care Services 23 (Capel Sands) Pty Ltd	Indirect	100%
Aged Care Services 24 (St Judes) Pty Ltd	Indirect	100%
Aged Care Services 25 (Springvale) Pty Ltd	Indirect	100%
Aged Care Services 26 (Bayview) Pty Ltd	Indirect	100%
Aged Care Services 27 (Kirralee) Pty Ltd	Indirect	100%
Aged Care Services 28 (Elouera) Pty Ltd	Indirect	100%
Aged Care Services 29 (Mirboo North) Pty Ltd	Indirect	100%
Aged Care Services 30 (Brighton) Pty Ltd	Indirect	100%
Aged Care Services 31 (Vonlea Manor) Pty Ltd	Indirect	100%
Aged Care Services 32 (Scottvale) Pty Ltd	Indirect	100%

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### F Group structure (continued)

#### F2 Subsidiaries (continued)

##### (a) List of subsidiaries (continued)

Name of entity	Ownership	Equity holding 2016
Aged Care Services 33 (Anglesea) Pty Ltd	Indirect	100%
Aged Care Services 34 (Yarra West) Pty Ltd	Indirect	100%
Aged Care Services 35 (The Homestead) Pty Ltd	Indirect	100%
Aged Care Services 36 (Trevu) Pty Ltd	Indirect	100%
Aged Care Services 37 (Oaklands) Pty Ltd	Indirect	100%
Aged Care Services 38 (Mitcham) Pty Ltd	Indirect	100%
Aged Care Services 39 (Noosa) Pty Ltd	Indirect	100%
Aged Care Services 40 (Coffs Harbour) Pty Ltd	Indirect	100%
Aged Care Services 41 (South West Rocks) Pty Ltd	Indirect	100%
Aged Care Services 42 (Gympie) Pty Ltd	Indirect	100%
Japara Developments Pty Ltd	Indirect	100%
Japara Retirement Living Pty Ltd	Indirect	100%
Japara Retirement Living 2 (Balmoral Mews) Pty Ltd	Indirect	100%
Japara Retirement Living 4 (Cosgrove Cottages) Pty Ltd	Indirect	100%
Japara Retirement Living 5 (Sydney Williams) Pty Ltd	Indirect	100%
Japara Retirement Living 6 (Barongarook) Pty Ltd	Indirect	100%
Japara Retirement Living 7 (The Homestead) Pty Ltd	Indirect	100%
JD No. 1 (Bundaberg) Pty Ltd	Indirect	100%
JD No. 2 (Balmoral Mews) Pty Ltd	Indirect	100%
JD No. 3 (Lakes Entrance) Pty Ltd	Indirect	100%
JD No. 5 (Albury & District) Pty Ltd	Indirect	100%
JD No. 8 (Yarra West) Pty Ltd	Indirect	100%

### F3 Deed of Cross-Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed in note F2 are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports as they are part of a Closed Group as defined by the Corporations Act 2001.

As a condition of the Class Order the Company and each of the subsidiaries entered into a Deed of Cross Guarantee on 12 June 2014 or have been added as parties to the Deed of Cross Guarantee by way of Assumption Deeds dated 23 June 2015 or 24 June 2016. The effect of the Deed of Cross Guarantee is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for the Closed Group is the same as the financial statements for Japara Healthcare Limited and its controlled entities.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### F Group structure (continued)

#### F4 Parent entity

As at, and throughout, the year ended 30 June 2016 the parent entity of the Group was Japara Healthcare Limited.

	2016 \$'000	2015 \$'000
<b>Statement of Financial Position</b>		
<b>Assets</b>		
Current assets	2,617	7,652
Non-current assets	614,178	490,644
<b>Total Assets</b>	<b>616,795</b>	<b>498,296</b>
<b>Liabilities</b>		
Current liabilities	2,920	1,597
<b>Total Liabilities</b>	<b>2,920</b>	<b>1,597</b>
<b>Equity</b>		
Issued capital	518,732	517,848
Retained earnings	36,993	(21,149)
<b>Total Equity</b>	<b>555,725</b>	<b>496,699</b>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Total profit or loss for the year	86,104	(2,212)
<b>Total comprehensive income</b>	<b>86,104</b>	<b>(2,212)</b>

#### Guarantees

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee and the entity subject to the deed are disclosed in note F3.

### G Other Information

#### G1 Commitments

As at the reporting date, the Group had entered into contracts relating to capital expenditure at the following facilities.

Aged care facility	Nature of capital expenditure	Contract amount \$'000	Amount incurred \$'000	Future commitment \$'000	Expected completion date
Central Park	Significant refurbishment	13,369	10,214	3,155	FY2017
George Vowell	34 place extension & significant refurbishment	7,856	6,970	886	FY2017
St Judes	30 place extension & significant refurbishment	8,398	6,936	1,462	FY2017
Kirrilee	13 place extension & significant refurbishment	4,307	4,041	266	FY2017
Riverside	90 place greenfield development	16,600	3,165	13,435	FY2017

As at the reporting date, the Group had also entered into contracts to purchase land in Rye, Victoria for an amount of \$3,719,000. At the date of signing this report, one contract totaling \$569,000 has been settled and the second contract totalling \$3,150,000 is expected to settle in September 2016. The land will be used to develop a new 95 place facility.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **G Other Information (continued)**

#### **G2 Operating leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are amortised on a straight-line basis over the life of the lease term.

#### **(a) Operating lease commitments**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	<b>1,390</b>	1,429
- between one year and five years	<b>3,833</b>	4,578
- later than five years	<b>821</b>	1,527
	<b>6,044</b>	7,534

The above amounts relate primarily to property leases for the business premises of the Group which are non-cancellable leases with terms between 4 and 10 years, with rent payable monthly in advance.

#### **G3 Contingencies**

##### **Security deposit guarantees**

The Group has entered into a number of security deposit guarantees with its bankers for security for the performance of the Group totaling \$892,000. This is secured against the Multi-Option Facility Agreement (see note E5(a)). At the date of signing this financial report, the Directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented to the bank.

#### **G4 Subsequent events**

Other than mentioned elsewhere in the financial statements, no matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years.



## Notes to the Financial Statements

For the Year Ended 30 June 2016

### G Other Information (continued)

#### G5 Cash Flow Information

Reconciliation of result for the year to cashflows from operating activities:

		2016	2015
	Note	\$'000	\$'000
Profit for the year		30,375	28,839
Cash flows excluded from profit attributable to operating activities:			
- acquisition-related costs		7,131	3,871
- net refund of equity raising costs		(533)	(734)
Non-cash flows in profit:			
- depreciation	D1	11,959	9,718
- discount on acquisition		(7,242)	(4,555)
- straight lining of rental expense		20	20
- net loss on disposal of property, plant and equipment		97	88
- accommodation bond retention revenue		(1,858)	(2,621)
- deferred management fee income		(872)	(853)
- increase in fair value of investment property		(91)	(772)
- ILU loan finance charge		145	69
- equity-settled share based payment transactions		156	(43)
Changes in assets and liabilities:			
- (increase)/decrease in trade and other receivables		(3,752)	(2,718)
- (increase)/decrease in other assets		(1,412)	961
- (increase)/decrease in deferred tax receivable		2,580	4,733
- increase/(decrease) in trade and other payables		3,300	(4,938)
- increase/(decrease) in current tax liabilities		(4,855)	6,451
- increase/(decrease) in provisions		1,511	2,667
Net cash provided from operating activities		<u>36,659</u>	<u>40,183</u>

#### G6 Remuneration of auditors

	2016	2015
	\$'000	\$'000
Audit and review services:		
- auditing or reviewing the financial statements	380	335
Other services:		
- other services	782	280
<b>Total</b>	<u>1,162</u>	<u>615</u>

The majority of the fees relating to other advisory services were fees incurred relating to financial due diligence for business acquisitions (2015: the majority of other advisory services related to debt re-financing advisory fees).

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### G Other Information (continued)

#### G7 New accounting standards adopted during the year

During the year, the following standards have been adopted by the Group and it is noted that they do not represent a material impact on the consolidated financial statements:

- AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (December 2013) – Part B – Materiality); and
- AASB 2015 - 1 Amendments to Australian Accounting Standards - Annual Improvements 2012 - 2014 Cycle - Part H

#### G8 New accounting standards for application in future periods

A number of new standards and amendments to the standards are effective for annual periods beginning after 1 July 2016 (unless otherwise stated). The Group have considered the impact of these changes and their application in the preparation of these consolidated financial statements.

New/amended standard	Summary of requirements	Possible impact in consolidated financial statements
AASB 15 Revenue from contracts with customers AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15	AASB 15 (effective on or after 1 January 2018) introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element. AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures.	The Group is considering the impact of AASB 15 on the consolidated financial statements and has chosen not to early adopt this standard.
AASB 16 - Leases	AASB 16 (effective on or after 1 January 2019) reforms are to be implemented around the change in accounting for leases whereby operating leases will be recorded on the balance sheet, where historically the expense relating to them have only been recognised in the statement of profit or loss and other comprehensive income. There is an opportunity to early adopt on the provision that the entity has also early adopted the changes associated with AASB 15.	The Group is in the process of considering the impact on the consolidated financial statements and is not expecting to early adopt this standard.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2016**

### **G Other Information (continued)**

#### **G8 New accounting standards for application in future periods (continued)**

<b>New/amended standard</b>	<b>Summary of requirements</b>	<b>Possible impact in consolidated financial statements</b>
<p>AASB 9 Financial Instruments (December 2010) (includes financial assets and financial liability requirements)</p> <p>AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</p> <p>AASB 9 Financial Instruments (December 2009) (Financial asset requirements only)</p> <p>AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB</p>	<p>In AASB 9 (December 2010), the AASB added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139 except in respect of the fair value option; and certain derivatives linked to unquoted equity instruments.</p> <p>The AASB also added the requirements in AASB 139 in relation to the derecognition of financial assets and financial liabilities to AASB 9. AASB 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.</p> <p>The guidance on hedge accounting in AASB 139 on impairment of financial assets continues to apply as long as hedge accounting provisions in AASB 2013-9 are not applied.</p>	<p>The Group is considering the potential impact of AASB 9 and has chosen not to early adopt.</p>

## Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

### Directors' Declaration

- 1 In the opinion of the directors of Japara Healthcare Limited ('the Company'):
  - (a) the consolidated financial statements and notes to the consolidated financial statements, set out on pages 32 to 68 and the Remuneration Report contained in section 16 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance, for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the Company entities identified in Note F2 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Company entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the period ended 30 June 2016.
- 4 The directors draw attention to Note A2 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 22 August 2016



Linda Bardo Nicholls AO  
Chairman



Andrew Sudholz  
Managing Director and CEO



## **Independent auditor's report to the members of Japara Healthcare Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Japara Healthcare Limited (the company), which comprises the statement of financial position as at 30 June 2016, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes A1 to G8 comprising significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



*Auditor's opinion*

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note A2.

**Report on the remuneration report**

We have audited the Remuneration Report included at section 16 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Japara Healthcare Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Darren Scammell

*Partner*

Melbourne

22 August 2016

## Additional information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report follows. This information is current as at 12 August 2016.

### (a) Distribution of Shareholders – Ordinary Shares

Range	Ordinary shares	%	No of holders	%
100,001 and Over	213,683,499	81.04	101	1.44
10,001 to 100,000	28,643,856	10.86	1,260	17.95
5,001 to 10,000	12,035,544	4.56	1,540	21.93
1,001 to 5,000	8,635,827	3.28	2,896	41.25
1 to 1,000	690,731	0.26	1,224	17.43
<b>Total</b>	<b>263,689,457</b>	<b>100.00</b>	<b>7,021</b>	<b>100.00</b>

### (b) Less than marketable parcels of ordinary shares

There are 153 shareholders holding less than a marketable parcel of ordinary shares (i.e. less than \$500 per parcel of shares).

### (c) 20 Largest Shareholders – Ordinary Shares

Name	Number of fully paid ordinary shares	% of issued capital
1 HSBC Custody Nominees (Australia) Limited	46,707,649	17.71
2 J P Morgan Nominees Australia Limited	33,429,313	12.68
3 National Nominees Limited	24,168,500	9.17
4 Citicorp Nominees Pty Limited	16,991,062	6.44
5 Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,127,179	5.74
6 Australian Foundation Investment Company Limited	14,007,499	5.31
7 BNP Paribas Noms Pty Ltd (DRP)	7,975,442	3.02
8 Australian Shareholder Nominees Pty Ltd	6,808,650	2.58
9 Wanganui Pty Ltd (Peck Von Hartel S/Fund A/C)	3,312,307	1.26
10 Samraj Pty Ltd (Reid Family No 2 A/C)	3,200,000	1.21
11 Djerriwarrh Investments Limited	2,482,690	0.94
12 Mirrabooka Investments Limited	2,452,105	0.93
13 Amcil Limited	1,915,196	0.73
14 The Trust Company Superannuation Limited (GPMSF2 - Future Super A/C)	1,835,000	0.70
15 Warbont Nominees Pty Ltd (Accumulation Entrepot A/C)	1,697,006	0.64
16 BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	1,617,571	0.61
17 CS Fourth Nominees Pty Limited (HSBC Cust Nom AU Ltd 11 A/C)	1,558,635	0.59
18 Naze Nominees Pty Ltd	1,489,195	0.56
19 AMP Life Limited	1,344,176	0.51
20 Colman Foundation Limited (Colman Foundation A/C)	1,108,711	0.42
<b>TOTAL</b>	<b>189,227,886</b>	<b>71.75</b>

**(d) Substantial Shareholders**

A substantial shareholder is one who has a relevant interest in 5% or more of the total issued shares in the Company. Following are the substantial shareholders in the Company based on notifications provided to the Company under the Corporations Act 2001:

Shareholder	Number of fully paid ordinary shares	% of issued capital
BT Investment Management Limited	22,476,138	8.52%
Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,700,000	5.95%
Australian Foundation Investment Company Limited	13,534,092	5.13%

**(e) Distribution of unquoted securities – performance rights**

Range	Performance rights	%	No of holders of performance rights	%
100,001 and Over	555,893	81.26	2	60.00
10,001 to 100,000	128,812	18.74	3	40.00
5,001 to 10,000	-	-	-	-
1,001 to 5,000	-	-	-	-
1 to 1,000	-	-	-	-
<b>Total</b>	<b>684,075</b>	<b>100.00</b>	<b>5</b>	<b>100.00</b>

**(f) Securities subject to voluntary escrow**

There are no securities on issue subject to voluntary escrow.

**(g) Voting Rights**

In accordance with the Company's Constitution, each member present at a meeting whether in person, or by proxy, or by power of attorney, or by a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands and one vote for each fully paid ordinary share on a poll.

Holders of unquoted performance rights do not have voting rights.

**(h) On-Market-Buy-Backs**

There is no current on-market-buy-back in relation to the Company's securities.

**(i) On-Market Share Acquisitions**

The Company operates an Equity Incentive Plan (**Plan**) for Group employees. 124,509 ordinary shares were acquired on-market during the financial year ended 30 June 2016 by the Plan trustee for allocation under the Plan. The average purchase price of these shares was \$2.8061 each. A further 546,591 ordinary shares were also acquired off-market at an average price of \$1.89 each.