Directors' Report

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 2019 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. In addition to her current Australian listed company directorships, she is Chairperson of Melbourne Health and a Member of the Museums Board of Victoria.

Previously, Linda has held the position of Chairman at some of Australia's most well-regarded companies including Healthscope, Australia Post and Yarra Trams.

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

Other current Australian listed company directorships:

Medibank Private (appointed 31 March 2014), Inghams Group (appointed 7 October 2016)

Former Australian listed company directorships in last three years:

Fairfax Media (resigned 7 December 2018), Pacific Brands Group (resigned 15 July 2016)

Andrew Sudholz
FPI, MAICD

Chief Executive Officer
& Managing Director (**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.

Richard England
FCA, MAICD

Non-Executive Director
Director since 19 March 2014

Chairman of the Audit, Risk and Compliance Committee and a 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 multiple ASX listed and unlisted companies across the financial services, banking, healthcare and insurance industries.

Richard is Chairman of Qantm Intellectual Property and Automotive Holdings Group and a Non-Executive Director of other Australian listed companies. He is also Chairman of Indigenous Art Code Limited, the company administering the Indigenous Australian Art Commercial Code of Conduct.

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.

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

Other current Australian listed company directorships:

Nanosonics (appointed 5 February 2010), Qantm Intellectual Property (appointed 17 May 2016), Bingo Industries (appointed 22 March 2017), Automotive Holdings Group (appointed 26 April 2019)

Former Australian listed company directorships in last 3 years:

Atlas Arteria (resigned 30 November 2018), Ruralco Holdings (resigned 5 September 2016)

David Blight
BAppSc PRM (Val)

Non-Executive Director
Director since 19 March 2014

Chairman of the Remuneration and Nomination Committee (to 30 June 2019) and member of the Audit, Risk and Compliance Committee and the Zero Harm Committee.

David is the co-founder and CEO of ARA Australia, the Australian business of the Singapore based ARA Group. ARA is an Asia Pacific real estate investment management firm with over $50 billion in funds under management.

David is also a Non-Executive Director of Lifestyle Communities Limited.

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.

Other current Australian listed company directorships:

Lifestyle Communities Limited (appointed 15 June 2018)

Former Australian listed company directorships in last 3 years:

Cromwell Property Group (resigned 19 July 2019)

1. Directors continued

JoAnne Stephenson
BComm, LLB, CA, MAICD

Non-Executive Director
Director since 1 September 2015

Chairman of the Remuneration and Nomination Committee (from 1 July 2019) and a member of the Zero Harm Committee (Chairman to 30 June 2019) and the Audit, Risk and Compliance Committee.

JoAnne 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.

In addition to her current Australian listed company directorships, she is Chair of the Victorian Major Transport Infrastructure Board and Chairman of the Melbourne Chamber Orchestra.

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 the Australian Institute of Company Directors.

Other current Australian listed company directorships:

Challenger (appointed 8 October 2012), Asaleo Care (appointed 30 May 2014), Myer Holdings (appointed 28 November 2016)

Former Australian listed company directorships in last 3 years:

None

Leanne Rowe AM
Doctor of Medicine (MD), MB BS, FRACGP, Dip RACOG, FAICD, HonLLD (Monash)

Non-Executive Director
Appointed as a Director on 1 July 2019

Chairman of the Zero Harm Committee and a member of the Audit, Risk and Compliance Committee and the Remuneration and Nomination Committee (from 1 July 2019).

Leanne is a Clinical Professor and Medical Practitioner with over 30 years of clinical experience in the public and private health systems across acute care, aged care, mental health and community health.

She is currently a Non-Executive Director of the Medical Indemnity Protection Society and MIPS Insurance. Previously she was Chairman of the Royal Australian College of General Practitioners and a Non-Executive Director of I-MED Radiology Network, Medibank Private, GMHBA, Australian Health Management, Barwon Health and Beyond Blue.

Leanne is a former Deputy Chancellor of Monash University and has been awarded a Doctor of Laws (honoris causa) for her services. She has also received a Member of the Order of Australia for her services to medicine and is a Fellow of the Royal Australian College of General Practitioners and the Australian Institute of Company Directors.

Other current Australian listed company directorships:

None

Former Australian listed company directorships in last 3 years:

None

2. Company secretaries

Bruce Paterson

Bruce has over 25 years corporate experience in senior roles with listed and unlisted companies. Prior to joining the Company, 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.

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 AO[1]	11	11	5	5	3	3	4	4
Andrew Sudholz[1]	10	11	4	5	3	3	3	4
Richard England	11	11	5	5	3	3	4	4
David Blight	11	11	5	5	3	3	4	4
JoAnne Stephenson	11	11	5	5	3	3	4	4
Leanne Rowe AM[2]	-	-	-	-	-	-	-	-

A - Number of meetings attended
B - Number of meetings held
1 - Attended Committee meetings by invitation
2 - Appointed 1 July 2019

4. Principal activities

The principal activities of the Group during the financial year was that of owner, operator and developer of residential aged care homes. 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 5,750 resident places and approvals for places currently across 50 homes located in Victoria, New South Wales, Queensland, South Australia and Tasmania.

The Group's core business is providing residential aged care services. It also operates 180 Independent Living Units (**ILUs**) across five retirement villages, located adjacent to its residential care homes. Retirement village revenue accounts for less than 1% of the Group's operations by revenue.

Since its inception in 2005, the Group has successfully expanded its business by developing and expanding its existing homes, building new homes and selectively acquiring other homes.

The Group's parent company, Japara Healthcare Limited, was admitted to the official list of ASX Limited on 17 April 2014.

Japara Robina Rise
Gold Coast, Queensland

5. Operating and financial review continued

Overview of the Group continued

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, wellbeing and amenity;
- eligible Federal Government care funding matched to resident acuity; and
- cash flow generation to meet working capital requirements, facilitate growth and provide returns to shareholders.

Funding sources

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

Federal Government and resident contributions

As an approved provider of residential aged care services by the Department of Health (**Department**), each of the Group's homes is eligible to receive funding contributions from the Federal 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 approximately 73% (2018: 73%) of its revenue from Federal Government care and accommodation funding during the financial year.

The Group also receives contributions from residents for the provision of a full spectrum of residential aged care services, optional additional services and Daily Accommodation Payments (**DAPs**). Resident fees made up approximately 27% (2018: 27%) of the Group's revenue for the 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 2019 financial year, the Group used capital funding received from RADs for the following purposes:

- financing land acquisitions, residential aged care home capital works for developments and significant refurbishments and associated expenditure on fit-out and new equipment;
- repaying bank debt used to finance capital works for residential aged care homes; and
- refunding RADs when due and payable.

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 residential care homes.

Residents that have been assessed as having the financial means have the option to either pay a RAD, a DAP, or a combination of both. A 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 Federal Government.

Bank debt

The Group borrows money from time to time in order to finance its activities. The Group has banking facilities with a syndicate of lenders which are principally used to finance the Group's developments on a short to medium term basis and the acquisition of residential aged care homes.

Key costs

The Group's key cost relates to staffing, which was approximately 69% (2018: 69%) 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 seeks to leverage its ability to achieve cost advantages through internalisation and centralisation of certain functions, economies of scale and group buying power.

Review of operations

	2019 $'000	2018 $'000	Change %
Revenue and other income	**399,768**	373,188	7.1
Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**)	**49,553**	50,653	(2.2)
Profit attributable to members of the Group (**NPAT**)	**16,433**	23,327	(29.6)
Total comprehensive income attributable to members of the Group	**14,021**	23,327	(39.9)

Net profit amounts have been calculated in accordance with Australian Accounting Standards.

Operational results

The Group delivered EBITDA of $49,553,000 for the financial year in a challenging operating environment.

Revenue and other income of $399,768,000 was up 7.1% on last year while NPAT was $16,433,000, a decrease of $6,894,000.

Revenue improvement was achieved through contributions from greenfield and brownfield developments completed during the financial year and throughout the previous financial year, by a full year contribution from the Riviera Health portfolio acquired on 1 April 2018 and the Federal Government's temporary subsidy increase from 20 March 2019 to 30 June 2019 which amounted to $7,900,000. Revenue growth was more than offset by the impact of wage rate increases, which exceeded the indexation increases received in Federal Government care funding, increases in other items such as utility expenses and additional costs incurred in respect of information provision in support of the Royal Commission into Aged Care Quality and Safety (**Royal Commission**). Average occupancy for the financial year was 93.0% compared with 93.2% in the previous financial year.

NPAT was lower for the financial year due to the overall decline in EBITDA and due to increased interest expense as we invest in our development pipeline to underpin future growth and due to increased depreciation attributable to new and re-developed homes. The effective tax rate for the financial year was 30% compared with 21% in the prior year which was lower than normal due to the non-taxable gain associated with the acquisition of the Riviera Health portfolio.

A non-cash fair value charge through other comprehensive income occurred during the year amounting to $2,412,000 (2018: $Nil) net of income tax as a result of the Group entering into interest rate swaps during the year. Further details are disclosed in Note G3(c) to the financial statements.

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

	2019 $'000	2018 $'000	Change %
Total assets	**1,378,635**	1,268,606	8.7
Total liabilities	**846,551**	734,828	15.2
Net assets	**532,084**	533,778	(0.3)

Review of financial position

The Group's total assets increased by 8.7% during the financial year mainly due to an increase in property, plant and equipment associated with capital expenditure on the Group's development program in line with its growth strategy.

Total liabilities increased by 15.2%, mainly due to an increase in bank borrowings and RADs, being monies refundable to our residents, to fund the above increase in assets.

During the financial year an additional $70,000,000 of the Group's banking facilities was drawn down primarily to fund developments, with $5,000,000 being repaid from net RAD cash inflows. A total of $210,500,000 was drawn down as at the reporting date. Together with the Group's cash balances of $31,472,000, the Group's net debt as at the reporting date amounted to $179,028,000 (2018: $116,342,000), of which $44,528,000 is considered core net debt and $134,500,000 is development debt.

Net RAD and ILU resident loan cash inflows for the financial year were $44,729,000 (2018: $41,591,000), the increase reflecting the Group's completion of developments and significant refurbishments during the year.

The Group's current liabilities exceed current assets by $615,666,000 (2018: $558,476,000) as at 30 June 2019. This mainly arises because of the requirement to classify the Group's obligations to residents for RADs/accommodation bonds and ILU resident loans as current liabilities, whereas, the property, plant and equipment, investment properties and intangible assets to which such funds relate are required to be classified as non-current assets.

5. Operating and financial review continued

Review of financial position continued

The Group maintains a minimum level of liquidity to ensure RADs/accommodation bonds are able to be refunded as required and the timing of 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 of its current portfolio of homes through organic growth while maintaining a high level of resident care and support in line with its ageing-in-place care model.

In addition to organic growth, the Group has an expansion strategy which centres on increasing the size of its residential care home portfolio through developments and selective acquisitions of existing homes.

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. The Federal Government has identified the importance of the continuum of care model and the goal of enabling a seamless transition between home and residential care for ageing residents. The Group seeks 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

The Group has a suite of additional services that are available to its residents. Revenue from additional services continues to grow and is expected to generate further revenue growth from resident contributions as they access these services and more new homes open. These services include hairdressing, technology, superior room furnishings, concierge services and various non-clinical therapy services. The majority of the Group's developments are being designed to enhance the level and availability of additional service offerings.

ii. Cost reduction initiatives

The Group constantly reviews its supply and service contracts seeking improvements including efficiencies and cost savings without compromising quality or service standards. It also continually refines its operations to identify improved and more efficient methods of operating including through the use of technology.

iii. Occupancy levels

The Group has historically maintained higher than industry average occupancy levels and continues to target incremental improvement in occupancy across its portfolio of homes. A dedicated client services team supports the home managers to maintain a close relationship with the Group's resident consumer base and referral network. Benchmarked occupancy levels across the Group and its competitors are used for strategic direction and improvement initiatives.

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

iv. RAD/DAP funding

The Group continued to receive strong net RAD inflows during the year totalling $44,729,000. Further new capital is anticipated to be received from RADs linked to newly delivered operational places from brownfield and greenfield developments and existing beds on significantly refurbished homes.

Development program

The Group's development program is expected to deliver over 1,100 net new places to the market by the end of FY2022. During the year, three new greenfield developments were completed and opened in Glen Waverley (Vic), Rye (Vic) and Brighton-Le-Sands (NSW) adding 219 new places to the portfolio. Additionally, two brownfield extensions at our Kingston Gardens and Mirridong homes (Vic) were opened providing a further 84 new places. During July 2019, we completed and opened our newest and 50th home in Robina (Qld) delivering a further 106 new places.

The Group currently has seven brownfield and eight greenfield projects in progress at various stages of development. The Group owns or has secured land sites for all these projects.

At the date of this report, the Group has 867 un-activated provisional licences issued by the Department for development purposes, which includes 387 provisional licenses received during the 2018/19 Aged Care Approvals Round. These provisional licenses, along with 299 of other surplus licenses held, support the places being built under the Group's current development program. Any shortfall in licences is expected to be obtained either through transfer from current homes with non-operational places and from future Aged Care Approvals Round allocations or by acquisition.

It is expected that the costs of the Group's developments will, to a large extent, be initially funded from the Group's banking facilities. This debt is expected to be repaid by the RAD inflows received from residents entering the new or re-developed homes post completion.

The Group has a separate significant refurbishment program currently operating across six of its homes. Six other homes were significantly refurbished during the financial year. The Group is entitled to receive additional Federal Government funding from accommodation supplements which provides up to a potential additional $19 per day for each concessional resident in newly built or significantly refurbished homes. In all, at the date of this report, 33 of the 50 homes in the Group now qualify for this additional supplement.

Acquisitions of existing residential aged care homes

The Group constantly reviews opportunities to acquire existing residential aged care homes. The Group targets individual or groups of homes where shareholder value can be enhanced through operational improvements and efficiencies. This may occur through the implementation of the Group's operating model, its buying power and removal of duplicated administration costs.

The Group has established policies and procedures for the acquisition of additional residential aged care homes. As part of the due diligence process, pricing is confirmed by independent valuations for both the business and real estate components. The Group undertakes formal legal, financial, property, operational and compliance due diligence on each target home before committing to an acquisition.

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

The Group's key acquisition investment criteria include:

- **Demand**: homes in locations that have unmet demand;
- **Network enhancement**: homes in locations that enhance the Group's national or local presence;
- **Strong care fundamentals**: homes that have strong care fundamentals and accreditation histories, as well as strong governance around care delivery and ACFI assessments;
- **Growth**: operational homes that provide potential for long term growth from income and RADs;
- **Cash flow**: homes that have a substantial income flow; and
- **Value creation**: homes that provide an opportunity for strategic value enhancement and asset management strategies to enhance returns to shareholders 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 residential aged care homes or multi-home portfolios where the investment criteria are met.

Material business risks

Change of regulatory framework

The Australian residential 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 homes, and its financial performance.

In addition, there is a risk that participants in the industry may, through their actions, omissions and business practices cause future regulatory changes that will have an adverse impact on the Group's financial performance and future prospects. To this end, the Royal Commission commenced in February 2019 whose interim report is due at the end of October 2019 and final report expected by 30 April 2020. It is anticipated that the Royal Commission's findings will be significant for the future structure and workings of the industry.

5. Operating and financial review continued

Material business risks continued

Change of regulatory framework continued

The Group has limited control over this area of risk but seeks to influence regulatory decision-making through submissions and consultation at senior Federal Government levels, including within Treasury, Health and Aged Care departments, primarily through the Aged Care Guild. Additionally, both the Group and the Aged Care Guild have provided submissions and direct evidence to the Royal Commission.

The CEO has responsibility for managing regulatory risk and is the Company's delegate on the Aged Care Guild which seeks to support sustainability and 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.

Staff cost increases

The majority of the Group's staff costs are set under state-based enterprise bargaining agreements which contain fixed increases over the term of the enterprise agreement. Whilst the Group negotiates with employees, through union representation, for wage increases for a future period of time, this is undertaken without knowing the future annual increases in Federal Government funding through indexation. There is a risk that future increases in staff costs are higher than the increase in Federal Government funding. As staff costs as a percentage of total revenue for the financial year was approximately 69% (2018: 69%), an increase in staff costs in excess of the increase in Federal Government funding may adversely affect the Group's financial performance.

The Group manages its wage costs to revenue ratio to mitigate a decline in profitability while ensuring that the care needs of all residents are met. The Group seeks to implement information technology solutions to create efficiencies in its workforce by minimising administration and maximising care, while also enhancing its overall level of revenue through optimising occupancy.

Reduction in occupancy levels

In the ordinary course of its business, the Group faces the risk that occupancy levels may fall below expectations, for example, with a nationwide severe influenza outbreak or an excess supply of places in the market. Reduced occupancy levels adversely affect the Group's financial performance by reducing the amount of Federal Government care and accommodation 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. Such occurrences are likely to lead to a decline in the Group's profitability as was the case during the financial year where a large number of aged care licenses issued by the Federal Government were activated at levels in excess of current demand in anticipation of future needs of the "baby boomer" generation.

Occupancy levels are monitored daily at a home and line management level. Home managers are responsible for their homes' occupancy levels, which is a KPI for performance assessment purposes. Homes are supported by line management and a dedicated client services team who have access to referrer networks and direct marketing resources. The Group Executive - Care and Commercial 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 potential reductions in occupancy levels, the Group develops its greenfield projects in undersupplied geographic markets as supported by independent research at the time of planning.

Health and safety

The wellbeing, health and safety of residents, home 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.

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 1997. Home staff are under the control and supervision of qualified home managers and receive regular on-going training to safeguard and promote the wellbeing, health and safety of both residents and themselves. Audits and post incident investigations are conducted to identify and address risks of injury or illness. Homes are assisted by a centralised team which provides work, health and safety, human resource and operational support. The Group Executive - Care and Commercial has overall responsibility for resident care services while the Group Executive - People and Development 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 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 and reviewed by the Committee.

Loss of key personnel

The Group relies on a high quality management team with significant residential 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 homes 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 residential 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 while 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 remuneration incentive arrangements for key personnel are overseen by the Remuneration and Nomination Committee. These arrangements can assist with retention through their design, including deferral and forfeiture elements. 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

Residential aged care homes are required at law 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. Residential aged care homes must be accredited to attract Federal Government care and accommodation funding. If the Group does not comply with regulation and is unable to secure accreditation for the operation of its residential aged care homes and resident places in the future, or if any of its existing accreditation or approvals are adversely amended or revoked, this is likely to affect Federal Government funding, potentially resulting in the breach of bank financing lending covenants and therefore adversely impacting the financial performance and position and future prospects of the Group.

The Group has robust policies and procedures in place covering all required accreditation standards each home must meet. Home staff are educated and regularly trained to ensure these standards are upheld and are supported by a centralised quality control team. When the Group acquires a new home, it undertakes a review of accreditation standards within three months using a gap analysis process to identify risks. New homes are transitioned to Group standards with the support of the quality control team. The Group Executive - Care and Commercial 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 Federal Government agency accreditation audits with learning communicated across the Group. Remuneration incentive arrangements for the executive leadership team, which includes the Group Executive - Care and Commercial and the CEO, have a gateway hurdle that the Group must maintain on-going accreditation and compliance standards.

Reputational damage

The Group operates in a commercially sensitive industry in which its reputation could be adversely impacted should it, or the residential 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 homes or the Group's ability to attract new residents to its homes, 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 to the executive leadership team and to the Board (when applicable) in accordance with standing policy. The executive leadership team, under the CEO's direction, is responsible for developing appropriate strategies and responses. 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 which 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 3.35 cents per share (2018: 3.75 cents)	$8,953,000
Interim dividend of 2.80 cents per share (2018: 4.00 cents)	$7,478,000

The interim dividend paid during the financial year was unfranked (FY2018: franked to 65%). The final dividend for this period is payable on 30 October 2019 and will be franked to 50% (FY2018: franked to 50%).

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. Indemnification and insurance of officers

Indemnification

The Company has agreed to indemnify the current and former 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 and former directors and officers 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.

11. 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:

	2019 $'000	2018 $'000
Audit and review services	275	355
Taxation services	112	150
Due diligence services	-	113
Advisory services	50	81
	437	699

12. 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.

13. Proceedings on behalf of the Company

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**.

14. Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 22 and forms part of this Directors' Report for the financial year ended 30 June 2019.

15. Rounding off

The Group 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 legislative instrument, 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 on pages 24 to 36 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 26 August 2019

Linda Bardo Nicholls AO
Chairman

Andrew Sudholz
CEO & Managing Director