Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2019

	Note	2019 $'000	2018 $'000
Revenue	B2	394,937	361,523
Other income	B2	4,831	11,665
Total revenue and other income		399,768	373,188
Employee benefits expense	D1	(277,563)	(258,967)
Resident costs		(34,225)	(31,874)
Occupancy costs		(22,607)	(21,284)
Depreciation and amortisation expense	F1	(19,995)	(17,150)
Administrative expenses		(15,820)	(10,410)
Earnings before interest and tax		29,558	33,503
Finance income		425	678
Finance costs	B3	(6,339)	(4,495)
Profit before income tax		23,644	29,686
Income tax expense	B5	(7,211)	(6,359)
Profit for the year		16,433	23,327
Other comprehensive income, net of income tax	G2	(2,412)	-
Total comprehensive income for the year		14,021	23,327
Profit attributable to members of the Group		16,433	23,327
Total comprehensive income attributable to members of the Group		14,021	23,327
Earnings per share			
Basic earnings per share (cents)	B4	6.16	8.78
Diluted earnings per share (cents)	B4	6.16	8.76

The accompanying notes form part of these financial statements.

Statement of Financial Position
As at 30 June 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Current assets			
Cash	G4	31,472	29,158
Trade and other receivables	C1	14,640	9,356
Current tax receivable	B5	-	2,629
Other assets		6,216	6,405
Total current assets		52,328	47,548
Non-current assets			
Trade and other receivables	C2	2,347	1,834
Non-current assets held for sale		2,192	1,728
Property, plant and equipment	F1	787,767	687,720
Investment property	F3	39,200	38,398
Intangible assets	F2	494,801	491,378
Total non-current assets		1,326,307	1,221,058
TOTAL ASSETS		1,378,635	1,268,606
LIABILITIES			
Current liabilities			
Trade and other payables	E1	27,005	38,570
Other liabilities		8,568	3,650
Borrowings	G5	40,750	21,000
Current tax payable	B5	377	-
Other financial liabilities	G6	554,649	509,348
Employee provisions	D2	36,645	33,456
Total current liabilities		667,994	606,024
Non-current liabilities			
Borrowings	G5	169,750	124,500
Deferred tax liabilities	B5	2,420	563
Employee provisions	D2	3,975	3,741
Other financial liabilities	G6	2,412	-
Total non-current liabilities		178,557	128,804
TOTAL LIABILITIES		846,551	734,828
NET ASSETS		532,084	533,778
EQUITY			
Issued capital	G8	524,695	522,962
Hedging reserve		(2,412)	-
Retained earnings		9,801	10,816
TOTAL EQUITY		532,084	533,778

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
For the Year Ended 30 June 2019

2019	**Note**	Issued Capital $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2018		522,962	-	10,816	533,778
Profit attributable to members of the Group		-	-	16,433	16,433
Transactions with owners of the Company					
Shares issued during the year		1,733	-	-	1,733
Cash flow hedges - effective portion of changes in fair value	G2	-	(2,412)	-	(2,412)
Dividends paid		-	-	(17,448)	(17,448)
Balance at 30 June 2019		524,695	(2,412)	9,801	532,084

2018		**Ordinary Shares $'000**	**Hedging Reserve $'000**	**Retained Earnings $'000**	**Total $'000**
Balance at 1 July 2017		522,328	-	13,386	535,714
Profit attributable to members of the Group		-	-	23,327	23,327
Transactions with owners of the Company					
Shares issued during the year		634	-	-	634
Dividends paid		-	-	(25,897)	(25,897)
Balance at 30 June 2018		522,962	-	10,816	533,778

The accompanying notes form part of these financial statements.

Statement of Cash Flows
For the Year Ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		389,844	361,250
Payments to suppliers and employees		(347,515)	(315,824)
Income taxes paid		(2,348)	(6,342)
Interest received		414	674
Finance costs paid		(6,436)	(4,263)
Net cash provided by operating activities	I5	33,959	35,495
Cash flows from investing activities			
Purchase of land and buildings		(18,289)	(19,626)
Proceeds from sale of land and buildings		1,671	313
Purchase of plant and equipment		(29,687)	(10,158)
Capital works in progress		(78,387)	(78,753)
Proceeds from sale of surplus resident places		3,416	-
Purchase of resident places		(3,423)	-
Deposits paid under land contracts		(960)	-
Purchase of aged care businesses		-	(40,317)
Net cash used by investing activities		(125,659)	(148,541)
Cash flows from financing activities			
Proceeds from issue of share capital		1,733	634
Dividends paid	G8(b)	(17,448)	(25,897)
Net proceeds from bank borrowings	G5(a)	65,000	84,500
Proceeds from RADs & ILU resident loans		183,262	190,185
Repayment of RADs/accommodation bonds & ILU resident loans		(138,533)	(148,594)
Net cash provided by financing activities		94,014	100,828
Net increase/(decrease) in cash and cash equivalents held		2,314	(12,218)
Cash and cash equivalents at beginning of the year		29,158	41,376
Cash and cash equivalents at end of the year	G4	31,472	29,158

The accompanying notes form part of these financial statements.

Notes to the Financial Statements
For the Year Ended 30 June 2019

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 provides 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 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").

This is the first set of the Group's financial statements in which AASB 15 **Revenue from Contracts with Customers** and AASB 9 **Financial Instruments** have been applied. Changes to significant accounting policies are described in Note A5.

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 its current assets by $615,666,000 as at 30 June 2019 (2018: $558,476,000). 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 $554,649,000 (2018: $509,348,000) as current liabilities (refer note G6 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 G3(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 RADs and accommodation bonds that are expected to fall due within the next twelve months.

The financial statements were authorised for issue by the Board of Directors on 26 August 2019. 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 26 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.

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 (refer below).

The Group's 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.

A. About this Report continued

A4. Use of estimates and judgements continued

Measurement of fair values continued

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

When measuring the fair value of an asset or a liability, the Group uses observable market 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 2019 are included in the following notes:

- Note D3 – Share-based payment arrangements: Measurement of fair value;
- Note F2 – Impairment review: Calculation of value-in-use;
- Note F3 – Investment property: Measurement of fair values; and
- Note G2 – Financial instruments: Measurement of fair values.

A5. Changes in significant accounting policies

The Group has initially applied AASB 9 and AASB 15 from 1 July 2018. A number of other new standards are also effective from 1 July 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements have not been restated to reflect the requirements of the new standards.

AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 F**inancial Instruments: Recognition and Measurement.**

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(a) Classification and measurement of financial assets and financial liabilities

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. AASB 9 eliminates the previous AASB 139 categories of held to maturity, loans and receivables and available for sale. Under AASB 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities.

The impact of AASB 9 on the classification and measurement of financial assets is set out below.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVTOCI are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The following accounting policies apply to the subsequent measurement of financial assets held by the Group:

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. The Group does not have any debt or equity investments at FVTOCI.

(b) Measurement categories of financial assets

Cash and cash equivalents, trade and other receivables, and loans and receivables are now classified at amortised cost.

Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. The original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset are not substantially different, the Group recalculates the gross carrying amount of the financial asset and recognises the derecognition as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, the gain or loss is presented together with impairment losses.

(c) Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVTOCI, but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139.

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset will increase if it is more than 60 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

A. About this Report continued

A5. Changes in significant accounting policies continued

AASB 9 Financial Instruments continued

(d) Transition

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively, except as described below:

- the Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements.
- the following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - the determination of the business model within which a financial asset is held;
  - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
  - the Group has elected to adopt AASB 139 for hedge accounting. Refer to Note G2.

The following table and the accompanying notes below explain the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets and financial liabilities as at 30 June 2019:

	Classification under AASB 139	Classification under AASB 9	Carrying amount under AASB 139 $'000	Carrying amount under AASB 9 $'000
Financial assets				
Trade and other receivables	Loans and receivables	Amortised cost	16,987	16,987
Cash and cash equivalents	Loans and receivables	Amortised cost	31,472	31,472
Total financial assets			**48,459**	**48,459**
Financial liabilities				
Secured bank loans	Other financial liabilities	Other financial liabilities	(210,500)	(210,500)
Trade payables	Other financial liabilities	Other financial liabilities	(27,005)	(27,005)
Interest rate swaps used for cash flow hedging	Fair value hedge instrument	Fair value hedge instrument	(2,412)	(2,412)
Total financial liabilities			**(239,917)**	**(239,917)**

Derivatives and hedge accounting

The Group has elected to use AASB 139 for hedge accounting purposes. The Group uses interest rate swaps to hedge the Group's exposure to fluctuations in interest rates on borrowings.

Cash flow hedges

The fair value of the variable element of the interest rate swaps are recognised directly in equity (FVTOCI) to the extent that the hedges are effective. To the extent hedges are ineffective, changes in the fair value are recognised in the profit or loss. Hedge effectiveness is tested at each reporting date and is calculated using the cumulative dollar offset method. Effectiveness will be assessed on a cumulative basis by calculating the change in fair value of the interest rate swaps as a percentage of the change in fair value of the designated hedge item. If the ratio change in the fair value is within the 80%-125% range, the hedge is deemed to be effective.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge relationship is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains until the forecast transaction occurs.

When a forecasted hedged transaction is no longer expected to occur, the amount deferred in the cash flow hedge reserve is recognised immediately in the profit or loss.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 **Revenue**, AASB 111 **Construction Contracts** and related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted AASB 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations. Additionally, the disclosure requirements in AASB 15 have not generally been applied to comparative information.

AASB 15 did not have a significant impact on the Group's accounting policies with respect to revenue streams. The Group has disaggregated revenue based on the funding source and nature of the revenue stream.

Government revenue

The Federal Government assesses the Group's entitlement to revenue in accordance with the provisions of the Aged Care Act 1997. The subsidy received is based on the Aged Care Funding Instrument ("ACFI") assessment and recognised on an ongoing daily basis. The Federal Government also calculates certain accommodation supplements and other supplements on a per resident per day basis. The amount of Government revenue received is determined by Federal Government regulation rather than a contract with a customer. The funding is determined by a range of factors, including the resident's care needs; whether the home has been significantly refurbished; levels of supported resident ratios at the home; and the financial means of the resident.

Other Government funding

Payment for the provision of transitional care under the Federal Government's Transitional Care Program ("TCP"). This is for the provision of time-limited, goal-oriented and therapy-focused packages of services to older people after a hospital stay.

Basic daily fee

The basic daily fee is a daily living expense paid by all residents as a contribution towards the provision of care and accommodation in accordance with the Aged Care Act 1997. This fee is calculated daily in accordance with the rates set by Federal Government, and invoiced on a monthly basis. In addition to the basic daily fee, if the resident has been assessed by the Federal Government as having the financial means, an additional means tested care fee is payable by the resident as a contribution to their care fees. This is also calculated on a daily basis and invoiced monthly.

Other resident fees

These include fees recognised by the Group for the provision of accommodation and additional services to residents, charged to residents under mutually agreed terms and conditions, depending upon the agreed room price and additional services requested.

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 the same as information provided in this financial report.

B2. Revenue and other income

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

All revenue is stated net of GST.

B. Business Performance continued

B2. Revenue and other income continued

(a) Reconciliation of revenue and other income

	Note	2019 $'000	2018 $'000
Government income			
Department of Health funding		286,248	260,622
Other Government funding		1,487	2,359
Total Government income		287,735	262,981
Resident income			
Basic daily fees		83,432	77,290
Other resident fees		23,770	21,252
Total resident income		107,202	98,542
Total revenue		394,937	361,523
Other income			
Increase in fair value of investment property	F3(a)	802	1,743
Net gain on acquisition of aged care business		-	9,568
Gain on disposal of non-current assets		3,801	40
Other income		228	314
Total other income		4,831	11,665
Total revenue and other income		399,768	373,188

B3. Finance costs

Finance costs and staff 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 or sale.

All other financing costs and staff costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they are incurred.

(a) Reconciliation of finance costs

	2019 $'000	2018 $'000
Finance costs		
Loan establishment fees	372	258
Total loan interest costs	6,161	3,564
Loan interest costs capitalised	(2,385)	(1,302)
RAD/accommodation bond settlement interest expense	1,764	1,975
Increase in fair value of Independent Living Unit loan liability	427	-
Total finance costs	6,339	4,495

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

	2019 $'000	2018 $'000
Profit for the year attributable to ordinary shareholders	16,433	23,327

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

	2019 No.	2018 No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	266,740,654	265,713,146
Weighted average number of dilutive rights outstanding	-	633,885
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	266,740,654	266,347,031

B5. Income tax expense

The charge for current income tax expense 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 arise where amounts have been fully expensed for accounting purposes 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 comprise:

	Note	2019 $'000	2018 $'000
Current tax expense	B5(e)	5,200	4,501
Deferred tax expense		1,857	1,483
Under provision in respect of prior years		154	375
Income tax expense		7,211	6,359

B. Business Performance continued

B5. Income tax expense continued

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

	2019 $'000	2018 $'000
Profit before income tax	23,644	29,686
Prima facie tax on profit at the statutory tax rate of 30% (2018: 30%)	7,093	8,906
Add/(less):		
Tax effect of:		
– non-deductible tax expenses	118	70
– under provision of income tax in respect of prior years	-	375
– gain on acquisition - non-taxable	-	(2,992)
Income tax expense	7,211	6,359
Weighted average effective tax rate	30%	21%

(c) 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.

(d) 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 the Company as an intercompany payable or receivable with the subsidiary.

(e) Gross movements in current tax receivable/(payable)

	Note	2019 $'000	2018 $'000
The overall movement in current tax receivable is as follows:			
Opening balance		2,629	1,162
Income tax payable charged to profit or loss	B5(a)	(5,200)	(4,501)
Income tax amounts paid during the year		7,468	8,458
Income tax amounts received during the year		(5,120)	(2,115)
Under provision of income tax in respect of prior years		(154)	(375)
Closing balance		(377)	2,629

(f) Deferred tax assets/(liabilities)

	Opening balance $'000	Charged to income $'000	Business combinations $'000	Closing balance $'000
2019				
Provisions	11,956	1,174	-	13,130
Deferred legal costs	99	(130)	-	(31)
Sundry creditors and accruals	1,002	(1)	-	1,001
ILU resident loans	452	-	-	452
Deferred equity raising costs	(151)	-	-	(151)
Property, plant and equipment	(12,603)	(2,785)	-	(15,388)
Deferred management fee receivable	(1,318)	(115)	-	(1,433)
	(563)	(1,857)	-	(2,420)
2018				
Provisions	10,769	676	511	11,956
Deferred legal costs	155	(56)	-	99
Sundry creditors and accruals	885	117	-	1,002
ILU resident loans	452	-	-	452
Deferred equity raising costs	1,018	(1,169)	-	(151)
Property, plant and equipment	(5,873)	(978)	(5,752)	(12,603)
Deferred management fee receivable	(1,245)	(73)	-	(1,318)
	6,161	(1,483)	(5,241)	(563)

C. Trade and Other Receivables

C1. Trade and other receivables - current

	2019 $'000	2018 $'000
CURRENT		
Resident debtors	9,999	6,486
Provision for doubtful debt	(1,013)	(677)
Total resident debtors	8,986	5,809
Deferred management fees receivable	2,430	2,561
Other receivables	3,224	986
Total current trade and other receivables	14,640	9,356

C2. Trade and other receivables - non-current

	2019 $'000	2018 $'000
NON-CURRENT		
Deferred management fees receivable	2,347	1,834
Total non-current trade and other receivables	2,347	1,834

D. Employee Remuneration

D1. Employee benefits expense

	2019 $'000	2018 $'000
Wages and leave expenses	228,583	215,566
Superannuation contributions	21,006	19,747
Payroll tax expense	12,726	11,723
Agency staff costs	5,510	3,716
Workcover expense	7,226	6,981
Other staff costs	2,512	1,234
Total employee benefits expense	277,563	258,967

D2. 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

	2019 $'000	2018 $'000
Current		
Provision for annual leave	21,060	20,545
Provision for long service leave	15,585	12,911
	36,645	33,456
Non-current		
Provision for long service leave	3,975	3,741

D3 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 2019, the Group had the following share-based payment arrangements:

(i) Rights Plan

The Company's Rights Plan is an historical plan under which participating eligible employees of the Group were provided with performance rights. There were 633,885 performance rights on issue at 1 July 2017 under the Rights Plan. These were forfeited and cancelled during FY 2018 under their grant terms.

(b) Reconciliation of outstanding rights

	Rights Plan		Total	
	Number of rights 2019 '000	Number of rights 2018 '000	Number of rights 2019 '000	Number of rights 2018 '000
Outstanding at the beginning of the year	-	634	-	634
Forfeited during the year	-	(634)	-	(634)
Exercised during the year	-	-	-	-

No outstanding rights were exercisable at the reporting date (2018: Nil). The weighted average exercise price for rights outstanding at 30 June 2019 was $Nil (2018: $Nil).

D4. Key management personnel

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

	2019 $'000	2018 $'000
Short-term employee benefits	2,043	1,903
Post-employment benefits	115	126
Other short-term benefits	141	134
Other long-term benefits	(58)	20
	2,241	2,183

E. Trade and Other Payables

E1. Trade and other payables

Trade and other payables included within the Financial Statements for the year are shown below:

	2019 $'000	2018 $'000
CURRENT		
Trade payables - operational	9,133	9,880
Trade payables - capital works in progress	2,296	6,118
Accrued wages	2,618	5,466
Accrued capital works in progress	5,552	5,926
Accrued expenses	5,127	7,560
Provision for building remedial works	2,279	3,620
	27,005	38,570

F. Asset Management

F1. Property, plant and equipment

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

The carrying amount of property, plant and equipment is reviewed annually by the Company's 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.

F. Asset Management continued

F1. Property, plant and equipment continued

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:

Fixed asset class	Depreciation rate
Freehold land	0.0%
Buildings	2.0% to 4.0%
Plant and equipment and computer software	4.0% to 25.0%
Motor vehicles	20.0%
Property improvements	2.0% to 25.0%

Asset 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.

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

Consolidated	Land and Buildings $'000	Property Improvements $'000	Plant and Equipment $'000	Motor Vehicles $'000	Capital Works in Progress $'000	Total $'000
Year ended 30 June 2019						
Balance at the beginning of the year	542,585	5,185	33,317	84	106,549	687,720
Additions	14,299	3,951	30,147	-	73,995	122,392
Disposals	(550)	-	-	-	-	(550)
Transfers from capital works in progress	63,801	32,496	-	-	(96,297)	-
Transfers to assets held for sale	(1,800)	-	-	-	-	(1,800)
Depreciation expense	(11,467)	(227)	(8,263)	(38)	-	(19,995)
Balance at the end of the year	606,868	41,405	55,201	46	84,247	787,767
Year ended 30 June 2018						
Balance at the beginning of the year	474,662	6,139	28,618	92	32,265	541,776
Additions	20,648	179	9,978	21	87,848	118,674
Additions through business combinations	33,470	-	888	-	11,200	45,558
Transfers to investment property	(561)	-	-	-	(77)	(638)
Transfers from capital works in progress	24,687	-	-	-	(24,687)	-
Transfers to inventories	(500)	-	-	-	-	(500)
Depreciation expense	(9,821)	(1,133)	(6,167)	(29)	-	(17,150)
Balance at the end of the year	542,585	5,185	33,317	84	106,549	687,720

(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 land and buildings or property improvements.

During the year, the Group completed construction of 3 aged care homes – The Highbury in Victoria; Rye Sands in Victoria; and Brighton-Le-Sands in New South Wales. Significant refurbishment and brownfield extensions have also been completed. Costs totalling $96,297,000 were reclassified from capital works in progress to land and buildings and property improvements upon completion of construction of these homes.

F2. 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 any 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 Federal Government to Approved Providers and can also be purchased and transferred from other third party Approved Providers with approval from the Department of Health. Resident places are stated at cost or fair value at acquisition less any accumulated impairment losses. The resident places are not amortised as the Company's directors, based on current Government regulations, 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 of disposal. Value-in-use is based on the estimated future cash flows, discounted to their present value using a post-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; then to reduce the carrying amount of resident places in 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.

F. Asset Management continued

F2. Intangible assets continued

(a) Movements in carrying amounts of intangible assets

	Goodwill $'000	Resident places $'000	Total $'000
Year ended 30 June 2019			
Balance at the beginning of the year	260,746	230,632	491,378
Additions at cost	-	3,518	3,518
Disposals	-	(95)	(95)
Closing value at 30 June 2019	260,746	234,055	494,801
Year ended 30 June 2018			
Balance at the beginning of the year	260,746	204,806	465,552
Additions at cost	-	216	216
Additions through business combinations	-	27,920	27,920
Disposals	-	(2,310)	(2,310)
Closing value at 30 June 2018	260,746	230,632	491,378

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 8.16% (2018: 8.40%) 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.

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined at 2.50% (2018: 2.50%), consistent with an assumption a market participant would make.

Budgeted earnings before interest, tax, depreciation and amortisation ("EBITDA") was based upon expectation of future outcomes taking into account past experience, adjusted for anticipated revenue growth through increases in Aged Care Funding Instrument ("ACFI") and occupancy rates. Whilst current industry average occupancy rates are likely to remain lower than the long-term average in the short-term, management has assessed that the use of Japara's long-term average rate of occupancy in year five of the cash flows and into perpetuity is reasonable based upon current known conditions and forecast outcomes.

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

	2019 %	**2018 %**
Change in discount rate	0.76	1.43
Change in long-term growth rate	(0.96)	(1.85)
Change in occupancy rate	(1.70)	(2.20)
Change in ACFI rate	(0.80)	(1.60)

F3. 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 and land to be developed as retirement villages or held for capital appreciation. Four retirement villages are subject to loan licence agreements which confer the right to occupy 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 independent valuations.

	Note	2019 $'000	**2018 $'000**
Balance at beginning of year		38,398	32,972
Transfers from land and buildings		-	3,683
Fair value adjustments	B2(a)	802	1,743
Balance at end of year		39,200	38,398

Use of estimates and judgements

Investment property: Measurement of fair value

The fair value of investment property of $39,200,000 (2018: $38,398,000) has been categorised as Level 3 based on the inputs to the valuation technique used (see note A4).

Investment property has been valued by external independent valuation experts, using a combination of direct comparison and capitalisation approaches.

G. Capital structure and financing

G1. 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, bank borrowings or a combination of both.

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 G3.

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 brownfield and greenfield development projects and acquisition of aged care homes (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 its activities.

G. Capital structure and financing continued

G2. 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.

Hedging

All of the Group's derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained in AASB 139 are accounted for at fair value through profit or loss.

On initial recognition of the hedge, documentation is prepared which shows the relationship between the hedged item and the hedging instrument, the risk management plan for the hedge and the methods for testing prospective and retrospective effectiveness.

Cash flow hedges

Where the risk management plan is to reduce variability in cashflows for a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the hedge is deemed to be a cash flow hedge.

The effective portion of the change in the fair value of the derivative is taken to other comprehensive income until the period in which the non-financial asset affects profit or loss. Any ineffective portion of the change in fair value of the derivative is taken immediately to profit or loss.

Fair value hedges

Changes in the fair value of derivatives and the hedged item where the hedge has been designated as a fair value hedge are taken to profit or loss.

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.

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.

Use of estimates and judgements

Financial instruments: Measurement of fair value

For financial assets carried at amortised cost, 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.

The effects of initially applying AASB 9 on the Group's financial instrument A5.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

	FVTOCI - hedging instrument $'000	Financial assets at amortised cost $'000	Total $'000
Financial instruments not measured at fair value			
Cash and cash equivalents	-	31,472	**31,472**
Trade and other receivables	-	16,987	**16,987**
Trade and other payables	-	(27,005)	**(27,005)**
	-	21,454	**21,454**
Financial instruments measured at fair value			
Interest rate swap used for hedging	(2,412)	-	**(2,412)**
Total	**(2,412)**	**21,454**	**19,042**

Derivatives

The fair value of interest rate swaps is based on a mark-to-market model with reference to prevailing fixed and floating interest rates. These quotes are tested for reasonableness by discounting estimated future cash flows based on term to maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Derecognition of financial instruments

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 G4 - Cash and cash equivalents;
- Note C - Trade and other receivables;
- Note E1 - Trade and other payables;
- Note G5 - Borrowings; and
- Note G6 - Other financial liabilities.

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

G. Capital structure and financing continued

G3. 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 and derivatives. The main purpose of non-derivative financial instruments is to raise finance for the Group's operations. The Group does not have any material derivative financial instruments at reporting 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 Company, 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 management personnel, the Company's directors, the Audit, Risk and Compliance Committee and the Zero Harm Committee. Risk management policies are reviewed by the Audit, Risk and Compliance Committee, and approved by the Company's directors on a regular basis.

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

2019	Weighted average effective interest rate %	Floating interest rate $'000	Maturing within one year $'000	Maturing after one year $'000	Non-interest bearing $'000	Total $'000
Financial assets						
Cash and cash equivalents	1.09	31,472	-	-	-	31,472
Receivables	-	-	-	-	16,987	16,987
Total financial assets		31,472	-	-	16,987	48,459
Financial liabilities						
Accruals	-	-	-	-	(13,297)	(13,297)
Trade and other payables	-	-	-	-	(13,708)	(13,708)
RADs/bonds and ILU loans	-	-	-	-	(496,135)	(496,135)
RADs/bonds (departed residents)	3.75	-	(58,514)	-	-	(58,514)
Bank loans	3.07	-	(40,750)	(169,750)	-	(210,500)
Interest rate swaps	-	-	-	-	(2,412)	(2,412)
Total financial liabilities		-	(99,264)	(169,750)	(525,552)	(794,566)
2018						
Financial assets						
Cash and cash equivalents	1.15	29,158	-	-	-	29,158
Receivables	-	-	-	-	11,058	11,058
Total financial assets		29,158	-	-	11,058	40,216
Financial liabilities						
Accruals	-	-	-	-	(22,572)	(22,572)
Trade and other payables	-	-	-	-	(19,614)	(19,614)
RADs/bonds and ILU loans	-	-	-	-	(441,376)	(441,376)
RADs/bonds (departed residents)	3.75	-	(45,539)	-	-	(45,539)
Bank loans	3.10	-	(21,000)	(124,500)	-	(145,500)
Total financial liabilities		-	(66,539)	(124,500)	(483,562)	(674,601)

(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 its single largest customer is the Commonwealth 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, mainly being aged care home residents, the Group monitors the level of receivables balances on an ongoing basis and any associated combined 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, resulting in contributions to their care and accommodation. The figures below do not take into account that approximately $3,310,000 (2018: $1,915,000) 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. While the Group's overall exposure to bad debts is significantly mitigated because of the ability to offset any outstanding receivable against the RAD/accommodation bond balance, this can only occur with the resident's written agreement or at the point of refund of the RAD. A resident also has up to six months from the date of entry to pay any agreed RAD to the Group. This timeframe enables the resident to collate the liquid funds required to pay the RAD. The payment of the resident's monthly fees, which would include interest charges on the unpaid RAD equivalent to the daily accommodation payment, may be delayed until the RAD has been paid to the Group. To protect the interests of the Group and to mitigate any underpayment of accumulated resident fees, various actions can be taken including: registering a caveat, with the resident's permission, on property owned by the resident; lodging claims with the Estate of the resident should they pass with unpaid fees; and seeking other forms of legal redress. Notwithstanding this, the Group has reviewed its expected credit loss and a provision for doubtful debts has been raised in the financial statements which at reporting date is $1,013,000 (2018: $677,000).

At 30 June 2019, the ageing analysis of resident debtors is as follows:

	Current	31 - 60 days	61 - 90 days	91+ days	Total $'000
Gross carrying amount ($'000)	730	745	977	7,547	**9,999**
Expected credit loss (%)	2	5	8	12	**-**
Expected credit loss ($'000)	17	35	83	878	**1,013**
2018 ($'000)	751	931	358	2,512	**4,552**

The movements in the allowance for impairment in respect of trade receivables during the year are set out below. Comparative amounts for 2018 represent the allowance for impairment losses under AASB 139.

	2019 $'000	2018 $'000
Balance at 30 June under AASB 139	1,013	677
Adjustment on initial application of AASB 9	-	-
Balance at 1 July under AASB 9	1,013	677

(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 Fees and Payments Principles 2014 (No. 2) as required under the Aged Care Act 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 to be refunded 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 an aged care home and therefore classified under "current liabilities" in the Statement of Financial Position. However, on average, each resident occupies a place for approximately 30 months (2018: 26 months), resulting in approximately 40.0% (2018: 46.2%) of RADs and accommodation bonds being replaced in any 12 month period. In addition, any RAD or accommodation bond repayable 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.

G. Capital structure and financing continued

G3. 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 and derivatives. 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 hedging interest rates or leaving them as floating rates in accordance with its interest rate hedging policy. As at 30 June 2019, the Group has bank borrowings of $210,500,000 (2018: $145,500,000).

The Group has hedging arrangements in place to further mitigate interest rate risk. Two hedging instruments enforce a cap on the interest rate payable on $70,000,000 of the Group's bank debt; two further hedging instruments are interest rate swaps to fix the interest rate payable on up to $125,000,000 of the Group's bank debt.

Changes in fair value are monitored on a six-monthly basis. Changes in fair value of the derivative hedging instrument are recognised directly in equity to the extent that the hedge is effective. To the extent the hedge is ineffective, changes in the fair value are recognised in the profit or loss. The interest rate swaps are Level 2 and carrying value of financial instruments are deemed to be a reasonable approximation of fair value due to their short term nature. The fair values have been determined through valuation techniques incorporating units (other than quoted prices) that are observable for a similar financial asset or liability, either directly or indirectly.

The hedging arrangements are as follows:

	Notional Amount	Interest rate (BBSY)	Commencement Date	Maturity date
Interest rate cap 1	$40,000,000	2.89%	21/10/2016	01/01/2020
Interest rate cap 2	$30,000,000	3.50%	03/01/2018	10/09/2020
Interest rate swap 1	$75,000,000	1.65%	02/04/2019	10/10/2022
Interest rate swap 2	$50,000,000	1.69%	10/01/2020	29/09/2023

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 2019. The sensitivity has been calculated using a change in interest rates of 100 basis points (1.00%) 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:

	2019		2018	
	+1.00% $'000	-1.00% $'000	+1.00% $'000	-1.00% $'000
Profit/(loss) after tax	(1,659)	1,659	(1,134)	1,134
Equity	(1,659)	1,659	(1,134)	1,134

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 73% (2018: 73%) 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.

The Group has also assessed that it is materially exposed to the risk that increases in state based Enterprise Bargaining Agreements ("EBAs") may exceed the increases in Federal Government Funding. Whilst the Group negotiates with its employees through a trade union, in good faith, it is not able to necessarily negotiate wage increases that are the same as or lower than the increase in Federal Government Funding.

Price risk sensitivity analysis - Government funding

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 2019. The sensitivity has been calculated using a change in the level of Government funding of 1.00% increase and decrease.

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:

	2019		2018	
	+1.00% $'000	-1.00% $'000	+1.00% $'000	-1.00% $'000
Profit/(loss) after tax	2,014	(2,014)	1,841	(1,841)
Equity	2,014	(2,014)	1,841	(1,841)

Price risk sensitivity analysis - EBA wage rate increases

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 EBA wage rate increases compared to Federal Government funding increases, with all other variables remaining 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 change in EBA wage rate increases on the expenses of the Group, based on the amount of employee benefits expense for the year ended 30 June 2019. The sensitivity has been calculated using a change in the level of employee benefits expense of 1% increase and decrease.

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

	2019		2018	
	+1.00% $'000	-1.00% $'000	+1.00% $'000	-1.00% $'000
Profit/(loss) after tax	(1,943)	1,943	(1,813)	1,813
Equity	(1,943)	1,943	(1,813)	1,813

G4. 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 Group's liquidity management strategy. For more information on RAD/accommodation bond liabilities see note G6.

G5. Borrowings

	2019 $'000	2018 $'000
Current		
Bank loans	40,750	21,000
Total current borrowings	40,750	21,000
Non-current		
Bank loans	169,750	124,500
Total non-current borrowings	169,750	124,500
Total borrowings	210,500	145,500

G. Capital structure and financing continued

G5. Borrowings continued

(a) Bank facility agreements

On 21 December 2018, the Group and its existing lenders, executed a new Syndicated Facility Agreement and Multi-Option Facility Agreement (the "Bank Facilities"). These Bank Facilities have been negotiated to fund the Group's greenfield and brownfield developments as well as acquisitions and other general purposes. 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 September 2020 to September 2023;
- an increase in the total available facility amounts from $220,000,000 to $345,000,000; and
- some minor changes to reflect the increase in size of the Group compared to the time when the previous banking agreements were negotiated.

The Bank Facilities are secured by mortgages over the freehold properties owned by the Group and charges over the businesses operated by the Group.

During the year, $70,000,000 (2018: $65,000,000) was drawn down to fund developments; $Nil (2018: $34,500,000) was drawn down to fund acquisitions of aged care businesses; and $5,000,000 (2018: $15,000,000) was repaid. Additionally $6,000,000 was drawn down to fund the Group's FY2019 workcover and general insurance premium expenses. This amount was repaid in full prior to 30 June 2019. A total of $210,500,000 (2018: $145,500,000) was drawn down against the Bank Facilities as at the reporting date. Subsequent to this date, a further $16,000,000 (2018: $12,000,000) has been drawn down to fund developments and the Group's FY2020 workcover and general insurance premium expenses; and $Nil has been repaid (2018: $5,000,000).

G6. Other financial liabilities

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

RADs/accommodation bonds are non-interest bearing deposits made by some aged care residents to the Group upon admission. These deposits are liabilities which fall due and payable when the resident leaves the home. 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 a 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.

Cash flow hedge

The cash flow hedges are interest rate swaps used for hedging. The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevent benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.

	2019 $'000	2018 $'000
CURRENT		
RADs/accommodation bonds	530,629	486,969
ILU resident loans	24,020	22,379
Total other financial liabilities - current	554,649	509,348
NON-CURRENT		
Interest rate swaps	2,412	-
Total other financial liabilities - non-current	2,412	-
Total other financial liabilities	557,061	509,348

(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.

G7. Reconciliation of liabilities arising from financing activities

	1 July 2018 $'000	Cash flows $'000	Other non-cash $'000	30 June 2019 $'000
Borrowings - current	21,000	19,750	-	40,750
Borrowings - non-current	124,500	45,250	-	169,750
Other financial liabilities - current	509,348	44,726	730	554,804
Other financial liabilities - non-current	-	-	2,412	2,412
Total	**654,848**	**109,726**	**3,142**	767,716

G8. Issued capital

(a) Ordinary shares

	2019 No.	2018 No.
At the beginning of the reporting period	265,887,509	265,545,992
Issued during the period	1,359,819	341,517
At the end of the reporting period	267,247,328	265,887,509

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.

During the year, the Company issued 1,359,819 (2018: 341,517) ordinary shares under its Dividend Reinvestment Plan.

(b) Dividends

	2019 $'000	2018 $'000
The following dividends were determined and paid:		
2018 Final 50% franked ordinary dividend of 3.75 (2017: 5.75) cents per share	9,970	15,268
2019 Interim unfranked ordinary dividend of 2.80 (2018: 4.00) cents per share	7,478	10,629
Total	17,448	25,897
Proposed 2019 Final 50% franked ordinary dividend of 3.35 (2018: 3.75) cents per share to be paid on 30 October 2019	8,953	9,971

The proposed final dividend for 2019 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 2019.

Franking account

	2019 $'000	2018 $'000
Franking credits available for subsequent financial years at a tax rate of 30%	269	61

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 of the tax consolidated Group has assumed the benefit of $269,000 (2018: $61,000) franking credits.

H. Group structure

H1. 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 2019
Japara Holdings Pty Ltd	Direct	100%
Japara Property Holdings Pty Ltd	Direct	100%
Japara Aged Care Property Trust	Direct	100%
Japara Administration 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%
Japara Aged Care Services 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%
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 Habour) Pty Ltd	Indirect	100%
Aged Care Services 41 (South West Rocks) Pty Ltd	Indirect	100%
Aged Care Services 42 (Gympie) Pty Ltd	Indirect	100%
Aged Care Services 43 (Glen Waverley) Pty Ltd	Indirect	100%
Aged Care Services 44 (Rye) Pty Ltd	Indirect	100%
Aged Care Services 45 (Woodend) Pty Ltd	Indirect	100%
Aged Care Services 46 (Riverside) Pty Ltd	Indirect	100%
Japara Home Care Pty Ltd	Indirect	100%
Aged Care Services 48 Pty Ltd	Indirect	100%
Aged Care Services 49 Pty Ltd	Indirect	100%
Aged Care Services 50 Pty Ltd	Indirect	100%
Aged Care Services 51 Pty Ltd	Indirect	100%
Aged Care Services 52 Pty Ltd	Indirect	100%
Aged Care Services 53 Pty Ltd	Indirect	100%
Aged Care Services 54 Pty Ltd	Indirect	100%
Aged Care Services 55 Pty Ltd	Indirect	100%
Aged Care Services 56 Pty Ltd	Indirect	100%
Oakleigh Glen Pty. Ltd	Indirect	100%
Bacaal Pty Ltd	Indirect	100%
Japara Property Management Pty Ltd	Indirect	100%
Japara Developments Pty Ltd	Indirect	100%
Japara Retirement Living Pty Ltd	Indirect	100%
Japara Retirement Living 1 (Woodburn Lodge) Pty Ltd	Indirect	100%
Japara Retirement Living 2 (Balmoral Mews) Pty Ltd	Indirect	100%
Japara Retirement Living 3 (Lakes Entrance) 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%
Japara Retirement Living 8 (The Heritage) 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. 4 (Queenscliff) Pty Ltd	Indirect	100%
JD No. 5 (Albury & District) Pty Ltd	Indirect	100%
JD No. 6 (Dava) Pty Ltd	Indirect	100%
JD No. 7 (Colac) Pty Ltd	Indirect	100%
JD No. 8 (Yarra West) Pty Ltd	Indirect	100%
JD No. 9 (North Albury) Pty Ltd	Indirect	100%

H2. Deed of Cross-Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated 28 September 2016, the wholly-owned subsidiaries listed in note H1 are entitled to relief from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, Directors' reports and auditor's reports as they are part of a Closed Group as defined by the Corporations Act 2001.

Pursuant to the abovementioned legislative instrument, 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 and 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 are the same as the financial statements for Japara Healthcare Limited and its controlled entities.

H. Group structure continued

H3. Parent entity

As at, and throughout, the year ended 30 June 2019, the parent entity of the Group was Japara Healthcare Limited.

	2019 $'000	2018 $'000
Statement of Financial Position		
Assets		
Current assets	1,660	6,177
Non-current assets	778,392	685,913
Total Assets	780,052	692,090
Liabilities		
Current liabilities	(55,377)	(22,175)
Non-current liabilities	(172,162)	(124,500)
Total Liabilities	(227,539)	(146,675)
Net assets	552,513	545,415
Equity		
Issued capital	524,695	522,962
Hedging reserve	(2,412)	-
Retained earnings	30,230	22,453
Total equity	552,513	545,415
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	25,225	14,056
Other comprehensive income	(2,412)	-
Total comprehensive income	22,813	14,056

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 H2.

I. Other Information

I1. Commitments

As at the reporting date, the Group had entered into contracts relating to capital expenditure and is committed to incur:

- $19,618,000 (2018: $44,198,000) in relation to various construction contracts expected to be completed over the course of the next two years; and
- $8,975,000 (2018: $10,125,000) in relation to four land purchases expected to complete in FY2020.

I2. 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

	2019 $'000	2018 $'000
Minimum lease payments under non-cancellable operating leases:		
– not later than one year	2,378	2,245
– between one year and five years	7,613	4,839
– later than five years	-	654
	9,991	7,738

The above amounts relate primarily to property leases for certain business premises of the Group which are non-cancellable leases with terms between 2 and 5 years, with rent payable monthly in advance.

I3. 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 totalling $2,066,000 (2018: $854,000). This is secured against the Multi-Option Facility Agreement (see note G5(a)). At the date of signing this financial report, the Company's directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented to the banks.

Property lease guarantee

During the year the Group entered into a property lease to secure new head office premises. Subsequent to the period end, the Group transferred the lease to another third party lessee on arm's length terms. Whilst the deed of transfer of lease was executed on 4 July 2019, the Group remains as guarantor under the lease assignment.

The Group has noted that a possible future outflow may present itself if the new tenant was to default under the lease. Further to a financial assessment of the new tenant, the possibility of any future outflow has been assessed to be remote and not calculable and as such, no provision has been made at 30 June 2019.

I4. 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.

I5. Cash flow information

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

	Note	2019 $'000	2018 $'000
Profit for the year		16,433	23,327
Cash flows excluded from profit attributable to operating activities:			
– Equity raising costs		-	(7)
Non-cash flows in profit:			
– depreciation	F1	19,995	17,150
– gain on acquisition		-	(12,140)
– straight-lining of rental expense		-	(13)
– net profit on disposal of non-current assets	B2	(3,801)	(40)
– non-cash movement in RADs/accommodation bonds		(230)	2,181
– deferred management fee income		(920)	(663)
– increase in fair value of investment property	B2	(802)	(1,743)
Changes in assets and liabilities:			
– (increase)/decrease in trade and other receivables		(3,865)	4,658
– (increase)/decrease in other assets		(939)	(1,700)
– increase/(decrease) in deferred tax liabilities		1,858	7,242
– increase/(decrease) in trade and other payables		(199)	(836)
– increase/(decrease) in current tax liabilities		3,006	(2,082)
– increase/(decrease) in provisions		3,423	161
Net cash provided from operating activities		33,959	35,495

I. Other Information continued

I6. Remuneration of auditors

	2019 $	2018 $
Audit and review services:		
– auditing or reviewing the financial statements	275,600	354,400
Other services:		
– taxation services	111,700	150,200
– due diligence services	-	113,100
– advisory services	49,700	81,300
Total	437,000	699,000

I7. New accounting standards adopted during the year

The Group has consistently applied the new accounting standards to all periods presented in these consolidated financial statements (see also Note A5).

I8. 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 January 2019 and earlier application is permitted; however the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The Group has considered the impact of these new or amended standards and the potential changes to the financial statements in the period of initial application.

AASB 16 Leases (effective for the Group from 1 July 2019)

AASB 16 **Leases** ("AASB 16") introduces a single, on-balance sheet lease accounting model for lessees, in a similar way to the accounting treatment for finance leases under AASB 117 **Leases**. Under AASB 16, a lessee recognises a right-of-use asset representing its right-to-use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, that is, lessors continue to classify leases as finance or operating leases.

The Group has considered the impact of implementing AASB 16 in relation to the following:

- leasehold property and equipment where it is a lessee; and
- agreements which provide a resident with a right to occupy a room.

Property and equipment leases

The Group will recognise new assets and liabilities for its leasehold aged care homes and head office premises and certain minor equipment leases that are not exempt under AASB 16. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge in respect of the right-to-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group will apply AASB 16 initially on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

Based on preliminary calculations, the Group estimates that the adoption of AASB 16 will result in the recognition on 1 July 2019 of right-to-use assets of approximately $26,500,000 and lease liabilities of $26,500,000 in the Statement of Financial Position. The Group estimates that expenses in respect of these leases will include depreciation of the right-to-use assets of approximately $2,000,000 and an interest expense of approximately $800,000. These expenses will replace rent and operating lease expenses, based upon FY2019 figures, of approximately $2,500,000.

The exact impact of the adoption of AASB 16 is subject to finalisation of any negotiations for lease extensions and the assessment of the likelihood of exercising lease extension options. The Group does not expect the adoption of AASB 16 to impact its ability to meet its financial bank loan covenant obligations under its syndicated facility agreement.

Resident agreements

The Group has assessed the impact of AASB 16 in respect of its resident agreements, specifically due to the security of tenure and right to occupy a room that these offer the Group's residents. The Group has undertaken a review of the resident agreements and determined that whilst the contractual arrangements will result in the resident agreement being deemed a lease under AASB 16, the impact of treating the Group as a lessor and recording revenue and a finance charge under AASB 16 is immaterial. For those residents that have the financial means to do so, they may elect to pay the room price as a Daily Accommodation Payment ("DAP"), lump sum Refundable Accommodation Deposit ("RAD"), or a combination of the two. For those residents that have opted to pay a DAP, adopting AASB 16 will not result in a change in accounting treatment. For those residents that have opted to pay a RAD, whilst AASB 16 would regard there being a non-cash consideration for accommodation, the following criteria have led to the Group's conclusion that no material changes to the current accounting treatment will arise:

- There is no economic incentive for the resident to stay at any specific home as the resident agreement only requires seven days written notice to vacate and there are comparable alternative homes available to residents;
- As no economic incentive exists to stay, the lease term can only be for a maximum of seven days, being the notice term;
- The repayment of the RAD is ultimately guaranteed by the Federal Government such that there is no credit risk rate to include in the discount rate which results in the appropriate rate being the risk free overnight cash rate; and
- Given the non-cancellable period of the lease term is seven days, the difference between the fair value of the RAD determined based upon AASB 9 **Financial Instruments** and the nominal amount of the RAD would be negligible.

ILU resident loan/license agreements

The Group is in the process of finalising its evaluation of the potential impact of AASB 16 on its ILU residents. The license agreements that Independent Living Units ("ILU") residents enter with the Group confer the right to occupy a unit, with an obligation on the Group to refund the ILU loan within six months of the ILU resident's departure, interest free. The outcome of the Group's evaluation is expected to be immaterial and have no net impact on profit or loss.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 17 Insurance Contracts – effective for annual reporting periods beginning on or after 1 January 2021
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2017-1 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-Term Interest in Associates and joint Ventures – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2018-1 Annual Improvements to IFRS Standards 2015-2017 Cycle – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement – effective for annual reporting periods beginning on or after 1 January 2019
- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework – effective for annual reporting periods beginning on or after 1 January 2020
- Interpretation 23 Uncertainty Over Income Tax Treatments - effective for annual reporting periods beginning on or after 1 January 2019.

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 37 to 69 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 2019 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 H1 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 Corporations (Wholly-owned Companies) Instrument 2016/785.
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 2019.
4. The directors draw attention to Note A2 to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards.

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