



2014

Japara Healthcare Annual Report



CORPORATE INFORMATION

Board of Directors

Linda Bardo Nicholls AO
Non-Executive Chairman

Andrew Sudholz
Managing Director & Chief Executive Officer

Richard England
Non-Executive Director

Tim Poole
Non-Executive Director

David Blight
Non-Executive Director

Auditor

KPMG
147 Collins Street
Melbourne Vic 3000
Australia

Share Registry

Link Market Services Limited
333 Collins Street
Melbourne Vic 3000
Australia

Company Secretaries

John McKenna
Kathryn Davies

Legal Adviser

Herbert Smith Freehills
101 Collins Street
Melbourne Vic 3000
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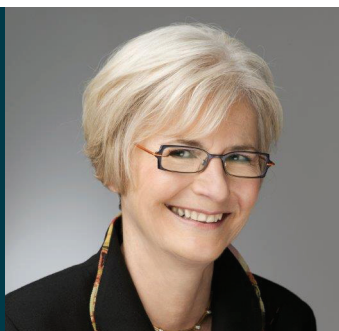
Website: japarahealthcare.com.au

ASX code: JHC

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CHAIRMAN'S REPORT



LINDA BARDO NICHOLLS AO

Dear Shareholder,

On behalf of the Directors, it gives me great pleasure to present Japara Healthcare Limited's first Annual Report since our listing on the ASX in April 2014.

A strong heritage and track record of high quality resident care

Japara Healthcare was established in 2005, and has since grown into one of Australia's largest private sector operators of residential aged care facilities with over 3,390 aged care places across 39 facilities (including 258 places under contract) in Victoria, New South Wales, South Australia and Tasmania.

Our business model is underpinned by a strong focus on the delivery of high quality healthcare to our residents. Japara Healthcare employs more than 3,500 full time, part time and casual nurses and qualified healthcare professionals, all of whom receive extensive and ongoing professional training to ensure they provide quality healthcare services across all levels of residential care.

The Company operates a well-established portfolio of residential aged care facilities. Our properties include such features as private ensuites, common rooms, courtyards, dementia-specific amenities and proximity to public transport to deliver on our objective of providing the best available quality of life for the elderly population of Australia.

Our focus on the delivery of high standards of care is reflected in Japara Healthcare's strong accreditation history. Over the last five years, we have maintained 100% accreditation for the maximum three year term possible, across all of our facilities. This has been attributed to a strong focus on corporate governance, underpinned by robust policies, procedures and systems for ensuring regulatory compliance. We are also strongly committed to the health and safety of both our employees and our residents. This is supported by an extensive health and safety training programme covering employees across all of our facilities.

Attractive sector fundamentals underpinned by appealing underlying demographics

Japara Healthcare was pleased to become the first aged care operator to successfully list on the ASX, demonstrating the appeal of our investment proposition which is underpinned by compelling fundamentals. Well-capitalised operators, such as Japara Healthcare, are well placed to capture the many growth opportunities that the sector is expected to present over the coming years.

Favourable sector attributes will see the demand for aged care services continue in the medium to long term. The Australian residential aged care sector is now valued at over \$11.6 billion, with more than double the amount of beds of the hospital sector. Australia's ageing population is forecast to drive significant growth in demand for aged care places for a long time to come. Demand for aged care places is forecast to increase from 186,000 places to 260,000 places by 2022. The private sector, with its ability to attract and employ investment capital to deliver high quality care, will play an important role in helping to meet this demand.

The highly fragmented nature of the industry also presents opportunities for market consolidation. Subsequent to 30 June 2014, Japara Healthcare was pleased to announce its acquisition of the Whelan Care portfolio for \$39.5 million. The acquisition delivers an additional 258 places for Japara Healthcare in South Australia and provides the opportunity to implement our proven operating model to drive enhanced returns. The Board and Management team will continue to pursue acquisition opportunities that meet our investment criteria in the coming year.

The year in review

As expected, on 1 July 2014 a revised regulatory framework for the aged care sector was introduced and is designed to address the needs of the ageing population through deregulation. The changes are expected to provide a number of benefits for larger, well-capitalised operators like Japara Healthcare. As a Board, we welcome regulatory change that supports a well-regulated sector, capable of attracting investment and delivering high standards of resident care.

Separately, the changes to the Payroll Tax and Dementia Supplements announced in May and June 2014 present the industry with some headwinds moving into 2015, however Japara Healthcare is well placed to manage these changes and we expect the impacts to be absorbed by our business and offset by a range of operational measures.

We are committed to maintaining a constructive dialogue with Government to promote an aged care regulatory framework to support the strong and sustainable industry that is required to meet the healthcare needs of the Australian public in the years to come.

Conservative capital structure to facilitate growth

As a highly cash generative business with a strong balance sheet, Japara Healthcare is well placed to deliver on its strategy of investing in capacity expansion, both through the delivery of brownfield projects and strategic acquisitions.

Our balance sheet is supported by diverse sources of capital. The Company's \$95 million syndicated debt facility announced in August 2014, coupled with the ability to leverage the capital from accommodation bonds (RADs), provides funding flexibility to support our growth over the coming years.

We look forward to rewarding our shareholders for their support of the Company through the payment of a dividend in FY15. As outlined in our Prospectus, it is the Board's current intention to pay out 100% of net profit after tax in dividends to our shareholders in FY15. On behalf of the Board, I am pleased to confirm our commitment to franking dividends to the maximum extent possible.

Outlook

The aged care sector and its underlying demographics provide Japara Healthcare and its shareholders with exciting growth prospects.

Looking ahead, Japara Healthcare will continue to execute its strategy comprising both the acquisition of existing aged care facilities and its brownfield developments programme to achieve our objective of growing our portfolio to approximately 5,000 places over the medium term.

It has been an exciting year for Japara Healthcare, with the transition to an ASX-listed company being a key milestone for the business. On behalf of the Board, I would like to thank the Management team, the previous Board for their guidance and stewardship and all of our staff for their contributions and commitment over this important period for the Group.

I would also like to take this opportunity to formally welcome you as a shareholder of Japara Healthcare Limited. The Board and Management team look forward to delivering on our commitment to achieving strong results, delivering high levels of care to our residents, and providing a safe work environment for our people on your behalf.



Linda Bardo Nichols AO
Chairman

MANAGING DIRECTOR AND CEO'S REPORT



ANDREW SUDHOLZ

Dear Shareholder,

In FY2014, Japara Healthcare's business delivered a pleasing performance, with our core aged care services business and brownfield developments contributing to a solid result, providing a strong platform for growth in fiscal 2015 and beyond.

Our journey

Since its inception in 2005, Japara Healthcare has undergone a remarkable journey to become one of Australia's largest private sector operators of residential aged care facilities, and, with our listing on the Australian Securities Exchange in April 2014, Australia's first listed aged care provider.

I would like to extend a warm welcome to the new shareholders who have joined the Group in this important period for the Company, and thank you for your support of the business in its first months as a listed entity.

I would also like to thank our Board, Executive Leadership Team and our dedicated staff for the diligence and commitment that was required for the achievement of this milestone in the Company's history.

Our flexibility and ability to manage our business around changes in our sector are a foundation for our success, and as industry leaders, we are committed to ensuring that we continue to bring these capabilities to bear in this next phase of growth.

Care and safety

In the past year, Japara Healthcare has continued to provide high standards of care to our residents and we are committed to the ongoing improvement of resident care and the health and safety of our staff.

Delivering high quality care to our residents is at the forefront of Japara Healthcare's operating strategy. The Company is committed to the provision and maintenance of high quality accommodation through providing a full spectrum of care to meet residents' varying care requirements. We invested in the enhancement of our specialist care capabilities during the year including the launch of an improved dementia care program. We are pleased with its success during 2014 and plan to extend the programme across all of our residential aged care facilities during the 2015 fiscal year.

Japara Healthcare's occupational health and safety performance continues to benchmark well against national standards. I am pleased to report that we are continuing to see a reduction in the impact of occupational injuries to employees across the business, which is reflective of the Company's investment in an extensive workplace health and safety training programme provided to our employees and facility managers.

All of our facilities continue to be fully compliant and accredited for the maximum three-year term possible, with eight facilities receiving reaccreditation during 2014.

Delivering growth

This year has been successful in building on the key components of the Company's growth strategy, with the Company's listing in April 2014 providing the financial flexibility to execute on the Group's growth agenda.

Japara Healthcare continued to deliver on its brownfield development strategy, with the completion of three major brownfield projects in the second half of fiscal 2014, adding 124 additional aged care places. Japara Healthcare also acquired a greenfield development site during 2014 with plans to develop a new 75-place facility. This is expected to be completed in FY16 and contribute positively to Group EBITDA.

Subsequent to 30 June 2014, we announced the acquisition of Whelan Health Care ('Whelan'), a South Australian based residential aged care provider, for \$39.5 million. The acquisition aligns with Japara Healthcare's focus on providing high quality accommodation and care services to meet the daily requirements of our residents, and with our strategy to diversify nationally in markets where high demand exists for aged care residential services.

The Whelan portfolio comprises 258 aged care places and 41 Independent Living Apartments across four facilities and one retirement complex in South Australia. The acquisition is expected to be substantially completed in December 2014 quarter. Including Whelan, Japara Healthcare will have over 3,390 aged care places across 39 facilities.

In August 2014, we announced the establishment of a \$95 million syndicated bank facility. The facility is anticipated to assist with funding the Whelan acquisition, initial construction of developments and extensions as well as assist future acquisitions as opportunities arise.

With a significantly strengthened balance sheet, and with our strong and stable cash flow, Japara Healthcare remains well positioned to capitalise on favourable industry dynamics and to drive future growth in the years ahead.

Operating and financial performance

I am pleased to report that Japara Healthcare performed in line with its statutory Prospectus forecasts, with revenue and earnings before costs associated with the IPO both in line with expectations.

These financial results show that the Company is being managed very well and most pleasing is that EBITDA was \$7.6 million and Net Profit after Tax (before one off IPO costs) was \$6.2 million for the period from 22 April to 30 June 2014.

A table that sets out the statutory results as reported is included below.

A\$ million	Like-for-like comparison		
	Actual Statutory 22 April 2014 – 30 June 2014	Adj. Actual Statutory 1 May 2014 – 30 June 2014	Prospectus Forecast 1 May 2014 – 30 June 2014
Revenue	49.0	42.7	42.0
EBITDA (before IPO costs)	8.6	7.6	7.6
NPAT (before IPO costs)	6.9	6.2	6.2
NPAT (including IPO costs)	(2.9)	(2.7)	(13.8)

The statutory Prospectus forecast period was from 1 May 2014 to 30 June 2014. The reported statutory results are for the period from 22 April 2014 to 30 June 2014, and include nine more operating days than was contemplated in the statutory Prospectus forecast.

After deducting IPO costs, the Company reported a statutory net loss after tax of \$2.7 million which was significantly ahead of the Prospectus forecast loss of \$13.8 million. This was largely due to the accounting treatment of IPO costs, which were expensed for the purposes of the Prospectus forecast, but which have been capitalised in FY14 as part of equity.

In terms of the Company's balance sheet and cash flow, we are pleased to report that as a result of the completion of three brownfield projects and a high-demand environment for residential aged care services, the average bond value increased to \$268,000 across our portfolio. This is 8.5 per cent above our three year portfolio average of \$247,000. This resulted in net bond inflows of \$13.9 million during the two months since listing.

Results – pro forma (unaudited)

Japara Healthcare has prepared its pro forma results on a similar basis to the pro forma forecasts presented in the IPO Prospectus published in April 2014. Total revenue of \$245 million was slightly impacted by a reduction in occupancy in December 2013 quarter as a result of influenza and the ACFI daily rate remaining flat for the year. This together with an increase in agency costs resulted in a Pro Forma EBITDA for fiscal 2014 of \$40 million against forecast of \$41.5 million for our business.

Japara Healthcare is well positioned to manage our business in the new environment created by the aged care reform and our financial performance continues to perform in line with expectations.

Regulatory changes in the aged care sector

As foreshadowed in the Prospectus, a revised regulatory framework came into effect on 1 July 2014 which management expect will provide a number of benefits for larger, well-capitalised operators such as Japara Healthcare, including:

- the removal of the distinction between 'high care' and 'low care' places, which provides increased occupancy flexibility and the ability to apply the Refundable Accommodation Deposit regime across all aged care places;

MANAGING DIRECTOR AND CEO'S REPORT (continued)

- the broadening of the scope for providers to set resident fees, both for accommodation and for specialist services (e.g. physiotherapy, premium catering options, hairdressing, etc.) and increased Government accommodation supplements funding for refurbished aged care facilities, which provide additional support to eligible providers, such as Japara Healthcare, who are committed to investing in high quality facilities for our residents;
- The implementation of the Daily Accommodation Payment and Refundable Accommodation Deposit regime that delivers revenue and capital to support our growth.

Separately, several additional changes were announced by the Government, including the removal of the Payroll Tax Supplement (effective 1 January 2015) and the cessation of the Dementia Supplement (effective 1 August 2014), with the impacts partially offset by an increase in the daily basic subsidy received by eligible aged care providers (effective 1 July 2014).

Japara Healthcare is well positioned to manage these changes and is focused on implementing initiatives to capture the upside potential that they afford. These initiatives include the roll-out of our resident experience programme ("My Choices") from September 2014; the continuation of our resident reassessment programme to ensure each resident is receiving appropriate Government support for their acuity level; and the acceleration of our brownfield developments programme which will bring forward planned capacity expansions.

Outlook

The year ahead will see us continue our successful growth strategy, including delivering on organic growth in our business resulting from the recent aged care reforms and ongoing business improvement, acceleration of our brownfield and greenfield development programme, and transacting on value-accretive acquisitions that meet our investment criteria.

We will continue to enhance our underlying business by maintaining our focus on the delivery of high quality care, including the implementation of My Choices, while maintaining a commensurate focus on cost control as we move into this next phase of growth.

As a result, we remain confident that Japara Healthcare is on-track to deliver its fiscal 2015 prospectus forecast EBITDA of \$48.9 million (excluding the Whelan acquisition).

I would again like to thank the Board, the Executive Leadership Team and all of our staff for their support and contribution during the year, with a particular thanks to our facility staff for their ongoing dedication in caring for our residents.



Andrew Sudholz
Managing Director and CEO

HIGHLIGHTS

JAPARA
HEALTHCARE

39 facilities in four states

Completion of three
developments adding 124
places

3,391 places & over 3,500 staff

Acquisition of Whelan
Care Portfolio adding 258
places

An ASX200 company

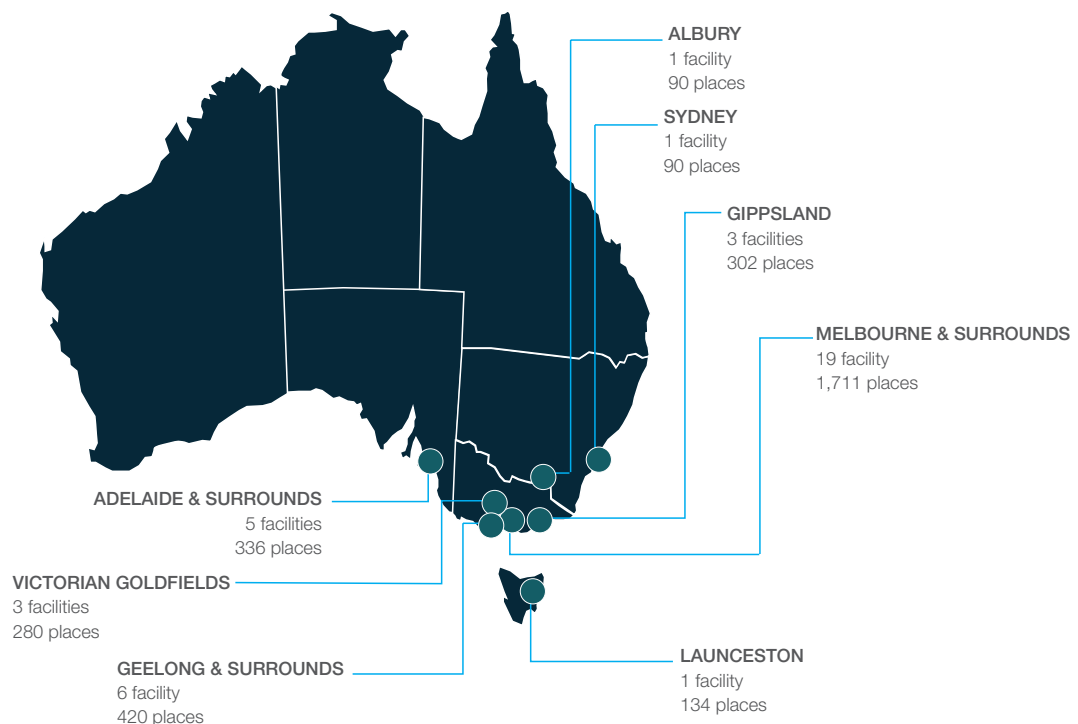
COMPANY OVERVIEW

Since the original Japara Group was founded in 2005, Japara Healthcare has grown to one of Australia's largest enterprises in the aged care industry and our core objective is to provide the best available quality of life for the ageing population of Australia.

An overview of the Company is as follows:

- We operate 39 aged care facilities (32 directly owned, 3 leased) and 5 retirement complexes throughout Victoria, South Australia, New South Wales and Tasmania including the Whelan Care portfolio (4 facilities) due to settle in the December 2014 quarter
- We help maintain the independence and dignity of our residents and aim to provide the best possible lifestyle and service options to them
- We care for more than 3,000 residents, offering a variety of living arrangements, amenities, services, meal plans, social activities and care options
- Our staff are highly qualified to provide excellent service to our residents and we operate a continuous improvement program for training and education
- We offer independent living, specialist Dementia and Alzheimer care, respite and additional lifestyle and wellbeing care and services
- All of our facilities are fully accredited for the maximum three year term possible with the Australian Aged Care Quality Agency (an Australian Government body)
- We develop new facilities that provide innovative design and high quality accommodation for our residents

Facility Locations





Japara Healthcare was admitted to the official list of the Australia Securities Exchange on 17 April 2014 and included in the ASX200 Index on 14 July 2014.



In August we exchanged signed contracts for the acquisition of the Whelan Care portfolio which is due to settle in the December 2014 quarter. The portfolio is located in South Australia and comprises 4 aged care facilities totalling 258 places and 41 independent living apartments.

In line with Japara Healthcare's strategic plan, completion of three brownfield developments was also achieved adding 124 places.



FACILITY DIRECTORY

Facility	Location	State	No of Places
Albury & District	Albury	NSW	90
Anglesea	Anglesea	VIC	60
Balmoral Grove	Geelong	VIC	110
Barongarook Gardens	Colac	VIC	60
Bayview	Carrum Downs	VIC	60
Bayview Gardens	Bayview	NSW	73
Bonbeach	Bonbeach	VIC	70
Brighton	South Brighton	SA	76
Capel Sands	Rosebud	VIC	60
Central Park	Windsor	VIC	165
Elanora	Brighton	VIC	142
Elouera	Torquay	VIC	75
George Vowell	Mt Eliza	VIC	90
Goonawarra	Sunbury	VIC	120
Hallam	Hallam	VIC	60
Kelaston	Ballarat	VIC	60
Kingston Gardens	Springvale South	VIC	72
Kirralee	Ballarat	VIC	100
Kiverton Park	Chadstone	VIC	30
Lakes Entrance	Lakes Entrance	VIC	75
Lower Plenty Garden Views	Lower Plenty	VIC	90
Millward	Doncaster	VIC	163
Mirridong	Bendigo	VIC	90
Narracan Gardens	Moe	VIC	167
Roccoco	Geelong	VIC	77
Rosanna Views	Rosanna	VIC	96
Sandhurst	Carrum Downs	VIC	30
Sandhill	Launceston	TAS	134
Scottvale	Dandenong	VIC	110
Springvale	Springvale	VIC	73
St Judes	Narre Warren	VIC	60
Strzelecki House	Mirboo North	VIC	60
Vonlea Manor	Geelong	VIC	38
Viewhills Manor	Endeavour Hills	VIC	120
Yarra West	Yarraville	VIC	70
Non operational places			75

Whelan Care Portfolio (acquired subject to settlement scheduled in the December 2014 quarter)

Mitcham	Kingswood	SA	38
Oaklands	Oaklands Park	SA	88
The Homestead	Walkley Heights	SA	63
Trevu (operational in FY16)	Gawler	SA	69
Total			3,391

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations 2nd edition, unless otherwise stated.

On 4 April 2014, and in advance of the Company's ASX listing on 17 April 2014, the Board of Directors formally adopted the following policies and codes:

- Board Charter & Relationship with Management;
- Audit, Risk and Compliance Committee Charter;
- Remuneration and Nomination Committee Charter;
- Policy for Dealing in Securities;
- Continuous Disclosure Policy;
- Code of Conduct;
- Diversity Policy;
- Communication Strategy; and
- Privacy Policy.

These documents are available for review at www.japarahealthcare.com.au.

The qualifications of Directors and number of meetings held by Board committees are set out in the Directors' Report to the Financial Statements.

Principle 1: Lay solid foundation for management and oversight

Recommendation 1.1: Companies should establish and disclose the functions reserved for the Board and those delegated to senior executives

Board of Directors

The Board's role includes overseeing and reviewing the Company's strategies, policies and performance. This includes overseeing the financial and human resources the Company has in place to meet its objectives and reviewing management performance. The Board's role is to assist the optimisation of Company performance and build sustainable value for shareholders. It operates within a framework of prudent and effective controls that enable risk to be assessed and managed.

The Board also sets, reviews and ensures compliance with the Company's values and governance framework (including establishing and observing high ethical standards) and ensures that shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

The responsibilities/functions of the Board include:

- succession planning of the Board and senior executives;
- strategic guidance to, and approval of corporate strategy;
- overseeing systems of risk management, internal control and ethical and legal compliance;
- monitoring corporate performance;
- approving major capital expenditure, acquisitions and divestitures, and monitoring capital management;
- monitoring and reviewing management processes aimed at ensuring the integrity of financial and other reporting; and
- developing and reviewing corporate governance principles and policies.

Directors may delegate their powers as they consider appropriate, however ultimate responsibility for strategy and control rests with the directors. Directors are entitled to request additional information at any time when they consider it appropriate.

Senior Executives

The senior executive and management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by other officers to whom the management function is properly delegated by the CEO).

The Board approves corporate objectives for the CEO to satisfy and, jointly with the CEO, develops the duties and responsibilities of the CEO. The CEO is responsible for implementing strategic objectives, plans and budgets approved by the Board.

Senior executives and management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. The senior executive team is responsible for the day to day management and operations of the business.

CORPORATE GOVERNANCE STATEMENT (continued)

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives

The performance of senior executives is formally assessed by the Board on an annual basis. A combination of financial and non-financial key performance indicators ("KPIs") are used to measure senior executive performance. All KPIs are evaluated by the Remuneration and Nomination Committee, which will then in turn make recommendations to the Board.

Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on principle 1.

The information required for recommendation 1.3 is set out above.

Principle 2: Structure the Board to add value

Recommendation 2.1: A majority of the Board should be independent directors

Recommendation 2.2: The Chairman should be an independent director

Recommendation 2.3: The roles of Chairman and chief executive officer should not be exercised by the same person

The Board comprises a majority of independent non-executive directors including an independent non-executive Chairman. The roles of Chairman and CEO are not exercised by the same individual.

In determining the independence of Directors consideration is given to whether the Director is a substantial shareholder of the Company, is employed or has been an employee of or professional advisor to Japara within the last three years, is a material supplier or customer to Japara and whether the Director has a material contractual relationship with Japara other than as a Director.

The Board, together with the Remuneration and Nomination Committee, reviews the skills represented by directors on the Board and determines whether the composition and mix of those skills remain appropriate for the Company's strategy.

Factors considered when reviewing a potential candidate for Board appointment include:

- the skills, experience, expertise and personal qualities that will best complement Board effectiveness;
- the existing composition of the Board;
- the objective of achieving a Board comprising directors from a diverse range of backgrounds;
- the capability of the candidate to devote the necessary time and commitment to the role (this involves a consideration of matters such as other Board or executive appointments);
- potential conflicts of interest, and
- independence.

The Board collectively, and each Director individually, has the right to seek independent professional advice.

As the Company was admitted to the ASX on 17 April 2014 and all Directors were appointed on 19 March 2014 a performance review has not been undertaken in the period since listing.

Recommendation 2.4: The Board should establish a nomination committee

The Board has established a Remuneration and Nomination Committee which is responsible for matters relating to succession planning, nomination and remuneration of the directors, the Chief Executive Officer and senior executives.

The Committee's charter provides that the Committee must comprise only non-executive directors, a majority of independent directors, a minimum of three members, and an independent director as Chairman. The current members of the Committee are:

- David Blight (Chairman);
- Tim Poole; and
- Richard England.

Information on the Company's remuneration policy is included within the Remuneration Report for the period ended 30 June 2014. A copy of the Committee's charter is available on the Company's website at www.japarahealthcare.com.au.

Recommendation 2.5 The Board should establish the process for evaluating the performance of the Board, its committees and individual directors

In accordance with the Board Charter:

- directors will provide written feedback on an annual basis in relation to the performance of the Board and its Committees;
- each Committee of the Board will provide feedback in terms of a review of its own performance;
- feedback will be collected by the Chairman of the Board, or an external facilitator, and discussed by the Board, with consideration being given as to whether any steps should be taken to improve performance of the Board or its Committees;
- the CEO will provide feedback from senior management in connection with any issues that may be relevant in the context of the Board performance review; and
- where appropriate to facilitate the review process, assistance will be obtained from independent advisers.

Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on principle 2.

The information required for recommendation 2.6 is set out above.

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1: Companies should establish and disclose a code of conduct or a summary of the code

The Board is committed to a high level of integrity and ethical standards in all business practices. Accordingly, the Board has adopted a formal Code of Conduct which outlines how Japara expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards. All employees of Japara (including temporary employees, contractors and directors) must comply with the Code of Conduct.

The Code is designed to:

- provide a benchmark for professional behaviour throughout Japara;
- support Japara's business reputation and corporate image within the community; and
- make directors and employees aware of the consequences if they breach the policy.

A copy of the Code of Conduct is available on the Company's website at www.japarahealthcare.com.au.

Recommendation 3.2: Companies should establish and disclose a policy concerning diversity or a summary of the policy

Recommendation 3.3: Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board

The Company recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. Diversity underpins the Company's ability to attract, retain and develop the best talent, create an engaged workforce, deliver the highest quality services to its customers and continue to grow the business.

The Company's vision for diversity incorporates a number of different factors, including gender, ethnicity, disability, age and educational experience. At a Board and senior management level, gender has been identified as a key area of focus for the Company. Accordingly, the primary focus of the Company's Diversity Policy is achieving, over a reasonable transition period, adequate representation of women in senior management positions and on the Board.

As at 30 June 2014 the proportion of women in the organisation at various levels is as follows:

	Female	Male
Whole organisation	86%	14%
Senior management	85%	15%
Senior executives (including the CEO/Managing Director)	25%	75%
Non-executive directors of the Board	25%	75%

CORPORATE GOVERNANCE STATEMENT (continued)

Specific objectives set by the Board to facilitate greater gender diversity in management and leadership roles are as follows:

- develop specific strategies to enhance the skills and experience of high potential female managers to prepare them to take on senior manager/executive management roles;
- aim to increase the percentage of women senior executives and women in senior management positions as vacancies arise, subject to identification of candidates with appropriate skills; and
- develop a succession plan with an aim of increasing the representation of women on the Board, subject to identification of candidates with appropriate skills.

Objectives are measured on an ongoing basis and will be reported annually.

A copy of the Diversity Policy is available on the Company's website at www.japarahealthcare.com.au.

Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on principle 3.

The information required for recommendation 3.5 is set out above.

Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1: The Board should establish an audit committee

The Company has an established Audit, Risk and Compliance Committee which assists the Board in carrying out its accounting, auditing, and financial reporting responsibilities including:

- overseeing the Company's relationship with the external auditor and the external audit function generally;
- overseeing the preparation of the financial statements and reports;
- overseeing the Company's financial controls and systems; and
- managing the process of identification and management of financial risk.

Recommendation 4.2: The audit committee should be structured so that it consists only of non-executive directors, consists of a majority of independent directors, is Chaired by an independent Chairman, who is not the Chairman of the Board and has at least three members.

The Committee comprises only non-executive directors, a majority of independent directors, an independent Chairman who is not Chairman of the Board and a minimum of three members of the Board. The current members of the Audit, Risk and Compliance Committee are:

- Richard England (Chairman);
- Tim Poole; and
- David Blight.

Non-committee members, including members of management and the external auditor, may attend meetings of the Committee by invitation of the Committee Chairman.

Recommendation 4.3: The audit committee should have a formal charter

A copy of the Committee's charter is available on the Company's website at www.japarahealthcare.com.au.

Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on principle 4.

The information required for recommendation 4.4 is set out above.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

The Company places a high priority on communication with Shareholders and is aware of its obligations under the Corporations Act and ASX Listing Rules. It has formally adopted a Continuous Disclosure Policy and a Communication Strategy to assist in fulfilling its duties to keep the market fully informed of any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Company's securities.

The policies set out procedures to ensure that directors and senior management are aware of and fulfil their obligations in relation to the timely disclosure of material and price-sensitive information.

Copies of the policies are available on the Company's website at www.japarahealthcare.com.au.

Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on principle 5.

The information required for recommendation 5.2 is set out above.

Principle 6: Respect the rights of security holders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

The Company aims to ensure that shareholders are kept informed of all major developments affecting the state of affairs of the Company. Additionally, the Company recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time.

To achieve this, the Company communicates information regularly to shareholders and other stakeholders via ASX announcements which are posted on the Company's website as soon as practicable following their release by ASX.

The Company's Annual Report is available on its website and contains important information about the Company's activities and results for the previous financial year. Shareholders can elect to receive the Company's Annual Report or concise report as an electronic copy or in hard copy through the mail.

The Company encourages full participation of shareholders at its AGM each year.

A copy of the Communication Strategy is available on the Company's website at www.japarahealthcare.com.au.

Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on principle 6.

The information required for recommendation 6.2 is set out above.

Principle 7: Recognise and manage risk

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report on whether these risks are being managed effectively. The Board should disclose that management has reported as to the effectiveness of the company's management of its material business risks.

The Company has in place a Risk Management Framework which is consistent with current practice and the Standard ISO 31000:2009 - Principles and Guidelines for Risk Management. Risk management is part of Japara's strategy to deliver superior corporate governance practices which contribute to our corporate objectives.

Japara is committed to ensuring that risk management principles and practices are part of its organisational culture by ongoing training and monitoring and review of the framework.

Inherent to the framework is the Risk Management Process which details the steps to be taken by staff responsible for identifying and potentially implementing controls and treatment programs to mitigate risk. This process is performed at all levels of the organisation and risks identified as high or extreme are reported to the Audit, Risk & Compliance Committee. Management has reported to the Board that the Company's management of material business risks is effective.

Recommendation 7.3: The Board should disclose whether it has received assurance from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

In accordance with section 295A of the Corporations Act 2001 the following assurances have been provided to the Board by the Chief Executive Officer and the Chief Financial Officer in relating to the Reporting Period:

- the financial records of the company, disclosing entity or registered scheme for the financial period have been properly maintained in accordance with section 286;

- the financial statements, and the notes referred to in paragraph 295(3)(b), for the financial period comply with the accounting standards; and
- the financial statements and notes for the financial period give a true and fair view (see section 297).

Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on principle 7.

The information required for recommendation 7.4 is set out above.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1: The Board should establish a remuneration committee

The Board has established a Remuneration and Nomination Committee which is responsible for matters relating to succession planning, nomination and remuneration of the directors the Chief Executive Officer and senior executives.

Recommendation 8.2: The remuneration committee should be structured so that it consists of a majority of independent directors, is chaired by an independent chairman and has at least three members.

The Committee comprises only non-executive directors, a majority of independent directors, a minimum of three members, and an independent director as Chairman. The current members of the Committee are:

- David Blight (Chairman);
- Tim Poole; and
- Richard England.

Information on the Company's remuneration policy is included within the Remuneration Report for the period ended 30 June 2014. A copy of the Committee's charter is available on the Company's website at www.japarahealthcare.com.au.

Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

Detailed commentary on the remuneration of directors (both executive and non-executive) and senior executives is set out in the Remuneration Report which forms part of the Company's Annual Financial Report. In summary the following remuneration policy applies:

CEO and senior executives

Compensation packages for participating executives include two main components:

- a fixed component comprising the total base salary and compulsory employer superannuation contributions; and
- a performance-based compensation which comprises a cash short-term performance incentive ("STI") linked to both individual performance and the Company's performance, and a long-term incentive ("LTI") program under which executives, at the discretion of the Board, are offered performance rights (or in the case of the CEO, loan shares) which vest if the Company achieves certain hurdles over the period from the date of its ASX listing to 30 June 2017.

Non-executive directors

Non-executive directors receive fixed fees (including statutory superannuation) for their services as directors. They did not receive nor are eligible for performance related compensation.

Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on principle 8.

The information required for recommendation 8.4 is set out above.

A low-angle photograph of a modern building's entrance. The building features large glass windows and is flanked by thick, multi-colored stone pillars. The sky is clear blue, and some greenery is visible on the right side.

Japara Healthcare Limited
and
Controlled Entities
ABN 54 168 631 052

Annual Financial Report

For the reporting period ended 30 June 2014

DIRECTORS' REPORT

The directors present their report together with the consolidated financial statements of Japara Healthcare Limited (the "Company") and its controlled entities (the "Group") for the reporting period ended 30 June 2014 and the Independent Auditor's Report thereon. The Company was incorporated on 19 March 2014 and accordingly there is no comparative period. The Company was admitted to the official list of the Australian Securities Exchange ("ASX") on 17 April 2014 and acquired 100% ownership of the Japara Group, being:

- Japara Holdings Pty Ltd, the holding company of 35 operating aged care facilities; and
- Japara Aged Care Property Trust, a unit trust that owned the freehold title to 29 of the 35 operating facilities.

The acquisition of the Japara Group was completed on 22 April 2014. Operating results are presented from this date to 30 June 2014.

1. Directors

Each of the current directors of the Company were appointed on 19 March 2014. The details of the directors are as follows:

**Linda Bardo Nicholls AO
BA (Econ), MBA, FAICD
Non-Executive Chairman**



Linda is a senior executive and company director with more than 30 years experience across Australia, New Zealand and the United States. Presently, Linda is the Chairman of Yarra Trams and has directorships with Fairfax Media, Medibank Private, Pacific Brands Group and Sigma Pharmaceutical Group.

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

She also holds a directorship with the Walter and Eliza Hall Institute of Medical Research.

During the last three years Ms Nicholls has also been a director of Low Carbon Australia Limited.

Linda holds a Masters of Business Administration from Harvard Business School and a Bachelor of Arts in Economics from Cornell University.

**Andrew Sudholz
AssocDip of Valuations
Managing Director and Chief
Executive Officer ("CEO")**



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

Prior to the establishment of the Japara Group, Andrew was a global partner of Arthur Andersen, a national partner of Ernst & Young and the state general manager of the Triden Corporation.

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

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

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

**Richard England
FCA, MAICD
Non-Executive Director**



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

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

Richard is currently the Chairman of Chandler Macleod Group and of Ruralco Holdings Limited and is a non-executive director of Nanosonics Limited and Macquarie Atlas Roads Limited.

Mr England has not held any directorships of listed entities in addition to those set out above during the last three years.

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

He is a councillor of the Royal Sydney Botanic Gardens Foundation and is deputy chairman of Indigenous Art Code, the company administering the Indigenous Australian Art Commercial Code of Conduct.

Richard is a fellow of the Institute of Chartered Accountants in Australia, is a qualified Chartered Accountant and a member of the Australian Institute of Company Directors.

Tim Poole
BComm, CA
Non-Executive Director



Member of the Audit, Risk and Compliance Committee and the Remuneration and Nomination Committee.

Tim has more than 15 years experience as a director and chairman of ASX listed and unlisted companies across the financial services, infrastructure and natural resources industries.

He is currently a non-executive director of Newcrest Mining, McMillan Shakespeare and AustralianSuper. He is also non-executive Chairman of Lifestyle Communities and a non-executive director of several private unlisted companies. He was formerly managing director of Hastings Funds Management Limited and chairman of Asciano.

He has not held any directorships of listed entities in addition to those set out above during the last three years.

Tim holds a Bachelor of Commerce from the University of Melbourne and is a qualified Chartered Accountant.

David Blight
BAppSc
Non-Executive Director



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

David has more than 30 years experience in the real estate industry, across all major global markets and property sectors.

Most recently, he was the group managing director of APN Property Group Limited and has formerly held various positions concurrently with ING, including global chairman and chief executive officer of ING Real Estate Investment Management and vice chairman of ING Real Estate (based in the Netherlands).

Prior to that, David held senior executive positions with Armstrong Jones and Mirvac across Australia and New Zealand.

Mr Blight has not held any directorships of listed entities in addition to those set out above during the last three years.

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

2. Company secretary

John McKenna BComm, CA, Grad Dip of Applied Finance, was appointed to the position of Company Secretary upon incorporation of the Company. Mr McKenna has been the Company Secretary for the Japara Group since 2005.

3. Directors' meetings

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

Director	Board Meetings		Audit, Risk and Compliance Committee Meetings		Remuneration and Nomination Committee Meetings	
	A	B	A	B	A	B
Linda Bardo Nicholls AO	3	3	2	2	-	-
Andrew Sudholz	3	3	2	2	-	-
Richard England	3	3	2	2	-	-
Tim Poole	3	3	2	2	-	-
David Blight	3	3	2	2	-	-

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the period

DIRECTORS' REPORT (continued)

4. Principal activities

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

5. Operating and financial review

Overview of the Group

The Group is one of the largest residential aged care operators in Australia with over 3,000 resident places nationally across 35 facilities located in Victoria, New South Wales, South Australia and Tasmania.

In conjunction with the business of providing aged care services, the Group also operates 139 Independent Living Units (ILUs) across four retirement villages, located adjacent to its aged care facilities. Retirement village revenue accounts for less than 1% of the Group's operations by revenue.

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

- Development and expansion of facilities;
- Selective acquisition of facilities, particularly underperforming facilities with low accommodation bond balances and/or sub optimal charging structures in place; and
- Implementation of the Japara Group's care and operating model (see below).

A recent restructure of the Group resulted in an Initial Public Offering of Ordinary Shares (IPO). Japara Healthcare Limited was admitted to the official list of ASX Limited on 17 April 2014 and acquired 100% ownership of the Japara Group, being:

- Japara Holdings Pty Ltd, the holding company of 35 operating aged care facilities; and
- Japara Aged Care Property Trust, a unit trust that owned the freehold title to 29 of the 35 operating facilities.

The acquisition of the Japara Group was completed on 22 April 2014. Results are presented from this date to 30 June 2014.

Care and operating model

- The Group's provision of care is underpinned by a revenue focused operating model that is designed to facilitate ageing-in-place by servicing the full spectrum of resident care needs as well as providing services to those residents with dementia. This operating model is aimed at achieving:
 - above industry average occupancy levels through providing a high standard of resident care;
 - EBITDA per place levels in excess of the industry average for top quartile operators;
 - internal processes to ensure receipt of all entitled Government care funding; and
 - cash flow generation to meet working capital requirements, facilitate future growth and provide returns to shareholders.

The effective implementation of this model through consistent generation of cash flows from both operating and capital funding sources, and application of rigorous cost control initiatives, has enabled Japara to achieve the following during the reporting period:

- an average occupancy level of approximately 95.2%;
- an average EBITDA per place (on an annualised basis) of \$21,755 pre-corporate costs; and
- average ACFI funding of \$146 per day per resident place.

Funding sources

The Group derives funding from two main sources, being operating funding (Government contributions, resident contributions and accommodation charges) and accommodation bonds/refundable accommodation deposits (capital funding).

Government and resident contributions

As an approved provider of residential aged care services as determined by the Department of Social Services (Department), each of Japara's facilities is eligible to receive funding contributions from the Government. Funding is received in the form of subsidies and supplements (primary supplements and other supplements) for approved residents in funded places, on a per resident per day basis. The Group derived 73% of its revenue from Government care funding during the reporting period.

The Group also receives contributions from residents for the provision of a full spectrum of aged care services (including low care and high care services and extra services). Resident care funding made up 20% of the Group's revenue for the reporting period.

Accommodation charges

In addition to Government and resident contributions, the Group receives accommodation payments from residents that enter high care services (excluding extra services), however these only made up 7% of total operating funding received by the Group during the reporting period.

Accommodation bonds/Refundable Accommodation Deposits (RADs)

Accommodation bonds (which were replaced by RADs from 1 July 2014 – see Aged Care Industry Reform below) account for a significant component of the Group's capital funding. The Group maintains a conservative accommodation bond/RAD management regime with the value of incoming accommodation bonds/RADs set at a level equivalent to approximately 50% of the median house price in the relevant Local Government Authority (LGA). Consequently, the Group carries an average accommodation bond liability per accommodation bond-paying resident below the industry average.

During the 2015 financial year the Group plans to use capital funding received from accommodation bonds and RADs for the following purposes:

- financing capital works for aged care facilities; and
- financing the selective acquisition of additional aged care facilities.

Key costs

The Group's key cost relates to labour, which accounted for approximately 62% of total revenue for the reporting period. The remaining costs related to medical supplies, catering, cleaning, consumables, repairs and maintenance, energy, utilities and corporate costs.

As one of the larger operators of residential aged care services in Australia, the Group leverages its ability to achieve cost advantages through internalisation of certain functions and economies of scale which together allows the Group to generate higher than average profit margins.

Aged Care Industry Reform

On 1 July 2014, a revised regulatory framework took effect. The new framework is designed to address the needs of the ageing Australian population through deregulation to attract further investment into the industry and broaden the scope for residents to receive (and pay for) specialist care and services.

Key changes of the aged care industry reform

Change	Implications	Impact on aged care operators
Changes to terminology	Accommodation bonds will be referred to as Refundable Accommodation Deposits (RADs). Periodic accommodation payments will be referred to as Daily Accommodation Payments (DAPs).	No impact on operators.
Removal of the high care/low care categories	The distinction between high care and low care places will be removed. Operators will be able to charge RADs to both high care and low care residents. low care residents will have greater access to subsidised nursing and therapy services.	Occupancy rates may increase (particularly for those operators catering for high care) as places can be allocated to any resident based on demand and irrespective of the level of care they require. Opportunity for operators with a large number of high care residents to increase long-term cash flows by applying RADs to places currently categorised as high care.

DIRECTORS' REPORT (continued)

Change	Implications	Impact on aged care operators
Flexibility to set resident fees	Operators will have flexibility to set resident fees for accommodation and provide other specialised services by agreeing those fees directly with the resident.	Operators will be entitled to charge fees in addition to those legislated. Could result in a shortage of appropriately skilled employees as operators seek to adequately service the potential increase in demand for "hotel type" and specialised services.
Removal of the accommodation bond retention amount	Operators will not be entitled to retain a monthly fee on RADs.	Potential impact expected to be largely offset by the introduction of DAPs.
Accommodation bond price cap	Cap on RADs of \$550,000 (with Government approval required for prices set above this cap).	Likely to have a benign impact on many aged care operators due to the relatively high price cap, although some operators with high average bond balances or high price individual bonds may face net cash outflows.
Changes to means testing criteria	Accommodation support payments will be determined under new means testing arrangements based on a resident's annual income and the value of their assets.	Little or no impact on operators.
Increased Government accommodation supplements funding for refurbished aged care facilities	Increase in the maximum accommodation supplement available to operators for eligible concessional residents in relation to refurbished aged care facilities.	Likely to have a minor impact on operators in aggregate as increased funding will be limited to operators with refurbished facilities.
Increased transparency of prices and payment methods	Residents will continue to be given the choice of paying by lump sum, periodic payment or a combination of both; however operators will be required to publish their prices in advance.	The market may perceive a correlation between quality and price as a result of the ability for residents to compare one operator's pricing policy to another. Little or no direct impact on operators as bond-eligible residents currently have the choice between bonds and periodic payments.

Operational strategy and objectives

The Group's operating strategy focuses on five core operational areas:

- **Facilities:** provision and maintenance of good quality accommodation to meet the needs of the community through:
 - providing places equipped to facilitate a full spectrum of care to meet resident requirements; and
 - maintaining occupancy levels above the industry average.
- **Revenue:** internal processes to ensure receipt of all entitled Government care funding, driven by an appropriate resident mix and through the implementation of funding application and general management systems to ensure appropriate resident classification.
- **Human resources:** ensuring appropriate facility staffing and education through:
 - retaining good quality talent at all employee levels with an appropriate focus on compliance, skills and training;
 - matching the appropriate skill mix of staff with the care needs of residents; and
 - minimising reliance on agency staff.
- **Cost management:** implementing rigorous cost controls and leveraging economies of scale via bulk purchasing arrangements and internalisation of functions such as catering and laundry costs.
- **Corporate governance:** ensuring appropriate risk management procedures are in place to minimise operational and compliance risk.

Key strategic initiatives

In addition to the core strategy outlined above, Japara has designed key strategic initiatives to facilitate the continued success of its operating strategy, including:

- responding to health and care trends which provide opportunities for Japara to differentiate its service offering from competitors and provide a superior level of care, including:
 - establishing a dementia model based on national and global dementia best practices; and
 - working closely with hospitals to ensure that patients who no longer need hospital care and are more appropriately cared for in aged care facilities can be smoothly transitioned to Japara facilities;
- continuing to focus on enhancing the quality and cost efficiency of business operation through initiatives including:
 - introduction of pain management programs across selected facilities; and
 - energy management savings;
- seeking to optimise changes within the business that result from aged care regulatory reform, including:
 - achieving RAD balances above historic levels;
 - accessing new RADs from high care places in the existing portfolio as a result of aged care reforms that took effect from 1 July 2014; and
 - provide additional care and wellbeing services under the user pay regime;
- positioning the Group as the preferred destination of choice for the aged by integrating with service providers in other sectors, including:
 - retirement village operators;
 - hospital operators; and
 - home and community care providers.

Growth strategy

The Group's growth strategy centres on increasing the size of its aged care portfolio through the acquisition of existing aged care facilities and through brownfields developments. The Group has ambitions to increase its portfolio over the medium term from 3,101 resident places to approximately 5,000 resident places.

Japara is focusing on strategic expansion throughout Victoria, South Australia and Tasmania, where it can leverage its existing management platform and operations. Further potential exists to expand into New South Wales and Queensland if an appropriate platform can be acquired and readily integrated into Japara's existing operations.

Acquisitions

Industry consolidation among not-for-profit organisations, Government and smaller private sector operators as well as regulatory changes benefiting operators that focus on high care present acquisition opportunities for established, corporate operators of scale, such as Japara.

Japara has established policies and procedures for the acquisition of additional aged care facilities. Acquisitions are based on independent valuations undertaken by Japara's panel of valuers for both the business and real estate components. Japara undertakes formal legal, financial, property, operational and compliance due diligence on each facility before completing any acquisition.

Typically, management targets facilities where expertise can be applied in the short-term to improve the performance of the facility and grow EBITDA before corporate costs to bring it in line with the Group average. Japara utilises its existing infrastructure and compliance platform to successfully execute acquisitions including the application of a set of strict investment criteria to identify and filter acquisition opportunities, subject to market conditions and availability of capital. Japara's key acquisition investment criteria include:

- **Lifecycle:** new or near new facilities with minimum 15 year economic life;
- **Demand:** facilities in locations that have unmet demand;
- **Growth:** operational facilities that provide potential for long term growth from income and RADs;
- **Cash flow:** facilities that have a substantial income flow; and
- **Value creation:** facilities that provide an opportunity for Japara to execute strategic value enhancement and asset management strategies to enhance returns to investors through:
 - purchasing undervalued assets which may be mispriced due to complexities of ownership, capital structure, planning controls or ineffective management processes;
 - countercyclical investing involving acquisitions and divestments using additional knowledge and information;
 - asset management through asset repositioning, refurbishment, extension and re-development of existing assets; and
 - effective deal sourcing including opportunities that are off-market or subject to capital constraints, utilising Japara's network of contacts and market intelligence.

DIRECTORS' REPORT (continued)

Development of brownfields

The Group will continue to undertake brownfields developments, which involve extending existing facilities where the Group owns the land and has obtained allocations or approvals for all necessary resident places. This is expected to increase the Group's portfolio size by more than 500 resident places over the next four years.

Key business risks

The regulatory framework may change

The Australian aged care industry is highly regulated by the Federal Government.

From 1 July 2014, changes to the aged care regulatory framework commenced. These changes, and any future regulatory changes (such as reductions in Government care funding, capping of RADs or a move from RADs to daily accommodation payments ("DAPs")), may have an adverse impact on the way the Group promotes, manages and operates its facilities, and its financial performance.

Recent decisions made by the Federal Government relating to aged care funding will impact future financial performance (see Prospects for future financial years section below).

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

The Group's RAD levels may decline

The Group may be exposed to the risks associated with the repayment and future receipt of RADs. These risks include particular circumstances that require the repayment of a large number of RADs at any one aged care facility, a reduction in the price achieved for new RADs, inappropriate pricing of RADs post the 1 July 2014 regulatory changes, economic factors impacting the demand for the Group's aged care services or regulatory changes that limit the ability to receive replacement or new RADs.

Occupancy levels may fall

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

The Group may lose key personnel

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

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

Facilities may lose their approvals or accreditation

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

The Group's reputation may be damaged

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

The Group may be subject to medical indemnity claims

The Group may be subject to future medical malpractice litigation, or threatened litigation, which could have an adverse impact on the financial performance and position and future prospects of the Group. If the costs of medical malpractice insurance relating to such risks were to rise (which may occur if the frequency of medical malpractice litigation were to increase or as a result of other factors), this could also have an adverse impact on the financial performance and position and future prospects of the Group.

Employees may leave and the Group may not be able to attract skilled and trained new employees

The Group's business is dependent on a specialised health and aged care workforce. There is a risk that the Group may not be able to maintain or expand a workforce that is appropriately skilled and trained to meet the existing or future demand of elderly people requiring aged care services. This may impact the Group's cost structure and profitability.

Review of operations (22 April 2014 to 30 June 2014)¹

	2014 \$'000
Statutory Revenue and other income	48,974
Underlying EBITDA ²	8,553
Statutory EBITDA	(1,286)
Underlying NPAT ²	6,901
Statutory NPAT	(2,938)

1 Operating results are presented from the date of acquisition of the Japara Group to the reporting date.

2. Pre-significant one off items - equity raising expenses (see Note 7(c)).

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

During the reporting period three brownfields projects were completed at Millward, Mirridong and Albury adding 63, 30 and 31 resident places respectively to the existing portfolio. Operating results of the three expansions are in line with expectations.

Review of financial condition

Liquidity and capital resources

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

The Group's cash position is expected to provide sufficient liquidity to meet the Group's currently anticipated cash requirements.

The Group may borrow money from time to time in order to finance activities. Should the Group choose to borrow money, it intends to maintain gearing within prudent levels.

The gearing ratio is calculated as a percentage of Net Debt/Total Equity. Net Debt is the total financial liabilities (including accommodation bonds/RADs and ILU resident loans) less cash on hand. Total Equity is as presented on the statement of financial position. For more information on capital management see Note 19 of the financial statements.

On 12 June 2014 the Group entered into a debt facility agreement with National Australia Bank, amounting to \$17,000,000. The facility will be used to fund part of its brownfields development program. As at 30 June 2014 and at the date of signing this report the Group has bank debt of \$14,000,000.

On 5 August 2014 the Group signed a 3 year syndicated debt facility agreement with NAB, CBA and ANZ for a total facility of \$95,000,000 for the purpose of funding future brownfields developments and initial funding for acquisitions. At the date of signing this report the facility remains undrawn.

Over time, the Group may seek additional 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.

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 capital expenditure is funded from operational cash flows) as well as growth capital expenditure comprising brownfields development projects and acquisition of aged care facilities (funded via equity, borrowings, operating cash flows or any combination of these, as appropriate).

DIRECTORS' REPORT (continued)

Prospects for future financial years

During the reporting period a number of Government announcements and strategic initiatives were made that will impact the results of the Group in future financial years. Notwithstanding the government announcements the Board reconfirms that it anticipates the Group achieving the FY2015 statutory forecast as disclosed in the Prospectus dated 11 April 2014 lodged with ASIC. The impacts of these items are highlighted and discussed in turn below:

Government announcements

The Federal Government has announced reforms to aged care funding, being:

- The cessation of the payroll tax supplement effective from 1 January 2015;
- The return of funding allocated to the former Government's workforce supplement, \$1.5 billion over five years from 1 July 2014, back into the general pool of aged care funding – primarily through increased care subsidies;
- Facilities that have been newly built or significantly refurbished since 20 April 2012 will receive a higher level of accommodation supplement for residents with low means. The maximum accommodation supplement has risen from approximately \$34 per day to \$52 per day;
- Modelling, conducted for the Aged Care Financing Authority, estimates a net \$3 billion increase in new RADs are expected to be available to providers; and
- The cessation of the Dementia and Severe Behaviours Supplement effective from 1 August 2014.

The Group has responded to the aged care funding reforms and implemented the following initiatives:

i. User Pay Scheme

With the effective deregulation of the user pay regime within the sector, the Group is currently developing a suite of services that address the growing need for additional health (specialised care such as dementia) and wellbeing related outcomes. This program has been accelerated and will be implemented from September 2014 and is expected to deliver additional contribution to the Group EBITDA.

ii. Funding rates

As of 1 July 2014, the basic daily rates for funding increased by 2.4% as part of the redirection of the \$1.5 billion workforce compact. The Group has implemented a new revenue model structure to ensure that the appropriate funding is received for the care provided.

iii. Increased brownfields/greenfields program

The program for brownfields and greenfields developments has been accelerated to meet resident demand. This will provide additional revenue from new resident places and from the above-mentioned significant refurbishment accommodation supplement which has risen from approximately \$34 per day per resident to \$52 per day per resident.

iv. Resident reassessment program

In keeping with the Group's continuous improvement program and the cessation of the payroll tax and dementia supplements, the reassessment program of our residents was brought forward. Early indications of this review have highlighted approximately 650 residents that can be reassessed which will result in additional revenue and therefore improved EBITDA for the Group.

v. Cost reduction initiatives

Many areas of cost management have been accelerated to curtail the impacts of the Government announcements. These initiatives are expected to result in significant savings for the Group over and above the general cost management focus.

Strategic initiatives

The Group continues with its growth strategy outlined above and the directors are confident that the Group remains on track to achieve its objectives. Items that are deemed to have a significant impact on future period's performance are discussed below:

i. Acquisition of the Whelan Care portfolio

The Group executed contracts for the acquisition of the Whelan Care portfolio of assets, including the real estate and the businesses operated therein, on 23 August 2014. The Whelan portfolio is located in South Australia adding 258 operational resident places and 41 independent living apartments. Integration of the facilities will be implemented over a staged 6 month period.

ii. Brownfields projects

During the reporting period:

- the Group completed the development of the Millward, Mirridong and Albury brownfields projects which have added 124 operational resident places;
- Kelaston and Bayview projects (both 30 resident place extensions) have commenced in line with the developments program and a further 5 development projects are anticipated to commence in FY2015 and FY2016 adding up to a further 500 resident places to the portfolio.

As these projects are completed, the Group will also receive funding from the significant refurbishment accommodation supplement which provides an additional \$20 per day for each concessional resident in newly refurbished facilities.

iii. DAP/ RAD reforms

Initial empirical evidence suggests receipt of DAPs and RADs are broadly in line with our forecast assumptions albeit at a slightly higher price point than the Group had anticipated.

The Group remains committed to its strategy to increase the number of operational resident places to approximately 5,000 in the medium term by way of brownfields and greenfields developments and acquisitions of aged care facilities.

6. Dividends

No dividends were paid or proposed during the reporting period nor have any been paid or proposed since the end of the reporting period.

7. Events subsequent to reporting date

On 5 August 2014 the Group signed a three year syndicated debt facility agreement with NAB, CBA and ANZ for a total facility of \$95.0 million.

In line with the Group's strategy as outlined in the Prospectus dated 11 April 2014, the facility will allow Japara to draw funds as and when required to in order to assist with construction funding of brownfields developments and extensions, as well as initial funding for acquisitions.

On 23 August 2014 the Group executed contracts for the acquisition of the Whelan Care portfolio of assets, including the real estate and the businesses operated therein, for a net price of \$39.5 million. A deposit of \$2.0 million was paid at the contract date and settlement is expected to occur during the December 2014 quarter. The Whelan Care portfolio is located in South Australia adding 258 operational resident places and 41 independent living apartments. Integration of the facilities will be implemented over a staged 6 month period.

On 25 August 2014 546,591 Loan Shares were granted to Andrew Sudholz as part of a Loan Plan arrangement. See section 15.3 of this report for further details.

Other than mentioned above, 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.

8. Likely developments

The Group's growth strategy centres on increasing the size of its aged care portfolio through the acquisition of additional aged care facilities and the developments of brownfields projects. Other than the likely developments disclosed in section 5 above and elsewhere in this report, no matters or circumstances have arisen which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years.

9. Environmental regulation

The Group's operations are not subject to significant environmental regulation under either Commonwealth or State legislation.

DIRECTORS' REPORT (continued)

10. Indemnification and insurance of officers

Indemnification

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

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

Insurance premiums

During the reporting period, the Group paid a premium in respect of a contract insuring the directors named in this report and current executive officers of the Group against certain liabilities that may be incurred by such a director or executive officer to the extent permitted by the Corporations Act 2001.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses, as such disclosure is prohibited under the terms of the contract.

11. Non-audit services

During the period, KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the period by the auditor and in accordance with written advice provided by resolution of the Audit, Risk and Compliance Committee, is satisfied that the provision of those non-audit services during the period by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 due to the following:

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

Details of the amounts paid to the auditor of the Group, KPMG, for audit and non-audit services provided during the period are set out below:

Audit and review services

Audit and review of financial statements	186
Other regulatory services	50
	<hr/> 236

Other services

In relation to other assurance, taxation and due diligence services as a result of the IPO	1,068
	<hr/> 1,304

NB: The majority of the amount included within other services relate to the IPO.

12. Proceedings on behalf of the Company

From time to time, the Group is subject to claims and litigation during the normal course of business. The directors have given consideration to such matters, which are or may be subject to litigation at period end, and are of the opinion that, other than for specific provisions already raised, no material liability exists.

13. Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 30 and forms part of the Directors' Report for the financial period ended 30 June 2014.

14. Rounding off

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Remuneration Report

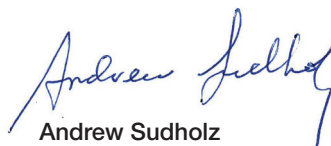
The Remuneration Report is set out in Section 15 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 27 August 2014



Linda Bardo Nicholls AO
Chairman



Andrew Sudholz
Managing Director and CEO



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

To: the directors of Japara Healthcare Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the period ended 30 June 2014 there have been:

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

KPMG

Darren Scammell
Partner

Melbourne

27 August 2014



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

Dear Shareholder,

On behalf of the Board, we are pleased to present the Japara Healthcare Remuneration Report for the reporting period ended 30 June 2014.

Following the successful listing on the Australian Securities Exchange the Group has compensated its Key Management Personnel in line with the remuneration arrangements disclosed in the Prospectus dated 11 April 2014 ("Prospectus") and is not intending to make any changes to the executive and non-executive remuneration structures for 2015.

The Group's compensation arrangements have been designed to align with the short and long-term interests of shareholders, as well as being competitive and enable the Group to attract and retain talented people. To that end, the Board obtained independent advice on the appropriateness of compensation packages given trends in comparable companies, and the objectives of the Group's compensation strategy.

The Board is committed to ensuring that the compensation arrangements of the Group closely reflect the objectives and strategy of the business and that employees are compensated fairly and competitively for their efforts and results. Particular attention has been paid to the performance review program and succession plans within the Group to ensure consistent and transparent feedback and a clear career path.

CEO and executive Key Management Personnel

Compensation packages for participating executives include two main components:

- a fixed component comprising the total base salary and compulsory employer superannuation contributions; and
- a performance-based compensation which comprises a cash short-term performance incentive ("STI") linked to both individual performance and the Group's performance, and a long-term incentive ("LTI") program under which executives, at the discretion of the Board, are offered performance rights which vest if the Group achieves certain hurdles over the period from listing to 30 June 2017. The LTI hurdles are both a base and stretch compound annual earnings per share ("EPS") growth rate determined by the Board.

During the reporting period the CEO and other executive Key Management Personnel were paid the fixed component of remuneration and were granted rights under the respective LTI arrangements as outlined in the Prospectus. No STI was paid during the period.

Non-executive directors

As outlined in the Prospectus the annual base non-executive director fees currently agreed to be paid by the Group are \$200,000 to the non-executive chairman, \$100,000 to each other non-executive director and an additional \$20,000 to the chair of each standing Committee of the Board. Furthermore, non-executive directors did not receive nor are eligible for performance related compensation.

The Board recommends this Remuneration Report to you and asks that you support our remuneration policies and practices by voting in favour of this Report at our 2014 Annual General Meeting.

Linda Bardo Nicholls AO
Chairman

David Blight
Chairman, Remuneration and Nomination Committee

27 August 2014

REMUNERATION REPORT - AUDITED

15.1 Principles of compensation

Key management personnel comprise the directors of the Group and the other senior executives of the Group that are named in this report.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to influence performance;
- the Group's performance including:
 - the Group's Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") and Net Profit After Tax ("NPAT");
 - the growth in earnings per share; and
 - compliance with Government regulation.

The table below represents the target remuneration mix for Group executives. No short-term incentive has been granted in the current period and hence is presented at target levels. The long-term incentive amount is presented based on the value granted in the current period.

	Fixed remuneration	At risk		Total
		Short-term incentive	Long-term incentive	
CEO	50.0%	25.0%	25.0%	100.0%
CFO	58.8%	23.5%	17.7%	100.0%
Other senior executives	58.8%	23.5%	17.7%	100.0%

15.2 Compensation packages

i. Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as leave entitlements and employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration and Nomination Committee. In addition, the Remuneration and Nomination Committee may from time to time engage external consultants to provide analysis and advice to ensure the directors' and senior executives' compensation is competitive. Senior executive's compensation is also reviewed on promotion.

ii. Offer bonus

Upon the successful listing of the Group on the Australian Securities Exchange, a number of employees (other than the CEO but including other key management personnel) were entitled to receive a one-off offer bonus in recognition of their contribution to the success of the Japara Group to date culminating in the successful Initial Public Offering.

The amount of the offer bonus granted to each participant was determined based upon a formula that takes into account the following factors amongst others:

- the employee's period of service;
- the employee's performance during that period of service;
- the employee's base salary; and
- indexation.

The offer bonus was funded by the former shareholders of Japara Holdings Pty Ltd and delivered partly in a cash component and partly as performance rights that vest as ordinary shares in the Company after two years of continued employment following ASX listing; no dividends are payable in relation to the performance rights until the vesting date.

Neither component of the offer bonus form part of the results presented in the financial statements of the Group as they were funded by the former owners of Japara Holdings Pty Ltd prior to Japara Healthcare Limited acquiring the shares in Japara Holdings Pty Ltd. The performance rights granted to key management personnel as part of the offer bonus are disclosed in this Remuneration Report.

iii. Performance linked compensation

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash. The long-term incentives are in the form of a discretionary Loan Plan and a performance-based Rights Plan.

The Board has the discretion to vary performance-based elements of remuneration, including short-term and long-term incentives, at any time, where it considers such reduction to be necessary having regard to information that has come to light after the grant of the incentive, that indicates the amount of the incentive on its original terms was not justified. The Board has not exercised such discretion in the current period.

Short-term incentive bonus

The Remuneration and Nomination Committee has set certain financial and non-financial performance hurdles for each senior executive (see Performance conditions section below); should these hurdles be met, the short-term incentive ("STI") bonus will be paid subject to the Board's discretion. If the performance hurdles are met, the first STI bonus will be made in respect of the financial year commencing 1 July 2014. There is an additional gateway in place to ensure that no payment will occur unless threshold financial performance measures are met and ongoing compliance and accreditation targets are met in accordance with the Aged Care Act 1997.

In the event the STI bonus is payable, 50% will be paid in cash following the end of the performance year, and the remaining 50% will be deferred for a further 12 months before also being paid in cash (subject to certain conditions).

Each year the Remuneration and Nomination Committee will recommend to the Board the cash STI bonus to be paid to qualifying employees.

Long-term incentive plans

The Group has established two long-term incentive ("LTI") plans:

- i. The Limited Recourse Loan Plan ("Loan Plan"); and
- ii. The Rights Plan.

The **common key terms** of both the Loan Plan and the Rights Plan are as follows:

- offers may be made at the Board's discretion to employees of the Group or any other person that the Board determines to be eligible to receive a grant under either long-term incentive plan;
- the Board has the discretion to set the terms and conditions on which it will offer performance rights in individual offer documents;
- offers must be accepted by the participant and can be made on an opt-in or opt-out basis;
- the participant must not sell, transfer, encumber, hedge or otherwise deal with performance rights;
- the participant will be free to deal with the shares allocated on vesting of the performance rights, subject to the requirements of the Group's Policy for Dealing in Securities; and
- if the participant ceases employment for cause or due to their resignation, unless the Board determines otherwise, any unvested performance rights will be automatically forfeited.

Under the Loan Plan, Loan Shares are granted and under the Rights Plan, performance rights are granted.

Performance conditions

Loan Shares and performance rights granted as part of each LTI offer will vest subject to the satisfaction of performance conditions. The performance conditions:

- are the same for both the Loan Plan and the Rights Plan;
- will be tested over a performance period of at least three years (commencing on the date of Listing and ending on 30 June 2017); and
- must be satisfied in order for the Loan Shares or performance rights to vest.

The performance rights are subject to a performance condition based on the Compound Annual Growth Rate ("CAGR") of the Group's diluted EPS over the performance period.

REMUNERATION REPORT - AUDITED (continued)

The percentage of performance rights that vest, if any, will be determined over the performance period by reference to the following vesting schedule:

Group's CAGR of diluted EPS over the performance period	% of performance rights that vest
Less than threshold CAGR of 5%	Nil
Meets threshold CAGR of 5%	20%
Between threshold CAGR of 5% and stretch CAGR of 15%	Straight-line pro rata vesting between 20% and 100%
Exceeds stretch CAGR of 15%	100%

In addition, a gateway hurdle applies to the grant. For the gateway to be met, ongoing accreditation and compliance with regulatory guidelines across the business must be achieved, as well as a threshold EBITDA target of \$48.9 million for FY2015. If this gateway is not met, even if the EPS performance condition is otherwise met, none of the performance rights will vest.

Any performance rights that remain unvested at the end of the performance period will lapse immediately.

The Board considers CAGR of diluted EPS an appropriate performance hurdle because it ensures that a proportion of each participant's remuneration is linked to shareholder value and ensures that participants only receive a benefit where there is a corresponding direct benefit to shareholders.

The key terms and performance conditions are aimed at linking the retention and performance of the executives directly to rewards, but only where shareholder returns are realised. The focus on employee held equity is also part of a policy to strengthen engagement and direct personal interest to the achievement of returns for shareholders.

15.3 Performance rights granted to the CEO and other senior executives

i. Performance rights granted to the CEO under the Loan Plan

The Loan Plan is an LTI plan under which the CEO and any other employee as determined by the Board are entitled to acquire Loan Shares (Loan Shares have the same rights as ordinary shares) in the Company. Eligibility to participate in the Loan Plan and the number of Loan Shares (and the associated loan amount) to be acquired by each participant will be determined by the Board.

The CEO is entitled to participate in the Loan Plan which forms the basis of his LTI. The CEO's LTI arrangement differs from the other executives as the CEO is a substantial shareholder of the Group and as a result, unlike other executives, would not be able to participate in the Rights Plan in a financially effective way.

In addition to the key terms and performance hurdles outlined in 15.2(iii), the specific key terms of the Loan Plan regarding the grant that has been made to the CEO are summarised below:

Key terms of the Loan Plan regarding the grant made to the CEO

Nature of the loan	The CEO has been provided with a limited recourse loan from the Company for the sole purpose of subscribing for Loan Shares. The loan for the initial grant to the CEO has a seven year term. It is intended that any future loans will not be subject to a fixed term, but will ultimately be repayable at the participant's discretion or upon cessation of employment.
Loan amount	The CEO has been granted a loan in order to acquire Loan Shares with a fair value of \$481,000. This loan has been used to acquire Loan Shares at a subscription price equal to \$2.00 per share. An independent advisor calculated the number of Loan Shares acquired at 546,591 utilising the assumptions underlying the Black Scholes valuation methodology to produce a Monte-Carlo simulation model which allows for the incorporation of the dividend approach to paying down the loan.
Interest	Under the Loan Plan rules, interest may be charged from time to time at the Board's discretion. No interest was charged during the reporting period as the loan had not been drawn down as at 30 June 2014.
Rights associated with Loan Shares	Loan Shares have the same rights as ordinary shares including the right to receive dividends and capital distributions, participate in future capital raisings and exercise voting rights. Any dividends or distributions paid on the Loan Shares while the loan remains outstanding will be applied (on an after tax basis) towards repayment of the loan.
Repayment of the loan	The loan term for the initial grant is seven years from the date the Loan Shares were granted to the CEO. Accordingly, if any of the Loan Shares vest, the CEO has up to seven years from the grant date to repay the outstanding balance. If the performance conditions attaching to the Loan Shares are satisfied and the outstanding balance is repaid in full, the CEO will be free to deal with the Loan Shares, subject to the Group's Policy for Dealing in Securities.

In respect of the Loan Shares granted to the CEO, the ASX granted the Company a waiver from listing rule 10.14, under which security holders may approve an issue of securities to a director pursuant to an employee incentive scheme, on the basis that security holders subscribed under the IPO and have consented to the issue of the Loan Shares.

For accounting purposes the grant date of the Loan Shares is deemed to be 17 April 2014, however the shares were issued and the loan was granted on 25 August 2014 therefore neither the loan nor the Loan Shares appear on the Statement of Financial Position as at 30 June 2014.

In accordance with AASB 2 Share-based payments the grant date for accounting purposes is deemed to be the date that the Company's shares were officially quoted on the ASX, being 17 April 2014 which also aligns with the rendering of the services. The issuance of the Company's Prospectus for the IPO on 11 April 2014 included the terms of both the Loan Plan and the Rights Plan and constitutes a shared understanding between the Company and the participants. The issuance of the performance rights and Loan Shares were ratified by the Board on 4 April 2014.

ii. Performance rights granted to other senior executives under the Rights Plan

The Group's Rights Plan is an LTI plan under which eligible employees that are invited by the Board to participate in the Rights Plan are provided with performance rights for no consideration.

Other senior executives are those executives that are not members of the Board of Japara Healthcare Limited but meet the definition of key management personnel as per AASB 124 Related Party Disclosures, namely:

- John McKenna, Chief Financial Officer;
- Jerome Jordan, Executive Director of Operations; and
- Julie Reed, Executive Director of Aged Care.

An LTI offer of performance rights has been made to the abovementioned senior executives under the Rights Plan which entitles each executive to a maximum LTI opportunity of up to 30% of their fixed remuneration; this equates to performance rights over ordinary shares with a face value of \$132,000 for each of the other senior executives.

In addition to the key terms and performance hurdles outlined in 15.2(iii), the specific key terms of the Rights Plan regarding the grant that has been made to the abovementioned senior executives are summarised below:

Key terms of the Rights Plan regarding the grant made to the abovementioned senior executives

Grant of performance rights	A performance right entitles the holder to acquire a share for nil consideration at the end of the performance period, subject to meeting specific performance conditions.
Issue price	The performance rights will be issued for nil consideration.
Exercise price	No exercise price is payable in respect of the performance rights.
Rights associated with performance rights	The performance rights do not carry dividends or voting rights prior to vesting.

15.4 CEO and other senior executives' employment arrangements

The CEO has a contract of employment with the Group. The contract specifies the duties and obligations to be fulfilled by the CEO. The service contract is capable of termination on 12 months' notice. The Group retains the right to terminate a contract immediately by making payment equal to 12 months' pay in lieu of notice, less any applicable taxable deduction. The CEO has no entitlement to termination payment in the event of removal for cause.

The Group has entered into service contracts with each of the other senior executives that are capable of termination on 3 months' notice. The Group retains the right to terminate a contract immediately for serious misconduct without any obligation to provide notice or pay the employee any compensation. In the event that the employee is terminated due to abolition of their position or redundancy the employee will be entitled to a severance payment equivalent to 12 months gross salary, less any applicable taxable deduction. The senior executives are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long-service leave, together with any superannuation benefits.

The service contracts outline the components of compensation but do not prescribe how compensation levels are modified year to year. The Remuneration and Nomination Committee will review compensation levels each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the compensation policy.

15.5 Non-executive directors

Under the Constitution, the Board may decide the remuneration which each non-executive director is entitled to from the Group for his or her services as a non-executive director. However, the total amount provided to all non-executive directors

REMUNERATION REPORT - AUDITED (continued)

for their services as non-executive directors must not exceed, in aggregate in any financial year, the amount fixed by the shareholders of Company. This amount has been fixed at \$1,000,000 at a general meeting of the Company on 4 April 2014. For the reporting period ending 30 June 2014, the fees payable to the current non-executive directors were in line with those disclosed in the Company's Prospectus dated 11 April 2014.

The annual base director fees currently agreed to be paid by the Group are \$200,000 to the non-executive chairman, \$100,000 to each other non-executive director and an additional \$20,000 to the chair of each standing Committee of the Board.

The non-executive chairman of the Board does not receive Committee fees in respect of her role as non-executive chairman or member of any Committee.

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

15.6 Other benefits

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

15.7 Services from remuneration consultants

The Board engaged KPMG as remuneration consultants to review the amount and elements of the key management personnel remuneration and provide benchmarking in relation thereto.

KPMG was paid \$39,500 for the remuneration benchmarking in respect of reviewing the amount and elements of remuneration.

The Board is satisfied that the remuneration benchmarking performed by KPMG was free from undue influence by members of the key management personnel about whom the recommendations may relate.

KPMG was required to provide the Board with a summary of the way in which it carried out its work, details of its interaction with key management personnel in relation to the assignment and other services, and respond to questioning by members of the Board after the completion of the assignment.

15.8 Directors' and other key management personnel remuneration

The remuneration of key management personnel included within employee benefits expense in the Statement of Profit or Loss for the reporting period ended 30 June 2014 was as follows:

	Short-term benefits			Post-employment benefits		At risk			
	Salary & fees \$	Non-monetary benefits \$	Annual leave entitlements \$	Superannuation benefits \$	Long-term service leave entitlements \$	Total fixed remuneration \$	STI - Bonus deferred for 12 months \$	LTI - Share-based payments granted \$	Total fixed and at risk remuneration \$
Directors									
Non-executive directors									
Linda Bardo Nicholls AO (Chairman)	37,616	-	-	3,480	-	41,096	-	-	41,096
Richard England	22,570	-	-	2,088	-	24,658	-	-	24,658
Tim Poole	18,808	-	-	1,740	-	20,548	-	-	20,548
David Blight	22,570	-	-	2,088	-	24,658	-	-	24,658
Managing director & CEO									
Andrew Sudholz	166,460	14,066	13,989	15,398	2,774	212,687	-	25,316	238,003
Total directors' remuneration		14,066	13,989	24,794	2,774	323,647	-	25,316	348,963
Other key management personnel									
John McKenna	76,136	-	6,398	7,043	1,269	90,846	-	5,815	96,661
Jerome Jordan	76,136	13,307	6,398	7,043	1,269	104,153	-	5,815	109,968
Julie Reed	76,136	13,307	6,398	7,043	1,269	104,153	-	5,815	109,968
Total other key management personnel remuneration	228,408	26,614	19,194	21,129	3,807	299,152	-	17,445	316,597
Total directors' and other key management personnel remuneration	496,432	40,680	33,183	45,923	6,581	622,799	-	42,761	665,560

In accordance with AASB 2 Share-based payments, the values provided in the shaded column have been calculated using an accepted option valuation methodology (see Note 10(b)).

Details of the long-term incentive plans are set out in section 15.2 and 15.3.

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed in section 15.1.

REMUNERATION REPORT - AUDITED (continued)

15.9 Equity instruments

All rights are for ordinary shares of the Company, which are exercisable on a one-for-one basis.

Rights over equity instruments granted as compensation

Details of rights over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and their vesting profiles are set out below:

Rights	Number of rights granted during 2014	Vesting condition	Grant date	Fair value at grant date \$	Vesting date
Andrew Sudholz	546,591	Performance hurdles	17 April 2014	0.88	30 June 2017
John McKenna	66,000	Performance hurdles	17 April 2014	2.00	30 June 2017
Jerome Jordan	66,000	Performance hurdles	17 April 2014	2.00	30 June 2017
	50,000	Continued employment	17 April 2014	2.00	17 April 2016
Julie Reed	66,000	Performance hurdles	17 April 2014	2.00	30 June 2017
	100,000	Continued employment	17 April 2014	2.00	17 April 2016

The rights conditional on continued employment relate to the offer bonus set out in section 15.2(ii).

All rights are forfeited on the termination of the individual's employment. In addition to a continuing employment service condition, the vesting of rights issued under the Loan Plan and Rights Plan discussed in section 15.3, is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives discussion in section 15.2(iii).

Analysis of movements in equity instruments

No rights were exercised or lapsed during the reporting period in relation to key management personnel. The value of rights granted in the period is the fair value of the rights calculated at grant date. The total value of the rights granted and rights vested in the reporting period is included in the table below. The amount granted is allocated to remuneration over the vesting period.

	Granted in period (\$)	Vested in period (\$)
Andrew Sudholz	481,000	-
John McKenna	132,000	-
Jerome Jordan	232,000	-
Julie Reed	332,000	-

15.10 Key management personnel shareholdings in the Company

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

	Acquired at IPO No. of shares	Held at 30 June 2014 No. of shares
Non-executive directors		
Linda Bardo Nicholls AO	25,000	25,000
Richard England	25,000	25,000
Tim Poole	200,000	200,000
David Blight	50,000	50,000
Managing director & CEO		
Andrew Sudholz	15,700,000	15,700,000
Other key management personnel		
John McKenna	125,000	125,000
Jerome Jordan	-	-
Julie Reed	10,000	10,000

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2014

	Note	2014 \$'000
Revenue	6	48,261
Other income	7(a)	713
Total income		48,974
Details of expenditure:		
Employee benefits expense	7(b)	(31,299)
Resident costs	7(b)	(5,245)
Occupancy costs	7(b)	(475)
Depreciation, amortisation and impairment	7(b)	(1,582)
Administrative expenses	7(b)	(3,402)
Other expenses	7(c)	(9,839)
Finance income	8	143
Finance costs	8	(325)
Total expenses from ordinary activities		(52,024)
Loss before income tax		(3,050)
Income tax benefit	12(a)	112
Loss for the period		(2,938)
Other comprehensive income, net of tax		-
Total comprehensive income/(loss) for the period		(2,938)
Loss attributable to members of the group		(2,938)
Total comprehensive income/(loss) attributable to members of the group		(2,938)
Earnings per share		
Basic and diluted earnings per share (dollars)	9	(0.01)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Note	2014 \$'000
ASSETS		
Current assets		
Cash and cash equivalents	14	28,107
Trade and other receivables	13	7,073
Current tax receivable	12(f)	2,702
Prepayments and other assets		3,585
Total current assets		41,467
Non-current assets		
Trade and other receivables	13	1,210
Property, plant and equipment	15(a)	340,799
Investment property	17(a)	23,312
Net deferred tax assets	12(f)	8,631
Intangible assets and goodwill	16	384,541
Total non-current assets		758,493
TOTAL ASSETS		799,960
LIABILITIES		
Current liabilities		
Trade and other payables	22	15,400
Other liabilities	23	9,331
Loans and borrowings	20	15,817
Other financial liabilities	21	220,904
Provisions	24	22,527
Total current liabilities		283,979
Non-current liabilities		
Provisions	24	1,994
Total non-current liabilities		1,994
TOTAL LIABILITIES		285,973
NET ASSETS		513,987
EQUITY		
Issued capital		516,755
Retained earnings		(2,768)
TOTAL EQUITY		513,987

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2014

	Note	Issued Capital \$'000	Retained Earnings \$'000	Total \$'000
Total comprehensive income				
Profit/(loss)		-	(2,938)	(2,938)
Other comprehensive income		-	-	-
Total comprehensive income/(loss)		-	(2,938)	(2,938)
Transactions with owners of the company				
Issue of ordinary shares	18	525,000	-	525,000
Equity raising costs, net of tax	18	(8,245)	-	(8,245)
Equity-settled share-based payment	10(d)	-	170	170
Total transactions with owners of the company		516,755	170	516,925
Balance at 30 June 2014		516,755	(2,768)	513,987

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2014

	Note	2014 \$'000
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers		48,569
Payments to suppliers and employees		(45,636)
Income tax paid		(1,326)
Interest received		143
Financing costs paid		(325)
Net cash provided by / (used in) operating activities	33	1,425
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	15(a)	(2,013)
Proceeds from sale of plant and equipment		43
Capital works in progress	15(a)	(2,711)
Acquisition of the Japara Group, net of cash	27(c)	(181,411)
Net cash provided by / (used in) investing activities		(186,092)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	18(a)(i)	350,919
Equity raising costs	18(a)	(18,803)
Proceeds from bank borrowings	20(a)	17,000
Repayment of bank borrowings	20(a)	(3,000)
Proceeds from accommodation bonds & ILU resident loans		25,645
Repayment of accommodation bonds & ILU resident loans		(11,210)
Settlement of pre-acquisition receivables/(payables) of the Japara Group	27(d)	(147,777)
Net cash provided by / (used in) financing activities		212,774
Net increase in cash held		28,107
Cash at beginning of reporting period		-
Cash at end of reporting period	14	28,107

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014

NOTE 1: 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"). This is the first set of financial statements for the Group and results are presented from 19 March 2014 to 30 June 2014.

The Company was admitted to the official list of ASX Limited on 17 April 2014 and acquired 100% ownership of the Japara Group, being:

- Japara Holdings Pty Ltd, the holding company of 35 operating aged care facilities; and
- Japara Aged Care Property Trust ("the Trust"), a unit trust that owns the freehold title to 29 of 35 operating facilities.

The acquisition of the Japara Group completed on 22 April 2014 (see Note 27).

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 primarily is involved in the provision of residential aged care services throughout Australia (see Note 5).

NOTE 2: BASIS OF ACCOUNTING

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

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

The Group's current liabilities exceed current assets by \$242,512,000 as at 30 June 2014. This mainly arises because of the requirement to classify resident obligations relating to accommodation bonds and ILU resident loans of \$220,904,000 as current liabilities (refer Note 21 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 25(b)(ii) explains that liquidity risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. This is also achieved by maintaining a liquidity management strategy to ensure that the Group has sufficient liquidity to enable it to refund accommodation bonds that are expected to fall due within the next twelve months.

The financial statements were authorised for issue by the Board of Directors on 27 August 2014. Details of the Group's accounting policies are included in Note 37.

NOTE 3: FUNCTIONAL AND PRESENTATION CURRENCY

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

NOTE 4: USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates 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.

Information about critical judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the period ending 30 June 2014 are included in the following notes:

- Note 12 – recognition of deferred tax assets: availability of future taxable profit;
- Note 16 – impairment test: key assumptions underlying recoverable amounts; and
- Note 27 – acquisition of subsidiaries: fair value measured on a provisional basis.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 4: USE OF JUDGEMENTS AND ESTIMATES (continued)

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

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

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

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

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be 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.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 10 – share-based payment arrangements;
- Note 17 – investment property; and
- Note 25 – financial instruments.

NOTE 5: SEGMENT REPORTING

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

NOTE 6: REVENUE

	Note	2014 \$'000
Government care funding		35,139
Resident care funding		9,840
Accommodation funding		3,282
Total revenue		48,261

	Note	2014 \$'000
NOTE 7: INCOME AND EXPENSES		
(a) Other income		
Other government funding		176
Increase in fair value of investment property	17(a)	452
Other income		85
Total other income		713
(b) Expenses		
Employee benefits	11	31,299
Resident costs		5,245
Occupancy costs		475
Depreciation and amortisation	15(a)	1,582
Administrative expenses		3,402
Total expenses		42,003
(c) Other expenses		
Equity raising costs	18(a)	5,843
Transfer duty arising on the restructure of the Group	18(a)	3,996
Total other expenses		9,839
NOTE 8: NET FINANCE COSTS		
Interest income - trading accounts		139
Change in fair value of Independent Living Unit liability		4
Finance income		143
Loan establishment fees		131
Loan interest expense		36
Accommodation bond settlement interest expense		158
Finance costs		325
Net finance costs recognised in profit or loss		(182)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 9: EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share has been based on the following profit/(loss) attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

Profit/(loss) attributable to ordinary shareholders (basic)

	Note	2014 \$'000
Profit/(loss) for the period attributable to the ordinary shareholders		(2,938)
Profit/(loss) for the period attributable to ordinary shareholders		(2,938)

Weighted-average number of ordinary shares (basic)

		2014 No. of issued shares '000
Issued ordinary shares at listing date	18(a)	262,500
Weighted-average number of ordinary shares at 30 June		262,500

NOTE 10: SHARE-BASED PAYMENT ARRANGEMENTS

(a) Description of equity-settled share option arrangements

At 30 June 2014, the Group had the following share-based payment arrangements.

(i) Offer bonus

Following the successful listing on the Australian Securities Exchange a number of employees received a one-off offer bonus in recognition of their contribution to the Initial Public Offering. The offer bonus was funded by the previous shareholders of Japara Holdings Pty Ltd and was delivered partly in a cash component and partly as rights that vest as ordinary shares in the Company after two years continued employment with the Group subsequent to ASX listing.

(ii) Loan Plan

The Company's Loan Plan is an LTI plan under which the Chief Executive Officer and any other employee as determined by the Board are entitled to acquire Loan Shares in the Company. Loan Shares have the same rights as ordinary shares. Participants will be provided with a limited recourse loan from the Company for the sole purpose of subscribing for Loan Shares in the Company. The loan is recognised as a financial asset in the financial statements of the Group when the Loan Shares vest (see Key terms and conditions section below). Eligibility to participate in the Loan Plan and the number of Loan Shares (and the associated loan amount) to be acquired by each participant will be determined by the Board.

(iii) Rights Plan

The Company's Rights Plan is an LTI plan under which eligible employees that are invited by the Board to participate in the Rights Plan are provided with performance rights. Performance rights were initially granted to the Chief Financial Officer, Executive Director of Operations and the Executive Director of Aged Care Services.

Key terms and conditions

	Number of instruments '000		Vesting date
Share-based payment arrangement		Vesting conditions	
Rights granted to key management personnel			
Offer bonus	150	2 years' service from grant date	17/04/2016
Loan Plan	547	Subject to performance hurdles	30/06/2017
Rights Plan	198		30/06/2017
Rights granted to other employees			
Offer bonus	626	2 years' service from grant date	17/04/2016
Total rights	1,521		

NOTE 10: SHARE-BASED PAYMENT ARRANGEMENTS (continued)

In respect of the Loan Shares granted to the CEO, the ASX granted the Company a waiver from listing rule 10.14, under which security holders may approve an issue of securities to a director pursuant to an employee incentive scheme, on the basis that security holders subscribed under the IPO and have consented to the issue of the Loan Shares.

For accounting purposes the grant date of the Loan Shares is deemed to be 17 April 2014, however the shares were issued and the loan was granted on 25 August 2014 therefore neither the loan nor the Loan Shares appear on the Statement of Financial Position as at 30 June 2014.

In accordance with AASB 2 Share-based payments the grant date for accounting purposes is deemed to be the date that the Company's shares were officially quoted on the ASX, being 17 April 2014 which also aligns with the rendering of the services. The issuance of the Company's Prospectus for the IPO on 11 April 2014 included the terms of both the Loan Plan and the Rights Plan and constitutes a shared understanding between the Company and the participants. The issuance of the performance rights and Loan Shares were ratified by the Board on 4 April 2014.

(b) Measurement of fair value

(i) Offer bonus

As the exercise price is zero upon vesting, the fair value of the rights issued under the offer bonus scheme is deemed to be equal to the spot price at the grant date (\$2.00 per share) less the fall in value due to the dividend yield estimated to be 5.4%. The fair value of the rights issued under the offer bonus scheme is \$1,390,000.

(ii) Loan Plan

The fair value of the Loan Shares granted under the loan plan has been measured utilising the assumptions underlying the Black Scholes valuation methodology to produce a Monte-Carlo simulation model which allows for the incorporation of the dividend approach to paying down the loan. Service and non-market performance conditions attached to the transactions were not taken into account in measuring fair value.

The inputs used in the measurement of the fair value at grant date of the loan plan share-based payments were as follows:

	2014
Share price at grant date	\$2.00
Exercise price	\$2.00
Volatility	35.0%
Risk free rate	3.6%
Dividend yield	5.4%
Post-vesting withdrawal rate	None
Early Exercise Provision	Assume exercise at end of loan term

As the Company was only listed on the ASX on 17 April 2014 there is no historic data on which to base a volatility estimate. The volatility assumption is based on the actual volatility of a selection of comparator companies daily closing share price over the three year period to the valuation date. The fair value of the rights issued under the Loan Plan Scheme is \$481,000.

(iii) Rights Plan

As the exercise price is zero upon vesting, the fair value of the performance rights issued under the offer bonus scheme is deemed to be equal to the spot price at the grant date (\$2.00 per share) less the fall in value due to the dividend yield estimated to be 5.4%. The fair value of the rights issued under the Rights Plan is \$331,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 10: SHARE-BASED PAYMENT ARRANGEMENTS (continued)

(c) Reconciliation of outstanding rights

The number and weighted-average exercise prices of rights under the share-based payment arrangements were as follows:

	Number of rights 2014 (‘000)	Weighted- average exercise price 2014 (‘000)
Granted during the period	1,521	0.72
Forfeited during the period	(30)	-
Exercised during the period	-	-
Outstanding at 30 June	1,491	0.73
Exercisable at 30 June	-	-

(d) Expense recognised in profit or loss

The expense recognised in profit or loss as an employee benefit for each of the share arrangements were as follows:

Share-based payment arrangement

	Note	2014 \$'000
Loan Plan		25
Rights Plan		18
Expense recognised in profit or loss	11	43

NOTE 11: EMPLOYEE BENEFIT EXPENSES

Wages and leave expenses		26,936
Superannuation contributions		2,417
Agency staff expenses		876
Workcover expense		937
Equity-settled share-based payments	10(d)	43
Other staff costs		90
Total employee benefits expense	7(b)	31,299

NOTE 12: INCOME TAXES

(a) The components of tax expense/(benefit) comprise:

Current tax expense	816
Deferred tax benefit	(928)
Income tax benefit	(112)

(b) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax benefit in the financial statements as follows:

Loss before income tax	(3,050)
Prima facie tax on loss before income tax at 30%	(915)
Add tax effect of:	
— Non-deductible tax expenses	803
Income tax benefit attributable to loss from ordinary activities	(112)

NOTE 12: INCOME TAXES (continued)

(c) Income tax rate

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

(d) Tax consolidation

Relevance of tax consolidation to the consolidated group

Japara Healthcare Limited and its controlled entities formed a tax consolidated group which commenced on 16 April 2014.

Relevance of tax consolidation to the parent entity

Japara Healthcare Limited 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 of the subsidiary is recorded in the books of account of Japara Healthcare Limited and of the subsidiary members as a debt owing to Japara Healthcare Limited.

	2014
	\$'000
(e) Liabilities	
NON-CURRENT	
Deferred tax liability comprises:	
Property, plant and equipment	2,201
Resident places	3,102
Capital works in progress (interest expense)	140
Deferred management fee receivable	589
Deferred tax liability	6,032
(f) Assets	
CURRENT	
Income tax receivable	2,702
NON-CURRENT	
Deferred tax asset comprises:	
Provisions	7,429
Deferred borrowing costs	171
Deferred legal costs	162
Sundry creditors and accruals	595
Deferred equity raising costs	5,854
ILU resident loans	452
Deferred tax asset	14,663
Net deferred tax asset	8,631

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 12: INCOME TAXES (continued)

	2014 \$'000
(g) Reconciliations	
(i) Gross movements	
The overall movement in the deferred tax account is as follows:	
Opening balance	-
Acquisitions through business combinations	4,169
Credited / (charged) to the Income Statement	928
Credited to equity	3,534
Closing balance	8,631
(ii) Current tax receivable	
Income tax	
Opening balance	-
Acquisitions through business combinations	2,192
Income tax payable	(1,333)
Income tax instalment amounts paid to ATO during the year	1,326
Amount offset by tax losses of head entity of tax consolidated group	517
Closing balance	2,702
(iii) Deferred tax liability	
The movement in deferred tax liability for each temporary difference during the period is as follows:	
Tax allowances relating to property, plant and equipment	
Opening balance	-
Acquisitions through business combinations	1,841
(Credited) / charged to the Income Statement	360
Closing balance	2,201
Resident places	
Opening balance	-
Acquisitions through business combinations	3,102
(Credited) / charged to the Income Statement	-
Closing balance	3,102
Capital works in progress (interest expense)	
Opening balance	-
Acquisitions through business combinations	215
(Credited) / charged to the Income Statement	(75)
Closing balance	140
Deferred management fee receivable	
Opening balance	-
Acquisitions through business combinations	578
(Credited) / charged to the Income Statement	11
Closing balance	589

NOTE 12: INCOME TAXES (continued)

2014
\$'000

(iv) Deferred tax assets	
The movement in deferred tax assets for each temporary difference during the period is as follows:	
Provisions	
Opening balance	-
Acquisitions through business combinations	7,302
Credited / (charged) to the Income Statement	127
Closing balance	7,429
Deferred borrowing costs	
Opening balance	-
Acquisitions through business combinations	136
Credited / (charged) to the Income Statement	35
Closing balance	171
Deferred legal costs	
Opening balance	-
Acquisitions through business combinations	202
Credited / (charged) to the Income Statement	(40)
Closing balance	162
Sundry creditors and accruals	
Opening balance	-
Acquisitions through business combinations	476
Credited / (charged) to the Income Statement	119
Closing balance	595
Deferred equity raising costs	
Opening balance	-
Acquisitions through business combinations	1,336
Amount allocated to equity	3,534
Credited / (charged) to the Income Statement	984
Closing balance	5,854
Unused revenue tax losses	
Opening balance	-
Credited / (charged) to the Income Statement	517
Amount used to offset tax liabilities by head entity of tax consolidated group	(517)
Closing balance	-
ILU resident loans	
Opening balance	-
Acquisitions through business combinations	453
Credited / (charged) to the Income Statement	(1)
Closing balance	452

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 13: TRADE AND OTHER RECEIVABLES

	Note	2014 \$'000
CURRENT		
Resident debtors		6,380
Provision for doubtful debts	13(a)	(243)
		6,137
Other receivables		
Deferred management fees receivable		753
Sundry debtors		183
	25(b)	7,073
NON-CURRENT		
Deferred management fees receivable		1,210
(a) Provision for doubtful debts		
A provision for doubtful debts is recognised when there is objective evidence that an individual resident debtor receivable amount is impaired.		
The movement in the provision for doubtful debts was as follows:		
Opening balance		-
Charge for the period		-
Acquired through business combination		(243)
Closing balance as at 30 June		(243)

NOTE 14: CASH AND CASH EQUIVALENTS

CURRENT	
Cash at bank and on hand	27,799
Short-term bank deposits	308
	28,107
Reconciliation of cash	
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:	
Cash	28,107
	28,107

Included within cash at bank and on hand is an amount of \$13,984,000 that is reserved for the refund of accommodation bond liabilities in accordance with the Aged Care Act 1997. For more information on accommodation bond liabilities see Note 21(a).

The Group has also entered into a number of security deposit guarantees with its bankers for security for the performance of the Group. As at the reporting date, \$748,000 of the cash balance was secured by its bankers.

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Note	Land and buildings \$'000	Property improvements \$'000	Plant & equipment \$'000	Motor vehicles \$'000	Under construction \$'000	Total \$'000
Cost							
Balance as at 19 March 2014		-	-	-	-	-	-
Acquisitions through business combinations	27(a)	283,086	6,190	14,254	352	35,410	339,292
Other additions		357	8	1,642	6	2,711	4,724
Disposals		-	-	(142)	-	-	(142)
Transfer in from / (out of) capital work in progress	17(a)	33,987	-	-	-	(35,555)	(1,568)
Balance at 30 June 2014		317,430	6,198	15,754	358	2,566	342,306
Accumulated depreciation and impairment losses							
Balance as at 19 March 2014		-	-	-	-	-	-
Depreciation		(903)	(68)	(576)	(35)	-	(1,582)
Impairment loss		-	-	-	-	-	-
Disposals		-	-	75	-	-	75
Balance at 30 June 2014		(903)	(68)	(501)	(35)	-	(1,507)
Carrying amount at 30 June 2014		316,527	6,130	15,253	323	2,566	340,799

(b) Property, plant and equipment under construction

During the reporting period the group completed construction of extensions of the Millward and Mirridong aged care facilities and the new Albury aged care facility. Costs totalling \$33,987,000 were transferred from Costs under construction to Buildings upon completion of construction.

NOTE 16: INTANGIBLE ASSETS AND GOODWILL

(a) Reconciliation of carrying amount

	Note	Goodwill \$'000	Resident places \$'000	Total \$'000
Cost				
Balance as at 19 March 2014		-	-	-
Acquisitions through business combinations	27	260,501	124,040	384,541
Balance at 30 June 2014		260,501	124,040	384,541
Accumulated amortisation and impairment losses				
Balance as at 19 March 2014		-	-	-
Amortisation		-	-	-
Balance at 30 June 2014		-	-	-
Carrying amount at 30 June 2014		260,501	124,040	384,541

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 16: INTANGIBLE ASSETS AND GOODWILL (continued)

(b) Impairment testing

For the purpose of impairment testing of intangible assets with an indefinite useful life the Group has identified one Cash Generating Unit (CGU); this is consistent with the operating segment identified in Note 5.

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 discount rate of 10.10% was determined based on the cash rate target adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the CGU.

Three years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined at 4%.

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

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

	Change required for carrying amount to equal recoverable amount %
Discount rate	1.26
Long-term growth rate	(1.56)

NOTE 17: INVESTMENT PROPERTY

(a) Reconciliation of carrying amount

	Note	2014 \$'000
Cost		
Balance as at 19 March		-
Acquisitions through business combinations	27(a)	21,292
Transfer in from capital work in progress	15(a)	1,568
Change in fair value	7(a)	452
Balance at 30 June		23,312

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

(b) Fair value hierarchy

The fair value of investment property of \$23,312,000 has been categorised as a Level 3 based on the inputs to the valuation technique used (see Note 4).

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

NOTE 18: CAPITAL AND RESERVES

(a) Share capital	No. of issued shares '000
Ordinary shares	
On issue as at 19 March	-
Issued during the period	262,500
On issue at 30 June - fully paid	262,500

Ordinary shares

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

Issue of ordinary shares

On 17 April 2014 the Group issued 262,500,000 ordinary shares at \$2.00 per share as an Initial Public Offering. The capital raised was used to acquire the Japara Group (see Note 27) and pay the costs associated with the transaction.

The former owners of the Japara Group elected to collectively retain 33% ownership of Japara Healthcare Limited at the date of the IPO (\$174,081,000 of the issued share capital) meaning the cash proceeds from the issue of share capital was \$350,919,000. The equity raising costs have been apportioned between new equity and old equity in accordance with AASB 132 Financial Instruments: Presentation. Total transaction costs amounted to \$21,618,000 which includes \$3,996,000 of transfer duty on the purchase of the respective businesses and real estate that has been expensed in the Statement of Profit or Loss (included within other expenses of \$9,839,000 - see Note 7(c)). \$5,843,000 was deemed to relate to the retention of old equity and has been expensed to the Statement of Profit or Loss (included within other expenses of \$9,389,000 - see Note 7(c)). \$11,779,000 (\$8,245,000 post tax) was deemed to relate to the raising of new equity and has been directly offset against issued capital.

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

(b) Dividends	2014 \$'000
Dividend franking account	
Amount of franking credits available to shareholders of Japara Healthcare Limited for subsequent financial years	1,111

The ability to use the franking credits is dependent upon the ability to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of \$1,111,000 franking credits.

There were no dividends declared or paid by the Company during the reporting period.

NOTE 19: CAPITAL MANAGEMENT

The Group's principal sources of funds are cash flows from operations and accommodation bonds. 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 25.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 20: LOANS AND BORROWINGS

		2014 \$'000
CURRENT LIABILITIES		
Unsecured bank loan	20(a)	14,000
Vendor loan	20(b)	1,817
		15,817

(a) Unsecured bank loan

On 12 June 2014 the Group entered into a Revolving Cash Advance Facility. The facility is non-amortising and the final repayment date is 12 June 2015. Interest is payable at BBSY+1.30%. The facility limit is \$17,000,000 of which \$14,000,000 was drawn down upon at 30 June 2014. The debt is unsecured.

(b) Vendor loan

Upon acquisition of the Japara Group (Note 27) the Group assumed a liability due to the vendor of the Scottvale aged care facility. The Japara Group purchased the Scottvale aged care facility in August 2013 and settlement of the Vendor loan is due in September 2014. The loan is unsecured and interest-free.

NOTE 21: OTHER FINANCIAL LIABILITIES

		2014 \$'000
CURRENT LIABILITIES		
Accommodation bonds	21(a)	205,327
ILU resident loans	21(b)	15,577
		220,904

(a) Accommodation bonds

Accommodation bonds are non-interest bearing deposits made by aged care facility residents to the Group upon their admission to low care (hostel) or extra service accommodation.

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

(b) ILU resident loans

ILU (independent living unit) resident loans are non-interest bearing loans made by ILU residents to the Group upon entering into a loan/licence agreement to occupy an independent living unit operated by the Group.

NOTE 22: TRADE AND OTHER PAYABLES

	2014 \$'000
CURRENT LIABILITIES	
Trade payables	6,811
Sundry payables and accrued expenses	8,589
	15,400

NOTE 23: OTHER LIABILITIES **2014**
\$'000

OTHER CURRENT LIABILITIES

Billing in advance of services provided	5,551
Other current liabilities	3,780
	9,331

NOTE 24: PROVISIONS

CURRENT LIABILITIES

Provision for annual leave	15,756
Provision for long-service leave	6,771
	22,527

Non-current liabilities	
Provision for long-service leave	1,994
	1,994

NOTE 25: FINANCIAL INSTRUMENTS

(a) Accounting classifications

The following table shows the carrying amounts of financial assets and financial liabilities at the reporting date. The carrying amounts of financial assets and liabilities are a reasonable approximation of fair value.

	Loans and receivables \$'000	Other financial liabilities \$'000	Total \$'000
Financial assets			
Cash and cash equivalents	28,107	-	28,107
Receivables	8,283	-	8,283
Total financial assets	36,390	-	36,390
Financial liabilities			
Bank loans	-	(14,000)	(14,000)
Accruals	-	(8,589)	(8,589)
Trade and sundry payables	-	(10,591)	(10,591)
Accommodation bonds & ILU loans (other financial liabilities)	-	(220,904)	(220,904)
Vendor loans	-	(1,817)	(1,817)
Total financial liabilities	-	(255,901)	(255,901)

(b) 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 accommodation bonds, which all arise directly from its operations. The main purpose of non-derivative financial instruments is to raise finance for the Group's operations. The Group does not have any derivative financial instruments at balance date.

The directors of the Group are responsible for identifying and controlling risks that arise from these financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 25: FINANCIAL INSTRUMENTS (continued)

As such the Group has identified that the key areas of risk are credit risk, liquidity risk and market risk (which can be analysed further into interest rate risk, currency risk and price risk), with further information on each risk category disclosed below. The directors of the consolidated group, amongst other responsibilities, are tasked to identify, monitor, control and hence mitigate risk, within the framework of the Group's operational mandate and compliance with legislation and industry specific regulations. Information is reported to all relevant parties within the Group on a regular basis including key management, the Board of Directors and the Audit, Risk and Compliance Committee. All risk management policies are approved and reviewed by the Audit, Risk and Compliance Committee under the authority of the Board on a regular basis.

(i) 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 Department of Social Services 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 Social Services calculations of balancing funding amounts. The Group has determined that any credit risk associated with the Department of Social Services is insignificant. In respect of other customers, being aged care facility residents, the Group monitors the level of receivables balances on a weekly basis and any associated credit risk is mitigated by their independence of each other and individual immateriality to the Group. The Group's exposure to bad debts is therefore not significant, however a provision for doubtful debts has been raised in the financial statements which at reporting date is \$243,000.

At 30 June 2014, the ageing analysis of resident debtors is as follows:

Year	Not yet due \$'000	Current \$'000	31 – 60 days \$'000	61+ days \$'000	Impaired \$'000	Total \$'000
2014	4,865	444	274	797	(243)	6,137

Resident debtors past due but not considered impaired are: \$828,000. The majority of this amount can be offset against the accommodation bond liability (see Note 21).

The Group holds no collateral as security or any other credit enhancements. There are no financial instruments that are impaired as at the reporting date.

(ii) Liquidity risk

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

Financial liabilities of the Group comprise trade and other payables, dividends payable, 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. Accommodation bonds are potentially repayable within 14 days of a resident leaving the aged care facility and therefore classified under "current liabilities" in the statement of financial position. However, on average, each resident occupies a place for approximately 30 months, resulting in approximately 31.7% of accommodation bonds being replaced in any 12 month period. In addition, any accommodation bond is typically replaced by an equivalent or higher accommodation bond 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.

NOTE 25: FINANCIAL INSTRUMENTS (continued)

(iii) 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 accommodation bonds. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all operational activities are undertaken in accordance with established internal and external guidelines, financing and investment strategies of the Group.

Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, primarily relates to the Group's bank debt. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group reviews its bank borrowings on a monthly basis and monitors its position in respect of fixing interest rates or leaving them as floating rates.

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

	Weighted average effective interest rate	Floating interest rate \$'000	Maturing within 1 year \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets					
Cash and cash equivalents	2.66%	28,107	-	-	28,107
Receivables	-	-	-	8,283	8,283
Total financial assets		28,107	-	8,283	36,390
Financial liabilities					
Bank loans	4.29%	-	(14,000)	-	(14,000)
Accruals	-	-	-	(8,589)	(8,589)
Trade and sundry payables	-	-	-	(10,591)	(10,591)
Accommodation bonds & ILU loans	-	-	-	(220,904)	(220,904)
Other financial liabilities	-	-	-	(1,817)	(1,817)
Total financial liabilities		-	(14,000)	(241,901)	(255,901)

Interest rate risk sensitivity analysis

The Group has performed a sensitivity analysis on its Statement of Profit or Loss 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 Statement of Financial Position is the effect of the assumed changes in interest rates on the interest income and interest expense for the reporting period, based on the floating rate financial assets held at 30 June 2014. The sensitivity has been calculated using a change in interest rates of 100 basis points increase and decrease.

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

	2014 \$'000
Change in profit / (loss) after tax – higher / (lower)	
– Increase in interest rate by 1.00%	31
– Decrease in interest rate by 1.00%	(31)
Change in equity – higher / (lower)	
– Increase in interest rate by 1.00%	31
– Decrease in interest rate by 1.00%	(31)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 25: FINANCIAL INSTRUMENTS (continued)

Price risk

The Group has assessed that the price risk that it is materially exposed to relates to the risk that the Federal Government, through the Department of Social Services, alters the rate of funding provided to Approved Providers of residential aged care services. As Government funding represents approximately 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, participates in aged care industry public awareness discussions and in aged care industry dialogue with the Government about its proposals for changes to funding for the aged care industry.

Price risk sensitivity analysis

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Statement of Financial Position based upon reasonably possible change in levels of Government funding, with all other variables held constant. The sensitivity of the Statement of Profit or Loss 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 period ended 30 June 2014. 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 / (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:

	2014 \$'000
Change in profit / (loss) after tax – higher / (lower)	
– Increase in government funding by 1.00%	246
– Decrease in government funding by 1.00%	(246)
Change in equity – higher / (lower)	
– Increase in government funding by 1.00%	246
– Decrease in government funding by 1.00%	(246)

NOTE 26: LIST OF SUBSIDIARIES

Name of Entity	Ownership	Equity holding 2014 %
Japara Holdings Pty Ltd	Direct	100
Japara Property Holdings Pty Ltd	Direct	100
Japara Aged Care Property Trust	Direct	100
Aged Care Services Australia Group Pty Ltd	Indirect	100
Aged Care Services One (Central Park) Pty Ltd	Indirect	100
Aged Care Services Two (Roccoco) Pty Ltd	Indirect	100
Aged Care Services Three (Balmoral Grove) Pty Ltd	Indirect	100
Aged Care Services Four (Park Group) Pty Ltd	Indirect	100
Aged Care Services Five (Narracan Gardens) Pty Ltd	Indirect	100
Aged Care Services Six (Mirridong) Pty Ltd	Indirect	100
Aged Care Services Seven (Kelaston) Pty Ltd	Indirect	100
Aged Care Services Eight (Elanora) Pty Ltd	Indirect	100
Aged Care Services Nine (George Vowell) Pty Ltd	Indirect	100
Aged Care Services 10 (Kingston Gardens) Pty Ltd	Indirect	100
Aged Care Services 11 (View Hills) Pty Ltd	Indirect	100
Aged Care Services 12 (Albury & District) Pty Ltd	Indirect	100
Aged Care Services 13 (Lakes Entrance) Pty Ltd	Indirect	100

NOTE 26: LIST OF SUBSIDIARIES (continued)

Name of Entity	Ownership	Equity holding 2014 %
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 (Tugun) Pty Ltd	Indirect	100
Aged Care Services 40 (Ballina) Pty Ltd	Indirect	100
Aged Care Services 41 (Cairns) Pty Ltd	Indirect	100
Aged Care Services 42 (Portland) Pty Ltd	Indirect	100
Aged Care Services 43 (Mildura) Pty Ltd	Indirect	100
Aged Care Services 44 (Lakes Entrance) Pty Ltd	Indirect	100
Aged Care Services 45 (Woodend) Pty Ltd	Indirect	100
Bacaal Pty Ltd	Indirect	100
Japara Developments Pty Ltd	Indirect	100
Japara Property Management Limited	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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 26: LIST OF SUBSIDIARIES (continued)

Name of Entity	Ownership	Equity holding 2014 %
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

All of the above entities are registered in Australia

NOTE 27: ACQUISITION OF THE JAPARA GROUP

For the purpose of this note the Japara Group is the subsidiaries listed in Note 26.

On 22 April 2014, the Company acquired 100% of the shares and voting interests of the Japara Group. The acquisition was funded by way of an Initial Public Offering of 262,500,000 Ordinary Shares at an offer price of \$2.00 per share. Of the \$525,000,000 raised, \$376,984,000 was used to purchase the equity in the Japara Group and \$148,016,000 was used to pay debt and other pre-acquisition net payables assumed by the Group at acquisition. The former owners of the Japara Group elected to retain \$174,081,000 of the consideration as shares in Japara Healthcare Limited (see Note 18); \$202,903,000 was payable in cash to the former owners.

The Group determined that the Company was the accounting acquirer with the primary determining factor being it controlled the Japara Group at the time the acquisition was completed.

(a) Identifiable assets and liabilities assumed

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

	Note	2014 \$'000
Cash and cash equivalents		21,492
Trade and other receivables		8,886
Other assets		9,974
Related party receivable	27(d)	32,810
Current tax receivable		2,192
Property, plant and equipment		339,292
Investment property		21,292
Deferred tax assets		4,169
Intangibles - resident places		124,040
Trade and other payables		(39,743)
Dividends/distributions payable to former owners	27(d)	(31,477)
Loans and borrowings	27(d)	(143,707)
Other financial liabilities		(208,841)
Provisions		(23,896)
	27(b)	116,483

NOTE 27: ACQUISITION OF THE JAPARA GROUP (continued)

Measurement of fair values

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

Property, plant and equipment

The majority of property has been valued by an independent expert using the capitalisation of market rental approach, the remaining being internally valued. Plant and equipment have been valued at the depreciated replacement cost.

Intangible assets

Intangible assets represent resident places valued by an independent expert at \$40,000 per acquired resident place.

(b) Goodwill

Goodwill arising from the acquisition has been recognised as follows.

	Note	2014 \$'000
Consideration		376,984
Fair value of identifiable net assets	27(a)	(116,483)
		260,501

The goodwill is attributable to the skills and technical talent of the Group's workforce as well as the future earnings and capital growth potential of the Group. None of the goodwill recognised is expected to be deductible for tax purposes.

(c) Acquisition of the Japara Group, net of cash

The net cash outflow for the acquisition of the Japara Group was as follows:

Consideration	27(b)	376,984
Value of JHC shares acquired by former owners of the Japara Group	18(a)	(174,081)
Less cash acquired	27(a)	(21,492)
		181,411

(d) Settlement of pre-acquisition receivables/payables of the Japara Group. Included within identifiable assets and liabilities assumed

Repayment of bank borrowings	27(a)	(143,707)
Payment of dividends/distributions to former owners	27(a)	(31,477)
Payment of IPO bonus funded by former owners	10(a)(i)	(5,403)
Receipt of related party debt repaid	27(a)	32,810
		(147,777)

NOTE 28: OPERATING LEASES

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable

– not later than 12 months	1,157
– between 12 months and five years	4,916
– greater than five years	2,199
	8,272

The above amounts relate primarily to property leases for the business premises of the consolidated group which are non-cancellable leases with terms between 5 and 10 years, with rent payable monthly in advance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 29: COMMITMENTS

As at the reporting date, the Group had entered into contracts relating to capital expenditure. Details of the contracts are included in the table below:

Aged Care Facility	Nature of capital expenditure	Contract amount \$'000	Amount incurred \$'000	Future commitment \$'000	Expected completion date
Kelaston	30 place extension	6,258	727	5,531	Apr-15
Narracan Gardens	28 Lot Sub-division of land and ground works	1,271	369	902	Sep-14
Bayview	40 place extension	7,311	-	7,311	Nov-15

NOTE 30: CONTINGENCIES

The Group has entered into a number of security deposit guarantees with its bankers for security for the performance of the Group. At the date of signing this financial report, the directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented to the bank.

Other than mentioned above, there are no contingent liabilities or contingent assets as at reporting date.

NOTE 31: RELATED PARTIES

(a) Parent entity

Japara Healthcare Limited is the ultimate parent entity.

(b) Subsidiaries

Interests in subsidiaries are detailed in Note 26.

(c) Key management personnel compensation

	2014 \$'000
Short-term employment benefits	496,432
Post-employment benefits	45,923
Other short-term benefits	73,863
Other long-term benefits	6,581
Share-based payments	42,761
	665,560

Executive officers also participate in the Group's Long Term Incentive Scheme's (see Note 10).

NOTE 32: SUBSEQUENT EVENTS

On 5 August 2014 the Group signed a three year syndicated debt facility agreement with NAB, CBA and ANZ for a total facility of \$95.0 million.

In line with the Group's strategy as outlined in the Prospectus dated 11 April 2014, the facility will allow Japara to draw funds as and when required to in order to assist with construction funding of brownfields developments and extensions, as well as initial funding for acquisitions.

At the date of signing this report the facility remains undrawn.

On 23 August 2014 the Group executed contracts for the acquisition of the Whelan Care portfolio of assets, including the real estate and the businesses operated therein, for a net price of \$39.5 million. A deposit of \$2.0 million was paid at the contract date and settlement is expected to occur during the December 2014 quarter. The Whelan Care portfolio is located in South Australia adding 258 operational resident places and 41 independent living apartments. Integration of the facilities will be implemented over a staged 6 month period.

On 25 August 2014, 546,591 Loan Shares were granted to Andrew Sudholz as part of a Loan Plan arrangement. See Note 10 for further details.

Other than mentioned above, 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.

NOTE 33: RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2014 \$'000
Reconciliation of cash flow from operations with profit/(loss) after income tax		
Loss after income tax		(2,938)
Non-cash flows in profit/(loss):		
Depreciation, amortisation and impairment	15(a)	1,582
Straight-lining of rental expense		24
Net (gain) / loss on disposal of property, plant and equipment		25
Bond retention revenue		(554)
Deferred management fee income		(130)
Asset revaluation movement	17(a)	(452)
Equity-settled share-based payment transactions	10(d)	170
Tax expense		(112)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
(Increase)/decrease in trade and other receivables		731
(Increase)/decrease in other assets		13,276
(Increase)/decrease in deferred tax assets		1,237
Increase/(decrease) in payables		(11,662)
Increase/(decrease) in current and deferred tax liabilities		(398)
Increase/(decrease) in provisions		625
		1,425

NOTE 34: AUDITORS' REMUNERATION

Audit and review services	
Audit and review of financial statements	186
Other regulatory services	50
	236
Other services	
In relation to other assurance, taxation and due diligence services as a result of the IPO	1,068
	1,304

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 35: DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed 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 subsidiaries subject to the Deed are:

Japara Holdings Pty Ltd

Japara Property Holdings Pty Ltd*

Aged Care Services Australia Group Pty Ltd*

Aged Care Services One (Central Park) Pty Ltd

Aged Care Services Two (Roccoco) Pty Ltd*

Aged Care Services Three (Balmoral Grove) Pty Ltd*

Aged Care Services Four (Park Group) Pty Ltd

Aged Care Services Five (Narracan Gardens) Pty Ltd

Aged Care Services Six (Mirridong) Pty Ltd*

Aged Care Services Seven (Kelaston) Pty Ltd*

Aged Care Services Eight (Elanora) Pty Ltd

Aged Care Services Nine (George Vowell) Pty Ltd*

Aged Care Services 10 (Kingston Gardens) Pty Ltd*

Aged Care Services 11 (View Hills) Pty Ltd

Aged Care Services 12 (Albury & District) Pty Ltd*

Aged Care Services 13 (Lakes Entrance) Pty Ltd

Aged Care Services 14 (Lower Plenty Garden Views) Pty Ltd

Aged Care Services 15 (Rosanna Views) Pty Ltd

Aged Care Services 16 (Millward) Pty Ltd

Aged Care Services 17 (Bonbeach) Pty Ltd*

Aged Care Services 18 (Hallam) Pty Ltd*

Aged Care Services 19 (Goonawarra) Pty Ltd

Aged Care Services 20 (Bayview Gardens) Pty Ltd

Aged Care Services 21 (Barongarook Gardens) Pty Ltd*

Aged Care Services 22 (Sandhurst) Pty Ltd*

Aged Care Services 23 (Capel Sands) Pty Ltd*

Aged Care Services 24 (St Judes) Pty Ltd*

Aged Care Services 25 (Springvale) Pty Ltd*

Aged Care Services 26 (Bayview) Pty Ltd*

Aged Care Services 27 (Kirrilee) Pty Ltd*

Aged Care Services 28 (Elouera) Pty Ltd*

Aged Care Services 29 (Mirboo North) Pty Ltd*

Aged Care Services 30 (Brighton) Pty Ltd*

Aged Care Services 31 (Vonlea Manor) Pty Ltd*

Aged Care Services 32 (Scottvale) Pty Ltd*

Aged Care Services 33 (Anglesea) Pty Ltd*

Aged Care Services 34 (Yarra West) Pty Ltd*

NOTE 35: DEED OF CROSS GUARANTEE (continued)

Japara Developments Pty Ltd*
 Japara Retirement Living Pty Ltd*
 Japara Retirement Living 1 (Woodburn Lodge) Pty Ltd*
 Japara Retirement Living 2 (Balmoral Mews) Pty Ltd*
 Japara Retirement Living 3 (Lakes Entrance) Pty Ltd*
 Japara Retirement Living 4 (Cosgrove Cottages) Pty Ltd*
 Japara Retirement Living 5 (Sydney Williams) Pty Ltd*
 Japara Retirement Living 6 (Barongarook) Pty Ltd*
 Japara Retirement Living 7 (The Homestead) Pty Ltd*
 Japara Retirement Living 8 (The Heritage) Pty Ltd*
 JD No. 1 (Bundaberg) Pty Ltd*
 JD No. 2 (Balmoral Mews) Pty Ltd*
 JD No. 3 (Lakes Entrance) Pty Ltd*
 JD No. 4 (Queenscliff) Pty Ltd*
 JD No. 5 (Albury & District) Pty Ltd*
 JD No. 6 (Dava) Pty Ltd*
 JD No. 7 (Colac) Pty Ltd*
 JD No. 8 (Yarra West) Pty Ltd*
 JD No. 9 (North Albury) Pty Ltd*

*Party to the deed but ineligible for relief in the current year due to being a small company.

NB: The only two subsidiaries of Japara Healthcare Limited that are not party to the deed are Japara Property Management Limited ("JPML") and Japara Aged Care Property Trust ("the Trust"). At the reporting date JPML was the responsible entity for the Trust and held an Australian Financial Services Licence for this purpose. As part of the licence conditions neither JPML nor the Trust were able to guarantee the debt of a third party without potentially breaching the conditions of the Australian Financial Services Licence. Subsequent to the reporting date the Trust has been deregistered as a Managed Investment Scheme and JPML is in the process of cancelling its Australian Financial Services Licence.

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2014 is set out as follows:

A reconciliation to the statutory total comprehensive income of the Group is also provided.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 35: DEED OF CROSS GUARANTEE (continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2014

	2014 \$'000
Revenue	48,261
Other income	187
Total income	48,448
Details of expenditure:	
Employee benefits expense	(31,299)
Resident costs	(5,227)
Occupancy costs	(456)
Depreciation, amortisation and impairment	(1,582)
Finance costs	(214)
Administrative expenses	(3,202)
Other expenses	(9,412)
Total expenses from ordinary activities	(51,392)
Loss before income tax	(2,944)
Income tax benefit	112
Loss for the year	(2,832)
Other comprehensive income, net of tax	-
Total comprehensive income for the year	(2,832)
Reconciliation to statutory results	
Statutory total comprehensive income for the year	(2,938)
Less total comprehensive income of JPML	(4)
Less total comprehensive income of the Trust	110
Total comprehensive income to those party to the deed	(2,832)

NOTE 35: DEED OF CROSS GUARANTEE (continued)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

	2014 \$'000
ASSETS	
Current assets	
Cash and cash equivalents	26,501
Trade and other receivables	7,073
Current tax receivable	2,702
Prepayments and other assets	3,230
Total current assets	39,506
Non-current assets	
Trade and other receivables	1,210
Property, plant and equipment	320,028
Investment property	23,312
Other investments	183,146
Net deferred tax assets	8,605
Intangible assets and goodwill	352,831
Other receivables	111,212
Total non-current assets	1,000,344
TOTAL ASSETS	1,039,850
LIABILITIES	
Current liabilities	
Trade and other payables	15,278
Loans and borrowings	15,817
Other financial liabilities	220,904
Provisions	22,527
Other liabilities	9,331
Total current liabilities	283,857
Non-current liabilities	
Provisions	1,994
Other liabilities	251,824
Total non-current liabilities	253,818
TOTAL LIABILITIES	537,675
NET ASSETS	502,175
EQUITY	
Issued capital	516,655
Retained earnings	(14,480)
TOTAL EQUITY	502,175

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 36: PARENT ENTITY DISCLOSURES

As at, and throughout, the reporting period ended 30 June 2014 the parent entity of the Group was Japara Healthcare Limited.

	2014 \$'000
Result of parent entity	
Loss for the period	(5,432)
Other comprehensive income	-
Total comprehensive income for the period	(5,432)
Financial position of parent entity at year end	
Current assets	6,234
Non-current assets	522,654
Total assets	528,888
Current liabilities	17,339
Non-current liabilities	56
Total liabilities	17,395
Total equity of the parent entity comprising of:	
Share capital	516,755
Retained earnings	(5,262)
Total equity	511,493

Parent entity guarantees in respect of the debts of its subsidiaries

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

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in Note 35.

NOTE 37: SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Business combinations

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

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

(ii) 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.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTE 37: SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Revenue recognition

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

Revenue comprises daily Government care funding, resident care funding and accommodation funding, all of which are determined in accordance with Government authorised rates. These fees are regulated by the Government and are accrued by the Group during the resident's period of occupancy. Revenue from the rendering of a service or supply of a good is recognised upon the delivery of the service or good to the resident.

Interest revenue is accrued on a daily basis based on the principal amount and prevailing interest rate.

Cash received in advance and goods and services invoiced in advance in relation to unearned income are recognised as deferred revenue.

All revenue is stated net of the amount of GST.

(c) Financing costs

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

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

(d) Leases

Leases of fixed assets, including assets acquired under hire purchase agreements, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

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.

(e) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset (e.g. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss" in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured either at fair value, amortised cost using the effective interest rate method or at cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 37: SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(i) Loans and receivables

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

(ii) Financial liabilities

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

(f) 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.

(g) 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 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 other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial year in which they are incurred.

Development works in progress

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

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 assets are:

Class of fixed asset	Depreciation rate
Land	0.0%
Buildings	2.0%
Plant, property and equipment	4% to 25%
Leasehold improvements	Lower of lease term or useful life

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income.

NOTE 37: SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

Investment properties comprise land and buildings, including integral plant and equipment, held for the purpose of earning rental income, capital appreciation, or both. They are initially recognised at cost (including any acquisition costs). Once initially recorded, the property assets are thereafter carried at fair value. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Group.

Once initially recognised, investment properties are stated at fair value at each reporting date. Any gain or loss arising from a change in fair value is recognised in the statement of profit or loss and other comprehensive income in the period.

Vacant land

Land held for development and sale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, foreign currency movements, borrowing costs and holding costs until completion of development. Borrowing costs, foreign currency movements and holding charges incurred after development is completed, are expensed. Profits are brought to account on the signing of an unconditional contract of sale.

(h) Trade and other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

(i) Intangible assets

Goodwill

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

Resident places

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

(j) Impairment

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 CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 37: SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of financial assets other than goodwill

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

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

For financial assets carried at amortised cost (including loans and receivables), a separate allowance 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 allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance 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.

(l) Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the 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.

(m) Income tax

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

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

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

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

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

The Group and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the Group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The Group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 16 April 2014. The tax consolidated group has entered tax sharing and tax funding agreements whereby each company in the Group contributes to the income tax payable in proportion to their contribution to profit before income tax of the tax consolidated group.

NOTE 37: SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(o) Goods and Services Tax

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

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

(p) Accommodation bond liabilities

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

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

(q) Independent Living Unit ("ILU") Resident loan liabilities and deferred management fee receivables

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

ILU Resident loan liabilities are recorded at fair value.

Deferred management fees crystallise upon the termination of the loan licence agreement. As such, the deferred management fee receivables are recorded at present value based upon an expected occupancy period of ten years until termination of the loan licence agreement. Therefore deferred management fees contain both current and non-current elements.

(r) Provisions

Employee benefits

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 market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

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.

(s) Share-based payments

The grant-date fair value of equity-settled share-based payment awards granted to employees 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. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014 (continued)

NOTE 37: SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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 outstanding 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 outstanding for the effect of dilutive ordinary shares.

NOTE 38: NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(a) AASB 2014-1 Amendments to Australian Accounting Standards – Part E: Financial Instruments

Defers the mandatory application date of AASB 9 Financial Instruments to annual reporting periods beginning on or after 1 January 2018. This aligns with the IASB's tentative decision that IFRS 9 will be mandatorily effective for years beginning on or after 1 January 2018.

(b) AASB 9 Financial Instruments (December 2010) (includes financial assets and financial liability requirements)

AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)

AASB 9 Financial Instruments (December 2009) (Financial asset requirements only)

AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9

In AASB 9 (December 2010), the AASB added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139 except in respect of the fair value option; and certain derivatives linked to unquoted equity instruments.

The AASB also added the requirements in AASB 139 in relation to the derecognition of financial assets and financial liabilities to AASB 9.

AASB 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

The guidance in AASB 139 on impairment of financial assets. Guidance on hedge accounting continues to apply as long as hedge accounting provisions in AASB 2013-9 not applied.

(c) AASB 2014-1 Amendments to Australian Accounting Standards – Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles

Amendments to existing accounting standards, particularly in relation to: clarifying share-based payment vesting and non-vesting conditions, operating segment asset disclosures, clarification of current/non-current classification of debt, clarification of KMP when an entity has a management entity/responsible entity (such as a trustee), the meaning of effective IFRSs, exemptions for joint ventures from business combination requirements, clarification of the scope exception for measuring the fair value of financial assets and liabilities on a portfolio basis, and

clarifying the interrelationship between business combinations and investment property when classifying property as investment property or owner-occupied.

(d) AASB 2014-1 Amendments to Australian Accounting Standards – Part C: Materiality

Further to AASB 2013-9 Part B (see below), amendments are made to particular Australian Accounting Standards to delete their references to AASB 1031. This is part of the AASB's program to delete references to AASB 1031 in all Australian Accounting Standards prior to final withdrawal of AASB 1031.

(e) AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (December 2013) – Part B – Materiality

Guidance on materiality removed from AASB 1031 and cross references inserted to other standards and the Framework for the Preparation and Presentation of Financial Statements where guidance on materiality is located.

(f) AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

Removes extra disclosure requirements with regard to the measurement of the recoverable amount of impaired assets. Introduced by AASB 13. Recommend early adoption with AASB 13.

DIRECTORS' DECLARATION

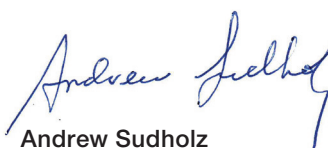
- 1 In the opinion of the directors of Japara Healthcare Limited ('the Company'):
 - (a) the consolidated financial statements and notes that are set out on pages 39 to 76 and the Remuneration report in sections 5 in the Directors' Report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance, for the period 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 33 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Company entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the period ended 30 June 2014.
- 4 The directors draw attention to Note 2 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 27 August 2014



Linda Bardo Nicholls AO
Chairman



Andrew Sudholz
Managing Director and CEO



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

Report on the financial report

We have audited the accompanying financial report of Japara Healthcare Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2014, and consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, notes 1 to 38 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the period's end or from time to time during the period.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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



Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the period ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the remuneration report included in section 15 of the directors' report for the period ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Japara Healthcare Limited for the period ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Darren Scammell
Partner

Melbourne

27 August 2014

ADDITIONAL INFORMATION

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 11 September 2014.

(a) Distribution of Shareholders – Ordinary Shares

Range	Ordinary shares	%	No of Holders	%
100,001 and Over	238,323,209	90.60	108	4.45
10,001 to 100,000	16,448,948	6.26	661	27.23
5,001 to 10,000	5,311,731	2.02	648	26.70
1,001 to 5,000	2,818,673	1.07	794	32.72
1 to 1,000	144,030	0.05	216	8.90
Total	263,046,591	100.00	2,427	100.00

(b) Less than marketable parcels of ordinary shares

The number of shareholdings held in less than marketable parcels is 23 holders for a total of 3,958 ordinary shares.

(c) 20 Largest Shareholders – Ordinary Shares

Name	Number of fully paid ordinary shares	% of issued capital
1 National Nominees Limited	45,787,982	17.41%
2 J P Morgan Nominees Australia Limited	28,098,960	10.68%
3 HSBC Custody Nominees (Australia) Limited	25,693,156	9.77%
4 Citicorp Nominees Pty Limited	20,352,728	7.74%
5 Ashens Properties Pty Ltd ATF Sudholz Family Discretionary Trust	15,127,178	5.75%
6 Warbont Nominees Pty Ltd	10,577,365	4.02%
7 UBS Nominees Pty Ltd	8,752,039	3.33%
8 Australian Shareholder Nominees Pty Ltd	6,894,070	2.62%
9 Australian Foundation Investment Company Limited	6,000,000	2.27%
10 Australian Shareholder Nominees Pty Ltd	5,340,297	2.03%
11 BNP Paribas Noms Pty Ltd	5,306,006	2.02%
12 Wanganui Pty Ltd	5,200,000	1.98%
13 Brispot Nominees Pty Ltd	3,609,530	1.37%
14 AMP Life Limited	3,540,251	1.35%
15 Samraj Pty Limited	3,349,849	1.27%
16 Bond Street Custodians Limited	3,114,139	1.18%
17 Citicorp Nominees Pty Limited	2,218,484	0.84%
18 Djerriwarrh Investments Limited	2,050,000	0.78%
19 Naze Nominees Pty Ltd	1,856,062	0.71%
20 BNP Paribas Noms (NZ) Ltd	1,631,918	0.62%
TOTAL	204,500,014	77.74%

(d) Substantial Shareholders

The names of the Substantial Shareholders listed in the Company's Register as at 11 September 2014 are:

Shareholder	Number of fully paid ordinary shares	% of issued capital
UBS AG and its related bodies corporate	27,461,380	10.44%
Westpac Banking Corporation and its associated entities	22,278,567	8.47%
National Australia Bank and its associated entities	15,739,169	5.98%
Ashens Properties Pty Ltd ATF Sudholz Family Discretionary Trust	15,700,000	5.97%
Challenger Limited and its related bodies corporate	13,413,464	5.10%

(e) Securities subject to voluntary escrow

The name of the registered holder of securities subject to a voluntary escrow arrangement as at 11 September 2014 is:

Shareholder	Number of fully paid ordinary shares	Escrow period end date
Ashens Properties Pty Ltd ATF Sudholz Family Discretionary Trust	15,700,000	The release date of the 30 June 2015 audited financial statements

(f) Voting Rights

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

(g) Unquoted securities

At 11 September 2014 there are 59 holders of 909,700 unquoted performance rights.

(h) On-Market-Buy-Backs

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

(i) Use of Funds

In accordance with listing rule 4.10.19, for the period from admission to ASX to the end of the reporting period, the Company confirms that it used the cash and assets held in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.

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