

Manager Companies  
Companies Announcements Office  
Australian Securities Exchange Limited

26 August 2020

## **Appendix 4E & Annual Financial Report for the year ended 30 June 2020**

Attached is the Appendix 4E and Annual Financial Report for Japara Healthcare Limited (ASX: **JHC**) for the year ended 30 June 2020.

A related Media Release and Results Presentation will be separately released to the market.

For further information please contact:

Bruce Paterson  
Company Secretary  
Telephone: 03 9649 2100  
Email: [bruce.paterson@japara.com.au](mailto:bruce.paterson@japara.com.au)

*This document and those referred to herein were authorised for release by the Board of Japara Healthcare Limited.*

## ASX APPENDIX 4E

### Results for Announcement to the Market

#### Preliminary final report

#### For the year ended 30 June 2020

This Appendix 4E, together with the attached Annual Financial Report for the year ended 30 June 2020 (**Annual Financial Report**), comprise the information required to be given to the ASX in accordance with Listing Rule 4.3A.

#### Reporting period

Reporting period: Year ended 30 June 2020

Previous corresponding reporting period: Year ended 30 June 2019

#### Comparison to previous period

	Increase/ Decrease	30 June 2020 \$'000	30 June 2019 \$'000	Change %
Revenue from ordinary activities	Increase	427,532	399,768	6.9
Profit/(loss) from ordinary activities after tax attributable to members	Decrease	(292,087)	16,433	Large
Net profit/(loss) for the year attributable to members	Decrease	(292,087)	16,433	Large

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

Dividends	Amount per share (cents)	Franked amount per share at 30% tax rate (cents)	Payment Date	Record Date
2020 final dividend	Nil	Nil	n/a	n/a
2020 interim dividend	2.00	1.00	30/04/20	27/03/20

The Board has determined not to pay a final dividend for 2020.

The 2020 interim dividend was franked to 50%.

The Company's dividend reinvestment plan remains suspended.

## **Net tangible assets per security**

Net tangible assets were negative 16.0 cents per ordinary share at 30 June 2020 (2019: negative 8.7 cents).

The above prior comparative period net tangible asset per security has been restated – see note A5 to the Annual Financial Report for the year ended 30 June 2020.

## **Entities over which control has been gained or lost during the period**

No entities were acquired or sold during the period.

## **Commentary on the results for the year**

Please refer to the Annual Financial Report for the year ended 30 June 2020 as attached and the related Media Release and Presentation.

## **Status of audit**

The Annual Financial Report for the year ended 30 June 2020 has been audited. The audit opinion is unqualified.

This document was authorised for release by the Board of Japara Healthcare Limited.

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**JAPARA**

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

**Annual Financial Report  
For the year ended 30 June 2020**

For personal use only

# **Annual Financial Report**

## **For the year ended 30 June 2020**

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## CHAIRMAN AND CEO'S REVIEW

Dear Shareholders,

On behalf of the Japara Healthcare Board of Directors, we are pleased to present our 2020 Annual Report. While this year has been a year of two halves, we have held fast to the Japara Vision to enrich every life we touch including over 4,000 residents as well as their families and representatives, and 6,000 dedicated staff across our 51 homes.

Throughout the year, Japara continued to provide the highest standard of resident centred care. We rostered Registered Nurses in all our homes 24 hours a day, and we spent over 100% of care revenue received from the Government and residents on costs associated with the provision of quality care and operating the business.

### FY2020 review

The 2020 financial year began with the introduction of the new Aged Care Quality Standards. Japara was quick to implement these new higher standards as part of our commitment to robust clinical governance. The Board's Zero Harm Committee chaired by Clinical Professor and Board Member, Dr Leanne Rowe AM, oversees this important work. The Zero Harm Committee has also monitored the work of the Royal Commission into Aged Care Quality and Safety throughout the year including the recommendations of the interim report released in late 2019. Japara will address the relevant recommendations of the final report expected in February 2021.

Japara also implemented a number of workforce initiatives to enable our staff to provide the highest standard of care including leadership development programs, innovative digital learning platforms and human capital management systems.

Importantly during the first half of the year, Japara delivered on its aged care development program and senior living growth strategy. Robina Rise on the Gold Coast opened in July 2019, The Regent in Victoria opened in April 2020 and construction advanced on Newport in Victoria and Belrose in NSW for opening in FY2021. Three significant brownfield extensions were completed at Brighton-Le-Sands, Kingston Gardens, and Mirboo North, and three sites were in advanced planning for senior living accommodation co-located with Japara's residential aged care homes.

At the close of the first half, Japara reported a 9.9% increase in revenue, \$33.4million in net Refundable Accommodation Deposit (**RAD**) inflows, 200 net new resident places, above sector average occupancy of 92.6%, and EBITDA<sup>1</sup> up 10% on the 1H2019. An interim dividend was declared of 2 cents per share franked to 50%.

In late January 2020, Australia identified its first case of COVID-19 in a returning traveller but it was not until 11 March 2020 that the World Health Organisation declared a global pandemic. The pandemic has had a devastating impact on the whole aged care sector in Australia and around the world. At Japara our highest priority has been to keep our residents and staff safe, supported and well.

Throughout the pandemic, Japara's response has been informed by expert advice. Strict, early application of biosecurity measures at Japara helped minimise the impact of COVID-19 in our homes. Initial outbreak planning commenced in early February 2020 with preparedness audits for each home, simulation training to prepare for outbreaks and assured access to sufficient Personal Protective Equipment (**PPE**) and other essential supplies. From March 2020, infection control training, visitation restrictions, compulsory flu vaccination, frequent COVID-19 screening, increased cleaning rosters, regular updates to resident families and dedicated employee assistance programs were in place. Unfortunately, community transmission of the virus increased in Melbourne in July 2020, greatly affecting four of our homes including the residents and staff.

In March 2020, Andrew Sudholz, Japara's Founder and longstanding CEO and Managing Director, announced his retirement to be present with a family member dealing with a serious health issue. Andrew is widely recognised as having grown Japara into one of Australia's leading aged care providers. Leadership was smoothly transitioned to Chris Price, Japara's Chief Financial Officer at that time, and Anthony Rice was appointed Chief Financial Officer and Chief Investment Officer. The Board and Management thank Andrew for his commitment and contribution over many years.

1. EBITDA is a measure consisting of earnings before interest, tax, depreciation, amortisation and impairment of non-current assets.

Alongside managing the daily urgent pressures associated with COVID-19, the Executive Leadership Team and the Board recognised that Japara also needed to rebuild a path to sustainable growth. This included simplifying the organisational structure at the support office while developing business improvement plans for each home recognising their unique features and communities served. This required a clear, company framework of standards and expectations, and a renewed focus on clinical governance. Employee numbers at support office were reduced, the debt structure was reviewed, and older non-core assets were sold to support investment in new developments and meet evolving resident expectations.

Japara reviewed its real estate portfolio and development pipeline with a focus on agility in construction timing and identifying under-served geographies. Construction has continued at both Newport in Victoria and Belrose in NSW and a brownfield development has recently been completed at Albury in NSW, with resident admissions expected from Q2 FY2021. No further developments will commence construction until the clinical and economic outlook becomes more certain. Japara maintains a development pipeline of 656 new places.

During FY2020, Japara added 261 net new operational places including the two new homes. New developments together with the refurbishment of existing homes contributed as expected, underpinned by solid greenfield and brownfield development occupancy. RAD cash flows remained resilient over the year with net inflows of \$53.9 million. Further RAD uplift is expected as occupancy in new homes and extensions ramp up. Occupancy moderated to 92.2% for the year, a level weaker than anticipated including due to COVID-19.

Direct costs incurred on sourcing PPE and infection control consumables was approximately \$1 million in the second half on top of additional wage costs for training, cleaning and staff to replace those in quarantine and isolation. Government grants were announced for a limited number of qualifying expenses. EBITDA<sup>1</sup> for the full year was \$32.9 million and following the non-cash impairment of non-current assets of \$291.9 million, as foreshadowed in May 2020, the business recorded a net loss after tax<sup>2</sup> of \$292.1 million. No final dividend will be paid for 2020.

Japara recognises the importance of maintaining a strong balance sheet while allowing for capital development expenditure. At 30 June 2020, Japara had \$345 million in committed bank debt facilities with cash and undrawn debt of \$154 million. This strength is particularly important as the announced indexation of 1.6% for the Aged Care Funding Instrument is below the Fair Work Commission's Annual Wage Review Decision adding 1.75% to the Aged Care Award. The residential aged care sector has operated under this 'negative jaws' for several years now and as reported by StewartBrown, the impact is taking its toll on the EBITDA, margins and solvency of many providers.

## Outlook

The short-term outlook for aged care is challenging with a number of clinical, structural and funding uncertainties. It is anticipated these challenges will be tackled by the Federal Government following completion of the Royal Commission. Underlying longer-term fundamentals including an ageing population remain. Our focus continues to be on robust management of COVID-19 to ensure resident and staff wellbeing while building a path to sustainable growth. While cost and revenue implications remain uncertain in the short term due to the pandemic, we remain optimistic that underlying demand for residential aged care will persist for Australia's rapidly ageing population. We are confident our development pipeline is agile with well-located developments, and that our care model to enrich every life, every day is providing the highest standard of resident centred care.

## Thank you

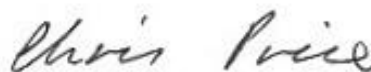
We would like to formally thank all our dedicated staff both those on the 'front line' of care and those supporting our homes in the background for their hard work and commitment in the face of unimagined events. We thank our executives who have rolled up their sleeves and done whatever job was required, whenever necessary, willingly and well. Most of all we thank our residents and their relatives for whom COVID-19 has been confronting and frightening, for their strength and support.



**Linda Bardo Nicholls AO**

Chairman

26 August 2020



**Chris Price**

CEO & Managing Director

26 August 2020

1. EBITDA is a measure consisting of earnings before interest, tax, depreciation, amortisation and impairment of non-current assets.

2. Loss attributable to members of the Group.

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report

For the year ended 30 June 2020

The directors present their report together with the consolidated financial statements of Japara Healthcare Limited (**the Company**) and its controlled entities (**the Group**) for the financial year ended 30 June 2020 and the Independent Auditor's Report thereon.

### 1. Directors

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

**Linda Bardo Nicholls AO**

BA (Econ), MBA,

FAICD (Life)

Non-Executive Chairman

*Director since 19 March 2014*

Linda is a senior executive and company director with more than 30 years' experience across Australia, New Zealand and the United States. In addition to her current Australian listed company directorships, she is Chairperson of Melbourne Health and a Member of the Museums Board of Victoria.

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

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

**Other current Australian listed company directorships:**

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

**Former Australian listed company directorships in last three years:**

Fairfax Media (resigned 7 December 2018)

**Chris Price**

B Bus, CA

Chief Executive Officer & Managing Director

**(CEO)**

*Director since 20 March 2020*

Chris was appointed as Chief Executive Officer & Managing Director of the Company on 20 March 2020. He was previously the Chief Financial Officer, having held this position since joining the Company in June 2015.

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

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

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



# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued)

For the year ended 30 June 2020

### 1. Directors (continued)

#### **Richard England**

FCA, MAICD

Non-Executive Director

*Director since 19 March 2014*

Chairman of the Audit, Risk and Compliance Committee and a member of the People, Culture and Remuneration Committee and the Zero Harm Committee.

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

Richard is Chairman of Qantm Intellectual Property and Hobart International Airport. He is also a Non-Executive Director of Friendly Society Medical Association and Indigenous Art Code.

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

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

#### **Other current Australian listed company directorships:**

Qantm Intellectual Property (appointed 17 May 2016)

#### **Former Australian listed company directorships in last three years:**

Bingo Industries (resigned 13 November 2019), Automotive Holdings Group (resigned 31 October 2019), Nanosonics (resigned 31 August 2019), Atlas Arteria (resigned 30 November 2018)

#### **David Blight**

BAppSc PRM (Val)

Non-Executive Director

*Director since 19 March 2014*

Member of the People, Culture and Remuneration Committee, the Audit, Risk and Compliance Committee and the Zero Harm Committee.

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

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

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

David holds a Bachelor of Applied Science in Property Resource Management (Valuation) from the University of South Australia.

#### **Other current Australian listed company directorships:**

Lifestyle Communities (appointed 15 June 2018)

#### **Former Australian listed company directorships in last three years:**

Cromwell Property Group (resigned 19 July 2019)

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued)

For the year ended 30 June 2020

### 1. Directors (continued)

#### **JoAnne Stephenson**

BComm, LLB, CA,

MAICD

Non-Executive Director

*Director since 1*

*September 2015*

Chairman of the People, Culture and Remuneration Committee and a member of the Audit, Risk and Compliance Committee and the Zero Harm Committee.

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

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

JoAnne is a Non-Executive Director of Challenger, Asaleo Care and Myer Holdings.

She is also Chair of the Major Transport Infrastructure Board (Victoria).

#### **Other current Australian listed company directorships:**

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

#### **Former Australian listed company directorships in last three years:**

None

#### **Leanne Rowe AM**

Doctor of Medicine

(MD), MB BS,

FRACGP, Dip RACOG,

FAICD, HonLLD

(Monash)

Non-Executive Director

*Director since 1 July*

*2019*

Chairman of the Zero Harm Committee and a member of the Audit, Risk and Compliance Committee and the People, Culture and Remuneration Committee.

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

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

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

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

#### **No longer in Office:**

#### **Andrew Sudholz**

FPI, MAICD

Former Chief Executive

Officer & Managing

Director

*Director from 19 March*

*2014 to 20 March 2020*

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

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

He is 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 a member of the Australian Institute of Company Directors.

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued)

For the year ended 30 June 2020

### 1. Directors (continued)

#### Andrew Sudholz (continued)

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

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

### 2. Company secretaries

#### Bruce Paterson

Bruce has over 30 years' corporate experience in senior roles with listed and unlisted companies. Prior to joining the Company, he was Company Secretary of a top 200 ASX listed professional services company, Crowe Horwath Australasia Limited for 14 years.

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

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

#### Chris Price

Chris is the CEO and was appointed as a Company Secretary in July 2015.

### 3. Directors' meetings

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

Director	Board Meetings		Audit, Risk & Compliance Committee Meetings		People, Culture & Remuneration Committee Meetings		Zero Harm Committee Meetings	
	A	B	A	B	A	B	A	B
Linda Bardo Nicholls AO <sup>1</sup>	11	11	5	5	4	4	4	4
Chris Price <sup>1,2</sup>	3	3	1	1	1	1	1	1
Richard England	11	11	5	5	4	4	4	4
David Blight	10	11	5	5	3	4	4	4
JoAnne Stephenson	10	11	4	5	4	4	4	4
Leanne Rowe AM	11	11	5	5	4	4	4	4
Andrew Sudholz <sup>1,3</sup>	8	8	4	4	3	3	3	3

A - Number of meetings attended while a director

B - Number of meetings held while a director

1 - Attended Committee meetings by invitation

2 - Appointed 20 March 2020

3 - Retired 20 March 2020

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2020

#### 4. Principal activities

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

#### 5. Operating and financial review

##### Overview of the Group

The Group is one of the largest private sector residential aged care operators in Australia with over 4,400 operational resident places across 51 homes located in Victoria (33 homes), New South Wales (eight homes), Queensland (three homes), South Australia (five homes) and Tasmania (two homes).

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

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

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

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

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

##### Funding sources

The Group derives funding from two main sources being care funding (daily Federal Government funding and daily resident contributions) and accommodation funding (daily Federal Government funding and resident contributions in the form of daily payments and lump sum payments).

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

As an approved provider of residential aged care services, each of the Group's homes is eligible to receive funding contributions from the Federal Government. Funding is in the form of subsidies and supplements for approved residents in funded places, on a 'per resident per day' basis. It includes care and accommodation components. Additionally, the Federal Government has also paid assistance funding to approved providers more recently during the financial year to aid COVID-19 pandemic (**COVID-19**) preparations. Approximately 72% (2019: 73%) of customer contract revenue for the financial year was from Federal Government care and accommodation funding.

The Group also receives contributions from residents for the provision of a full spectrum of residential aged care services, optional additional services and Daily Accommodation Payments (**DAPs**). Resident contributions made up approximately 28% (2019: 27%) of customer contract revenue for the financial year.

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

RADs account for a significant component of the Group's accommodation funding. RADs are lump sum payments made by certain residents with the financial means in lieu of paying a DAP, and are refunded to the resident upon their departure from the home in accordance with the legislated time frames. The Group maintains a conservative RAD management regime with the average value of incoming RADs set with reference to the median house price in the relevant Local Government Authority.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2020

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

During the financial year, the Group used accommodation funding received from RADs for the following purposes:

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

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

Residents that have been assessed by the Federal Government as having the financial means have the option to either pay a RAD, a DAP, or a combination of both. A DAP is calculated on a daily basis and charged monthly and recognised in revenue as a resident contribution. The value of a DAP is calculated with reference to the room value using an interest rate set by the Federal Government.

#### Bank debt

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

#### Key costs

The Group's key cost relates to staffing which was approximately 74% (2019: 69%) of total revenue for the financial year. Other costs include medical supplies, catering, cleaning, consumables, repairs and maintenance, energy, utilities and support office costs.

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

#### Review of operations

	2020	2019	Change
	\$'000	\$'000	%
Revenue and other income	427,532	399,768	6.9
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) <sup>1</sup>	32,875	49,553	(33.7)
Profit / (loss) attributable to members of the Group	(292,087)	16,433	(1,877.4)
Total comprehensive income attributable to members of the Group	(294,714)	14,021	(2,201.9)

1 - EBITDA is non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 - Disclosing non-IFRS financial information. EBITDA is a measure consisting of earnings before interest, tax, depreciation, amortisation and impairment of non-current assets and has been adjusted from the reported information to assist readers to better understand the financial performance of the business. This non-IFRS financial information, while not subject to audit, has been extracted from the financial statements, which have been subject to an audit by the external auditor.

#### Operational results

The Group delivered EBITDA of \$32,875,000 for the financial year in a challenging operating environment.

A \$292,087,000 loss attributable to members of the Group was recorded which includes a non-cash impairment charge against the Group's non-current assets of \$291,923,000.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2020

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

Total revenue and other income of \$427,532,000 was up 6.9% on last year while a net loss after tax of \$292,087,000 was recorded, mainly attributable to the non-cash impairment charge against the Group's non-current assets of \$291,923,000. This non-cash impairment charge comprised of \$289,500,000 relating to a reduction in the carrying value of intangible assets associated with uncertainty created by COVID-19 and arising from the Royal Commission into Aged Care Quality and Safety (**Royal Commission**), and \$2,423,000 relating to a reduction in the carrying value of the property, plant and equipment of the Group's Wyong home in NSW, that is expected to close in early September 2020.

The Group increased its revenue from new places delivered by greenfield and brownfield developments completed during the financial year and throughout the previous financial year. The Group also received \$5,490,000 of additional COVID-19 specific funding from the Federal Government to assist in reinforcing safety and care levels for residents. Additionally, the Group generated net gains of \$7,415,000 from the disposal of otherwise non-income generating surplus assets. Revenue from existing mature homes was lower as occupancy levels continued to decline over the financial year, consistent with sector experience. Average occupancy for the financial year was 92.2% compared with 93.0% in the previous financial year. Sector-wide occupancy pressures have been encountered following an excess of new supply of homes recently coming into the market to meet expected future demands. There has also been weaker consumer confidence in the sector anecdotally on the back of the activities and interim findings of the Royal Commission and the potential impacts of COVID-19.

Increased revenue was more than offset by increased operating costs, in particular staffing costs where wage rate increases through enterprise agreements still continue to exceed the indexation increases received in Federal Government care funding. Other operating cost increases included resident costs, utility expenses, staff redundancy payments and Royal Commission participation costs.

EBITDA of \$32,875,000 is before the \$289,500,000 non-cash impairment of the Group's intangible assets. An estimated range of this impairment was foreshadowed in May 2020, with the amount being determined after detailed consideration of a range of future assumptions including discount rates, business and industry operating performance, the economic environment and regulatory conditions. Further details of the uncertainties and impacts of COVID-19 are set out later in this report. The non-cash impairment was charged against the Group's goodwill. This has resulted in the majority of goodwill being impaired, with a balance of \$31,764,000 remaining at 30 June 2020. Further details are disclosed in Note F3 to the financial statements.

A net loss after tax was recorded for the financial year due to the overall decline in EBITDA, the non-cash impairment charge and increased depreciation and finance costs attributable to new and re-developed homes and applying the new leases accounting standard.

A non-cash fair value charge through other comprehensive income occurred during the year amounting to \$2,627,000 (2019: \$2,412,000) net of income tax as a result of the Group's interest rate swaps that were entered into in April 2019. Further details on these interest rate swaps are disclosed in Note G3(c) to the financial statements.

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

	2020	2019	Change
	\$'000	\$'000	%
Total assets	<b>1,252,016</b>	1,439,153	(13.0)
Total liabilities	<b>1,029,049</b>	907,069	13.4
Net assets	<b>222,967</b>	532,084	(58.1)

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2020

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

##### Review of financial position

Total assets and total liabilities for the prior comparative period have both been restated upward by \$60,518,000 following an income tax accounting policy change made during the financial year. Further details are disclosed in note A5 to the financial statements.

The Group's total assets decreased by 13.0% during the financial year. While property, plant and equipment assets associated with capital expenditure on the Group's development program increased, together with recording right of use assets in respect of the Group's operating leases for the first time in applying the new accounting standard AASB 16 *Leases*, this was more than offset by the non-cash impairment of non-current assets, primarily relating to the Group's intangible assets.

Total liabilities increased by 13.4%, mainly due to an increase in bank borrowings to fund the above increase in assets, from RADs, being monies refundable to residents, and the recording of lease liabilities in accordance with AASB 16 *Leases*. Further details are disclosed in Note F2(a) to the financial statements.

During the financial year an additional \$69,750,000 of the Group's banking facilities was drawn down primarily to fund developments, with \$41,250,000 being repaid from net RAD cash inflows and net proceeds from asset sales. A total of \$239,000,000 (2019: \$210,500,000) was drawn down from the Group's banking facilities as at the reporting date. Together with the Group's cash balances of \$48,286,000 (2019: \$31,472,000), the Group's net debt as at the reporting date amounted to \$190,714,000 (2019: \$179,028,000), of which \$36,214,000 (2019: \$44,528,000) is considered core net debt and \$154,500,000 (2019: \$134,500,000) is development debt.

The Group has \$345,000,000 of syndicated bank loan facilities with availability through to September 2023. In addition, the Group has flexibility to activate an accordion facility providing an additional \$45,000,000 for working capital purposes if required. The non-cash impairment of non-current assets during the financial year did not impact the bank loan facilities, including related covenants, and the Group continues to enjoy strong support from its lenders. Additionally, the non-cash impairment does not affect the Group's future cash flows or its ability to undertake capital management initiatives.

On-going portfolio management of the Group's real estate assets continued during the financial year. The sale and lease back of its Springvale home in Victoria and the disposal of vacant land in Highton, Victoria realised cash of approximately \$16,900,000 net of costs, the majority of which was used to repay bank debt.

In March 2020, the Group received a Notice of Decision to Impose Sanctions (**Notice**) from the Aged Care Quality and Safety Commission (**ACQSC**) in respect of its Wyong home in New South Wales. The Group was extremely disappointed to receive this Notice despite its best efforts to consistently deliver the highest standard of person-centred care and services to its residents. A plan was immediately implemented with the ACQSC to move the home back to full compliance and have the sanctions lifted. However, in late June 2020, the Group made the difficult decision in the residents' best interests, and with the ACQSC's support, to commence a plan for their re-homing and to close the Wyong home. When the home was acquired by the Group in April 2018, it was under sanctions. The Group was able to move the home to full compliance and have the sanctions lifted in May 2018. The Group's intention was to develop a new replacement home in an adjoining suburb on vacant land acquired as part of the same purchase transaction. However, development planning permission could not be obtained and due to the physical limitations of the existing Wyong home, its approaching functional obsolescence, and continued operational challenges, the Group notified the ACQSC, the residents and their families and staff that it would be closing the home. This is expected to occur in early September 2020. At 30 June 2020, the Group had impaired the property, plant and equipment of the Wyong home by \$2,423,000 and recorded a provision for the redundancy costs of its staff of \$858,000.

Net RAD and ILU resident loan cash inflows for the financial year were \$55,763,000 (2019: \$44,729,000), the increase reflecting the Group's completion of developments and significant refurbishments during the year.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2020

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

The Group's current liabilities exceed current assets by \$675,758,000 (2019: \$613,474,000) as at 30 June 2020. This arises predominantly because of the requirement to classify the Group's obligations to residents for RADs and ILU resident loans as current liabilities, whereas, the property, plant and equipment, investment properties and intangible assets to which such funds relate are required to be classified as non-current assets.

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

The Group's financial and liquidity positions remain sound. However, over time, it may seek additional funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risk.

#### COVID-19

The Group's business operations have continued during COVID-19, although the pandemic presents extreme challenges for the Group and the broader aged care sector as the residents we care for are amongst the most vulnerable to the virus. The lack of a vaccine and the severity of the disease in frail elderly people, leading to higher fatality rates, has required an increase in vigilance and preparedness in response. While the Group has significant experience in responding to known infection outbreaks at its homes, such as influenza and gastroenteritis for example, COVID-19 is significantly more contagious and proving more difficult to prevent and control in a residential home environment. Individuals with COVID-19 may be asymptomatic or be infectious for days prior to showing symptoms. With a reported incubation period of up to 14 days, regular testing for COVID-19 may be required. The risk to our residents and staff contracting the virus is heightened with increased levels of community transmission as has been the experience within some of our homes subsequent to 30 June 2020 and across the residential aged care sector both nation-wide and world-wide.

The Group has a comprehensive COVID-19 response plan which was prepared and enacted in early 2020. Strict infection control measures compliant with the requirements of State and Commonwealth health authorities were implemented at all Group homes. These included pre-entry health screening of all visitors and staff, the use of personal protective equipment, monitoring residents for signs and symptoms of COVID-19 and additional cleaning of high touch points. During COVID-19 outbreaks, visitor restrictions are introduced and isolation and cohorting measures undertaken while having regard to the particular circumstances. An experienced emergency management committee oversees the Group's COVID-19 response plan including during an outbreak. Outbreaks are closely monitored by the Group's quality management team in addition to State and Commonwealth health authorities and the aged care regulator. Notification to the relevant authorities and contact tracing is immediately initiated following a confirmed case and identified close contacts are notified and are required to isolate.

COVID-19 has impacted the Group's business during the year resulting in lower revenue due to lower occupancy levels and additional operating costs at homes. The Federal Government's COVID-19 assistance funding helped to offset the additional preparatory costs incurred. These relate to such areas as further education and infection control training, additional care and cleaning shifts, increased procurement and use of personal protective equipment, cleaning supplies and communication equipment for residents and their families to remain in contact. The Group was not entitled to receive any financial assistance for staff through the Federal Government's JobKeeper subsidy arrangements during the financial year.

As a result of workplace restrictions due to COVID-19, the majority of the Group's Melbourne support office workforce were working from home in the later part of the financial year and continue to do so. This has not unduly affected the Group's operations or care and services to residents given the remote and secure technology and communication platforms in place. Travel to homes by the support office staff has been limited, particularly as State borders have been closed, which has assisted with some cost savings.



## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2020

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

Availability of staff at Group homes has also been impacted by COVID-19, more noticeably in July and August 2020 and particularly within Victoria where there has been a considerable number of homes across the sector with COVID-19 outbreaks. A large casual and part-time workforce is employed within the sector, often working across multiple homes for multiple approved providers. This can heighten the risk of the introduction of COVID-19 into homes and reduces the available workforce when positive cases or close contact staff are required to self-isolate.

The Group's consumable supply chains, including for personal protective equipment and cleaning supplies, have been less certain with some items in short supply, more expensive and with longer delivery times during COVID-19. The Group has called upon its strong supplier relationships and received assistance from the Federal Government by accessing the national medical stockpile to cover its requirements.

The uncertain outlook created by COVID-19 has had a significant impact on the forecast performance of the Group and was a significant contributor to the non-cash impairment recognised during the financial year, as mentioned earlier in this report. Given declining occupancy levels and associated revenues which are unlikely to improve within the COVID-19 environment, and the on-going increase in staff and other costs of caring for residents, the decision was made to offer some redundancies to staff at the support office prior to financial year end. A provision in respect of these redundancy costs of \$370,000 is included within the financial statements.

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

The Group is committed to maximising the value of its current portfolio of homes through organic growth while maintaining a high level of resident care and support in line with its ageing-in-place care model.

In addition to organic growth, and having regard to the projected future demand profile for residential aged care and senior living, the Group has an expansion strategy which centres on increasing the size of its residential care home portfolio through developments and selective acquisitions, and the development of co-located senior living at a select number of homes.

In light of the uncertain economic outlook created by COVID-19 and having regard to its objective of managing liquidity risk, the Group has undertaken a review of its capital requirements and has placed a number of development projects on hold with a decision to proceed into construction to be made when it is deemed prudent to do so. Other development projects that are currently under construction are proceeding as scheduled.

The Group is a supporter of reform that appropriately balances the community need for high quality residential aged care and the sector's financial sustainability. The Federal Government has previously identified the importance of the continuum of care model and the goal of enabling a seamless transition between home and residential care for ageing residents. The Royal Commission's recommendations due for release in February 2021 are expected to shape the direction and design of the aged care sector moving forward if adopted by the Federal Government. The Group seeks to position itself to respond to resulting changes through its support and participation and to progress potential opportunities across the care continuum in the medium term.

#### Organic growth

##### i. Occupancy levels

The Group has historically achieved higher than sector average occupancy levels and continues to target incremental improvement over the medium term across its portfolio of homes. COVID-19 has negatively affected occupancy levels across both the sector and the Group. Homes with COVID-19 outbreaks are temporarily unable to admit new residents and demand has declined more broadly as some onsite potential resident inspections have been made more challenging due to visitation restrictions. Additionally, consumer confidence appears lower with the spread of COVID-19 into residential aged care homes and the Royal Commission's activities and interim findings. There has also been an excess of new supply of homes recently coming into the market to meet expected future demand. Accordingly, the short-term outlook for occupancy is uncertain.

The Group has a dedicated client services team in place which supports the home managers to maintain a close relationship with the Group's resident consumer base and referral networks. Benchmarked occupancy levels across the Group and its competitors are used for strategic direction and improvement initiatives.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2020

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

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

##### ii. Additional services

The Group has a suite of additional services that are available to its residents for a fee. Revenue from additional services continues to grow modestly and is expected to generate further revenue growth from resident contributions as they access these services and more new homes open. The majority of the Group's developments are being designed to enhance the level and availability of additional service offerings.

##### iii. Cost reduction initiatives

The Group constantly reviews its supply and service contracts and providers seeking improvements to quality and service standard, in addition to efficiencies and cost savings. It also continually refines its operations to identify improved and more efficient methods including through the use of technology.

##### iv. RAD funding

The Group has continued to receive strong net RAD inflows during the financial year. Further new capital is anticipated to be received from RADs linked to newly delivered operational places from brownfield and greenfield developments and existing places at significantly refurbished homes.

#### ***Development program***

The projected future demand profile for residential aged care and senior living is strong notwithstanding some short-term oversupply currently existing in the residential market.

The Group has an in-house managed development program which has been operational since FY2016. During the year, two new greenfield developments were completed and opened under this program. The first in Robina, Queensland added 106 new places to the portfolio and the second in Mount Waverley, Victoria adding a further 105 new places. Additionally, brownfield extensions at our Brighton-Le-Sands home in New South Wales and Mirboo North home in Victoria were completed providing further new places. To date the development program has delivered in excess of 800 net new residential aged care places to the Group's portfolio. The Group also seeks to expand further into selective senior living opportunities on a co-located basis with its existing homes.

The Group currently has two greenfield developments in construction phase at Newport in Victoria and Belrose in New South Wales which will collectively add a further 222 new places. A brownfield extension to our Albury home in New South Wales has recently been completed providing a further 28 new places. A further four greenfield projects, several brownfield projects and three senior living projects are currently at various stages of the pre-construction development process. The Group owns or has secured land sites for all these projects.

The Group has 750 un-activated provisional licences issued by the Department of Health for development purposes. It also holds 323 other surplus licenses to support the places being built under the Group's current development program. Any shortfall in licences is expected to be obtained from future Aged Care Approvals Round allocations or by acquisition.

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

The Group has a separate significant refurbishment program in place with a further two homes being significantly refurbished during the financial year. The Group is entitled to receive additional Federal Government funding from accommodation supplements for each concessional resident in newly built or significantly refurbished homes. In all, 36 of the 51 homes in the portfolio now qualify for this additional supplement.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2020

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

##### ***Acquisitions of existing residential aged care homes***

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

Acquisitions are undertaken subject to meeting the Group's strict investment criteria, market conditions and availability of capital. The Group is not actively considering any new acquisitions at this time having regard to its objective to managing liquidity risk.

##### **Material business risks**

The following are considered material business risks for the Group.

##### ***Change of regulatory framework or funding***

The Australian residential aged care sector is highly regulated and significantly funded by the Federal Government. The provision of services is governed by the *Aged Care Act 1997* and over 70% of the Group's revenue is from Federal Government care and accommodation funding. The receipt and use of RADs and the allocation of bed licences are also Federal Government regulated. Accordingly, regulatory and funding changes may have an adverse impact on the way the Group promotes, manages and operates its homes, its financial position and performance, and its developments program.

The initial findings of the Royal Commission from its interim report released in October 2019, have foreshadowed that a fundamental overhaul of the design, objectives, regulation and funding of the sector is required. The Royal Commission's final report is due by 26 February 2021 for Federal Government consideration.

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

The CEO has responsibility for managing regulatory risk and is the Company's delegate on the Aged Care Guild which seeks to support sustainability and ongoing investment in the sector to meet forecast increasing future demand. The CEO develops strategies, with the support of the Board, in anticipation of and to mitigate risk in regulatory and funding changes.

##### ***Staff availability and wage increases***

A portion of the Group's workforce are skilled healthcare workers whose services are in high demand from other aged care and health sector providers. There may also be a limited pool of such workers, particularly in regional and remote areas. Accordingly, there is a risk that the Group will not be able to attract and retain an adequate number of skilled healthcare workers for its existing and future operations and this risk is currently being exacerbated due to COVID-19 where homes with COVID-19 outbreaks may require staff to self-isolate and restrictions are in place preventing the spread of the virus by encouraging workers not to work at multiple aged care homes.

The Group manages its skilled and general workforce risk by providing an attractive employee value proposition, including opportunity, training and support, and reducing reliance on casual and agency workers. Initiatives in place during COVID-19 to retain and bolster the Group's workforce include paying staff a COVID-19 allowance and higher shift rates and accessing the Government's emergency surge workforce in the event of an outbreak.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2020

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

The majority of the Group's staff costs, relating to its skilled and unskilled care workforce, are set under State-based enterprise agreements which contain fixed increases over their terms. The Group negotiates with staff, through union representation, for future wage increases which is undertaken without knowledge of future Federal Government funding indexation levels. Accordingly, there is a risk that future increases in staff costs are higher than the increases in Federal Government funding, particularly as funding increases are set without reference to State-based labour costs. The Group's staff costs as a percentage of total revenue for the financial year was approximately 74% (2019: 69%). Increasing staff costs in excess of the increases in Federal Government funding may adversely affect the Group's financial performance.

The Group manages its wage costs to revenue ratio to mitigate a decline in profitability while ensuring that the care needs of residents are met. The Group seeks to implement information technology solutions to create efficiencies in its workforce by minimising administration hours and maximising care hours, while also enhancing its overall level of revenue through optimising occupancy and ensuring it receives the correct Federal Government funding for the care provided to each resident.

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

In the ordinary course of its business, the Group faces the risk that occupancy levels may fall below expectations, for example, with a nationwide severe outbreak such as influenza or COVID-19 or an excess supply of places in the market. Competition from newer homes and providers offering discounted terms can also impact occupancy levels. Lower occupancy levels adversely affect the Group's financial performance by reducing the amount of Federal Government care and accommodation funding it is entitled to, resident contributions, accommodation payments and RADs. A decrease in occupancy levels may also result in an increase in financing costs. Such occurrences are likely to lead to a decline in the Group's profitability.

To mitigate occupancy level risk, occupancy is monitored daily at a home and line management level. Home managers are responsible for their homes' occupancy levels, which is a KPI for performance assessment purposes. Homes are supported by line management and a dedicated client services team who have access to referrer networks and direct marketing resources. The Chief Operations Officer has overall responsibility for occupancy levels and reports directly to the CEO. The Board is provided with occupancy data, trend analysis and action plans to address declines in occupancy. The Group has a targeted development program for its existing homes to remain contemporary and competitive, and meet consumers' changing expectations. Greenfield projects are intentionally built in undersupplied geographic markets to assist in countering potential occupancy level reductions.

##### ***Decline in RADs***

Residents with the financial means may choose to pay RADs when coming into a home. The value of RADs are determined having regard to local aged care conditions and residential property market values. The Group may use RADs to assist in funding the development and refurbishment of its homes, to repay other RADs and for limited other purposes as prescribed by law. A number of factors can lead to a decline in RADs creating risk for the Group. These include:

- where a larger than expected number of RAD paying residents depart leading to a substantial and immediate outflow of funds;
- a reduction in the value of RADs paid by new residents compared with departing residents;
- a shift away from new residents choosing to pay RADs; and
- declining occupancy where RADs are repaid and not replaced.

A decline in RADs may have a material impact on the Group's cash flows and financial position.

To mitigate risk associated with RADs, the Group regularly monitors the level of RADs and has adopted a Board approved liquidity management strategy to ensure adequate funds are available to repay RADs when required. Bank borrowing facilities have been negotiated to support this strategy. A conservative approach is also used by the Group in pricing RADs to protect against declines associated with a significant downturn in property markets.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2020

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

##### **Large scale infectious outbreaks**

Large scale infectious outbreaks (**Outbreaks**), such as influenza and COVID-19, may significantly impact the health and safety of the Group's residents and staff and its business operations. Other material business risks may also eventuate including a reduction in occupancy levels, staff availability and reputational damage.

Outbreaks require infection control measures to be implemented which may require additional staffing, particularly if home staff are themselves infected or unable to attend work. Additional personal protective equipment, cleaning and waste collection will be required, as well as administrative support in communicating and dealing with residents, their families, health and other authorities. Sourcing additional staff, supplies and services may prove difficult should others have similar demands during Outbreaks. Their cost and delivery time frames may also increase. As homes are likely to be closed to accepting new residents during Outbreaks, a reduction in occupancy and associated revenue may result. Further, revenue may be impacted if special service offerings provided to residents paying an additional fee are required to be suspended or ceased.

The Group has an established emergency response process supported by emergency response plans for handling Outbreaks. Site emergency response teams are enacted and are supported by an overarching emergency response committee comprising senior management and subject matter experts as required. For example, with current COVID-19 outbreaks, a dedicated external infection control expert is a key committee member. The Group's executive leadership team and Board receive regular reports and monitor progress and developments.

The Group typically carries an emergency stockpile of personal protective equipment and other supplies at times of known Outbreaks which it seeks to compile where possible in advance. The Group has strong supplier relationships it may call upon and has access to the national medical stockpile for additional personal protective equipment. During Outbreaks, State and Commonwealth Government authorities may provide support and assistance, as has been the experience with COVID-19, where a surge workforce has been established to assist with bolstering staffing to providers. The Group may also offer more attractive temporary financial arrangements to secure additional short-term staffing. The Group's 51 homes are geographically disbursed across five States which can assist with sharing of resources.. Group support to its homes is available on both a central and regional basis from dedicated staff including experienced quality managers.

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

The health, safety and wellbeing of residents, home staff and visitors are critical to the Group for its on-going business operations. A poor or unsafe home and workplace can lead to injuries and discontentment amongst residents, relatives and staff, resulting in adverse financial performance, litigation and reputation issues for the Group. Preparedness and capability for dealing with emergency and hazardous events including natural disasters and infectious outbreaks are critical.

The Group delivers care and services to its residents through a comprehensive and robust process which is supported by policies and procedures compliant with the *Aged Care Act 1997* and other regulations. Home staff are under the control and supervision of qualified home managers and receive regular on-going training to safeguard and promote the health, safety and wellbeing of both residents and themselves. Audits and post incident investigations are conducted to identify and address risks of injury or illness. Homes are assisted by experienced quality managers and other professionals who provide work health and safety, human resource and operational support. The Chief Clinical Governance and Risk Officer has overall responsibility for resident care services while the Chief HR Officer has overall responsibility for staff work health and safety and wellbeing. Both executives report directly to the CEO and provide regular reports to the Board and its Zero Harm Committee on the health, safety and wellbeing of residents and staff for oversight and improvement monitoring.

The Group has an established emergency response process for dealing with emergency and hazardous situations as outlined elsewhere in this report to safeguard the health and safety of residents, visitors and staff.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2020

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

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

The Group relies on a high quality management team with significant residential aged care sector experience. The inability to recruit or the loss of key members of the Group's management team at home and support office levels could adversely affect the Group's ability to operate its homes and its business to the required standards, to remain competitive and achieve its objectives.

This could undermine the Group's ability to effectively comply with regulations and may result in damage to its brand and a reduction in demand for its residential aged care services. These occurrences may adversely impact the Group's financial performance and position. The cost to replace key personnel is also expensive.

The Group has processes in place to manage the potential loss of key personnel. The Board has responsibility for CEO succession planning while the CEO has responsibility for succession planning of other key personnel with the support of the Chief HR Officer and other members of the executive leadership team. The Board is required to be immediately advised of any resignation or termination of senior management. The Company's remuneration framework and employee value initiatives are overseen by the Board's People Culture and Remuneration Committee. These arrangements can assist with retention through their design, including deferral and forfeiture elements for incentives. Key personnel may also have extended termination notice periods which allows for an orderly transition of the role.

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

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

The Group has robust policies and procedures in place covering required accreditation standards for each home. Home staff are educated and regularly trained to ensure these standards are upheld and are supported by experienced quality managers and other professionals. The Chief Clinical Governance and Risk Officer has overall responsibility for ensuring accreditation standards are maintained and reports directly to the CEO. The Board and its Zero Harm Committee are provided with regular reports on the outcomes of periodic regulatory accreditation audits with learnings communicated across the Group. Remuneration incentive arrangements for the executive leadership team, including the Chief Clinical Governance and Risk Officer and the CEO, have a gateway hurdle relating to maintain on-going accreditation and compliance standards. When the Group acquires a new home, it undertakes a review of accreditation standards within three months using a gap analysis process to identify risks. New homes are transitioned to Group standards with the support of the Group's quality managers and other professionals.

##### ***Information Technology breaches***

The Group collects, stores and uses personal and sensitive information relating to its residents, their representatives and staff. Such information is typically in electronic format and therefore subject to risk of loss or breach resulting from incidents such as system failures, data theft and cyber-attacks. The aged care sector is a known target area for ransomware cyber-attacks given the nature of information providers hold. The Group's reputation, business operations and financial performance may be adversely impacted in the event of an Information Technology (IT) data breach.

The Group has invested heavily in its IT capability and has in place a modern and secure IT framework with next generation firewalls and best of breed service filtering. Systems are housed at professional purpose-built offsite premises, with multi-backup capability. Specialist real-time monitoring is in place to safeguard against cyber-attacks. Staff have also been trained to remain vigilant for potential data breaches.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2020

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

##### **Reputational damage**

The Group operates in a commercially sensitive sector in which its reputation could be adversely impacted should it, or the residential aged care sector generally, suffer from any adverse publicity. Such publicity, as a result of outcomes from the Royal Commission or COVID-19, may lead to a reduction in occupancy at the Group's homes, including for existing and new residents, and affect staff morale and retention, which may adversely impact the Group's financial performance and position and future prospects.

Robust controls and processes are in place to safeguard resident and staff health, safety and wellbeing. The Group seeks to avoid reputational incidents through a strong operating and control environment. When potential incidents are identified or become known, they are promptly reported to the executive leadership team and to the Board (when applicable) in accordance with standing policy. The executive leadership team, under the CEO's direction, is responsible for developing appropriate strategies and responses. Where necessary, the Group's emergency response committee is enacted to assist. The CEO and Chief Financial Officer have authority under the Group's Communication Strategy for commenting externally on reputational related matters. The Group engages external public relations advisors and other experts as required to assist with strategy, response and handling. From an aged care sector perspective, the Company supports and is also supported by the Aged Care Guild which is proactive in raising concerns and providing positions and responses to sector related matters.

##### **Claims and litigation**

Due to the personal nature of the services the Group provides, it is exposed to third party claims risk from residents, staff and others. This may include professional indemnity and public liability claims, WorkCover and employee practice claims and other litigation such as arising from coronial inquests.

The Group may also be subject to securities related class actions including for breach of its continuous disclosure obligations under the *Corporations Act 2001*.

The foregoing risks may adversely impact the Group's financial performance as significant expenditure may be incurred in responding to such matters. The Group's reputation may also be affected.

The Group has annual insurance arrangements in place to help protect against financial exposure for claims and litigation risks. The extent to which these arrangements will respond is subject to the terms and conditions of the relevant policy arrangements including cover levels and any exclusions.

#### 6. Dividends

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

Final dividend: nil cents per share (2019: 3.35 cents)	\$nil
Interim dividend: 2.00 cents per share (2019: 2.80 cents)	\$5,345,000

The interim dividend paid during the financial year was franked to 50% (FY2019: unfranked). The Directors have determined not to pay a final dividend for the 2020 financial year. The final dividend paid for FY2019 was franked to 50%.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

For the year ended 30 June 2020

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

##### **COVID-19**

As mentioned earlier in this report, the direct financial impact during the financial year from increased levels of care and safety associated with COVID-19, including for staffing, cleaning supplies and protective equipment, was predominantly offset by specific Federal Government funding to the aged care sector for COVID-19. However, since 1 July 2020, the significantly increasing number of COVID-19 cases and outbreaks primarily caused by community transmission in Victoria, and the move to Stage 4 restrictions in Melbourne and Stage 3 restrictions throughout the rest of that State, will have a greater financial impact to the Group in the next financial year, without further funding support from the Federal Government. This is mainly as a result of 33 of the Group's 51 homes being in Victoria, with some of them experiencing COVID-19 outbreaks.

COVID-19 has impacted the financial year in various ways. The most significant as set out in the financial report was the impairment of the Group's intangible assets, with an impairment charge relating to the Group's intangible assets of \$289,500,000 being recognised in the Statement of Profit or Loss and Other Comprehensive Income. Additionally, there has been an increase in the expected credit loss provision as a result of the wider economic impact of COVID-19 to reflect the increased risk that some residents and family members are no longer able to fund their full aged care costs and a downward revaluation of some of the Group's investment properties to reflect the recent decrease in overall property values.

##### **Other**

Other significant changes in the state of affairs of the Group during the year may be disclosed elsewhere in this report.

#### 8. Events subsequent to reporting date

##### **COVID-19 outbreaks**

At the date of this report, four of the Group's Victorian homes are being greatly affected by COVID-19 outbreaks being Goonawarra, Elanora, Millward and The Regent. The extent of each outbreak is varied but each of these homes have confirmed cases of residents and staff who have tested positive for the virus. Many close contact staff working in the homes are also affected through self-isolation. Sadly, there have been some resident fatalities resulting from the virus and our support, thoughts and deepest sympathy have been extended to affected families. The Group continues to act vigilantly to protect the health and safety of residents and staff at all its homes. It has enacted appropriate precautions and responses in line with its own protocols and directives and guidelines of the Commonwealth and State Governments and the ACQSC. It is not possible to determine when outbreak measures will be lifted at each affected home nor whether other Group homes, including in other States or with COVID-19 outbreaks, will be similarly affected.

The Goonawarra home has had a Notice to Agree issued by the ACQSC relating to its COVID-19 outbreak. This notice specified certain requirements for the monitoring and management of the home including:

- Not admitting new residents into the home until the Victorian Public Health Unit has declared the home free of COVID-19 and the ACQSC is satisfied that the risk to residents has been mitigated;
- The appointment of a suitably qualified and experienced adviser to assist with ensuring the health and wellbeing of residents; and
- Communicating daily with, and providing weekly written reports to, the ACQSC, together with regular communication with all families of the residents.

The Goonawarra home is fully compliant with the Notice to Agree, with an internal suitably qualified and experienced adviser having been appointed with the ACQSC's agreement.

##### **Wyong closure**

As mentioned earlier in this report, the Group is expecting to close its home in Wyong, New South Wales in early September 2020. This home was acquired in April 2018 as part of a portfolio of homes and had been identified for future replacement. Unfortunately, development planning permission could not be obtained, with the decision to close the home being made in the residents' best interests following sanctioning of the home in March 2020 and having regard to its physical limitations, approaching functional obsolescence and continued operational challenges. The Group has successfully re-homed all residents at other Group and nearby homes. It is proposed to sell the Wyong property in due course.



## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2020

#### 8. Events subsequent to reporting date (continued)

##### *Other*

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

#### 9. Likely developments

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

#### 10. Indemnification and insurance of officers

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

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

##### **Insurance premiums**

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

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

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

#### 11. Non-audit services

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

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

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

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

For the year ended 30 June 2020

#### 11. Non-audit services (continued)

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

	2020	2019
	\$'000	\$'000
Audit and review services	406	275
Taxation services	61	112
Advisory services	32	50
	<u>499</u>	<u>437</u>

#### 12. Environmental regulation

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

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

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

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

The Lead Auditor's Independence Declaration is set out on page 24 and forms part of this Directors' Report for the financial year ended 30 June 2020.

#### 15. Rounding off

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

#### Remuneration Report

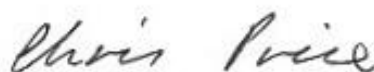
The Remuneration Report is set out in section 16 on pages 27 to 45 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 26 August 2020



**Linda Bardo Nicholls AO**  
Chairman



**Chris Price**  
CEO & Managing Director



## 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 of Japara Healthcare Limited for the financial year ended 30 June 2020 there have been:

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

A stylized, handwritten signature of the KPMG firm, rendered in black ink.

KPMG

A handwritten signature in black ink, appearing to read 'Suzanne Bell'.

Suzanne Bell

*Partner*

Melbourne

26 August 2020

## Letter from the Chairman of the People, Culture and Remuneration Committee

Dear Shareholders,

On behalf of the Board, I am pleased to present the Japara Healthcare Limited audited Remuneration Report for the year ended 30 June 2020.

### FY2020 performance

Japara delivered EBITDA<sup>1</sup> of \$32.9 million for the financial year compared with \$49.6m last year, in a challenging operating environment. A loss after tax of \$292.1 million was recorded compared with last year's \$16.4 million profit after tax result. Revenue and other income increased by 6.9% on FY2019, mainly through contributions from new places delivered from development projects completed this year and last year. However, revenue from existing mature homes was lower as occupancy levels continued to decline, consistent with sector experience. Increased revenue was more than offset by increased operating costs, in particular staffing costs where wage rate increases through enterprise agreements still continue to exceed the indexation increases received in Federal Government care funding. Other operating cost increases included resident costs, medical supplies, utility expenses, staff redundancy payments and costs of participating in the Royal Commission into Aged Care Quality and Safety. A non-cash impairment charge of \$291.9 million against the carrying value of the Company's non-current assets has been incurred this year, primarily due to the uncertain outlook created by the COVID-19 pandemic (COVID-19) and the Royal Commission.

Japara currently operates a portfolio of 51 residential aged care homes located throughout Australia, having opened two new homes during FY2020, one in Robina, Queensland and the other in Mount Waverley, Victoria. Two existing homes located in Mirboo North, Victoria and Brighton-Le-Sands, New South Wales were extended during the year while another two homes were significantly refurbished. There are three homes under construction, including the extension of an existing home, which are expected to be completed in FY2021. A pipeline of other development projects are in pre-construction phases, to proceed to construction when it is deemed prudent to do so in light of the uncertain economic outlook created by COVID-19 and having regard to our objective of managing liquidity risk.

Net bank debt was \$190.7 million at 30 June 2020, of which \$36.2 million is considered core net debt and \$154.5 million is development debt. Available liquidity on that date was circa \$154.3 million including undrawn bank loan facilities. Opportunities to realise value through the strategic management of the Company's asset portfolio were undertaken in FY2020. Although \$69.8m of bank debt was drawn down during the year to fund Japara's development program, a total of \$41.3 million of bank debt was repaid in FY2020 from net refundable accommodation deposits received from residents and asset sale proceeds. Given the business and economic uncertainties created by COVID-19, close monitoring of the Company's financial position and forecast cash flows continues.

### FY2020 management changes

On 20 March 2020, Japara's long-standing CEO and Managing Director (**CEO**), Andrew Sudholz, stepped down from the role to be present with a family member dealing with a serious health issue. Leadership of the Company transitioned smoothly with Chris Price, the former Chief Financial Officer (**CFO**), appointed to the CEO position and Chief Investment Officer, Anthony Rice, taking on the CFO role.

In addition, during FY2020 the role of Chief Operations Officer was established and Lindon Le Griffon, an external candidate, was appointed to the role on 17 February 2020. Mr Le Griffon is a key management personnel member and appears in the Remuneration Report.

Arrangements were put in place with the outgoing CEO to ensure a smooth transition and all entitlements were in accordance with contractual arrangements.

### FY2020 remuneration changes

As reported last year, a number of changes were made to the executive remuneration framework for FY2020 including:

- a reduction in CEO fixed remuneration; and
- re-adoption of a traditional performance based plan with separate short-term and long-term incentive components.

The remuneration of the incoming CEO and CFO were carefully considered in the context of industry sector peers and the size, strategic and operational complexity of Japara's business.

These and other changes made for the recent management changes are reflected in the Remuneration Report.

## **FY2020 remuneration outcomes**

No executive incentives vested for FY2020 as performance gateways were not met. Accordingly, all short-term and long-term incentives granted for FY2020 have been forfeited.

There were no historical incentive grants eligible for vesting at 30 June 2020.

Non-executive directors' fees remained unchanged.

## **FY2021 remuneration settings**

The Board has reviewed the executive remuneration framework adopted in FY2020 and concluded that it continues to be fit for purpose for FY2021.

The framework is designed to incorporate alignment with the position of shareholders and balance a focus on both short and long term performance with the need to both retain, motivate and reward executives appropriately for their contributions, taking into account the complexity, effort and outcomes required by the business in context of the sectoral and other external factors including COVID-19.

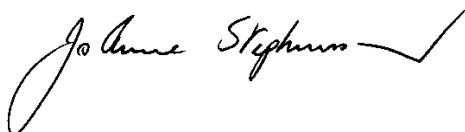
While the key principles of Japara's Remuneration Framework for KMPs remain unchanged, the Board has considered the appropriate balance between financial and non-financial measures in the practical application of the principles. A clinical quality and compliance gateway applies to the award of entitlements to STI and the Board has reviewed the composition of measures for the senior executive accountable for clinical quality and compliance in Japara to ensure they are focussed on quality outcomes and the wellbeing of residents across the Company's portfolio of homes.

Other relevant changes to remuneration settings for FY2021, having regard to the current environment, are:

- No increase in fixed remuneration for senior executives and other management;
- No change in the incentive opportunities (as a percentage of fixed remuneration) for executives;
- A reduction of 20% in non-executive directors' fees effective from 1 July 2020;
- A reduction in the number of the non-executive directors; and
- No change in the total fee pool from which non-executive directors are remunerated.

The majority of the Group's other employees are nurses and other staff engaged at our homes who are mostly covered under separately negotiated State based Enterprise Agreements and Awards. These Enterprise Agreements and Awards typically contain fixed annual increases.

The Board looks forward to your continuing support of our remuneration policies and practices and recommends this Remuneration Report to you.



**JoAnne Stephenson**

Chairman - People, Culture and Remuneration Committee  
26 August 2020

# Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

## Directors' Report (continued) For the year ended 30 June 2020

### 16. Remuneration Report - Audited

#### Contents

- 16.1 Key management personnel
- 16.2 Executive remuneration principles
- 16.3 FY2020 executive remuneration outcomes
- 16.4 FY2021 executive remuneration framework settings
- 16.5 FY2020 executive remuneration framework
- 16.6 Remuneration governance
- 16.7 Non-executive director remuneration
- 16.8 Other statutory disclosures

#### 16.1 Key management personnel

This remuneration report sets out the remuneration arrangements of key management personnel (**KMP**) in accordance with the *Corporations Act 2001* and Australian Accounting Standards for the year ended 30 June 2020 (**FY2020**).

For the purposes of this report, KMP is defined as those people who have the authority and responsibility for planning, directing and controlling the Group's activities, either directly or indirectly.

The breadth of KMP was expanded during FY2020 following the addition of a new Chief Operations Officer role as part of an internal management reorganisation to strengthen the Group's operations and to help meet current and emerging sector and stakeholder needs.

The following non-executive directors of the Company and Group executives were classified as KMP for the entire FY2020 period (unless otherwise stated):

#### **Non-executive directors**

Linda Bardo Nicholls AO	Chairman
Richard England	Chairman of the Audit, Risk and Compliance Committee
JoAnne Stephenson	Chairman of the People, Culture and Remuneration Committee (formerly the Remuneration and Nomination Committee)
Leanne Rowe AM	Chairman of the Zero Harm Committee
David Blight	

#### **Executives**

Andrew Sudholz	Former CEO & Managing Director ( <b>CEO</b> ) (to 20 March 2020)
Chris Price	CEO (from 20 March 2020) and former Chief Financial Officer ( <b>CFO</b> ) (to 20 March 2020)
Anthony Rice	CFO and Chief investment Officer ( <b>CFO &amp; CIO</b> ) (from 20 March 2020)
Lindon Le Griffon	Chief Operations Officer ( <b>COO</b> ) (from 17 February 2020)

#### 16.2 Executive remuneration principles

##### 16.2.1 Remuneration policy

KMP remuneration is determined in accordance with a documented remuneration policy which has been approved by the board of directors (**Board**). The policy provides a framework governing the Group remuneration arrangements and is underpinned by the principles of fair and responsible compensation.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.2.2 Executive remuneration arrangements

The remuneration structure for executives is designed to attract and retain high calibre, exceptionally skilled and experienced candidates, reward them fairly and competitively for their roles and the achievement of performance targets. In addition, it seeks to strike a balance between clinical quality and resident well-being, improved performance outcomes, regulatory compliance and shareholder, consumer and community expectations.

The remuneration structure specifically takes into account:

- the scope and responsibilities of the executive's role;
- the capability and experience of the executive;
- remuneration of a comparator group comprising ASX 300 companies with similar characteristics to the Group, including industry sector, scale and business complexity;
- shareholder, consumer and community expectations;
- the executive's ability to influence Group performance including clinical quality and resident well-being, operational performance and profitability and earnings growth; and
- compliance with required clinical, regulatory and other governance standards.

#### 16.3 FY2020 executive remuneration outcomes

##### 16.3.1 Company performance

Executive remuneration arrangements are designed to incentivise senior management to deliver improved earnings and shareholder return outcomes and ensure our clinical quality practices across the portfolio deliver positive outcomes for the well-being of our residents. The Board considers a range of financial and non-financial performance metrics when setting and assessing executive remuneration incentives, which take into consideration such outcomes.

The following table summarises earnings and shareholder return metrics for the Group over the last five years:

Financial measure	FY2020	FY2019	FY2018	FY2017	FY2016
EBITDA (\$'000)	32,875	49,553	50,653	60,160	56,102
NPAT (\$'000)	(292,087)	16,433	23,327	29,712	30,375
EPS (cents)	(109.47)	6.16	8.78	11.22	11.54
Dividends per share (cents)	2.00	6.15	7.75	11.25	11.50
Year end share price (\$)	0.49	1.13	1.81	2.10	2.55

The Group's financial performance since 1 July 2015, measured in terms of earnings and shareholder returns, has been declining. This performance has been significantly impacted by external factors including COVID-19 and others specific to the residential aged care sector including declining occupancy, changing regulations, cost inflation relative to available funding and costs associated with responding to the Royal Commission into Aged Care Quality and Safety.

The following table summarises the Group's compliance with aged care regulations over the last five years:

Non-financial measure	FY2020	FY2019	FY2018	FY2017	FY2016
Sanctioned - <i>inadequate service</i>	1	0	0	0	0
Non-compliant - <i>significant improvement required</i>	2	0	0	0	0

The Group's compliance record was strong up to FY2020. The aged care standards were revised from 1 July 2019 resulting in an increase in compliance notices being issued as the sector embraced the changes, including to the regulator's assessment approach. The Group was issued with three compliance notices in FY2020 which included its Wyong home being sanctioned. Despite the Group's best efforts to deliver a high standard to the Wyong residents, the home is being closed, with the regulator's support, due to its age, inherent physical limitations and continued operational challenges. All residents are being re-homed including at other Japara homes.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.3.2 Performance assessment – FY2020

No performance based 'incentive' remuneration was awarded for FY2020 following the Board's determination that the accreditation gateway had not been met by executives due to the sanction received by the Wyong home.

Accordingly, no short-term incentive (STI) was received, with the long-term incentive (LTI) component, granted as performance rights, being forfeited.

The performance based remuneration arrangements that were in place for executives for FY2020 are set out below:

#### Remuneration amounts

	Maximum potential STI \$'000	STI awarded \$'000	Maximum potential LTI <sup>1</sup> \$'000	LTI awarded \$'000
Andrew Sudholz (former CEO)	400	-	800	-
Chris Price (CEO and former CFO)	299	-	552	-
Anthony Rice (CFO & CIO) <sup>2</sup>	n/a	n/a	n/a	n/a
Lindon Le Griffon (COO) <sup>2</sup>	n/a	n/a	n/a	n/a

1. Performance rights equivalent to these values were granted to KMP in FY2020.
2. No performance based remuneration was granted to these executives while a KMP.

#### Performance criteria

The award of performance based remuneration is subject to the achievement of set performance criteria comprised of common gateways and hurdles as determined, assessed and recommended by the People, Culture and Remuneration Committee and approved by the Board.

Financial hurdles reflecting returns and the effectiveness of capital management, together with non-financial hurdles that are aligned to key business objectives and which, in turn, lead to improved resident, business and shareholder outcomes, are used to assess performance.

Financial hurdles for STI purposes are measured in terms of target returns while non-financial hurdles are measured in terms of target rates of growth, clinical quality and operational improvement and key projects delivered. Financial hurdles for LTI purposes are measured in terms of earnings per share growth and total shareholder returns. All measures are approved by the Board and chosen for being contemporary for the Group, objective and easily measured.

EBITDA growth was previously a performance incentive gateway. This was changed in FY2020 for alignment with changes made to the overall executive remuneration framework.

The following performance criteria applied to FY2020:

#### Gateways

- The Group maintaining ongoing accreditation at all residential aged care homes (*not achieved*);
- No material breach of other regulatory or compliance guidelines across the Group's business (*achieved*); and
- Meet the Board approved budget for an STI pool to form (*not achieved*).

Notwithstanding that no incentives were awarded for FY2020, an outline of the key STI performance metrics and what the outcome would have otherwise been are set out below:



## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.3.2 Performance assessment – FY2020 (continued)

##### STI hurdles

Andrew Sudholz (former CEO)			
Target area	Performance requirement	Weighting	Outcome
Finance	<ul style="list-style-type: none"> <li>Deliver a return on invested capital exceeding targeted rate</li> </ul> <i>Rationale: Stretch incentive to increase shareholder returns</i>	30%	Not achieved
	<ul style="list-style-type: none"> <li>Achieve a minimum targeted earnings improvement from real estate portfolio management</li> </ul> <i>Rationale: Incentive to deliver non-operational earnings improvement to increase shareholder returns</i>	30%	Achieved
Growth	<ul style="list-style-type: none"> <li>Achieve a minimum targeted increase in occupied beds</li> </ul> <i>Rationale: Incentive to grow revenue through improved occupancy to increase shareholder returns</i>	30%	Not achieved
Safety	<ul style="list-style-type: none"> <li>Achieve an annual average lost time injury frequency rate below an agreed target</li> </ul> <i>Rationale: Incentive to deliver improvement in lost time injuries for the betterment of the workforce and to increase shareholder returns over the longer term</i>	10%	Achieved
		100%	

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.3.2 Performance assessment – FY2020 (continued)

Chris Price (CEO and former CFO)			
Target area	Performance requirement	Weighting	Outcome
<b>Finance</b>	<ul style="list-style-type: none"> <li>Deliver a return on invested capital exceeding targeted rate</li> </ul> <i>Rationale: Stretch incentive to increase shareholder returns</i>	30%	Not achieved
<b>Growth</b>	<ul style="list-style-type: none"> <li>Achieve a minimum targeted increase in occupied beds</li> </ul> <i>Rationale: Incentive to grow revenue through improved occupancy to increase shareholder returns</i>	30%	Not achieved
<b>Organisation</b>	<ul style="list-style-type: none"> <li>Implement priority ICT systems and initiatives across the Group</li> </ul> <i>Rationale: Incentive to deploy key ICT systems and initiatives across the business for efficiency, to support service delivery and growth, mitigate risk and increase shareholder returns</i>	30%	Achieved
<b>Safety</b>	<ul style="list-style-type: none"> <li>Achieve an annual average lost time injury frequency rate below an agreed target</li> </ul> <i>Rationale: Incentive to deliver improvement in lost time injuries for betterment of the workforce and to increase shareholder returns over the longer term</i>	10%	Achieved
		<b>100%</b>	

No STI was granted to the CFO & CIO or the COO for FY2020 as KMP.

#### LTI hurdles

Details of the hurdles applying to equity granted to executives in FY2020 for LTI purposes are set out in section 16.5.4 of this report.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.3.3 Actual executive remuneration outcomes

Below is a summary of KMP remuneration outcomes for FY2020 and comparison with FY2019:

	Total fixed remuneration paid <sup>1</sup> \$'000	Remuneration received as equity <sup>1</sup> \$'000	Total performance based remuneration awarded <sup>1</sup> \$'000	Total remuneration received <sup>1</sup> \$'000	Percentage of maximum potential performance based remuneration awarded %
<b>Executives</b>					
<b>Andrew Sudholz (former CEO)<sup>2</sup></b>					
<b>FY2020</b>	<b>562</b>	<b>141</b>	<b>-</b>	<b>703</b>	<b>0</b>
FY2019	1,032	-	-	1,032	0
<b>Chris Price (CEO and former CFO)<sup>3</sup></b>					
<b>FY2020</b>	<b>580</b>	<b>114</b>	<b>-</b>	<b>694</b>	<b>0</b>
FY2019	555	-	-	555	0
<b>Anthony Rice (CFO &amp; CIO)<sup>4</sup></b>					
<b>FY2020</b>	<b>157</b>	<b>n/a</b>	<b>n/a</b>	<b>157</b>	<b>n/a</b>
FY2019	n/a	n/a	n/a	n/a	n/a
<b>Lindon Le Griffon (COO)<sup>5</sup></b>					
<b>FY2020</b>	<b>136</b>	<b>n/a</b>	<b>n/a</b>	<b>136</b>	<b>n/a</b>
FY2019	n/a	n/a	n/a	n/a	n/a

1. Remuneration granted and/or received while a KMP.
2. KMP from 1 July 2019 to 20 March 2020.
3. Appointed CEO on 20 March 2020.
4. KMP from 20 March to 30 June 2020.
5. KMP from 17 February to 30 June 2020.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.3.4 Five year historical executive remuneration outcomes

Following is a table of historical performance incentive outcomes for executives over the last five years:

	FY2020 <sup>1</sup>		FY2019	FY2018	FY2017		FY2016	
	Short-term incentive	Long-term incentive	Incentive <sup>2</sup>	Incentive <sup>2</sup>	Short-term incentive	Long-term incentive	Short-term incentive	Long-term incentive
<b><u>Former CEO</u></b>								
Awarded	0%	0%	0%	0%	0%	0%	95% \$457,000 <sup>3</sup>	0%
Forfeited	100%	100%	100%	100%	100%	100%	5%	100%
<b><u>CEO and former CFO</u></b>								
Awarded	0%	0%	0%	0%	0%	0%	90% \$225,000 <sup>3</sup>	0%
Forfeited	100%	100%	100%	100%	100%	100%	10%	100%

1. The CFO & CIO and COO have been excluded from this table as no incentives have been granted to them as KMP.
2. Single incentive arrangement. Separate short-term and long-term incentive arrangements existed during other periods.
3. Amount received.

#### 16.4 FY2021 executive remuneration framework settings

The Board has reviewed the executive remuneration framework adopted in FY2020 and concluded that it continues to be fit for purpose for FY2021 having considered various factors including COVID-19.

While the key principles of the Company's remuneration framework for executives remain unchanged, the Board has considered the appropriate balance between financial and non-financial measures in the practical application of the principles. A clinical quality and compliance gateway applies to the award of entitlements to STI and the Board has reviewed the composition of measures for the senior executive accountable for clinical quality and compliance to ensure they are focussed on quality outcomes and the wellbeing of residents across the Company's portfolio of homes.

Other relevant changes to remuneration settings for FY2021, having regard to the current environment, are:

- no increase in fixed remuneration for senior executives and other management;
- no change in the incentive opportunities (as a percentage of fixed remuneration) for executives;
- a reduction of 20% in non-executive directors' fees effective from 1 July 2020;
- a reduction in the number of the non-executive directors; and
- no change in the total fee pool from which non-executive directors are remunerated.

## Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.5 FY2020 executive remuneration framework

Following external stakeholder feedback and consultation, and in recognition of the difficult operating environment, the Board made a number of substantial executive remuneration framework changes for FY2020.

The framework is designed to incorporate alignment with the position of shareholders and balance a focus on both short and long term performance with the need to both retain, motivate and reward executives appropriately for their contributions, taking into account the complexity, effort and outcomes required by the business in context of the sectoral and other external factors.

Key changes to the FY2020 executive remuneration framework included:

- a reduction in CEO fixed remuneration and linked performance based remuneration;
- the re-adoption of a traditional performance based plan with separate short-term and long-term incentive components;
- a reduction in the maximum performance based opportunity levels from 200% to 150% of fixed remuneration);
- a greater equity based element for awarded incentives; and
- an extension of the LTI performance period to four years and the introduction of earnings per share and a total shareholder return measures.

In FY2020, executive remuneration comprised:

- Fixed remuneration:
  - Including base remuneration and employee benefits (on a total cost basis including any related Fringe Benefits Tax (FBT) charges), leave entitlements and employer contributions to superannuation.
- Performance based 'at risk' remuneration:
  - Separate STI and LTI components with a mixture of cash and equity issued under the Company's equity incentive plan, to reward executives for exceeding targets set by the Board.
- One-off equity grants.

Executives are expected to own equity in the Company equivalent to at least one year's base salary. This can be acquired over a five year period and it is intended that equity incentives be the main conduit for this purpose.

Executives are employed under continuous service agreements which outline remuneration, employment and termination arrangements. Termination notice periods are set out below:

Executive	Termination notice period
CEO <sup>1</sup>	12 months
CFO & CIO	6 months
COO	3 months

1. Including the former CEO.

The Group may also terminate an executive's employment by payment in lieu of notice or without notice and payment in lieu for serious misconduct. On termination, executives are entitled to receive their statutory leave entitlements, together with any superannuation benefits.

##### 16.5.1 FY2020 fixed remuneration

On 26 August 2019, the former CEO, Andrew Sudholz, voluntarily reduced his on-going fixed remuneration from \$1,015,000 to \$800,000 per annum in recognition of the difficult operating environment and the Group's weaker financial and share price performance. This reduction was accompanied by a one-off grant of equity equivalent to the pro-rata amount of the reduction for the balance of FY2020, being \$182,000.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.5.1 FY2020 fixed remuneration (continued)

The fixed remuneration for the former CFO, Chris Price, was increased by 2.5% to \$538,000 for FY2020. Mr Price replaced Mr Sudholz as CEO on 20 March 2020, on fixed remuneration of \$720,000 per annum. The CFO & CIO, Anthony Rice, and the COO, Lindon Le Griffon were also considered executives for a part of FY2020 following their respective appointments during the year.

The total fixed remuneration paid to each executive while a KMP for FY2020 and in the prior year is set out below:

	Cash salary <sup>1</sup> \$'000	Super-annuation \$'000	Fixed remuneration \$'000	Other <sup>2</sup> \$'000	Total fixed remuneration paid \$'000
<b>Executives</b>					
<b>Andrew Sudholz (former CEO)<sup>3</sup></b>					
<b>FY2020</b>	<b>535</b>	<b>19</b>	<b>554</b>	<b>8</b>	<b>562</b>
FY2019	990	25	1,015	17	1,032
<b>Chris Price (CEO and former CFO)<sup>4</sup></b>					
<b>FY2020</b>	<b>543</b>	<b>25</b>	<b>568</b>	<b>12</b>	<b>580</b>
FY2019	501	37	538	17	555
<b>Anthony Rice (CFO &amp; CIO)<sup>5</sup></b>					
<b>FY2020</b>	<b>138</b>	<b>16</b>	<b>154</b>	<b>3</b>	<b>157</b>
FY2019	n/a	n/a	n/a	n/a	n/a
<b>Lindon Le Griffon (COO)<sup>6</sup></b>					
<b>FY2020</b>	<b>120</b>	<b>12</b>	<b>132</b>	<b>4</b>	<b>136</b>
FY2019	n/a	n/a	n/a	n/a	n/a

1. Cash salary includes salary and leave entitlements paid during the year.
2. Other includes parking and other work related employee benefits.
3. KMP from 1 July 2019 to 20 March 2020.
4. Appointed CEO on 20 March 2020.
5. KMP from 20 March to 30 June 2020.
6. KMP from 17 February to 30 June 2020.

#### 16.5.2 FY2020 performance based remuneration

New short and long-term performance based incentive arrangements applied for FY2020.

Participating executives were eligible to receive up to 50% of their fixed remuneration (pre employee benefits) in STIs to be delivered 50% in cash at the end of the performance year and 50% in equity, deferred for one year. Performance was assessed against a group of financial and non-financial KPIs relevant to each executive.

Participating executives were also eligible to receive up to 100% of their fixed remuneration (pre employee benefits) in LTIs to be delivered as equity. Accordingly, performance rights were granted to executives which could vest as shares in the Company subject to the award of LTIs based on the achievement of both earnings per share growth and total shareholder returns hurdles, to be measured over a four year performance period to 30 June 2023. Details of the performance rights granted are shown in the table in section 16.8.3 of this report.

Common gateway measures are used to determine if executives can qualify to be awarded any performance based remuneration. Executives were required to meet ongoing aged care accreditation, and regulatory and compliance guidelines as the gateways for FY2020. As the Board determined that the accreditation gateway had not been met, no performance based remuneration was awarded and granted performance rights were forfeited.

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.5.2 FY2020 performance based remuneration (continued)

Further details of performance based remuneration for FY2020 are described in the executive remuneration framework tables in section 16.5.4 of this report.

#### 16.5.3 FY2020 one-off equity grants

The following one-off equity grants were made to executives during FY2020 under the Company's equity incentive plan (EIP):

- the former CEO received restricted shares with a face value of \$182,000, equivalent to the pro-rata amount of the voluntary reduction in his total fixed remuneration for FY2020. This equity was acquired on-market and vested on 30 June 2020; and
- the CEO, in his role as the former CFO, received performance rights with a face value of \$135,000 as a retention incentive. This equity vests on 30 September 2020 subject to satisfactory performance and continued employment with the Company.

#### 16.5.4 Further detail on FY2020 executive remuneration framework

##### Fixed remuneration

Amount	<ul style="list-style-type: none"><li>Mid to upper quartile of a comparator group.</li></ul>
Delivery	<ul style="list-style-type: none"><li>100% cash payment comprising base salary and statutory superannuation contributions.</li><li>Parking and other work related employee benefits are also provided (calculated on a total cost basis including FBT).</li></ul>
Considerations	<ul style="list-style-type: none"><li>Capability and experience.</li><li>Role scope and responsibilities.</li><li>Comparator group benchmarking.</li></ul>
Objectives	<ul style="list-style-type: none"><li>Attract and retain high calibre executives with exceptional skills and experience.</li></ul>

##### Short-term incentive

Amount	<ul style="list-style-type: none"><li>Maximum potential STI of 50% of fixed remuneration (pre employee benefits).</li></ul>
Delivery	<ul style="list-style-type: none"><li>50% cash and 50% equity in the Company via the EIP.</li><li>Cash component payable at the end of the performance year and subject to continued employment at date of payment (at the Board's discretion).</li><li>Equity component delivered as restricted shares. Number of shares granted determined using VWAP of the Company's shares over the last 10 trading days of June 2020.</li><li>Restricted shares are subject to a 12 month vesting period from the date of grant. Vesting subject to continued employment unless otherwise determined by the Board (e.g. where employment ceased due to personal circumstances as a 'good leaver').</li><li>Where there is a change of control event for the Company, the Board may accelerate vesting of restricted shares. If such an event occurs before the Board has acted, all restricted shares will immediately vest.</li></ul>

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.5.4 Further detail on FY2020 executive remuneration framework (continued)

##### Short-term incentive (continued)

Delivery (continued)	<ul style="list-style-type: none"><li>• STI is subject to forfeiture and clawback under the following circumstances:<ul style="list-style-type: none"><li>- material misstatement or omission in the Group's financial statements;</li><li>- fraud, dishonesty or gross misconduct;</li><li>- breach of obligations;</li><li>- an act bringing disrepute to the Group;</li><li>- conviction or judgement connected with the Group's affairs; or</li><li>- requirement or entitlement by law or Company policy to reclaim remuneration.</li></ul></li></ul>
Considerations	<ul style="list-style-type: none"><li>• Common gateways requiring achievement of ongoing aged care accreditation, regulatory and compliance guidelines and STI pool to form to qualify for any STI to be awarded.</li><li>• Individual financial and non-financial performance hurdles reflecting the executives' position to influence outcomes and the achievement of desired Group outcomes.</li><li>• Measured over a one year performance period (1 July 2019 to 30 June 2020) applying a balanced scorecard approach.</li><li>• Award of STI is subject to final Board discretion which may include adjustments for extraordinary, unusual or other factors including where shareholder and other stakeholder expectations have not been met.</li><li>• Structured to be at least cost neutral to the Group requiring STI to be self-funding (i.e. Board approved budget must be met before an STI pool can form).</li></ul>
Objectives	<ul style="list-style-type: none"><li>• Incentivises achievement of prioritised and targeted short-term outcomes in key areas including organisation, safety, growth and finance.</li><li>• Encourages performance above and beyond "come-to-work" requirements subject to first achieving minimum 'gateway' standards.</li><li>• Equity component aligns executives with shareholders' interests and assists with retention through vesting arrangements.</li></ul>

##### Long-term incentive

Amount	<ul style="list-style-type: none"><li>• Maximum potential LTI of 100% of fixed remuneration (pre employee benefits).</li></ul>
Delivery	<ul style="list-style-type: none"><li>• 100% equity in the Company (or cash at the Board's discretion) via the EIP.</li><li>• Equity is delivered upfront as performance rights granted under the EIP at nil consideration and can be converted to the same number of shares in the Company for nil consideration.</li><li>• Number of performance rights granted determined using VWAP of the Company's shares over the last 10 trading days of June 2019.</li><li>• Performance rights will lapse for termination of employment by cause or resignation unless otherwise determined by the Board (e.g. where employment ceased due to personal circumstances as a 'good leaver').</li><li>• Where there is a change of control event for the Company, the Board may accelerate vesting of performance rights. If such an event occurs before the Board has acted, a pro rata portion of the performance rights will vest, with the remainder to vest at the Board's discretion.</li></ul>



## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.5.4 Further detail on FY2020 executive remuneration framework (continued)

##### Long-term incentive (continued)

Delivery (continued)	<ul style="list-style-type: none"> <li>LTI is subject to forfeiture and clawback under the following circumstances: <ul style="list-style-type: none"> <li>material misstatement or omission in the Group's financial statements;</li> <li>fraud, dishonesty or gross misconduct;</li> <li>breach of obligations;</li> <li>an act bringing disrepute to the Group;</li> <li>conviction or judgement connected with the Group's affairs; or</li> <li>requirement or entitlement by law or Company policy to reclaim remuneration.</li> </ul> </li> </ul>																
Considerations	<ul style="list-style-type: none"> <li>Common gateways requiring achievement of ongoing aged care accreditation, and regulatory and compliance guidelines to qualify for any LTI to vest.</li> <li>Common performance hurdles requiring minimum compound annual growth in Group earnings per share (<b>EPS</b>) and/or total shareholder returns (<b>TSR</b>).</li> <li>Measured over a four year performance period (1 July 2019 to 30 June 2023).</li> <li>A maximum of 60% of the performance rights may vest upon satisfaction of the EPS hurdle and 40% for satisfaction of the TSR hurdle.</li> <li>Extent of award / vesting of LTI subject to level of growth achieved under each performance hurdle as follows: <div> <div> <u>EPS</u> <table border="1"> <tr> <th><i>Compound annual growth in EPS</i></th><th><i>% of LTI eligible to vest (pre-weighting)</i></th></tr> <tr> <td>Below 2%</td><td>Nil</td></tr> <tr> <td>2% to 4%</td><td>40% then increasing on a straight line basis</td></tr> <tr> <td>4% and above</td><td>100%</td></tr> </table> </div> <div> <u>TSR</u> <table border="1"> <tr> <th><i>Annual growth in absolute TSR</i></th><th><i>% of LTI eligible to vest (pre-weighting)</i></th></tr> <tr> <td>Below 5%</td><td>Nil</td></tr> <tr> <td>5% and 8%</td><td>40% then increasing on a straight line basis</td></tr> <tr> <td>8% and above</td><td>100%</td></tr> </table> </div> </div> </li> <li>Calculation and achievement of LTI hurdles are at the Board's discretion having regard to any matters considered relevant.</li> <li>Structured to be earnings per share and returns positive for shareholders.</li> </ul>	<i>Compound annual growth in EPS</i>	<i>% of LTI eligible to vest (pre-weighting)</i>	Below 2%	Nil	2% to 4%	40% then increasing on a straight line basis	4% and above	100%	<i>Annual growth in absolute TSR</i>	<i>% of LTI eligible to vest (pre-weighting)</i>	Below 5%	Nil	5% and 8%	40% then increasing on a straight line basis	8% and above	100%
<i>Compound annual growth in EPS</i>	<i>% of LTI eligible to vest (pre-weighting)</i>																
Below 2%	Nil																
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4% and above	100%																
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Below 5%	Nil																
5% and 8%	40% then increasing on a straight line basis																
8% and above	100%																
Objectives	<ul style="list-style-type: none"> <li>Incentivises achievement of growth in earnings, dividends and share price.</li> <li>Assist executives to own equity in the Company for alignment with shareholders' interests.</li> <li>Assist executive retention through long-term vesting arrangements.</li> </ul>																

## Japara Healthcare Limited and Controlled Entities

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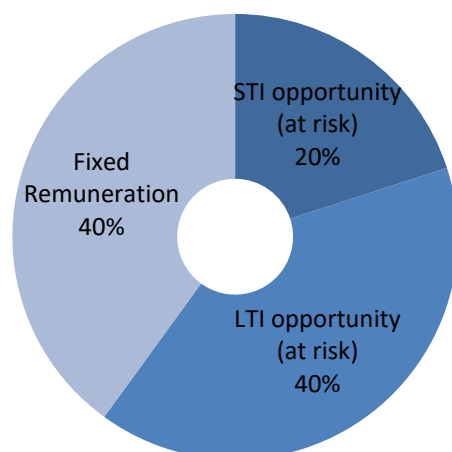
### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.5.5 FY2020 remuneration mix

Below is the maximum potential remuneration mix for executives in FY2020 (excluding one-off equity grants) showing the fixed and performance based 'at risk' components:



Note: The LTI opportunity depicted above was determined using the face value of granted performance rights at the beginning of FY2020. However, the fair value of the performance rights is used for statutory reporting purposes, based on a Monte-Carlo simulation. No value is shown for the LTI opportunity in the Executive Remuneration Table in section 16.8.1 of this report as the LTI was forfeited during FY2020.

#### 16.6 Remuneration governance

##### 16.6.1 Board & People, Culture and Remuneration Committee

The Board determines KMP remuneration with assistance from the People, Culture and Remuneration Committee (**Remuneration Committee**). The Remuneration Committee comprises non-executive directors of the Company who are independent of management and act in accordance with a Board approved charter. The Remuneration Committee seeks to strike an appropriate balance between the Group's various stakeholders in performing its role, as well as mitigating risk wherever possible.

The Remuneration Committee annually reviews and recommends to the Board:

- arrangements for executives including fixed and performance based 'at risk' remuneration, performance criteria and associated payments and awards; and
- arrangements for non-executive directors including remuneration, travel and other reimbursements.

In making its recommendations to the Board, the Remuneration Committee has particular regard for non-financial metrics including clinical quality, regulatory compliance and ethical standards. The Remuneration Committee monitors any staff and Group compliance breaches, including with assistance from the other Board committees.

Award of performance based remuneration is subject to the Board's final discretion. The Board may seek to exercise such discretion during circumstances where shareholder and other stakeholder expectations have not been met.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.6.2 Remuneration recommendations

The Remuneration Committee considers comparator and other remuneration information from independent external providers as required. Such information is used for informed decision making purposes and is not a substitute for detailed consideration and debate of remuneration matters by the Remuneration Committee.

No remuneration recommendations were provided to the Group by external providers for FY2020.

#### 16.7 Non-executive director remuneration

##### 16.7.1 Non-executive director remuneration principles

Non-executive directors are remunerated for their services to the Group. The maximum aggregate amount of remuneration (**the pool**) payable to non-executive directors is approved by the Company's shareholders. Non-executive director remuneration comprises only fixed remuneration (including statutory superannuation contributions), with the maximum aggregate amount payable capped at \$1,000,000 as determined by the Company's shareholders on 4 April 2014.

The Board annually determines the fees each non-executive director is entitled to receive from the pool having regard to remuneration benchmarking as well as the Group's historical earnings, shareholder outcomes and other stakeholder expectations when determining non-executive director remuneration levels. Such factors are balanced against the need to remain competitive on remuneration to attract and retain suitably skilled and experienced directors. The same comparator group used for executive remuneration benchmarking purposes is used for benchmarking non-executive director fees.

The Board Chairman and the chairman of each standing committee of the Board typically receive fees commensurate with the additional duties and responsibilities of these roles. Non-executive directors do not participate in performance based remuneration and have no retirement benefit schemes other than receiving statutory superannuation contributions.

Non-executive directors are entitled to be reimbursed for reasonable travel and other expenses incurred in discharging their duties including attending Board, committee and general meetings.

The Board has adopted a policy requiring non-executive directors to hold shares in the Company equivalent to at least one year's director's fees which can be acquired over a five year period following appointment. This policy seeks to further align the interests of non-executive directors with shareholders more generally. The Company operates a voluntary share purchase plan to assist non-executive directors in building their shareholdings in the Company.

##### 16.7.2 FY2020 non-executive director remuneration

Total non-executive director fees for FY2020 were \$730,000 (FY2019 \$625,000) as follows:

- \$250,000 to the non-executive chairman (FY2019 \$250,000);
- \$105,000 to each other non-executive director (FY2019 \$105,000); and
- an additional \$20,000 to the chairman of each standing committee of the Board (FY2019 \$20,000).

Total fees were higher in FY2020 due to the appointment of Leanne Rowe AM as an additional non-executive director.

The Board resolved to reduce non-executive director fees by 20% effective 1 July 2020. There is no change required or proposed to the fee pool for FY2021.

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### Directors' Report (continued)

### Remuneration Report (continued)

For the year ended 30 June 2020

#### 16.7.2 FY2020 non-executive director remuneration (continued)

	Board fees earned \$'000	Committee chairman fees earned \$'000	Total fees earned \$'000
<b>Non-executive directors</b>			
<b>Linda Bardo Nicholls AO (Chairman)</b>			
<b>FY2020</b>	<b>250</b>	<b>-</b>	<b>250</b>
FY2019	250	-	250
<b>Richard England</b>			
<b>FY2020</b>	<b>105</b>	<b>20</b>	<b>125</b>
FY2019	105	20	125
<b>JoAnne Stephenson</b>			
<b>FY2020</b>	<b>105</b>	<b>20</b>	<b>125</b>
FY2019	105	20	125
<b>Leanne Rowe AM (appointed 1 July 2019)</b>			
<b>FY2020</b>	<b>105</b>	<b>20</b>	<b>125</b>
<b>David Blight</b>			
<b>FY2020</b>	<b>105</b>	<b>-</b>	<b>105</b>
FY2019	105	20	125

#### 16.7.3 Statutory disclosure of non-executive director remuneration outcomes

Non-executive director remuneration included within employee benefits expense in the Statement of Profit or Loss and Other Comprehensive Income for FY2020 follows:

	Short-term benefits		Post-employment benefits	
	Fees paid	Non-monetary benefits paid	Superannuation benefits paid	Total fees
	\$'000	\$'000	\$'000	\$'000
<b>Non-executive directors</b>				
<b>Linda Bardo Nicholls AO (Chairman)</b>				
<b>FY2020</b>	<b>239</b>	<b>-</b>	<b>11</b>	<b>250</b>
FY2019	228	-	22	250
<b>Richard England</b>				
<b>FY2020</b>	<b>114</b>	<b>-</b>	<b>11</b>	<b>125</b>
FY2019	114	-	11	125
<b>JoAnne Stephenson</b>				
<b>FY2020</b>	<b>114</b>	<b>-</b>	<b>11</b>	<b>125</b>
FY2019	114	-	11	125
<b>Leanne Rowe AM (appointed 1 July 2019)</b>				
<b>FY2020</b>	<b>114</b>	<b>-</b>	<b>11</b>	<b>125</b>
<b>David Blight</b>				
<b>FY2020</b>	<b>100</b>	<b>-</b>	<b>5</b>	<b>105</b>
FY2019	114	-	11	125
<b>Total</b>				
<b>FY2020</b>	<b>681</b>	<b>-</b>	<b>49</b>	<b>730</b>
FY2019	570	-	55	625

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### Directors' Report (continued)

### Remuneration Report (continued)

### For the year ended 30 June 2020

#### 16.8 Other statutory disclosures

#### 16.8.1 Total executive remuneration

The remuneration of executives calculated in accordance with applicable accounting standards for FY2020 follows:

	Short-term benefits		Post-employment benefits		Performance based ('at risk') <sup>1</sup>				
	Salary paid	Non-monetary benefits paid	Superannuation benefits paid	Annual leave entitlements accrued	Long-service leave entitlements accrued	Total fixed remuneration	Payable in cash	Share-based payments accrued <sup>2</sup>	Total fixed and performance based remuneration
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>Executives</u>									
Andrew Sudholz (former CEO)									
FY2020 <sup>3</sup>	517	8	19	41	(86)	499	-	141	640
FY2019	981	17	25	70	(69)	1,024	-	-	1,024
Chris Price (CEO and former CFO)									
FY2020	529	12	25	39	11	616	-	114	730
FY2019	488	17	37	37	11	590	-	-	590
Anthony Rice (CFO & CIO)									
FY2020 <sup>4</sup>	147	3	16	11	-	177	-	-	177
Lindon Le Griffon (COO)									
FY2020 <sup>5</sup>	128	4	12	10	-	154	-	-	154
Total									
FY2020	1,321	27	72	101	(75)	1,446	-	255	1,701
FY2019	1,469	34	62	107	(58)	1,614	-	-	1,614

1. Granted while a KMP.
2. Calculated using the discounted cash flow method in accordance with AASB 2 *Share-based payments* (see Note D3 to the Company's 2020 Financial Statements).
3. KMP from 1 July 2019 to 20 March 2020.
4. KMP from 20 March to 30 June 2020.
5. KMP from 17 February to 30 June 2020.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration report (continued)

For the year ended 30 June 2020

#### 16.8.1 Total executive remuneration (continued)

Details of the remuneration of executives, prepared in accordance with statutory obligations and accounting standards, are set out in the preceding table (**Executive Remuneration Table**).

The key difference between executive remuneration amounts presented in section 16.3.3 of this report and the Executive Remuneration Table is that the former shows actual entitlements received during a year and the latter requires that the movement in leave provisions to be recognised in the financial statements as part of the executives' employee benefit expense. A reconciliation between the two tables is set out below:

	Total fixed and performance based remuneration received by executives <sup>1</sup> \$'000	Reconciliation to statutory total fixed and performance based remuneration for executives	
		Movement in leave provisions \$'000	Total fixed and performance based remuneration statutory \$'000
<b>Executives</b>			
<b>Andrew Sudholz (former CEO)</b>			
<b>FY2020</b>	<b>703</b>	<b>(63)</b>	<b>640</b>
FY2019	1,032	(8)	1,024
<b>Chris Price (CEO and former CFO)</b>			
<b>FY2020</b>	<b>694</b>	<b>36</b>	<b>730</b>
FY2019	555	35	590
<b>Anthony Rice (CFO &amp; CIO)</b>			
<b>FY2020</b>	<b>157</b>	<b>20</b>	<b>177</b>
<b>Lindon Le Griffon (COO)</b>			
<b>FY2020</b>	<b>136</b>	<b>18</b>	<b>154</b>

1. Reflects fixed remuneration paid, remuneration received as equity and performance based remuneration awarded.

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### Directors' Report (continued)

#### Remuneration report (continued)

For the year ended 30 June 2020

#### 16.8.2 KMP shareholdings in the Company

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

	Held at 1 July 2019	Acquired during FY2020	Sold during FY2020	Held at 30 June 2020	Nominally held at 30 June 2020
	No. of shares	No. of shares	No. of shares	No. of shares	No. of shares
<b>Executives</b>					
Andrew Sudholz (former CEO) <sup>1</sup>	15,762,978	-	-	n/a	n/a
Chris Price (CEO and former CFO)	-	-	-	-	-
Anthony Rice (CFO & CIO) <sup>2</sup>	n/a	-	-	-	-
Lindon Le Griffin (COO) <sup>3</sup>	n/a	-	-	-	-
<b>Non-executive directors</b>					
Linda Bardo Nicholls AO	201,601	42,421	-	244,022	149,873
Richard England	61,032	18,268	-	79,300	-
JoAnne Stephenson	37,262	22,833	-	60,095	12,000
Leanne Rowe AM	-	114,000	-	114,000	114,000
David Blight	90,000	-	-	90,000	90,000

1. KMP during FY2020 from 1 July 2019 to 20 March 2020.
2. KMP during FY2020 from 20 March to 30 June 2020.
3. KMP during FY2020 from 17 February to 30 June 2020.

## Japara Healthcare Limited and Controlled Entities

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### Directors' Report (continued)

#### Remuneration report (continued)

For the year ended 30 June 2020

#### 16.8.3 Analysis of movements in equity instruments held by KMP

The movement during the year in equity instruments held directly, indirectly or beneficially by each KMP, including their related parties, follows:

	Grant date	Vesting date	Held at 1 July 2019 No. of securities <sup>1</sup>	Granted No. of securities <sup>1</sup>	Exercised No. of securities <sup>1</sup>	Forfeited No. of securities <sup>2</sup>	Held at 30 June 2020 No. of securities <sup>1</sup>	Vested during FY2020 No. of securities <sup>1</sup>	Vested and exercisable at 30 June 2020 No. of securities <sup>1</sup>
<b>Restricted shares<sup>3</sup></b>									
Andrew Sudholz (former CEO) <sup>4</sup>	25/09/19	30/06/20	-	178,083	-	-	n/a	n/a	n/a
<b>Rights<sup>5</sup></b>									
Andrew Sudholz (former CEO) <sup>4</sup>	15/09/19	30/06/23	-	655,738	-	(655,738)	n/a	-	-
Chris Price (CEO and former CFO)	14/10/19	30/09/20	-	131,894	-	-	131,894	-	-
	15/09/19	30/06/23	-	452,113	-	(452,113)	-	-	-
Anthony Rice (CFO & CIO) <sup>6</sup>	14/10/19	30/09/20	-	98,040	-	-	98,040	-	-
	15/09/19	30/06/23	-	409,836	-	(409,836)	-	-	-
Lindon Le Griffon (COO) <sup>7</sup>			-	-	-	-	-	-	-

1. Granted, exercised or held while a KMP.
2. Rights granted in FY2020 as long-term incentive were forfeited due to a performance gateway not being met.
3. Restricted shares are ordinary shares of the Company that are subject to restrictions including on vesting and dealing. They are granted under the Company's EIP.
4. KMP during FY2020 from 1 July 2019 to 20 March 2020.
5. All rights are for ordinary shares of the Company, which are exercisable on a one-for-one basis. They are performance rights granted under the Company's EIP.
6. KMP during FY2020 from 20 March to 30 June 2020. Rights were granted prior to being a KMP while in the CIO role.
7. KMP during FY2020 from 17 February to 30 June 2020.

Non-executive directors, including their related parties, are not entitled to receive equity instruments from the Company.



## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2020

		2020	2019
	Note	\$'000	\$'000
Revenue	B2	422,242	394,937
Other income	B2	5,290	4,831
<b>Total revenue and other income</b>		<b>427,532</b>	<b>399,768</b>
Employee benefits expense	D1	(315,064)	(277,563)
Resident costs		(39,074)	(34,225)
Occupancy costs		(21,622)	(22,607)
Depreciation and amortisation expense	F1 & F2	(26,441)	(19,995)
Administrative expenses		(18,897)	(15,820)
Impairment of non-current assets	F1 & F3	(291,923)	-
<b>Earnings before interest and tax</b>		<b>(285,489)</b>	<b>29,558</b>
Finance income		197	425
Finance costs	B3	(7,590)	(6,339)
<b>Profit / (loss) before income tax</b>		<b>(292,882)</b>	<b>23,644</b>
Income tax credit / (expense)	B5	795	(7,211)
<b>Profit / (loss) for the year</b>		<b>(292,087)</b>	<b>16,433</b>
Other comprehensive income, net of income tax	G6	(2,627)	(2,412)
<b>Total comprehensive income for the year</b>		<b>(294,714)</b>	<b>14,021</b>
<b>Profit / (loss) attributable to members of the Group</b>		<b>(292,087)</b>	<b>16,433</b>
<b>Total comprehensive income attributable to members of the Group</b>		<b>(294,714)</b>	<b>14,021</b>
<b>Earnings per share</b>			
Basic earnings / (loss) per share (cents)	B4	(109.47)	6.16
Diluted earnings / (loss) per share (cents)	B4	(109.00)	6.16

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Consolidated Statement of Financial Position

As at 30 June 2020

			<i>Restated*</i>
		2020	2019
	Note	\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	G3	48,286	31,472
Trade and other receivables	C1	15,326	14,640
Non-current assets held for sale		2,261	2,192
Current tax receivable	B5	1,860	-
Other assets		3,681	6,216
<b>Total current assets</b>		<b>71,414</b>	<b>54,520</b>
<b>Non-current assets</b>			
Trade and other receivables	C2	2,574	2,347
Right-of-use assets	F2	30,140	-
Property, plant and equipment	F1	833,202	787,767
Investment property	F4	48,925	39,200
Intangible assets	F3	265,761	555,319
<b>Total non-current assets</b>		<b>1,180,602</b>	<b>1,384,633</b>
<b>TOTAL ASSETS</b>		<b>1,252,016</b>	<b>1,439,153</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables and other liabilities	E1	34,104	35,573
Borrowings	G5	58,250	40,750
Current tax payable	B5	-	377
Other financial liabilities	G6	609,526	554,649
Employee provisions	D2	42,954	36,645
Lease liabilities	F2	2,338	-
<b>Total current liabilities</b>		<b>747,172</b>	<b>667,994</b>
<b>Non-current liabilities</b>			
Borrowings	G5	180,750	169,750
Deferred tax liabilities	B5	61,090	62,938
Employee provisions	D2	5,608	3,975
Other financial liabilities	G6	5,039	2,412
Lease liabilities	F2	29,390	-
<b>Total non-current liabilities</b>		<b>281,877</b>	<b>239,075</b>
<b>TOTAL LIABILITIES</b>		<b>1,029,049</b>	<b>907,069</b>
<b>NET ASSETS</b>		<b>222,967</b>	<b>532,084</b>
<b>EQUITY</b>			
Issued capital	G9	524,285	524,695
Share based payment reserve		304	-
Hedging reserve		(5,039)	(2,412)
Retained earnings		(296,583)	9,801
<b>TOTAL EQUITY</b>		<b>222,967</b>	<b>532,084</b>

\*See Note A5

The accompanying notes form part of these financial statements.

**Japara Healthcare Limited and Controlled Entities**

ABN: 54 168 631 052

**Consolidated Statement of Changes in Equity**

**For the Year Ended 30 June 2020**

**2020**

	Issued Capital \$'000	Share Based Payment Reserve \$'000	Hedging Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance at 1 July 2019</b>	<b>524,695</b>	-	(2,412)	<b>9,801</b>	<b>532,084</b>
Profit attributable to members of the parent entity	-	-	-	(292,087)	(292,087)
Other comprehensive income	-	-	(2,627)	-	(2,627)
Total comprehensive income	-	-	(2,627)	(292,087)	(294,714)
<b>Transactions with owners of the Company</b>					
Share based payment transaction	-	304	-	-	304
Purchase of ordinary shares to be held as treasury shares	(617)	-	-	-	(617)
Treasury shares issued as performance rights	207	-	-	-	207
Dividends paid	-	-	-	(14,297)	(14,297)
<b>Balance at 30 June 2020</b>	<b>524,285</b>	<b>304</b>	<b>(5,039)</b>	<b>(296,583)</b>	<b>222,967</b>

**2019**

	Issued Capital \$'000	Share Based Payment Reserve \$'000	Hedging Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance at 1 July 2018</b>	<b>522,962</b>	-	-	<b>10,816</b>	<b>533,778</b>
Profit attributable to members of the parent entity	-	-	-	16,433	16,433
Other comprehensive income	-	-	(2,412)	-	(2,412)
Total comprehensive income	-	-	(2,412)	16,433	14,021
<b>Transactions with owners of the Company</b>					
Shares issued during the year	1,733	-	-	-	1,733
Dividends paid	-	-	-	(17,448)	(17,448)
<b>Balance at 30 June 2019</b>	<b>524,695</b>	-	<b>(2,412)</b>	<b>9,801</b>	<b>532,084</b>

The accompanying notes form part of these financial statements.

## Consolidated Statement of Cash Flows

For the Year Ended 30 June 2020

		<i>Restated*</i>
	2020	2019
Note	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	421,567	389,844
Payments to suppliers and employees	(390,603)	(347,515)
Income taxes paid	(3,316)	(2,348)
Interest received	231	414
Finance costs paid	(8,444)	(6,436)
Proceeds from RADs & ILU resident loans*	232,302	183,262
Repayment of RADs/accommodation bonds & ILU resident loans*	(176,539)	(138,533)
<b>Net cash provided by operating activities</b>	J4 75,198	78,688
<b>Cash flows from investing activities</b>		
Purchase of land and buildings	(15,407)	(18,289)
Proceeds from sale of land and buildings	19,009	1,671
Purchase of plant and equipment	(6,458)	(29,687)
Capital works in progress	(71,006)	(78,387)
Proceeds from sale of surplus resident places	4,690	3,416
Purchase of resident places	-	(3,423)
Deposits paid under land contracts	-	(960)
<b>Net cash used by investing activities</b>	(69,172)	(125,659)
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	-	1,733
Purchase of treasury shares	(617)	-
Dividends paid	G9(b) (14,297)	(17,448)
Net proceeds from bank borrowings	G5(a) 28,500	65,000
Repayment of lease liabilities	(2,798)	-
<b>Net cash provided by financing activities</b>	10,788	49,285
<b>Net increase in cash and cash equivalents held</b>	16,814	2,314
Cash and cash equivalents at beginning of the year	31,472	29,158
<b>Cash and cash equivalents at end of the year</b>	G3 48,286	31,472

\*In the current period the Group has changed the classification of cash flows arising in relation to proceeds from, and repayment of, RADs, accommodation bonds and ILU resident loans from "Cash flows from financing activities" to "Cash flows from operating activities". Please see Note A2 for further details.

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 30 June 2020**

#### **A About this Report**

##### **A1 Reporting entity**

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

The Company's registered office is at Q1 Building Level 4, 1 Southbank Boulevard, Southbank, Vic 3006, Australia.

The Group is a for-profit entity and provides residential aged care services throughout Australia (see Note B1).

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

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

This is the first set of the Group's financial statements in which AASB 16 *Leases* has been applied. Changes in significant accounting policies are described in Note A5.

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

The Group's current liabilities exceed its current assets by \$675,758,000 as at 30 June 2020 (2019: \$613,474,000). This mainly arises because of the requirement to classify obligations relating to refundable accommodation deposits ("RADs"), accommodation bonds and independent living unit ("ILU") resident loans of \$609,526,000 (2019: \$554,649,000) as current liabilities (see Note G6 for further details), whereas the investment properties, property, plant and equipment and intangible assets to which they relate, are required to be classified as non-current assets.

The COVID-19 pandemic has had a significant impact on the residential aged care sector in the second half of the financial year ended 30 June 2020, and has continued to have a significant impact since the reporting date, especially in Victoria where the majority of the Group's homes are located (33 homes in Victoria out of a total 51 homes across Australia as at 30 June 2020). The Group has not been eligible to enrol in the JobKeeper Federal Government assistance programme, but the Federal Government has provided additional one-off and temporary funding to the aged care sector, of which the Group has received and recognised as income in FY2020 approximately \$5,500,000 with a further \$600,000 expected by August 2020 to be recognised in FY2021. The impacts of COVID-19 have affected the various assumptions and estimates used in the assessment of the carrying value of intangibles and other assets in the Statement of Financial Position of the Group, resulting in a significant non-cash impairment charge for the year. The directors have carefully reviewed their assessment of going concern as a result of the above.

The main financial risks associated with COVID-19 are from the impacts of reduced occupancy levels, mix of RAD and DAP payments, increased costs and sustained periods of negative RAD cash flows as a result of residents leaving and not being replaced. Each of the above is described further below:

- Occupancy consequences arising from COVID-19 outbreaks in residential care settings include the passing of residents or temporarily leaving the home to be cared for in hospital, at another aged care facility or at a relative's home. As residential aged care home visitation restrictions are in place and delays in selling residential property to fund RADs may occur, this then potentially creates a timing lag for replacement occupancy and RAD receipts. While the Group experienced some short-term reduction in occupancy levels during April 2020 and May 2020, occupancy levels improved in June 2020, before falling away slightly in July 2020. The reduction in occupancy is expected to continue throughout August 2020 and into September 2020 while the Stage 4 restrictions in Melbourne and Stage 3 restrictions throughout the rest of Victoria remain.
- The mix of how residents choose to pay for their accommodation (through a RAD, a Daily Accommodation Payment ("DAP"), or a combination of the two), can have an impact on the timing of cash flows to the Group. RAD payers provide upfront lump sum cash flows to the Group, whereas DAP payers spread these cash flows out over the duration of their stay. The receipt of a RAD is refundable to the resident upon their departure; the receipt of a DAP is non-refundable. A significant shift from RAD payers to DAP payers may have a negative impact on the Group's cash

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### A About this Report (continued)

#### A2 Basis of accounting (continued)

flows in the short term. A fall in the residential property market may drive such a transition from RAD to DAP payers, as residents may be slower to sell their homes and therefore not have the funds available to pay a full RAD. House price forecasts over the next 12 months are indicating a contraction in the market of around 5%, which may therefore impact the RAD/DAP mix for the Group. Management has considered the impact of such a contraction on the RAD/DAP mix; and management's forecast scenarios, while potentially reducing available cash in the short term, demonstrate the Group is able to meet its obligations as they come due.

- As COVID-19 outbreaks occur at a residential aged care home, staff costs increase as a result of additional care and cleaning hours, increased personal leave, overtime costs and use of higher cost agency staff to fill vacant shifts due to staff sickness and isolation. Non-staff costs also increase through increased use of personal protective equipment ("PPE") and cleaning supplies. The Group has seen increases in these costs during the second half of the financial year and increased further in FY2021 due to outbreaks in more of its Victorian homes. However, based on the assumption that COVID-19 cases will stabilise from October 2020 (in line with modelling that has been made public by the Victorian Treasury Department) and remain that way for at least the next 12 months, these costs are expected to initially revert to a level experienced during the earlier stages of the pandemic. PPE costs at this level can be managed by the Group through stricter management of other costs, and through recovery of some of these costs through access to Government grants available to the Group.
- RAD cash flows have remained stable with net RAD cash inflows generated every month from February 2020 up to and including July 2020. The Group has considered possible occupancy scenarios that could arise in the coming 12 months, with the assumption that Stage 4 COVID-19 restrictions in Melbourne start to ease from October 2020 and the rest of the country continues to control and minimise COVID-19 outbreaks throughout the next 12 months. The Group has reviewed its forecast short and medium term net RAD flows, with reference to the likely occupancy rates, return to a more relatively normal residential property sales market and the Group's new residential aged care home openings. Based on this scenario, the Group anticipates a modest net RAD inflow over the next 12 months.

The Group has a sound liquidity position at 30 June 2020 with available cash of \$48,286,000 (2019: \$31,472,000) and undrawn bank debt facilities of \$106,000,000 (2019: \$134,500,000). The Group expects to remain compliant with its bank covenant requirements. Based upon reasonably possible scenarios in light of impacts to date and an assessment that the COVID-19 pandemic is brought under control in Victoria and Stage 4 restrictions are eased in the short-term, and no further significant outbreaks throughout the country, the Group's forecasts demonstrate that it will continue to be able to meet its obligations associated with all financial liabilities as and when they are expected to fall due. Any significant changes in the assumptions around COVID-19 will result in changes in occupancy, and therefore cash flows to the Group.

Note G3(b) explains that liquidity risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. This is also achieved by maintaining a liquidity management strategy to ensure that the Group has sufficient liquidity to enable it to refund RADs and accommodation bonds that are expected to fall due within the next 12 months.

In the current period the Group has changed the classification of cash flows arising in relation to the proceeds from, and repayment of, RADs, accommodation bonds and ILU resident loans from "Cash flows from financing activities" to "Cash flows from operating activities". The reason for the change in classification is that the Group is of the view that this better reflects the nature of RADs, accommodation bonds and ILU resident loans as being part of the principal operating activities of the business and are utilised at the discretion of the Group within the guidelines set out by the Prudential Compliance Standards. The prior period comparatives have also been restated to reflect this change in classification.

The financial statements were authorised for issue by the Board of Directors on 26 August 2020. Details of the Group's accounting policies are included in their respective notes.

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

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

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

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

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 26 March 2016 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

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

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

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

Information about estimates, judgements and assumptions that affect the application of the Group's accounting policies within the year ended 30 June 2020 are included in the following notes:

- Note D3 – Share-based payment arrangements: Measurement of fair value;
- Note F3 – Impairment review: Calculation of fair value less cost of disposal;
- Note F4 – Investment property: Measurement of fair values; and
- Note G2 – Financial instruments: Measurement of fair values.

## Notes to the Consolidated Financial Statements

### For the Year Ended 30 June 2020

#### A About this Report (continued)

#### A5 Changes in significant accounting policies

##### AASB 16 Leases ("AASB 16")

The Group has initially applied AASB 16 *Leases* from 1 July 2019. A number of other new standards are also effective from 1 July 2019 but they do not have a material effect on the Group's financial statements.

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

AASB 16 supersedes AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. However, due to the changes in AASB 16 of how a lease is identified, resident agreements will be considered a lease under AASB 16. The Group has concluded that the lease term for these arrangements is 7 days (being the notice period required from a resident upon departure), and therefore the application of AASB 16 to these agreements does not have a material impact on the recognition or measurement of revenue.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to apply the practical expedient that allows the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases') and lease contracts for which the underlying asset is of low value ('low-value assets').

##### (a) Nature of the effect of adoption of AASB 16

###### *The Group as lessee*

The Group has lease contracts for various items of property, equipment and motor vehicles. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. At transition, the Group did not have any finance leases recognised. For the Group's operating leases, the leased assets were not capitalised, and the lease payments were recognised as rent expense in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and trade and other payables, respectively. Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

###### *The Group as lessor - residential aged care*

Due to the changes in AASB 16 of how a lease is identified, resident accommodation agreements will be considered a lease under AASB 16. The Group has concluded that the lease term for these arrangements is 7 days (being the notice period required from a resident upon departure), and therefore the application of AASB 16 to these agreements does not have a material impact on the recognition or measurement of revenue. The Group now discloses DAP, DAC and accommodation supplement revenue separately from revenue from contracts with customers (see Note B2).

###### *The Group as lessor - retirement villages*

Deferred management fee ("DMF") revenue represents the fee that is contractually deducted from the ingoing contribution that is paid back to a resident upon exit from a retirement village. DMF revenue is recognised over the expected length of



## Notes to the Consolidated Financial Statements

### For the Year Ended 30 June 2020

#### A About this Report (continued)

#### A5 Changes in significant accounting policies (continued)

##### AASB 16 Leases ("AASB 16") (continued)

stay of the resident. The Group now discloses this revenue separately from revenue from contracts with customers (see Note B2).

Impact on the Statement of Financial Position as at 1 July 2019:

1 July 2019  
\$'000

##### Assets

Right-of-use assets

29,041

Prepayments

(211)

##### Liabilities

Lease liabilities

28,613

The Group has also applied the available practical expedients, wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the short-term leases exemption to leases with a lease term that ends within 12 months of the date of initial application.
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the foregoing, as at 1 July 2019:

- Right of use assets of \$29,041,000 were recognised and presented separately in the Statement of Financial Position.
- Prepaid rent of \$211,000 was de-recognised and included as part of the right-of-use asset.
- Lease liabilities of \$28,613,000 were recognised and presented separately in the Statement of Financial Position.

1 July 2019  
\$'000

##### Operating lease commitments at 30 June 2019

Change in determination of lease term

26,348

Change in measurement of lease payments

(414)

Items not previously classified as a lease

961

##### Gross lease liability at 1 July 2019

36,887

Weighted average incremental borrowing rate as at 1 July 2019

3%

##### Discounted lease liability at 1 July 2019

28,613

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

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

#### **A5 Changes in significant accounting policies (continued)**

##### **AASB 16 Leases ("AASB 16") (continued)**

###### **(b) Summary of new accounting policies**

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application:

###### *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of a leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment assessment where indicators of impairment are present.

###### *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

###### *Short term leases and low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered low value (i.e. \$7,500 or less). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

###### *Significant judgement in determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has the option, under some of its leases, to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Group includes the renewal period as part of the lease term for leases of property and equipment due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e. three to five years) and there may be a significant effect on occupancy if a replacement is not readily available.

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### A About this Report (continued)

#### A5 Changes in significant accounting policies (continued)

##### Income taxes

In May 2020, the IFRS Interpretations Committee ("IFRS IC") published its final agenda decision 'Multiple Tax Consequences of Recovering an Asset (IAS 12 Income Taxes)' which considers how an entity accounts for deferred taxes on an asset that has two distinct tax consequences over its life that cannot be offset (taxable economic benefits from use and capital gains on disposal or expiry). The IFRS IC concluded that in these circumstances an entity identifies separate temporary differences (and deferred taxes) that reflect these distinct and separate tax consequences of recovering the asset's carrying amount.

The Group's accounting policy has been to consider these two tax consequences of recovering the Resident Places carrying value together as they crystallised over the assets life, irrespective of how the asset was recovered. This accounting policy does not align with the IFRS IC agenda decision.

As a result of the IFRS IC agenda decision, the Group has changed its accounting policy, retrospectively adjusting the deferred tax accounting for the impacted intangibles (the Resident Places). The impacts of the change in accounting policy for the comparative reporting period and the beginning of the earliest period presented are shown below:

	30 June 2019 \$'000	1 July 2018 \$'000
<b>Increase / (decrease) of previously reported balances:</b>		
Goodwill	60,518	60,518
Deferred tax liabilities	60,518	60,518

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### B Business Performance

#### B1 Segment reporting

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

#### B2 Revenue and other income

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

All revenue is stated net of GST.

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

	Note	2020 \$'000	2019 \$'000
<b>Care income</b>			
Department of Health funding		277,955	262,715
Other Government funding		1,310	1,487
Resident basic daily fees		89,315	83,432
Other resident fees		5,726	5,419
<b>Total care income</b>		<b>374,306</b>	<b>353,053</b>
<b>Accommodation income</b>			
Department of Health funding		27,565	23,533
Resident fees		20,371	18,351
<b>Total accommodation income</b>		<b>47,936</b>	<b>41,884</b>
<b>Total revenue</b>		<b>422,242</b>	<b>394,937</b>
<b>Other income</b>			
Movement in fair value of investment property	F4(a)	(2,438)	802
Gain on disposal of non-current assets		7,415	3,801
Other income		313	228
<b>Total other income</b>		<b>5,290</b>	<b>4,831</b>
<b>Total revenue and other income</b>		<b>427,532</b>	<b>399,768</b>

After the adoption of AASB 16, the Group discloses revenue separately between care and accommodation income. The prior period comparatives have been restated for comparison purposes with no change to the overall revenue recorded.

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

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

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

(b) Disaggregation of revenue from contracts with customers

##### **Department of Health funding (Care)**

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

For each resident, a single performance obligation that reflects a series of distinct services that are substantially the same and have the same pattern of transfer has been identified, being the ongoing daily delivery of care to the resident. The Group recognises revenue on a daily basis in line with the care given to residents. Funding is received monthly in advance from the Federal Government.

##### **Other Government funding**

Payment is received for the provision of transitional care under the Federal Government's Transitional Care Program ("TCP"). This is for the provision of time-limited, goal-oriented and therapy-focused packages of services to older people after a hospital stay. The Group receives funding based on the care provided to each individual resident, at a per day rate for each component.

For each resident, a single performance obligation that reflects a series of distinct services that are substantially the same and have the same pattern of transfer has been identified, being the care services provided under the program each day to the resident. The Group recognises revenue on a daily basis in line with the care given to residents. Funding is received monthly in advance from the Federal Government.

##### **Resident basic daily fee**

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

For each resident, a single performance obligation that reflects a series of distinct services that are substantially the same and have the same pattern of transfer has been identified, being the ongoing daily delivery of care to the resident. The Group recognises revenue on a daily basis in line with the care given to residents. Residents are invoiced on a monthly basis for services provided, with payment due upon invoicing.

##### **Other resident fees**

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

Each additional service provided to a resident represents a separate performance obligation. These services are typically provided on a regular recurring basis, with revenue recognised over time as the service is provided to the resident. Services provided are invoiced on a monthly basis for services provided, with payment due upon invoicing.

### **B3 Finance costs**

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

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

## Notes to the Consolidated Financial Statements

### For the Year Ended 30 June 2020

#### B Business Performance (continued)

#### B3 Finance costs (continued)

##### (a) Reconciliation of finance costs

	2020	2019
	\$'000	\$'000
<b>Finance costs</b>		
Loan establishment fees	485	372
Total loan interest costs	6,512	6,161
Loan interest costs capitalised	(1,529)	(2,385)
Interest expense on lease liabilities	869	-
RAD/accommodation bond settlement interest expense	1,732	1,764
Decrease in fair value of Independent Living Unit loan liability	(479)	427
<b>Total finance costs</b>	<b>7,590</b>	<b>6,339</b>

#### B4 Earnings per share

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

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

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

##### (i) Profit / (loss) attributable to ordinary shareholders

	2020	2019
	\$'000	\$'000
Profit / (loss) for the year attributable to ordinary shareholders	(292,087)	16,433

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

	2020	2019
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	266,820,905	266,740,654
Weighted average number of dilutive rights outstanding	1,144,125	-
<b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b>	<b>267,965,030</b>	<b>266,740,654</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### B Business Performance (continued)

#### B5 Income tax expense

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

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

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

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

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

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

(a) The major components of tax expense comprise:

		2020	2019
	Note	\$'000	\$'000
Current tax expense	B5(e)	1,079	5,200
Deferred tax expense / (credit)		(1,848)	1,857
Under / (over) provision in respect of prior years		(26)	154
<b>Income tax expense / (credit)</b>		<b>(795)</b>	<b>7,211</b>

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

	2020	2019
	\$'000	\$'000
Profit / (loss) before income tax	(292,882)	23,644
Prima facie tax on profit at the statutory tax rate of 30% (2019: 30%)	(87,865)	7,093
<b>Add/(less):</b>		
<b>Tax effect of:</b>		
- non-deductible tax expenses	220	118
- impairment of goodwill	86,850	-
<b>Income tax expense / (credit)</b>	<b>(795)</b>	<b>7,211</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### B Business Performance (continued)

#### B5 Income tax expense (continued)

##### (c) Income tax rate

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

##### (d) Tax consolidation

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

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

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

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

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

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

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

		2020	2019
	Note	\$'000	\$'000
The overall movement in current tax receivable is as follows:			
Opening balance		(377)	2,629
Income tax payable charged to profit or loss	B5(a)	(1,079)	(5,200)
Income tax amounts paid during the year		5,767	7,468
Income tax amounts received during the year		(2,451)	(5,120)
Under provision of income tax in respect of prior years		-	(154)
<b>Closing balance</b>		<b>1,860</b>	<b>(377)</b>



## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### B Business Performance (continued)

#### B5 Income tax expense (continued)

(f) Deferred tax assets/(liabilities)

	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
<b>2020</b>			
Provisions	13,130	2,820	15,950
Deferred legal costs	(31)	(79)	(110)
Sundry creditors and accruals	1,001	(122)	879
ILU resident loans	452	(413)	39
Deferred equity raising costs	(151)	-	(151)
Property, plant and equipment	(15,388)	(358)	(15,746)
Resident places	(60,518)	-	(60,518)
Deferred management fees receivable	(1,433)	-	(1,433)
	<b>(62,938)</b>	<b>1,848</b>	<b>(61,090)</b>
<b>2019 (restated*)</b>			
Provisions	11,956	1,174	13,130
Deferred legal costs	99	(130)	(31)
Sundry creditors and accruals	1,002	(1)	1,001
ILU resident loans	452	-	452
Deferred equity raising costs	(151)	-	(151)
Property, plant and equipment	(12,603)	(2,785)	(15,388)
Resident places	(60,518)	-	(60,518)
Deferred management fees receivable	(1,318)	(115)	(1,433)
	<b>(61,081)</b>	<b>(1,857)</b>	<b>(62,938)</b>

\*See Note A5

## Notes to the Consolidated Financial Statements

### For the Year Ended 30 June 2020

#### C Trade and Other Receivables

##### C1 Trade and other receivables - current

	2020	2019
	\$'000	\$'000
<b>CURRENT</b>		
Resident debtors	13,149	9,999
Provision for expected credit loss	(3,153)	(1,013)
<b>Total resident debtors</b>	<b>9,996</b>	<b>8,986</b>
Deferred management fees receivable	3,580	2,430
Other receivables	1,750	3,224
<b>Total current trade and other receivables</b>	<b>15,326</b>	<b>14,640</b>

##### C2 Trade and other receivables - non-current

	2020	2019
	\$'000	\$'000
<b>NON-CURRENT</b>		
Deferred management fees receivable	2,574	2,347
<b>Total non-current trade and other receivables</b>	<b>2,574</b>	<b>2,347</b>

#### D Employee Remuneration

##### D1 Employee benefits expense

	2020	2019
	\$'000	\$'000
Wages and leave expenses	257,732	228,583
Superannuation contributions	23,294	21,006
Payroll tax expense	13,871	12,726
Agency staff costs	6,144	5,510
Workcover expense	8,948	7,226
Other staff costs	5,075	2,512
<b>Total employee benefits expense</b>	<b>315,064</b>	<b>277,563</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### D Employee Remuneration (continued)

#### D2 Employee provisions

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

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

On 30 June 2020, the Group announced to employees that redundancies were to be made at the Group's Support Office as part of a cost saving initiative in response to COVID-19. In addition, the closure of the Group's Wyong home was also announced, resulting in further redundancies of staff. The expected costs of these redundancies, including redundancy payments, payments in lieu of notice and associated on costs have been provided for at 30 June 2020.

#### (a) Reconciliation of employee provisions

	2020	2019
	\$'000	\$'000
<b>Current</b>		
Provision for redundancies	1,228	-
Provision for annual leave	23,973	21,060
Provision for long service leave	17,753	15,585
	<b>42,954</b>	<b>36,645</b>
<b>Non-current</b>		
Provision for long service leave	5,608	3,975

#### (b) Contingent liability

On 20 May 2020, the Federal Court made a ruling in the Workpac v Rossato case that identified that certain casual employees should receive annual, personal and compassionate leave, in addition to any remuneration previously received. This ruling has the potential to have widespread impacts across all industries that utilise casual workers.

The Group, as with many aged care providers, has many workers employed on a "casual" basis to provide care and services to its residents. The Group has considered the impact arising from the ruling and has not recognised a provision for any additional leave benefits at 30 June 2020. This is based on an assessment of casual employment contracts entered into by the Group, and the fact that they do not meet the majority of the facts of the employment contracts considered in Workpac v Rossato.

The Group will continue to assess its obligations to its casual employees in respect of this ruling and monitor the ongoing development of the appeal.

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

### **D Employee Remuneration (continued)**

#### **D3 Share-based payment arrangements**

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

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

During the year ended 30 June 2020, the Group had the following share-based payment arrangements:

##### **(i) Long term incentive**

In November 2019, 1,836,621 performance rights were granted to senior executives under the Company's Equity Incentive Plan for long-term incentive purposes. The performance rights were subject to a four year performance period to 30 June 2023 for vesting purposes. These were forfeited and cancelled during the reporting period under their grant terms.

##### **(ii) Short term incentive**

A short term incentive was provided to senior executives for FY2020. This incentive entitled the participant to an amount equal to up to 50% of their fixed remuneration, to be delivered as 50% cash and 50% equity. This incentive was subject to performance hurdles to be measured between 1 July 2019 and 30 June 2020. These hurdles were not met during the period, and therefore the short term incentive was not awarded during the reporting period.

##### **(iii) Other incentives**

In October and November 2019, the below securities were granted under the Company's Equity Incentive Plan to senior executives, with vesting subject to continued employment and acceptable performance conditions:

- 178,083 restricted shares vesting 30 June 2020; and
- 252,484 performance rights vesting 30 September 2020.

Shares were acquired on-market by the Plan trustee during September 2019 using funds contributed by the Group for the purposes of the above grant of restricted shares and in anticipation of the performance rights vesting.

The acquisition of the shares has been treated as a reduction in issued share capital equal to the price paid to acquire the shares. An expense has been recognised by determining the fair value of the shares at grant date and expensing this on a straight line basis over the vesting period. Fair value was determined using the discounted cash flow method, applying the following key assumptions:

Weighted average share price: \$1.19  
Dividend Yield: 5.00%

The weighted average fair value of the shares at the grant date was \$1.14. An expense of \$511,000 was recognised during the year to 30 June 2020.

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### D Employee Remuneration (continued)

#### D4 Key management personnel

Key management personnel ("KMP") remuneration included within the financial statements for the year is shown below. A new KMP has been added during the year, being the Chief Operations Officer. Further details are set out in the Remuneration Report.

	2020	2019
	\$'000	\$'000
Short-term employee benefits	2,016	2,043
Post-employment benefits	127	115
Other short-term benefits	128	141
Other long-term benefits	(75)	(58)
Share-based payments	255	-
	<b>2,451</b>	<b>2,241</b>

### E Trade and Other Payables

#### E1 Trade payables and other liabilities

Trade and other payables included within the financial statements for the year are shown below:

	2020	2019
	\$'000	\$'000
Trade payables - operational	6,939	9,133
Trade payables - capital works in progress	2,165	2,296
Accrued wages	5,641	2,618
Accrued capital works in progress	5,913	5,552
Accrued expenses	4,773	5,127
Provision for building remedial works	-	2,279
Other liabilities	8,673	8,568
	<b>34,104</b>	<b>35,573</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### F Asset Management

#### F1 Property, plant and equipment

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

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

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

#### Depreciation

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

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

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

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

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

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

# Japara Healthcare Limited and Controlled Entities

ABN: 54 168 631 052

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### F Asset Management (continued)

#### F1 Property, plant and equipment (continued)

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

	Land and Buildings \$'000	Property Improvements \$'000	Plant and Equipment \$'000	Motor Vehicles \$'000	Capital Works in Progress \$'000	Total \$'000
<b>Consolidated</b>						
<b>Year ended 30 June 2020</b>						
Balance at the beginning of the year	606,868	41,405	55,201	46	84,247	787,767
Additions	15,624	2,398	8,817	-	71,531	98,370
Disposals	(9,422)	(2,697)	(46)	(8)	-	(12,173)
Transfers from capital works in progress	68,493	21,889	240	-	(90,622)	-
Transfers to investment property	(12,163)	-	-	-	-	(12,163)
Transfers to assets held for sale	(2,100)	-	-	-	-	(2,100)
Depreciation expense	(12,482)	(2,087)	(9,480)	(27)	-	(24,076)
Impairment	(1,890)	(41)	(492)	-	-	(2,423)
<b>Balance at the end of the year</b>	<b>652,928</b>	<b>60,867</b>	<b>54,240</b>	<b>11</b>	<b>65,156</b>	<b>833,202</b>
<b>Year ended 30 June 2019</b>						
Balance at the beginning of the year	542,585	5,185	33,317	84	106,549	687,720
Additions	14,299	3,951	30,147	-	73,995	122,392
Disposals	(550)	-	-	-	-	(550)
Transfers to investment property	(1,800)	-	-	-	-	(1,800)
Transfers from capital works in progress	63,801	32,496	-	-	(96,297)	-
Depreciation expense	(11,467)	(227)	(8,263)	(38)	-	(19,995)
<b>Balance at the end of the year</b>	<b>606,868</b>	<b>41,405</b>	<b>55,201</b>	<b>46</b>	<b>84,247</b>	<b>787,767</b>

F1(c)

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### F Asset Management (continued)

#### F1 Property, plant and equipment (continued)

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

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

During the year, the Group completed construction of two aged care homes - The Regent in Victoria and Robina Rise in Queensland. Significant refurbishment and brownfield extensions have also been completed. Costs totalling \$90,622,000 were reclassified from capital works in progress to land and buildings and property improvements upon completion of construction of these homes.

##### (c) Impairment of property, plant and equipment

As a result of the Group's decision to close its Wyong home in NSW expected to occur in September 2020, a non-cash impairment of the home's non-current assets (excluding land) was charged to the Statement of Profit or Loss and Other Comprehensive Income, totalling \$2,423,000.

#### F2 Leases

##### (a) AASB 16 - from 1 July 2019

###### Leases as lessee

The Group adopted AASB 16 Leases for the first time from 1 July 2019. The impact of transition and the new accounting policies applied in relation to the new standard can be found in note A5.

	Right-of-use assets				Lease liability
	Land and buildings	Motor vehicles	Other equipment	Total	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 1 July 2019</b>	28,859	95	87	29,041	28,613
Additions	2,872	70	522	3,464	5,044
Depreciation expense	(2,212)	(40)	(113)	(2,365)	-
Interest expense	-	-	-	-	869
Payments	-	-	-	-	(2,798)
<b>As at 30 June 2020</b>	<b>29,519</b>	<b>125</b>	<b>496</b>	<b>30,140</b>	<b>31,728</b>

The Group recognised rent expense from short-term leases of \$25,000, low value assets of \$Nil and variable lease payments of \$517,000 for the year ended 30 June 2020.

During the year, the Group entered into a sale and leaseback transaction on its Springvale residential aged care home, as the seller-lessee. The transaction was entered into to take advantage of favourable market conditions that existed at the time of the transaction and to release cash for use within the Group.

The property was sold for \$13,380,000. A gain of \$3,143,000 was recognised upon completion of the sale. The lease term is for an initial six years, with three renewal options of four years each. Rent payments are \$750,000 per annum, with a fixed 3% per annum increase.



## Notes to the Consolidated Financial Statements

### For the Year Ended 30 June 2020

#### F Asset Management (continued)

#### F2 Leases (continued)

##### (a) AASB 16 - from 1 July 2019 (continued)

The below sets out the maturity analysis of lease liabilities:

<b>Maturity analysis - contractual undiscounted cash flows</b>	<b>2020</b>
	<b>\$'000</b>
Less than one year	3,529
One to five years	14,302
More than five years	22,066
<b>Total undiscounted lease liabilities at 30 June 2020</b>	<b>39,897</b>

The below shows the split between current and non-current lease liabilities at 30 June 2020:

	<b>2020</b>
	<b>\$'000</b>
Current	2,338
Non-current	29,390
<b>Lease liabilities included in the Statement of Financial Position</b>	<b>31,728</b>

#### Leases as lessor

The Group generates rental income under AASB 16 from its residents within aged care facilities and independent living units. All these leases are classified as operating leases from a lessor perspective. See Note B2.

##### (b) AASB 117 - up to 30 June 2019

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

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

The lease expense recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year ending 30 June 2019 was \$3,261,000.

<b>Minimum lease payments under non-cancellable operating leases</b>	<b>30 June 2019</b>
	<b>\$'000</b>
Less than one year	2,378
One to five years	7,613
More than five years	-
	<b>9,991</b>

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

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

### **F Asset Management (continued)**

#### **F3 Intangible assets**

##### **Goodwill**

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

##### **Resident places**

Resident places are issued by the Federal Government to Approved Providers and can also be purchased and transferred from third party Approved Providers with approval from the Department of Health. Resident places are stated at cost at acquisition less any accumulated impairment losses. The resident places are not amortised as the Company's directors, based on current Government regulations, believe that they have a long indeterminate life and are not expected to diminish in value over time. Accordingly, no depreciable amount exists that requires amortisation.

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

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

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

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

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs of disposal. Value-in-use is based on the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs of disposal is assessed using a similar set of discounted cash flows, with adjustments made for considerations a market participant would apply in valuing the CGU as part of an orderly transaction.

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

Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU; then to reduce the carrying amount of the resident places in the CGU; and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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

## Notes to the Consolidated Financial Statements

### For the Year Ended 30 June 2020

#### F Asset Management (continued)

#### F3 Intangible assets (continued)

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

	Goodwill \$'000	Resident places \$'000	Total \$'000
<b>Year ended 30 June 2020</b>			
Balance at the beginning of the year	321,264	234,055	555,319
Disposals	-	(58)	(58)
Impairment	(289,500)	-	(289,500)
<b>Closing value at 30 June 2020</b>	<b>31,764</b>	<b>233,997</b>	<b>265,761</b>
<b>Year ended 30 June 2019</b>			
Balance at the beginning of the year (restated*)	321,264	230,632	551,896
Additions at cost	-	3,518	3,518
Disposals	-	(95)	(95)
<b>Closing value at 30 June 2019</b>	<b>321,264</b>	<b>234,055</b>	<b>555,319</b>

\*See Note A5

#### Use of estimates and judgements

Impairment review: Calculation of fair value less cost of disposal

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

The recoverable amount of the CGU was based upon its fair value less cost of disposal ("FVLCoD"), determined using an income based approach to derive the price that would be received to sell the CGU in an orderly transaction with a market participant, less the costs of disposal. The recoverable amount was determined to be \$360,400,000, which is lower than the carrying amount. An impairment loss of \$289,500,000 has therefore been recognised. This approach has been determined to be Level 3 within the fair value hierarchy.

The post-tax discount rate of 10.0% (2019: 8.16%) 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, with specific regard to the increased risk associated with an aged care operator within the current COVID-19 environment.

Five years of cash flows were included in the discounted cash flow model, using EBITDA as a baseline proxy for free cash flows. A long-term growth rate into perpetuity has been determined at 2.50% (2019: 2.50%).

Significant uncertainty has been created as a result of COVID-19 and the ongoing Royal Commission, which management has considered in the determination of the FVLCoD of the CGU. It is extremely challenging to predict the full extent and duration of the impact of COVID-19 on the Group, and management has therefore considered a number of possible scenarios within the forecast cash flows. Equally unknown outcomes from the Royal Commission create significant uncertainty around the future funding of the sector. Management views the following assumptions as the key drivers of uncertainty:

- Future occupancy rates within residential aged care homes run by the Group. Management has assumed short-term occupancy reductions in the first half of FY2021 which are expected to recover through to 30 June 2021, returning to a similar 91% rate that existed at 30 June 2020. Thereafter, modest increases in the occupancy rate are anticipated

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

### **F Asset Management (continued)**

#### **F3 Intangible assets (continued)**

Impairment review: Calculation of fair value less cost of disposal (continued)

over the next 4 years of the forecast period to a sustainable terminal average rate of 93%.

- The rate and quantum of net RAD inflows to the Group over the forecast period. Management has considered a range of scenarios for net RAD inflows over the forecast period, given the significant uncertainty presented by COVID-19 and the economic environment. Management has assumed flat to modest growth in net RAD inflows from established homes during the forecast period, reflecting the recent slight preference change in RAD/DAP mix, occupancy levels and local government area house prices. Additionally, net RAD inflows from FY2020 completed greenfield, brownfield extensions and significantly refurbished homes and those expected to open in FY2021 have been forecast to provide net RAD inflows over the first three years of the forecast period to pay back a majority of the outstanding debt drawn to construct those homes.
- The method of payment chosen by an incoming resident (RAD/DAP or combination). Management has assumed that, of non-concessional residents, the ratio between RAD/DAP/Combination payers is stable across the forecast period at the June 2020 rates of 52%/29%/19%.
- The level of revenue growth anticipated through the Aged Care Funding Instrument over the forecast period. Management has assumed a 1.5% annual increase in COPE indexation, which is consistent with increases that have been seen in the sector over the last few years.

Management has applied significant judgement in determining and applying these assumptions within the model, taking into account past experience as well as reasonable expectations for the impacts of COVID-19, based upon the best available data. Management also engaged external valuation specialists to assess the judgements applied by management, and obtained an external report supporting these judgements.

While these forecasts indicate positive cash flows across the forecast period, they are lower than forecasts prepared at 31 December 2019 and 30 June 2019, and now no longer support the full carrying value of the intangible assets previously recognised on the balance sheet. This is partly due to the reduced current levels of occupancy and management's view of a lower terminal year occupancy rate, with resulting lower operating cash flows and net RAD inflows, which consequently reduces the present value of the future expected cash flows. Management expects that COVID-19 will only impact the cash flows in the short-term with a move back to steady state in the medium term so that the terminal year is only impacted by the lower starting position of occupancy rates.

As the Group has written down the CGU such that the carrying value is now equal to the recoverable amount, any negative movements in the key assumptions within the model will result in a further impairment arising.

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### F Asset Management (continued)

#### F4 Investment property

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

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

Investment property comprises ILU's located across five retirement villages and land to be developed as retirement villages or held for capital appreciation, as well as undeveloped land held for future retirement villages or capital appreciation. Four retirement villages are subject to loan licence agreements which confer the right to occupy the unit, until such time as the resident's occupancy terminates and the occupancy rights are transferred to another resident. Upon entry a resident will loan the Group an amount equal to the fair value of the unit. On termination the resident is entitled to repayment of the loan inclusive of any uplift in fair value since the agreement date less the deferred management fee. The remaining retirement village is subject to 49 year lease agreements with no loan agreement - it is carried at fair value with reference to external independent valuations.

	2020	2019
Note	\$'000	\$'000
Balance at beginning of year	39,200	38,398
Acquisitions	10,473	-
Transfers from property, plant and equipment	1,690	-
Fair value adjustments	B2(a) (2,438)	802
<b>Balance at end of year</b>	<b>48,925</b>	<b>39,200</b>

##### (b) Amounts recognised in profit or loss

Rental income from investment properties recognised by the Group during the year was \$1,380,000 (2019: \$1,367,000). Operating expenses incurred on investment properties for the year was \$872,000 (2019: \$692,000), including \$441,000 (2019: \$178,000) in repairs and maintenance.

#### Use of estimates and judgements

Investment property: Measurement of fair value

The fair value of investment property of \$48,925,000 (2019: \$39,200,000) has been categorised as Level 3 within the fair value hierarchy, based on the inputs to the valuation technique used (see note G8).

Investment property has been valued by external independent valuation experts, using a direct comparison approach.

Where the investment property is a property in use as a retirement village, a Gross Asset Value has been determined. In arriving at these values, sales of substitutable properties within the subject village and competing villages have been considered, with regard to their unique attributes including but not limited to proximity to community centre, village amenities and the village entrance, time of sale, ingoing residence agreements, floor plan configuration, accommodation condition and quality, and the level of amenity provided by communal facilities. Further consideration has been made for the local residential market trends for houses and units. The resulting indications of value lead to an estimate of the price expected to be realised upon the sale of the units or apartments. The fair value of properties measured on this basis is \$27,700,000 (2019: \$28,540,000)

For undeveloped land held as investment property, the Underlying Land Value has been determined, based on reasonably substitutable properties and have had regard to their unique attributes including but not limited to zoning, location, time of sale, condition of sale, and development potential. The resulting indications of value lead to an estimate of the price expected to be realised upon the sale of the property. The fair value of properties measured on this basis is \$21,225,000 (2019: \$10,660,000).

The valuation reports contained commentary by the valuer that the COVID-19 situation is evolving and the full impact of the pandemic is not capable of being qualitatively or quantitatively assessed at this time and is specifically excluded from the

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

### **F Asset Management (continued)**

#### **F4 Investment property (continued)**

Investment property: Measurement of fair value (continued)

valuations. The Group is holding its investment properties primarily for long term capital appreciation and as such the Group believes it reasonable to assume that short-term impacts from COVID-19 will not significantly impact the valuations of the investment properties at 30 June 2020. The directors therefore assess that the independent valuations are fair and reasonable as at 30 June 2020.

### **G Capital structure and financing**

#### **G1 Capital management**

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

Over time, the Group may seek debt funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risk on long-term borrowings. Quantitative and qualitative disclosures in respect of market risk sensitive instruments are included in note G3.

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

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

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

#### **G2 Financial instruments**

##### **(a) Financial assets**

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

Financial assets 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 assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

##### **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.

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

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

#### **G2 Financial instruments (continued)**

##### **(a) Financial assets (continued)**

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

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

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

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

Subsequent recoveries of amounts previously written off are credited against the relevant expense in Statement of Profit or Loss and Other Comprehensive Income.

##### **Impairment**

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

The Group assumes that the credit risk of an asset will increase if it is past 60 days due.

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

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

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

##### **Presentation of allowance for ECL in the Statement of Financial Position**

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

##### **Write-off**

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

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

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

#### **G2 Financial instruments (continued)**

##### **(b) Financial liabilities**

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

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, RADs/accommodation bonds, ILU resident loans and other loans and borrowings including bank overdrafts, and derivative financial instruments.

###### **Subsequent measurement**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the Statement of Profit or Loss and Other Comprehensive Income.

##### **(c) Derivatives and hedge accounting**

The Group has elected to apply the exemption available under AASB 9 to continue to use AASB 139 for hedge accounting purposes. The Group uses interest rate swaps to hedge the Group's exposure to fluctuations in interest rates on borrowings.

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

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

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

##### **(d) Derecognition of financial instruments**

Financial assets are derecognised where the contractual rights to the receipt of cash flows expires 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.



## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

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

#### **G2 Financial instruments (continued)**

##### **(d) Derecognition of financial instruments (continued)**

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 the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

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

Financial instruments: Measurement of fair value

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

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group 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.

See note G8 for the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The carrying amounts of financial assets and financial liabilities are a reasonable approximation of fair value.

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

The following financial instruments are material to the financial statements:

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

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

#### **G3 Financial risk management**

Inherent within the Group's activities are the risks that arise from holding financial instruments. These are managed through a process of ongoing identification, measuring and monitoring. The Group's financial instruments consist mainly of deposits with banks, bank loans, accounts receivable and payable, and RADs/accommodation bonds, which all arise directly from its operations, and derivatives. The main purpose of non-derivative financial instruments is to raise finance for the Group's operations. The Group has \$5,039,000 of derivative liabilities at reporting date.

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

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

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G3 Financial risk management (continued)

2020	Weighted average effective interest rate %	Floating interest rate \$'000	Maturing within one year \$'000	Maturing after one year \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial assets</b>						
Cash and cash equivalents	0.34	48,286	-	-	-	48,286
Receivables	-	-	-	-	17,900	17,900
<b>Total financial assets</b>		<b>48,286</b>	<b>-</b>	<b>-</b>	<b>17,900</b>	<b>66,186</b>
<b>Financial liabilities</b>						
Accruals	-	-	-	-	(16,327)	(16,327)
Trade and other payables	-	-	-	-	(9,104)	(9,104)
RADs/bonds and ILU loans	-	-	-	-	(549,718)	(549,718)
RADs/bonds (departed residents)	2.25	-	(59,808)	-	-	(59,808)
Bank loans	1.39	-	(58,250)	(180,750)	-	(239,000)
Interest rate swaps	-	-	-	-	(5,039)	(5,039)
<b>Total financial liabilities</b>		<b>-</b>	<b>(118,058)</b>	<b>(180,750)</b>	<b>(580,188)</b>	<b>(878,996)</b>
<b>2019</b>						
<b>Financial assets</b>						
Cash and cash equivalents	1.09	31,472	-	-	-	31,472
Receivables	-	-	-	-	16,987	16,987
<b>Total financial assets</b>		<b>31,472</b>	<b>-</b>	<b>-</b>	<b>16,987</b>	<b>48,459</b>
<b>Financial liabilities</b>						
Accruals	-	-	-	-	(13,297)	(13,297)
Trade and other payables	-	-	-	-	(13,708)	(13,708)
RADs/bonds and ILU loans	-	-	-	-	(496,135)	(496,135)
RADs/bonds (departed residents)	3.75	-	(58,514)	-	-	(58,514)
Bank loans	3.07	-	(40,750)	(169,750)	-	(210,500)
Interest rate swaps	-	-	-	-	(2,412)	(2,412)
<b>Total financial liabilities</b>		<b>-</b>	<b>(99,264)</b>	<b>(169,750)</b>	<b>(525,552)</b>	<b>(794,566)</b>

#### (a) Credit risk

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

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

The Group has identified that it does not have any material credit risk exposure to any single non-related party receivable or group of non-related party receivables under financial instruments entered into by the Group. The Group has identified that its single largest customer is the Commonwealth Department of Health in respect of funding received. Such funding is received on a monthly basis, in advance at the start of each month, and any funding receivable at balance date is accrued based upon Department of Health calculations of balancing funding amounts. The Group has determined that any credit risk associated with the Department of Health is insignificant. In respect of other customers, mainly being aged care home

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G3 Financial risk management (continued)

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

residents, the Group monitors the level of receivables balances on an ongoing basis and any associated combined credit risk is mitigated by their independence of each other and individual immateriality to the Group. Since the 1 July 2014 Federal Government reforms relating to funding of the aged care industry, more residents are now contributing greater amounts towards their aged care costs. This is primarily as a result of increases in the levels of means and assets testing of residents, resulting in higher contributions to their care and accommodation. The figures below do not take into account that approximately \$3,862,000 (2019: \$3,310,000) of the aged debtors greater than 91 days can be offset against RADs or accommodation bonds paid by a resident prior to it being refunded to the relevant resident upon discharge. While the Group's overall exposure to bad debts is significantly mitigated because of the ability to offset any outstanding receivable against the RAD/accommodation bond balance, this can only occur with the resident's written agreement or at the point of refund of the RAD. A resident also has up to six months from the date of entry to pay any agreed RAD to the Group. This timeframe enables the resident to collate the liquid funds required to pay the RAD. The payment of the resident's monthly fees, which would include interest charges on the unpaid RAD equivalent to the daily accommodation payment, may be delayed until the RAD has been paid to the Group. To protect the interests of the Group and to mitigate any underpayment of accumulated resident fees, various actions can be taken including: registering a caveat, with the resident's permission, on property owned by the resident; lodging claims with the Estate of the resident should they pass with unpaid fees; and seeking other forms of legal redress.

The Group has considered the potential impacts of the current COVID-19 crisis on its expected credit loss model. Notwithstanding individual deferred payment arrangements entered into noted below, the Group notes a greater risk of default by residents as a result of the crisis. As a result, management has increased the expected credit loss rates for resident receivables based on its judgement as to the impact of COVID-19 on the resident receivables' portfolio.

The Group has agreed with certain residents on a case by case basis to enter into deferred payment arrangements due to challenges caused by COVID-19. The Group has taken this into account when assessing the expected credit loss.

This has resulted in a charge of \$2,341,000 (2019: \$1,013,000) for impairment provisions recognised in the Statement of Profit or Loss and Other Comprehensive Income during the year.

At 30 June 2020, the ageing analysis of resident debtors is as follows:

	Current	31 - 60 days	61 - 90 days	91+ days	Total \$'000
<b>30 June 2020</b>					
Gross carrying amount (\$'000)	2,617	1,622	2,440	6,470	13,149
Expected credit loss (%)*	7	15	26	32	
Expected credit loss (\$'000)	(179)	(246)	(645)	(2,083)	(3,153)
<b>30 June 2019</b>					
Gross carrying amount (\$'000)	730	745	977	7,547	9,999
Expected credit loss (%)	2	5	8	12	-
Expected credit loss (\$'000)	(17)	(35)	(83)	(878)	(1,013)

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G3 Financial risk management (continued)

##### (b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. In addition, the Group maintains sufficient cash and cash equivalents to meet normal operating requirements. Also, as part of the Group's compliance with the Fees and Payments Principles 2014 (No. 2) as required under the Aged Care Act 1997, the Group maintains a liquidity management strategy to ensure that the Group has sufficient liquidity to enable it to refund RAD and accommodation bond balances that are expected to be refunded as and when they fall due.

Financial liabilities of the Group comprise trade and other payables, dividends payable, RADs, accommodation bonds and ILU resident loan liabilities. Trade and other payables with no contractual maturities are typically settled within 30 days or within the terms negotiated. RADs and accommodation bonds are potentially repayable within 14 days of a resident leaving an aged care home and therefore classified under "current liabilities" in the Statement of Financial Position. However, on average, each resident occupies a place for approximately 28 months (2019: 30 months), resulting in approximately 43% (2019: 40%) of RADs and accommodation bonds being replaced in any 12 month period. In addition, any RAD or accommodation bond repayable is typically replaced by an equivalent or higher RAD receivable from a new incoming resident. ILU resident loan liabilities are subject to loan agreements and while 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.

In light of the risks associated with the onset of COVID-19 cases in early 2020 and the subsequent economic impacts from March 2020 awards, management took a series of steps to strengthen the Group's liquidity position:

- Reviewed and implemented its COVID-19 risk management response plan across all its homes.
- Implemented an infection training program for all employees of the Group in conjunction with an infection control expert.
- Maintained regular dialogue with its syndicate of banks ensuring full covenant compliance.
- Prepared and reviewed various cash flow and bank debt forecasts for differing scenarios in respect of potential impacts of COVID-19.
- Implemented procedures to ensure that discretionary spending was reduced, deferred or cancelled while maintaining timely payment of all employment related costs and supplier invoices.
- Reduced non-essential capital expenditure including placing on hold all greenfield and brownfield development projects not under construction with a decision to proceed to construction to be made when it is deemed prudent to do so.
- Reviewed all non-core, non-income generating and surplus assets held by the Group with a view to selling them at a fair market value.
- Reviewed all opportunities to apply for COVID-19 related grants as applicable to the Group.

##### (c) Market risk

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

#### **Interest rate risk**

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

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G3 Financial risk management (continued)

##### (c) Market risk (continued)

interest rate hedging policy. As at 30 June 2020, the Group has bank borrowings of \$239,000,000 (2019: \$210,500,000).

The Group has hedging arrangements in place to further mitigate interest rate risk. At the reporting date, one hedging instrument enforces a cap on the interest rate payable on \$30,000,000 of the Group's bank debt; two further hedging instruments are interest rate swaps to fix the interest rate payable on up to \$125,000,000 of the Group's bank debt.

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

The hedging arrangements are as follows:

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

##### Interest rate risk sensitivity analysis

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position based upon a reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in interest rates on the interest income and interest expense for the year, based on the floating rate financial assets held at 30 June 2020. The sensitivity has been calculated using a change in interest rates of 100 basis points (1.00%) increase and decrease.

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

	2020		2019	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) after tax	1,718	(1,718)	1,659	(1,659)
Equity	1,718	(1,718)	1,659	(1,659)

##### Price risk

The Group has assessed that it is materially exposed to the risk that the Federal Government, through the Department of Health, may alter the rate of funding provided to Approved Providers of residential aged care services. As Government funding represents approximately 72% (2019: 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. While the Group is not able to influence Government policy directly, it and members of its senior management team, participate in aged care industry public awareness discussions and in aged care industry dialogue with the Government about its proposals for changes to funding for the aged care industry.

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G3 Financial risk management (continued)

##### (c) Market risk (continued)

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

##### *Price risk sensitivity analysis - Government funding*

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position based upon reasonably possible changes in levels of Government funding, with all other variables held constant. The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in levels of Government funding on the revenue of the Group, based on the amount of Government funding received for the year ended 30 June 2020. The sensitivity has been calculated using a change in the level of Government funding of 1.00% increase and decrease.

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

	2020		2019	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) after tax	2,137	(2,137)	2,014	(2,014)
Equity	2,137	(2,137)	2,014	(2,014)

##### *Price risk sensitivity analysis - EA wage rate increases*

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position based upon reasonably possible changes in levels of EA wage rate increases compared to Federal Government funding increases, with all other variables remaining constant. The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed change in EA wage rate increases on the expenses of the Group, based on the amount of employee benefits expense for the year ended 30 June 2020. The sensitivity has been calculated using a change in the level of employee benefits expense for staff subject to the EA of 1% increase and decrease.

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

	2020		2019	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) after tax	(2,205)	2,205	(1,943)	1,943
Equity	(2,205)	2,205	(1,943)	1,943

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G4 Cash and cash equivalents

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

Included within cash and cash equivalents is an amount that is reserved for the refund of RAD/accommodation bond liabilities in accordance with the Group's liquidity management strategy. For more information on RAD/accommodation bond liabilities see note G6.

#### G5 Borrowings

	2020 \$'000	2019 \$'000
<b>Current</b>		
Bank loans	58,250	40,750
<b>Total current borrowings</b>	<b>58,250</b>	<b>40,750</b>
<b>Non-current</b>		
Bank loans	180,750	169,750
<b>Total non-current borrowings</b>	<b>180,750</b>	<b>169,750</b>
<b>Total borrowings</b>	<b>239,000</b>	<b>210,500</b>

##### (a) Bank facility agreements

The Group has an existing Syndicated Facility Agreement and a Multi-Option Facility Agreement (the "Bank Facilities") with ANZ, CBA and NAB. The total available facility amounts are \$345,000,000 with an expiry date of September 2023. The Group has complied with its banking covenants during the financial year and expects to meet these covenants during FY2021, based on the assumption that the COVID-19 Stage 4 restrictions in Melbourne and Stage 3 restrictions throughout the rest of Victoria are eased from October 2020, occupancy stabilises and significant net RAD outflows do not occur. The Group announced in May 2020 that due to the current uncertain economic outlook, no further development projects were going to progress to construction. Pausing commencement of construction of these projects should enable the Group to retain sufficient liquidity headroom within its Bank Facilities to be used to fund net RAD outflows should they occur and increased operating costs to manage COVID-19 outbreaks at the Group's homes.

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

During the year \$69,750,000 (2019: \$76,000,000) was drawn down from the Bank Facilities primarily to fund developments with repayments of \$41,250,000 (2019: \$11,000,000). A total of \$239,000,000 (2019: \$210,500,000) was drawn down against the Bank Facilities as at the reporting date. Subsequent to this date, a further \$12,000,000 (2019: \$16,000,000) has been drawn down to fund developments and the Group's FY2021 WorkCover and general insurance premium expense; and \$14,500,000 (2019: \$Nil) has been repaid.

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G6 Other financial liabilities

	2020 \$'000	2019 \$'000
<b>CURRENT</b>		
RADs/accommodation bonds	584,506	530,629
ILU resident loans	25,020	24,020
<b>Total other financial liabilities - current</b>	<b>609,526</b>	<b>554,649</b>
<b>NON-CURRENT</b>		
Interest rate swaps	5,039	2,412
<b>Total other financial liabilities - non-current</b>	<b>5,039</b>	<b>2,412</b>
<b>Total other financial liabilities</b>	<b>614,565</b>	<b>557,061</b>

#### Refundable Accommodation Deposit /Accommodation Bond liabilities

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

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

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

#### Independent Living Unit Resident loan liabilities

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

ILU Resident loan liabilities are recorded at fair value, see Note G8.

#### Interest rate swaps (cash flow hedges)

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



## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G7 Reconciliation of liabilities arising from financing activities

	1 July 2019	Cash flows	Other non-cash	30 June 2020
	\$'000	\$'000	\$'000	\$'000
Borrowings - current	40,750	17,500	-	58,250
Borrowings - non-current	169,750	11,000	-	180,750
Other financial liabilities - current	554,649	55,763	(886)	609,526
Other financial liabilities - non-current	2,412	-	2,627	5,039
Lease liabilities - current	1,578	(2,798)	3,558	2,338
Lease liabilities - non-current	27,035	-	2,355	29,390
<b>Total</b>	<b>796,174</b>	<b>81,465</b>	<b>7,654</b>	<b>885,293</b>

#### G8 Fair value measurement

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

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

The Group's finance team regularly reviews significant unobservable inputs and valuation adjustments. If third party information (such as broker quotes or pricing services) is used to measure fair values, then the finance team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of Australian Accounting Standards, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group's Audit, Risk & Compliance Committee.

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

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G8 Fair value measurement (continued)

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The following table shows the fair values of assets and liabilities held at fair value by the Group, including their levels in the fair value hierarchy.

Date of valuation	Total \$'000	Fair value measurement using		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Investment properties	30 June 2020	48,925	-	48,925
Independent Living Unit loans	30 June 2020	25,020	-	25,020
Interest rate swaps	30 June 2020	5,039	5,039	-
	<b>78,984</b>	<b>-</b>	<b>5,039</b>	<b>73,945</b>

The carrying amount of all financial assets and liabilities not measured at fair value are considered a reasonable approximation of their fair values.

#### G9 Issued capital

##### (a) Ordinary shares

	2020 No.	2019 No.
At the beginning of the reporting period	267,247,328	265,887,509
Issued during the period	-	1,359,819
Purchase of ordinary shares to be held as treasury shares	(530,567)	-
Treasury shares issued as performance rights	178,083	-
<b>At the end of the reporting period</b>	<b>266,894,844</b>	<b>267,247,328</b>

#### Ordinary shares

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

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

During the year, 530,567 ordinary shares (2019: nil) were purchased on market for \$617,000, to be held in an employee share trust for the purpose of satisfying equity grants to senior executives including for vesting performance rights (see note D3). In the year, 178,083 of these ordinary shares were issued to senior management. In 2019, 1,359,819 ordinary shares were issued under the Dividend Reinvestment Plan ("DRP"). The DRP was suspended for the FY2020 interim dividend paid on 30 April 2020 and has not been reactivated.

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### G Capital structure and financing (continued)

#### G9 Issued capital (continued)

##### (b) Dividends

	2020 \$'000	2019 \$'000
The following dividends were determined and paid:		
2019 Final 50% franked ordinary dividend of 3.35 (2018: 3.75) cents per share	8,953	9,970
2020 Interim 50% franked ordinary dividend of 2.00 (2019: 2.80) cents per share	5,344	7,478
<b>Total</b>	<b>14,297</b>	<b>17,448</b>
Proposed 2020 Final dividend of Nil (2019: 3.35) cents per share	-	8,953

The Group's directors have determined not to pay a final dividend for 2020.

#### Franking account

	2020 \$'000	2019 \$'000
Franking credits available for subsequent financial years at a tax rate of 30%	495	269

The ability to use the franking credits is dependent upon the ability to determine and pay dividends. In accordance with the tax consolidation legislation, the Company as the head entity of the tax consolidated Group has assumed the benefit of \$495,000 (2019: \$269,000) franking credits.

### H Group structure

#### H1 Subsidiaries

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

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

##### (a) List of subsidiaries

Name of entity	Ownership	Equity holding 2020
Japara Holdings Pty Ltd	Direct	100%
Japara Property Holdings Pty Ltd	Direct	100%
Japara Aged Care Property Trust	Direct	100%
Japara Administration Pty Ltd	Indirect	100%
Aged Care Services One (Central Park) Pty Ltd	Indirect	100%
Japara Aged Care Services 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 Five (Narracan Gardens) Pty Ltd	Indirect	100%
Aged Care Services Six (Mirridong) Pty Ltd	Indirect	100%

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### H Group structure (continued)

#### H1 Subsidiaries (continued)

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

Name of entity	Ownership	Equity holding 2020
Aged Care Services Seven (Kelaston) Pty Ltd	Indirect	100%
Aged Care Services Eight (Elanora) Pty Ltd	Indirect	100%
Aged Care Services Nine (George Vowell) Pty Ltd	Indirect	100%
Aged Care Services 10 (Kingston Gardens) Pty Ltd	Indirect	100%
Aged Care Services 11 (View Hills) Pty Ltd	Indirect	100%
Aged Care Services 12 (Albury & District) Pty Ltd	Indirect	100%
Aged Care Services 13 (Lakes Entrance) Pty Ltd	Indirect	100%
Aged Care Services 14 (Lower Plenty Garden Views) Pty Ltd	Indirect	100%
Aged Care Services 15 (Rosanna Views) Pty Ltd	Indirect	100%
Aged Care Services 16 (Millward) Pty Ltd	Indirect	100%
Aged Care Services 17 (Bonbeach) Pty Ltd	Indirect	100%
Aged Care Services 18 (Hallam) Pty Ltd	Indirect	100%
Aged Care Services 19 (Goonawarra) Pty Ltd	Indirect	100%
Aged Care Services 20 (Bayview Gardens) Pty Ltd	Indirect	100%
Aged Care Services 21 (Barongarook Gardens) Pty Ltd	Indirect	100%
Aged Care Services 22 (Sandhurst) Pty Ltd	Indirect	100%
Aged Care Services 23 (Capel Sands) Pty Ltd	Indirect	100%
Aged Care Services 24 (St Judes) Pty Ltd	Indirect	100%
Aged Care Services 25 (Springvale) Pty Ltd	Indirect	100%
Aged Care Services 26 (Bayview) Pty Ltd	Indirect	100%
Aged Care Services 27 (Kirralee) Pty Ltd	Indirect	100%
Aged Care Services 28 (Elouera) Pty Ltd	Indirect	100%
Aged Care Services 29 (Mirboo North) Pty Ltd	Indirect	100%
Aged Care Services 30 (Brighton) Pty Ltd	Indirect	100%
Aged Care Services 31 (Vonlea Manor) Pty Ltd	Indirect	100%
Aged Care Services 32 (Scottvale) Pty Ltd	Indirect	100%
Aged Care Services 33 (Anglesea) Pty Ltd	Indirect	100%
Aged Care Services 34 (Yarra West) Pty Ltd	Indirect	100%
Aged Care Services 35 (The Homestead) Pty Ltd	Indirect	100%
Aged Care Services 36 (Trevu) Pty Ltd	Indirect	100%
Aged Care Services 37 (Oaklands) Pty Ltd	Indirect	100%
Aged Care Services 38 (Mitcham) Pty Ltd	Indirect	100%
Aged Care Services 39 (Noosa) Pty Ltd	Indirect	100%
Aged Care Services 40 (Coffs Harbour) Pty Ltd	Indirect	100%
Aged Care Services 41 (South West Rocks) Pty Ltd	Indirect	100%
Aged Care Services 42 (Gympie) Pty Ltd	Indirect	100%
Aged Care Services 43 (Glen Waverley) Pty Ltd	Indirect	100%
Aged Care Services 44 (Rye) Pty Ltd	Indirect	100%
Aged Care Services 45 (Woodend) Pty Ltd	Indirect	100%
Aged Care Services 46 (Riverside) Pty Ltd	Indirect	100%
Japara Home Care Pty Ltd	Indirect	100%
Aged Care Services 48 Pty Ltd	Indirect	100%
Aged Care Services 49 Pty Ltd	Indirect	100%
Aged Care Services 50 Pty Ltd	Indirect	100%
Aged Care Services 51 Pty Ltd	Indirect	100%

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### H Group structure (continued)

#### H1 Subsidiaries (continued)

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

Name of entity	Ownership	Equity holding 2020
Aged Care Services 52 Pty Ltd	Indirect	100%
Aged Care Services 53 Pty Ltd	Indirect	100%
Aged Care Services 54 Pty Ltd	Indirect	100%
Aged Care Services 55 Pty Ltd	Indirect	100%
Aged Care Services 56 Pty Ltd	Indirect	100%
Oakleigh Glen Pty. Ltd	Indirect	100%
Bacaal Pty Ltd	Indirect	100%
Japara Property Management Pty Ltd	Indirect	100%
Japara Developments Pty Ltd	Indirect	100%
Japara Retirement Living Pty Ltd	Indirect	100%
Japara Retirement Living 1 (Woodburn Lodge) Pty Ltd	Indirect	100%
Japara Retirement Living 2 (Balmoral Mews) Pty Ltd	Indirect	100%
Japara Retirement Living 3 (Lakes Entrance) Pty Ltd	Indirect	100%
Japara Retirement Living 4 (Cosgrove Cottages) Pty Ltd	Indirect	100%
Japara Retirement Living 5 (Sydney Williams) Pty Ltd	Indirect	100%
Japara Retirement Living 6 (Barongarook) Pty Ltd	Indirect	100%
Japara Retirement Living 7 (The Homestead) Pty Ltd	Indirect	100%
Japara Retirement Living 8 (The Heritage) Pty Ltd	Indirect	100%
JD No. 1 (Bundaberg) Pty Ltd	Indirect	100%
JD No. 2 (Balmoral Mews) Pty Ltd	Indirect	100%
JD No. 3 (Lakes Entrance) Pty Ltd	Indirect	100%
JD No. 4 (Queenscliff) Pty Ltd	Indirect	100%
JD No. 5 (Albury & District) Pty Ltd	Indirect	100%
JD No. 6 (Dava) Pty Ltd	Indirect	100%
JD No. 7 (Colac) Pty Ltd	Indirect	100%
JD No. 8 (Yarra West) Pty Ltd	Indirect	100%
JD No. 9 (North Albury) Pty Ltd	Indirect	100%

#### H2 Deed of Cross-Guarantee

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

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

The consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for the Closed Group are the same as the financial statements for Japara Healthcare Limited and Controlled Entities.

## Notes to the Consolidated Financial Statements

### For the Year Ended 30 June 2020

#### H Group structure (continued)

##### H3 Parent entity

As at, and throughout, the year ended 30 June 2020, the parent entity of the Group was Japara Healthcare Limited.

	2020 \$'000	2019 \$'000
<b>Statement of Financial Position</b>		
Assets		
Current assets	946	1,660
Non-current assets	<u>478,970</u>	<u>778,392</u>
Total Assets	<u>479,916</u>	<u>780,052</u>
Liabilities		
Current liabilities	(61,375)	(55,377)
Non-current liabilities	<u>(180,861)</u>	<u>(172,162)</u>
Total Liabilities	<u>(242,236)</u>	<u>(227,539)</u>
<b>Net assets</b>	<u>237,680</u>	<u>552,513</u>
Equity		
Issued capital	524,081	524,695
Hedging reserve	(5,039)	(2,412)
Retained earnings	<u>(281,362)</u>	<u>30,230</u>
Total equity	<u>237,680</u>	<u>552,513</u>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Total profit or loss for the year	(291,741)	25,225
Other comprehensive income	<u>(2,627)</u>	<u>(2,412)</u>
<b>Total comprehensive income</b>	<u>(294,368)</u>	<u>22,813</u>

##### Guarantees

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

Further details of the Deed of Cross-Guarantee and the entities subject to the deed are disclosed in note H2.

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

### **I Related Parties**

#### **I1 Nature of related parties**

The ultimate parent entity, which exercises control over the Group, is Japara Healthcare Limited which is incorporated in Australia and owns 100% of Japara Healthcare Limited and Controlled Entities. All subsidiaries within the Group are listed in note H1 of these financial statements.

For details of remuneration paid to key management personnel, see Note D4. During the year there were no material transactions between the Group and any key management personnel.

Other related parties include close family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel or their close family members.

#### **I2 Transactions with related parties**

Certain key management personnel hold director positions in other entities, some of which transacted with the Group during the financial year. All transactions that occurred were in the normal course of business. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available. Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

### **J Other Information**

#### **J1 Commitments**

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

- \$35,490,000 (2019: \$19,618,000) in relation to various construction contracts expected to be completed over the course of the next 12 months

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### J Other Information (continued)

#### J2 Contingencies

##### Security deposit guarantees

The Group has entered into a number of security deposit guarantees with its bankers for security for the performance of the Group totalling \$997,000 (2019: \$2,066,000). This is secured against the Multi-Option Facility Agreement (see note G5(a)). At the date of signing this financial report, the Company's directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented to the banks.

#### J3 Subsequent events

In addition to matters discussed elsewhere in the financial statements, the following events have occurred since the end of the reporting period which have, or may, significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

##### **COVID-19 outbreaks**

At the date of this report, four of the Group's Victorian homes are being greatly affected by COVID-19 outbreaks being Goonawarra, Elanora, Millward and The Regent. The extent of each outbreak is varied but each of these homes have confirmed cases of residents and staff who have tested positive for the virus. Many close contact staff working in the homes are also affected through self-isolation. Sadly, there have been some resident fatalities resulting from the virus and our support, thoughts and deepest sympathy have been extended to affected families. The Group continues to act vigilantly to protect the health and safety of residents and staff at all its homes. It has enacted appropriate precautions and responses in line with its own protocols and directives and guidelines of the Commonwealth and State Governments and the ACQSC. It is not possible to determine when outbreak measures will be lifted at each affected home nor whether other Group homes, including in other States or with COVID-19 outbreaks, will be similarly affected.

The Goonawarra home has had a Notice to Agree issued by the ACQSC relating to its COVID-19 outbreak. This notice specified certain requirements for the monitoring and management of the home including:

- Not admitting new residents into the home until the Victorian Public Health Unit has declared the home free of COVID-19 and the ACQSC is satisfied that the risk to residents has been mitigated;
- The appointment of a suitably qualified and experienced adviser to assist with ensuring the health and wellbeing of residents; and
- Communicating daily with, and providing weekly written reports to, the ACQSC, together with regular communication with all families of the residents.

The Goonawarra home is fully compliant with the Notice to Agree, with an internal suitably qualified and experienced adviser having been appointed with the ACQSC's agreement.

##### **Wyang closure**

As mentioned earlier in this report, the Group is expecting to close its home in Wyong, New South Wales in early September 2020. This home was acquired in April 2018 as part of a portfolio of homes and had been identified for future replacement. Unfortunately, development planning permission could not be obtained, with the decision to close the home being made in the residents' best interests following sanctioning of the home in March 2020 and having regard to its physical limitations, approaching functional obsolescence and continued operational challenges. The Group has successfully re-homed all residents at other Group and nearby homes. It is proposed to sell the Wyong property in due course.



## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### J Other Information (continued)

#### J4 Cash Flow Information

Reconciliation of result for the year to cash flows from operating activities:

		2020	2019
	Note	\$'000	\$'000
Profit / (loss) for the year		(292,087)	16,433
Cash flows excluded from profit / (loss) attributable to operating activities:			
Non-cash flows in profit / (loss):			
- depreciation	F1(a) & F2	26,441	19,995
- deferred gain on sale and leaseback		(1,595)	-
- net profit on disposal of non-current assets	B2(a)	(7,415)	(3,801)
- non-cash movement in RADs/accommodation bonds		(479)	(230)
- deferred management fee income		(1,777)	(920)
- decrease in fair value of investment property	B2(a)	2,438	(802)
- equity settled share based payment transactions		511	-
- impairment of intangible assets	F3(a)	289,500	-
- impairment of tangible assets	F1(c)	2,423	-
Changes in assets and liabilities:			
- (increase)/decrease in trade and other receivables		(2,649)	(3,865)
- (increase)/decrease in other assets		2,519	(939)
- increase/(decrease) in deferred tax liabilities		(1,848)	1,858
- increase in other financial liabilities		55,763	44,729
- increase/(decrease) in trade and other payables		(2,252)	(199)
- increase/(decrease) in current tax liabilities		(2,237)	3,006
- increase/(decrease) in provisions		7,942	3,423
<b>Net cash provided by operating activities</b>		<b>75,198</b>	<b>78,688</b>

#### J5 Remuneration of auditors

	2020	2019
	\$	\$
Audit and review services:		
- auditing or reviewing the financial statements	405,450	275,600
Other services:		
- taxation services	60,909	111,700
- advisory services	32,296	49,700
<b>Total</b>	<b>498,655</b>	<b>437,000</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

### J Other Information (continued)

#### J6 New accounting standards and interpretations adopted during the year

The Group has adopted AASB 16 *Leases* during the year using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application (see Note A5).

Following the May 2020 publication of the IFRS Interpretation Committee's agenda decision addressing the multiple tax consequences of recovering an asset, the Group has retrospectively changed its accounting policy in accordance with AASB 108 *Accounting Policies, Changes to Accounting Estimates and Errors*. See Note A5 for details of the impact on the Group's consolidated financial statements.

#### J7 New accounting standards for application in future periods

A number of new standards and amendments to the standards are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted; However the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The Group has considered the impact of these new or amended standards and the potential changes to the financial statements in the period of initial application, and no material impact is expected upon adoption:

- AASB 17 Insurance Contracts – effective for annual reporting periods beginning on or after 1 January 2023
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2019-3 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2019-5 Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia - effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current - effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 9 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Part of Annual Improvements 2018-2020 Cycle) - effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 3 - Reference to the Conceptual Framework - effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 116 - Property, Plant and Equipment: Proceeds before Intended Use - effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 141 - Taxation in Fair Value Measurement (Part of Annual Improvements 2018-2020 Cycle) - effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 1 - Subsidiary as a First-time Adopter (Part of Annual Improvements 2018-2020 Cycle) - effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendments to AASB 137 - Onerous Contracts - Cost of Fulfilling a Contract - effective for annual

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2020**

### **J Other Information (continued)**

#### **J7 New accounting standards for application in future periods (continued)**

reporting periods beginning on or after 1 January 2022

- AASB 2020-4 Amendments to Australian Accounting Standards - COVID-19 Related Rent Concessions - effective for annual reporting periods beginning on or after 1 June 2020

## **Directors' Declaration**

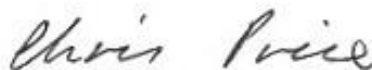
- 1 In the opinion of the directors of Japara Healthcare Limited ('the Company'):
  - (a) the consolidated financial statements and notes to the consolidated financial statements, set out on pages 46 to 96 and the Remuneration Report contained in section 16 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance, for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the Company entities identified in Note H1 to the consolidated financial statements will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Company entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the period ended 30 June 2020.
- 4 The directors draw attention to Note A2 to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 26 August 2020



**Linda Bardo Nicholls AO**  
Chairman



**Chris Price**  
CEO & Managing Director



# Independent Auditor's Report

To the shareholders of Japara Healthcare Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Japara Healthcare Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2020;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of Japara Healthcare Limited (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Recoverable amount of goodwill and resident places (\$555.3m pre-impairment)

Refer to Note F3 to the Financial Report

#### The key audit matter

The recoverable amount of goodwill and resident places is a key audit matter due to :

- The size of the balance (\$555.3m pre-impairment); and
- The level of judgement required by us in evaluating the Group's assessment of recoverability as contained in both the value in use (VIU) and fair value less cost of disposal (FVL COD) models.

We use a high degree of judgement to assess the Group's impairment testing. Specifically we considered:

- The forecast cash flows that were used in both the VIU and FVL COD models, in particular assumptions regarding occupancy and mix of resident care and refundable accommodation deposit (RAD) cash flows;
- The key assumptions in the Group's VIU and FVL COD models, including discount rates and growth rates;
- The differences in assumptions between the models adopted by management to account for the fact that the FVL COD model is prepared from a market participant's perspective whereas the VIU model is prepared from the Group's perspective;

#### How the matter was addressed in our audit

Our procedures included:

- Assessing the historical accuracy of forecasting by the Group to consider the accuracy of the forecasting process and to identify areas to focus on in the current year audit;
- Considering the appropriateness of the VIU and FVL COD method applied by the Group to perform the annual test of goodwill and resident places for impairment against the requirements of the accounting standards;
- Assessing the competence, capability and objectivity of the external expert used by the Group to prepare the FVL COD model;
- Challenging the Group's assumptions and forecast cash flows used in both the VIU and FVL COD models, including occupancy, mix of resident care, RAD flows and growth rates by comparing to market comparators and analysing industry trends. This also included the following procedures:
  - Comparing the forecast cash flows used in both models to Board approved forecasts;
  - Assessing the appropriateness of adjustments to forecasts made by the Group to capture the impacts of COVID-19;
  - Checking the consistency of occupancy, mix of resident care, RAD flows and growth rates to the Group's strategy, past performance, and our experience regarding the feasibility of these in the current economic environment;
  - Working with our valuation specialists, we analysed the discount rates and terminal growth rates against publicly available data of a group of comparable entities; and
  - The FVL COD model is prepared from a market participant's perspective whereas the VIU model is prepared from the Group's perspective. Working with our valuation specialist, we assessed the

<ul style="list-style-type: none"> <li>How the Group had considered the impacts of COVID-19 on the key assumptions.</li> </ul> <p>In addressing this Key Audit Matter, we involved senior audit team members and valuation specialists, who collectively understand the Group's business, the Aged Care industry and the economic environment it operates in.</p>	<p>appropriateness of the differences in assumptions between the models to account for this.</p> <ul style="list-style-type: none"> <li>Checking the mathematical accuracy of the impairment charge based on the recoverable amount determined by the FVLCOB which was higher than the VIU model;</li> <li>Assessing the Group's allocation of the impairment charge to Goodwill; and</li> <li>Assessing the disclosures in the Financial Report using our understanding of the key audit matter obtained from our testing, our understanding of the increased uncertainty in forward looking assumptions in the current environment and against the requirements of the accounting standards.</li> </ul>
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## Other Information

Other Information is financial and non-financial information in Japara Healthcare Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.



## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Japara Healthcare Limited for the year ended 30 June 2020, complies with *Section 300A of the Corporations Act 2001*.

### Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 27 to 45 of the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Suzanne Bell

Partner

Melbourne

26 August 2020



## Additional information

Additional information required under Australian Securities Exchange (**ASX**) Listing Rules and not shown elsewhere in this Annual Report follows. This information is current as at 13 August 2020.

### (a) Distribution of shareholders – ordinary shares

Range	Ordinary shares	%	No of holders	%
100,001 and Over	203,331,880	76.08	154	2.17
10,001 to 100,000	45,177,438	16.90	1,627	22.93
5,001 to 10,000	10,575,926	3.96	1,361	19.18
1,001 to 5,000	7,423,150	2.78	2,586	36.45
1 to 1,000	738,934	0.28	1,367	19.27
<b>Total</b>	<b>267,247,328</b>	<b>100.00</b>	<b>7,095</b>	<b>100.00</b>

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

There are 1,390 shareholders holding less than a marketable parcel of ordinary shares (i.e. less than \$500 per parcel of shares).

### (c) 20 largest shareholders – ordinary shares

Name	Number of fully paid ordinary shares	% of issued capital
1 Citicorp Nominees Pty Limited	27,968,310	10.47
2 The Trust Company (Australia) Limited (A/C 4)	19,361,813	7.24
3 HSBC Custody Nominees (Australia) Limited	18,937,616	7.09
4 J P Morgan Nominees Australia Pty Limited	18,181,869	6.80
5 Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,127,179	5.66
6 Moelis Australia Asset Management Ltd (Moelis Aus Partners A/C)	14,984,821	5.61
7 CS Third Nominees Pty Limited (HSBC Cust Nom AU Ltd 12 A/C)	13,321,680	4.98
8 ABCK Pty Ltd (ABCK Investments A/C)	13,279,009	4.97
9 Australian Shareholder Nominees Pty Ltd (Finmare PL JPJ Coleman A/C)	6,776,392	2.54
10 Aged Services Victoria Pty Ltd (The Heritage Lakes A/C)	5,376,532	2.01
11 BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd (DRP A/C)	3,202,446	1.20
12 Samraj Pty Ltd (Reid Family No 2 A/C)	2,787,630	1.04
13 National Nominees Limited	2,155,856	0.81
14 BNP Paribas Noms Pty Ltd (DRP)	1,754,232	0.66
15 Bundarra Trading Company Pty Ltd (Thomas Emery Kennedy A/C)	1,700,000	0.64
16 Neweconomy Com AU Nominees Pty Limited (900 Account)	1,673,937	0.63
17 BNP Paribas Nominees Pty Ltd (IB AU Noms Retail Client DRP)	1,429,418	0.53
18 SEP Super Pty Ltd (Sep Super Fund A/C)	1,311,480	0.49
19 Colman Foundation Pty Ltd (Colman Foundation A/C)	1,108,711	0.41
20 The Cass Foundation Limited	1,048,293	0.39
<b>TOTAL</b>	<b>171,487,224</b>	<b>64.17</b>

## (d) Substantial shareholders

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

Shareholder	Number of fully paid ordinary shares	% of issued capital
Moelis Australia Limited and its associated entities	35,421,025	13.25%
Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,700,000	5.87%

## (e) Performance rights

A performance right is a right that can be converted to an ordinary fully paid share in the Company for no monetary consideration subject to specific vesting conditions being met. Performance rights may be granted to Group employees under the Company's Equity Incentive Plan. There are 352,484 performance rights currently on issue to seven employees, for vesting on 30 September 2020. Performance rights are not quoted on the ASX and do not have any voting rights.

In accordance with ASX Listing Rule 10.14, shareholder approval was obtained at the Company's 2019 Annual General Meeting for the participation of the former CEO and Managing Director, Andrew Sudholz, in the Company's Equity Incentive Plan. In accordance with this approval, 655,738 performance rights were granted to Mr Sudholz in November 2019 for long-term incentive purpose for vesting on 30 June 2023 subject to achievement of various accreditation and compliance gateway hurdles and financial return performance conditions. These performance rights have since been forfeited and cancelled as the accreditation gateway hurdle had not been met.

## (f) Securities subject to voluntary escrow

There are no securities on issue subject to voluntary escrow.

## (g) Voting rights

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

## (h) On-market buy-backs

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

## (i) On-market share acquisitions

The Company operates an Equity Incentive Plan for Group employees. A total of 530,567 ordinary shares in the Company were acquired on-market by the Equity Incentive Plan trustee during the financial year ended 30 June 2020 for allocation under the Plan at an average purchase price of \$1.16 per share.