

ASX APPENDIX 4D

Half year report for the six months ended

31 December 2018

This Appendix 4D, together with the attached Interim Financial Report for the half year ended 31 December 2018 (**Interim Financial Report**), comprise the information required to be given to the ASX in accordance with Listing Rule 4.2A.

This Appendix 4D and the Interim Financial Report should be read in conjunction with the Company's most recent Annual Financial Report.

Reporting period

Reporting period: The half year ended 31 December 2018

Previous corresponding reporting period: The half year ended 31 December 2017

Results for announcement to the market

Financials

	Increase/ Decrease	31 Dec 2018 \$'000	31 Dec 2017 \$'000	Change %
Revenue from ordinary activities	Increase	193,331	180,595	7.1
Profit from ordinary activities after tax attributable to members	Decrease	7,551	10,279	26.5
Net profit for the period attributable to members	Decrease	7,551	10,279	26.5

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

Dividends

	Amount per share (cents)	Franked amount per share at 30% tax rate (cents)	Payment Date	Record Date
2019 interim dividend	2.80	Nil	30/04/19	28/03/19
2018 final dividend	3.75	1.875	30/10/18	28/09/18

The 2019 interim dividend is unfranked. The 2018 final dividend was franked to 50%.

The Company has a dividend reinvestment plan (**DRP**) which will operate in respect of the 2019 interim dividend. No discount will be applied when determining the price at which shares will be issued under the DRP for this dividend. The last date and time for receipt of an election notice to participate in the DRP for the 2019 interim dividend is 29 March 2019 at 5.00pm (AEDT).

Net tangible assets per security

Net tangible assets per ordinary share as at 31 December 2018: 15.6 cents (2017: 25.5 cents).

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

No entities were acquired or sold during the period.

Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

Consolidated Interim Financial Report

For the Half Year Ended 31 December 2018

Japara Healthcare Limited and Controlled Entities

ABN 54 168 631 052

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Japara Healthcare Limited and Controlled Entities

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Directors' Report

For the Half Year Ended 31 December 2018

The directors present their report together with the condensed consolidated interim financial statements of Japara Healthcare Limited (the "Company") and its controlled entities (the "Group") for the half year ended 31 December 2018 ("Interim Financial Report").

(a) Directors

The names and special responsibilities of each person who has been a director during the half year and to the date of this report are:

Linda Bardo Nicholls AO - Non-Executive Chairman
Andrew Sudholz - CEO and Managing Director
Richard England - Non-Executive Director
David Blight - Non-Executive Director
JoAnne Stephenson - Non-Executive Director

(b) Operating results and review of operations for the half year

A summary of the Group's statutory revenue and earnings for the half year ended 31 December 2018 is set out below:

	2018	2017
	\$'000	\$'000
Revenue and other income	193,484	182,507
Earnings before interest, tax, depreciation and amortisation (EBITDA)	22,105	24,264
Earnings before interest and tax (EBIT)	13,025	16,503
Profit attributable to members of the parent entity	7,551	10,279

Financial highlights

Total revenue and other income for the half year of \$193,484,000 was up by \$10,977,000 on the prior comparative period. Overall revenue growth was achieved from an increase in operational places through the Group's strategy of acquiring existing homes (acquisitions), developing new homes (greenfields) and building extensions to existing homes (brownfields).

EBITDA decreased to \$22,105,000 for the half year, down \$2,159,000 on the prior comparative period. This decline was due primarily to \$1,424,000 of non-recurring capital refurbishment deduction revenue that occurred in 2017 which was subsequently refunded in May 2018 and a \$1,743,000 revaluation gain in 2017 that did not recur in 2018.

EBIT and profit attributable to members of the parent entity were \$13,025,000 and \$7,551,000 respectively, both down on the prior comparative period due to an increase in depreciation and financing costs as a result of the acquisition of the Riviera portfolio in April 2018, the opening of greenfields and completion of brownfields.

The Group continued to deliver high quality care to its residents during the half year and maintained its 100% accreditation record.

The Group also continued to deliver on its development strategy during the half year which will provide a significant uplift in new places to cater for the expected growing demand for residential aged care from Australia's ageing population.

Three greenfield projects in Rye (Victoria), Glen Waverley (Victoria) and Brighton-Le-Sands (New South Wales) and two brownfield projects at the Group's homes at Mirridong in Bendigo (Victoria) and Kingston Gardens (Stage 1) in Springvale South (Victoria) were completed during the half year. Significant refurbishment works at four other existing homes were also completed during the half year.

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Directors' Report For the Half Year Ended 31 December 2018

Capital management

The Group's principal sources of funds continue to be cash flows from operations and Refundable Accommodation Deposits (RADs). Net cash provided by operating activities of \$30,453,000 (2017: \$35,078,000) was inclusive of \$22,489,000 (2017: \$20,712,000) of January Government Funding received in advance in December. Net RAD inflows amounted to \$28,945,000 (2017: \$25,852,000). These are the Group's current principal sources of funds outside of bank borrowings.

During the half year, the Group increased its available bank facilities from \$220,000,000 to \$345,000,000 under a new Syndicated Facility Agreement and Multi-Option Facility Agreement with its existing lenders. The bank facilities allow the Group to draw funds as and when required to assist with construction funding of brownfield and greenfield developments, acquisitions, and funding for other general purposes. The term of the new bank facilities has also been increased to September 2023.

During the half year bank debt of \$37,000,000 was drawn down and \$5,000,000 was repaid. A total of \$177,500,000 (30 June 2018: \$145,500,000) was drawn down against the bank facilities as at the reporting date. Cash held at the reporting date was \$45,645,000 (30 June 2018: \$29,158,000); this includes \$22,489,000 (30 June 2018: Nil) relating to January 2019 Government funding received in December 2018.

Other

A Royal Commission into Aged Care Quality and Safety ("Royal Commission") was announced by the Federal Government on 16 September 2018. The Royal Commission was established on 8 October 2018 by the Governor-General of the Commonwealth of Australia. The Commissioners are required to provide an interim report by 31 October 2019 and a final report by 30 April 2020.

(c) Events after the reporting date

On 10 February 2019, the Federal Government announced a funding package of \$662 million to support older Australians. Of this total amount, \$320 million is specifically for residential aged care services and the majority of the balance is to fund an additional 10,000 home care packages. The Federal Government media release noted that the \$320 million would be a general subsidy boost in 2018-19 to benefit senior Australians receiving residential aged care services from increased support for aged care providers. This equates to approximately \$1,800 per permanent resident to be paid to providers from March 2019 to June 2019.

No other matters or circumstances other than those disclosed elsewhere in the Interim Financial Report, have arisen since the end of the financial half year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

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Directors' Report For the Half Year Ended 31 December 2018

(d) Dividends

A final dividend for the year ended 30 June 2018 of 3.75 cents per share, franked to 50%, was paid on 30 October 2018. The final dividend amount of \$9,972,000 was paid partly in cash (\$8,394,000) and the balance in shares under the Group's Dividend Reinvestment Plan.

An interim dividend for the half year ended 31 December 2018 of 2.80 cents per share, unfranked, has been determined and is payable on 30 April 2019. The interim dividend amount of \$7,480,000 is based on the number of shares on issue at the date of this report. This amount has not been recognised in the Interim Financial Report as it was determined subsequent to the half year end.

(e) Lead auditor's independence declaration

The lead auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2018 has been received. A copy of this declaration can be found on page 4 of the Interim Financial Report and forms part of this report.

(f) ASIC Corporations Instrument 2016/191 - Rounding of amounts

The Company is a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and, accordingly, amounts in the Interim Financial Report and the Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of Directors:



Director:
Linda Bardo Nicholls AO - Chairman



Director:
Andrew Sudholz - CEO and Managing Director

Signed and dated at Melbourne on 25 February 2019



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 review for the half-year ended 31 December 2018 there have been:

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

KPMG

KPMG

Suzanne Bell

Partner

Melbourne, Australia

25 February 2019

Japara Healthcare Limited and Controlled Entities

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 31 December 2018

	2018	2017
	\$'000	\$'000
Revenue	193,331	180,595
Other income	153	1,912
Total revenue and other income	193,484	182,507
Employee benefits expense	(136,160)	(128,457)
Resident costs	(17,099)	(15,123)
Occupancy costs	(10,788)	(9,755)
Depreciation and amortisation expense	(9,080)	(7,761)
Administrative expenses	(7,332)	(4,908)
Earnings before interest and tax	13,025	16,503
Finance income	202	369
Finance costs	(2,555)	(2,114)
Profit before income tax	10,672	14,758
Income tax expense	(3,121)	(4,479)
Profit from continuing operations	7,551	10,279
Other comprehensive income, net of tax	-	-
Total comprehensive income for the half year	7,551	10,279
Profit attributable to:		
Members of the parent entity	7,551	10,279
Total comprehensive income attributable to:		
Members of the parent entity	7,551	10,279
Earnings per share		
Basic earnings per share (cents)	2.8	3.9
Diluted earnings per share (cents)	2.8	3.9

The accompanying notes form part of these financial statements.

Japara Healthcare Limited and Controlled Entities

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Consolidated Statement of Financial Position

As at 31 December 2018

	31 December 2018	30 June 2018
Note	\$'000	\$'000
ASSETS		
CURRENT ASSETS		
Cash	45,645	29,158
Trade and other receivables	10,713	9,356
Current tax receivable	4,774	2,629
Other assets	8,953	6,405
TOTAL CURRENT ASSETS	70,085	47,548
NON-CURRENT ASSETS		
Trade and other receivables	2,275	1,834
Non-current assets held for sale	1,073	1,728
Property, plant and equipment	6 741,201	687,720
Investment property	38,398	38,398
Intangible assets	7 491,378	491,378
TOTAL NON-CURRENT ASSETS	1,274,325	1,221,058
TOTAL ASSETS	1,344,410	1,268,606
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	47,878	38,570
Other liabilities	7,662	3,650
Loans and borrowings	9 22,000	21,000
Other financial liabilities	8 538,293	509,348
Short-term provisions	34,272	33,456
TOTAL CURRENT LIABILITIES	650,105	606,024
NON-CURRENT LIABILITIES		
Loans and borrowings	9 155,500	124,500
Deferred tax liabilities	2,319	563
Long-term provisions	3,551	3,741
TOTAL NON-CURRENT LIABILITIES	161,370	128,804
TOTAL LIABILITIES	811,475	734,828
NET ASSETS	532,935	533,778
EQUITY		
Issued capital	524,540	522,962
Retained earnings	8,395	10,816
TOTAL EQUITY	532,935	533,778

The accompanying notes form part of these financial statements.

Japara Healthcare Limited and Controlled Entities

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Consolidated Statement of Changes in Equity For the Half Year Ended 31 December 2018

	Issued capital \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2018	522,962	10,816	533,778
Comprehensive income			
Profit attributable to members of the Group	-	7,551	7,551
Total comprehensive income	-	7,551	7,551
Transactions with owners of the Company			
Shares issued during the year	1,578	-	1,578
Dividends	-	(9,972)	(9,972)
Total transactions with owners of the Company	1,578	(9,972)	(8,394)
Balance at 31 December 2018	524,540	8,395	532,935

	Issued capital \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2017	522,328	13,386	535,714
Comprehensive income			
Profit attributable to members of the Group	-	10,279	10,279
Total comprehensive income	-	10,279	10,279
Transactions with owners of the Company			
Shares issued during the year	391	-	391
Dividends	-	(15,268)	(15,268)
Total transactions with owners of the Company	391	(15,268)	(14,877)
Balance at 31 December 2017	522,719	8,397	531,116

The accompanying notes form part of these financial statements.

Japara Healthcare Limited and Controlled Entities

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Consolidated Statement of Cash Flows For the Half Year Ended 31 December 2018

	2018	2017
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	215,528	200,294
Payments to suppliers and employees	(178,465)	(158,706)
Income taxes paid	(3,508)	(4,900)
Interest received	225	361
Finance costs paid	(3,327)	(1,971)
Net cash provided by operating activities	30,453	35,078
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land & buildings	(7,865)	(14,828)
Proceeds from sale of land & buildings	578	207
Purchase of plant and equipment	(5,738)	(4,659)
Capital works in progress	(53,492)	(31,536)
Net cash used in investing activities	(66,517)	(50,816)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issue of share capital under DRP	1,578	394
Dividends paid	(9,972)	(15,268)
Net proceeds from bank borrowings	32,000	25,000
Proceeds from RADs/accommodation bonds & ILU resident loans	96,510	101,690
Repayment of RADs/accommodation bonds & ILU resident loans	(67,565)	(75,838)
Net cash provided by financing activities	52,551	35,978
Net increase in cash and cash equivalents held	16,487	20,240
Cash and cash equivalents at beginning of the half year	29,158	41,376
Cash and cash equivalents at end of the half year	45,645	61,616

The accompanying notes form part of these financial statements.

Japara Healthcare Limited and Controlled Entities

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 1 Reporting entity

Japara Healthcare Limited (the "Company") is a company domiciled in Australia. These condensed consolidated interim financial statements ("interim financial report") as at and for the six months ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The principal activity of the Group during the reporting period was that of owner, operator and developer of aged care homes. The Group operates predominantly in one business and geographical segment being the provision of residential aged care services throughout Australia. Segment information reported to key management personnel is substantially similar to information provided in this interim financial report.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2018 are available upon request from the Company's registered office at Q1 Building Level 4, 1 Southbank Boulevard, Southbank, Victoria or on the Company's investor centre website at <https://investor.japara.com.au/investor-centre/>.

Note 2 Basis of preparation

This interim financial report is a general purpose report and has been prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*, and with IAS 34 *Interim Financial Reporting*.

The interim financial report is intended to provide users with an update on the latest financial results and position of the Group. As such it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. This interim financial report does not include all the notes normally included in an annual financial report. It is therefore recommended that this interim financial report be read in conjunction with the consolidated annual financial statements of the Group for the year ended 30 June 2018, together with any public announcements made during the half year and up to the date of this interim financial report in accordance with the continuous disclosure obligations of the ASX listing rules.

This is the first set of the Group's financial statements where AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 3.

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 24 March 2016 and, accordingly, amounts in the Interim Financial Report and the Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Other than described elsewhere in this report, the same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

This interim financial report was authorised for issue by the Board of Directors on 25 February 2019.

Note 3 Changes in significant accounting policies

Except as described below, the accounting policies applied by the Group in the condensed consolidated interim financial report are consistent with those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2018.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 30 June 2019.

The Group has initially adopted AASB 15 *Revenue from Contracts with Customers* (Note 5) and AASB 9 *Financial Instruments* from 1 July 2018. A number of other new standards are effective from 1 July 2018 but they do not have a material effect on the Group's financial statements.

Japara Healthcare Limited and Controlled Entities

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 3 Changes in significant accounting policies (continued)

a) AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 *Revenue* and related interpretations. It requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services are transferred to the customer – at a point in time or over time.

The application of AASB 15 has not resulted in changes in revenue recognition.

b) AASB 9 *Financial Instruments*

AASB 9 sets out requirements for recognising and measuring financial assets and financial liabilities. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

There was no material impact on the Group's condensed consolidated interim financial statements for the half-year ended 31 December 2018. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

i. Classification and measurement of financial assets and financial liabilities

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities. However, it eliminates the previous AASB 139 categories for financial assets of held to maturity, loans and receivables and available for sale. The impact of AASB 9 on the classification and measurement of financial assets is set out below.

Under AASB 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVTOCI") – debt investment; FVTOCI – equity investment; or fair value through profit or loss ("FVTPL"). The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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

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

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

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

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

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 3 Changes in significant accounting policies (continued)

Measurement categories of financial assets

Cash and cash equivalents and trade and other receivables, and loans and receivables are now classified as amortised cost. Financial assets are now classified as mandatorily at FVTPL.

Modifications of financial assets and financial liabilities

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

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

ii. Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortised cost. Under AASB 9, credit losses are recognised earlier than under AASB 139.

Measurement of ECLs

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

Trade and other receivables

ECLs are calculated based on actual historical credit loss experience. Exposures are segmented based on common credit risk characteristics and days past due. There were no significant changes during the period to the Group's exposure to credit risk and there was no significant impact to credit provisioning over trade and other receivables as at 1 July 2018.

Loans and receivables

ECLs are calculated based on actual historical credit loss experience. Exposures are segmented based on common credit risk characteristics. There were no significant changes during the period to the Group's exposure to credit risk and there was no significant impact to credit provisioning over loans and advances as at 1 July 2018.

iii. Transition

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

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

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 4 Use of estimates and judgements

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

The significant judgements made by management in applying the Group's accounting policies and the key estimates were the same as those that applied to the consolidated annual financial statements as at and for the year ended 30 June 2018.

Measurement of fair values

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

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

Management 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 management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of International Financial Reporting Standards ("IFRS"), including the level in the fair value hierarchy in which such valuations should be classified.

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

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

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

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

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

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

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

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 5 Revenue and Other Income

The application of AASB 15 - *Revenue from Contracts with Customers* did not have any significant impact on the Group's accounting policies and has not resulted in changes in revenue recognition.

	2018	2017
	\$'000	\$'000
Revenue from contracts with customers		
<u>Government income</u>		
- Department of Health funding	139,859	128,020
- Other government funding	793	1,102
- Total government income	140,652	129,122
<u>Resident income</u>		
- Basic daily fees	40,918	37,886
- Other resident fees	5(a) 11,761	13,587
- Total resident income	52,679	51,473
Total revenue	193,331	180,595
<u>Other income</u>		
- Gain in fair value of investment property	-	1,743
- Other	153	169
Total other income	153	1,912
Total revenue and other income	193,484	182,507

(a) Other resident fees includes capital refurbishment deduction income of \$Nil (2017: \$1,424,000).

Japara Healthcare Limited and Controlled Entities

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Notes to the Interim Financial Statements

For the Half Year Ended 31 December 2018

Note 6 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
Consolidated						
Half year ended 31 December 2018						
Balance at the beginning of the half year	542,585	5,185	33,317	84	106,549	687,720
Additions	7,535	301	6,135	-	48,729	62,700
Disposals - written down value	-	-	(139)	-	-	(139)
Transfers from capital works in progress	63,054	15,181	-	-	(78,235)	-
Depreciation expense	(5,506)	(216)	(3,339)	(19)	-	(9,080)
Balance as at 31 December 2018	607,668	20,451	35,974	65	77,043	741,201

	Land and buildings \$'000	Property improvements \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Capital works in progress \$'000	Total \$'000
Consolidated						
Year ended 30 June 2018						
Balance at the beginning of the year	474,662	6,139	28,618	92	32,265	541,776
Additions	20,648	179	9,978	21	87,848	118,674
Additions through business combinations	33,470	-	888	-	11,200	45,558
Transfers to assets held for sale	(500)	-	-	-	-	(500)
Transfers from capital works in progress	24,687	-	-	-	(24,687)	-
Transfers to investment property	(561)	-	-	-	(77)	(638)
Depreciation expense	(9,821)	(1,133)	(6,167)	(29)	-	(17,150)
Balance as at 30 June 2018	542,585	5,185	33,317	84	106,549	687,720

Japara Healthcare Limited and Controlled Entities

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 7 Intangible assets

	Goodwill \$'000	Resident places \$'000	Total \$'000
Half year ended 31 December 2018			
Balance as at 1 July 2018	260,746	230,632	491,378
Additions	-	-	-
Balance as at 31 December 2018	260,746	230,632	491,378
Year ended 30 June 2018			
Balance as at 1 July 2017	260,746	202,712	463,458
Acquisitions through business combinations	-	27,920	27,920
Additions	-	-	-
Balance as at 30 June 2018	260,746	230,632	491,378

Recoverable amount testing for goodwill and indefinite life intangibles

For the purpose of impairment testing of intangible assets with an indefinite useful life the Group has identified one cash generating unit ("CGU"), which is consistent with the operating segment identified in Note 1.

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

The post tax discount rate of 8.73% (30 June 2018: 8.40%) was determined based on the cash rate target adjusted for a risk premium.

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined at 2.50% (30 June 2018: 2.50%), consistent with an assumption a market participant would make.

Forecast earnings before interest, tax, depreciation and amortisation ("EBITDA") was based upon expectation of future outcomes taking into account past experience, adjusted for anticipated revenue growth and occupancy rates. Our assessment at this stage only includes known events and reasonably possible outcomes.

The estimated recoverable amount of the CGU exceeded its carrying amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	31 December 2018 %	30 June 2018 %
Change in discount rate	1.23	1.43
Change in long-term growth rate	(1.60)	(1.85)

Japara Healthcare Limited and Controlled Entities

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 8 Other financial liabilities

		31 December 2018	30 June 2018
	Note	\$'000	\$'000
CURRENT			
Refundable Accommodation Deposits (RADs)/accommodation bonds	8(a)	515,900	486,969
Independent Living Unit (ILU) resident loans	8(b)	22,393	22,379
		<u>538,293</u>	<u>509,348</u>

(a) RADs/accommodation bonds

RADs/accommodation bonds are non-interest bearing deposits made by some aged care home residents to the Group upon admission. These deposits are liabilities which fall due and payable when a 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 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 resident agreement and in compliance with the prudential requirements set out under the *Aged Care Act 1997*.

(b) ILU resident loans

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

ILU resident loans are liabilities which fall due and payable when a resident leaves the unit. They are held at fair value in the financial statements and as there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current.

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 9 Borrowings

		31 December 2018 \$'000	30 June 2018 \$'000
CURRENT			
Bank loan	9(a)	<u>22,000</u>	21,000
		<u>22,000</u>	21,000
NON-CURRENT			
Bank loan	9(a)	<u>155,500</u>	124,500
Total non-current borrowings		<u>155,500</u>	124,500
Total borrowings		<u>177,500</u>	145,500

(a) Bank loan facilities

Syndicated Facility Agreement

On 21 December 2018, the Group and its existing lenders, executed a new Syndicated Facility Agreement and Multi-Option Facility Agreement (the "Bank Facilities"). The Bank Facilities have been negotiated to fund the Group's greenfield and brownfield developments as well as acquisitions and other general purposes. The new Bank Facilities are an amendment and restatement of the pre-existing agreements with the following key amendments:

- an increase in the expiry date of the Bank Facilities from September 2020 to September 2023;
- an increase in the total available facility amounts from \$220,000,000 to \$345,000,000; and
- some minor changes to reflect the increase in size of the Group compared to the time when the previous banking agreements were negotiated in 2016.

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 half year, debt of \$37,000,000 was drawn down from the Bank Facilities and \$5,000,000 was repaid. A total of \$177,500,000 (30 June 2018: \$145,500,000) was drawn down against the Bank Facilities as at the reporting date. Subsequent to the reporting date, a further net \$4,000,000 has been drawn down to fund the Group's development program.

Japara Healthcare Limited and Controlled Entities

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 10 Commitments

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

- \$45,851,000 for various construction contracts expected to be completed over the course of the next two financial years; and
- \$5,625,000 for land purchases expected to be settled in the current financial year.

Note 11 Events occurring after the reporting date

On 10 February 2019, the Federal Government announced a funding package of \$662 million to support older Australians. Of this total amount, \$320 million is specifically for residential aged care services and the majority of the balance is to fund an additional 10,000 home care packages. The Federal Government media release noted that the \$320 million would be a general subsidy boost in 2018-19 to benefit senior Australians receiving residential aged care services from increased support for aged care providers. This equates to approximately \$1,800 per permanent resident to be paid to providers from March 2019 to June 2019.

No other matters or circumstances other than those disclosed elsewhere in this interim financial report, have arisen since the end of the financial half year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

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Notes to the Interim Financial Statements For the Half Year Ended 31 December 2018

Note 12 New accounting standards for application in future periods

A number of new standards and amendments to the standards are effective for annual periods beginning after 1 January 2019 (unless otherwise stated). The Group has considered the impact of these changes and their application in the preparation of these consolidated financial statements.

New/ amended standards	Summary of requirements	Possible impact on consolidated statements
AASB 16 - Leases	AASB 16 (effective for the financial year ended 30 June 2020) reforms are to be implemented around the change in accounting for leases whereby operating leases will be recorded on the balance sheet as a right to use asset and a corresponding financial liability, with a subsequent recording of amortisation and finance charges through profit or loss. Currently the expense relating to operating leases is only recognised in the Statement of Profit or Loss and Other Comprehensive Income as a rental expense	<p>Property Leases</p> <p>The Group has assessed the impact of the leasehold properties under lease agreements to create a right-of use asset of approximately \$18 million and a financial liability of \$18 million. The estimated impact on the Statement of Profit or Loss and Other Comprehensive Income for the six months to 31 December 2018 would be approximately as follows:</p> <ul style="list-style-type: none">- occupancy costs \$0.6 million decrease- EBITDA \$0.6 million increase- amortisation \$0.5 million increase- finance charges \$0.2 million increase- NPBT and NPAT \$0.1 million decrease <p>Resident Agreements</p> <p>The Group is in the process of considering the impact of the arrangements that provide the resident with rights to occupy a room on the consolidated financial statements. Whilst the Resident Agreement has been assessed as a lease for the purposes of AASB 16, the Group is still considering the appropriate term of the 'lease' and the implicit interest rate applicable to ensure that the accounting treatment complies with AASB 16.</p>

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Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 5 to 19 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (b) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Director:

Linda Bardo Nicholls AO - Chairman



Director:

Andrew Sudholz - CEO and Managing Director

Signed and dated at Melbourne on 25 February 2019



Independent Auditor's Review Report

To the shareholders of Japara Healthcare Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Japara Healthcare Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Japara Healthcare Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2018 and of its performance for the **Interim Period** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises the:

- Consolidated statement of financial position as at 31 December 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information
- Directors' Declaration.

The **Group** comprises Japara Healthcare Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The **Interim Period** is the 6 months ended on 31 December 2018.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*.
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Japara Healthcare Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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



KPMG



Suzanne Bell

Partner

Melbourne, Australia

25 February 2019