

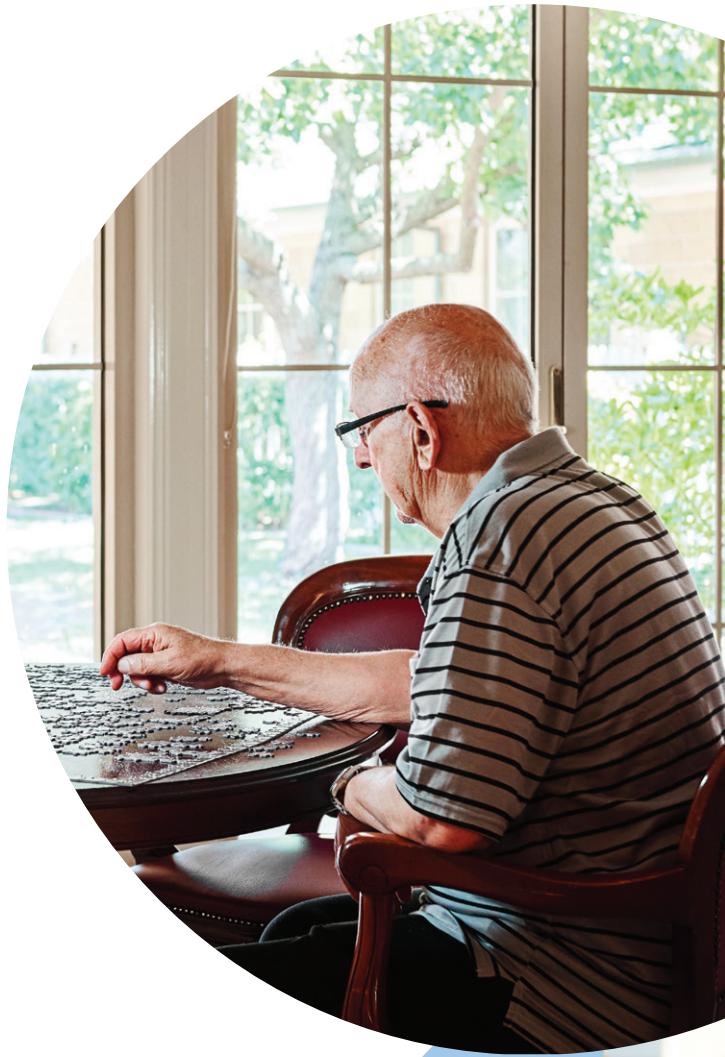
Annual Report  
2021



**JAPARA**

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We acknowledge and thank all residents  
and staff appearing in this report.



# Company overview

Japara is one of Australia's largest providers and developers of residential aged care, with a large national footprint across five Australian states. Our unique approach to aged care is based on respect for the individual in delivering a better standard of residential living for elderly Australians.

With a team of around 6,000 nurses, carers and other support staff, we care for ~4,000 valued residents across 50 homes located throughout Eastern Australia. We operate five retirement villages comprising 180 independent living units located adjacent to five of our residential care homes, providing attractive senior living unit and apartment accommodation.

We have grown to be one of Australia's most admired aged care providers through treating each resident as family and placing their best interests at the heart of everything we do. We are inspired to developing smarter, better designed homes and devoting more one-on-one time with each of our residents to create and deliver truly personalised life plans.

Our diversified growth strategy includes an extensive development program to meet a growing future community need for residential aged care and senior living.

Our development program has delivered more than 1,000 new care places to date, with a further 430 new care places in the pipeline as well as three new co-located senior living community developments planned. We continually invest in our homes through refurbishment and upgrade programs so they remain contemporary by providing improved amenity, ambience and community connection.

At Japara, everything begins with respect.

## Key Statistics as at 30 June 2021

|                                      |                        |
|--------------------------------------|------------------------|
| Number of homes                      | 50 across five States  |
| Approved and provisional places      | 5,705                  |
| Operational places                   | 4,507                  |
| Co-located senior living communities | 5 comprising 180 units |
| Number of staff                      | 5,868                  |



## Our home locations



### Geographical spread by homes

|                 |           |               |
|-----------------|-----------|---------------|
| Victoria        | 33        | (66%)         |
| New South Wales | 7         | (14%)         |
| South Australia | 5         | (10%)         |
| Queensland      | 3         | (6%)          |
| Tasmania        | 2         | (4%)          |
| <b>Total</b>    | <b>50</b> | <b>(100%)</b> |



# Chairman and CEO's review



**Linda Bardo Nicholls AO**  
Chairman



**Chris Price**  
CEO & Managing Director

Dear Shareholders,

On behalf of the Board of Directors (Board) we are pleased to present our 2021 Annual Report. The impact of the COVID-19 pandemic has been extreme throughout the Aged Care sector. With a significant presence in Victoria, Japara was affected by both the Melbourne COVID-19 outbreaks and the extended Victorian lockdowns. Throughout this challenging period, your Company's key focus has been the care, wellbeing, and safety of our 4,000+ residents and over 5,800 staff. We continued to provide the highest standard of personalised care with Registered Nurses in each of our 50 homes 24 hours a day, and we spent over 100% of care revenue received from Government and residents on costs associated with the provision of quality care and operating the business.

## FY2021 review

During a year dominated by the COVID-19 pandemic, Japara's response has been informed by expert medical advice. Strict early application of biosecurity measures including Personal Protective Equipment, infection control training, outbreak simulations, compulsory flu vaccinations, visitation restrictions, increased cleaning rosters, regular updates to resident families, and dedicated employee assistance programs helped minimise the impact of COVID-19 in our homes. The year started with community transmission greatly affecting five of our homes including the residents and staff. Our condolences were passed on to the families of our residents that sadly passed away at that time.

Appropriate decisions to limit infection spread were required and significant investment was made prior to the Victorian 'second wave'. Costs of operations increased, and Japara applied successfully for Grants under Federal Government COVID Relief programs. Understandably, occupancy declined to below budgeted levels especially in Victoria despite efforts to boost occupied places with shorter term

respite care. As expected, the easing of restrictions and the COVID-19 vaccine rollout have been catalysts for gradual improvement and occupancy at year end was 89.0%.

The Government response to the recommendations of the Royal Commission into Aged Care Quality and Safety was received in the second half of the year together with a new \$10 per resident per day basic daily fee supplement from 1 July 2021. COVID-19 Aged Care Workforce Retention Bonus grants were received and paid to eligible staff and applications were made for grant reimbursements as a result of the Single Site Worker Initiative payments made to applicable employees. While the additional funding is welcome, the underlying structural issues of the cumulative and growing 'negative jaws' gap between indexation of Federal Government care funding and Fair Work Annual Wage Reviews and the significant taxation differences (including payroll, fringe benefits and income tax) favouring not-for-profit operators were not addressed.

Notwithstanding tough conditions, our lenders continued to be supportive and balance sheet strength and liquidity have been maintained with \$132.8 million of cash and undrawn debt available at year end. During the year, Japara continued to focus on the implementation of major IT projects and its real estate strategy. New homes were opened at Trugo Place (120 places) in Victoria, and Corymbia (100 places) in NSW. The brownfield extension at our Albury & District home added 25 places while significant refurbishments were completed at three Victorian homes to improve their amenity and earn the Higher Accommodation Supplement. Several greenfield and brownfield projects, paused for the duration of the COVID-19 pandemic, are ready to resume when conditions improve. Two older closed homes and some surplus vacant land were sold in addition to one other with an accompanying long-term lease-back arrangement. Revaluation of real estate delivered a small earnings uplift. Japara ended the FY2021 year with EBITDA<sup>1</sup> of \$19.8 million and a Net Loss after Tax<sup>2</sup> of \$14.1million. No dividends were declared.

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.



# Chairman and CEO's review

## Outlook

The short-term outlook for aged care remains challenging although the underlying demand for residential aged care will persist for Australia's rapidly ageing population. In a material event subsequent to year-end, the Board announced it was recommending an acquisition offer under a Scheme of Arrangement (Scheme) with the not-for-profit aged care provider, Calvary, at \$1.40 a share. This recommendation is in the absence of a superior proposal and subject to an Independent Expert concluding (and continuing to conclude) that the Scheme is fair and reasonable and in the best interests of shareholders. The outcome of this offer and approval of the Scheme by shareholders will be decided at an Extraordinary General Meeting in October 2021.

## Appreciation

COVID-19 has been confronting and frightening for many of our residents and their relatives, whom have displayed remarkable strength and support for Japara, for which we are grateful.

Our sincere thanks and appreciation goes to all our dedicated front line staff for providing outstanding care and compassion during these challenging times. We also thank our executives and support office team for all their hard work and commitment in supporting our homes and navigating the many challenges confronted. Finally, we thank you, our shareholders, for your on-going support of Japara.



**Linda Bardo Nicholls AO**  
Chairman  
30 August 2021

**Chris Price**  
CEO & Managing Director  
30 August 2021





# Directors' Report

For the year ended 30 June 2021

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 2021 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

73 years  
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

56 years  
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.

### David Blight

59 years  
BAppSc PRM (Val)

Non-Executive Director  
Director since 19 March 2014



Chairman of the People, Culture and Remuneration Committee (from 1 September 2020) and a member of the Audit, Risk and Compliance Committee and the Zero Harm Committee.

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

David is Chairman of IP Generation and IP Generation Fund Management and is 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)

|  |  |
|--|--|
| <p><b>JoAnne Stephenson</b><br/>59 years<br/>BComm, LLB, CA, MAICD</p> <p>Non-Executive Director<br/>Director since 1 September 2015</p>   | <p>Chairman of the Audit, Risk and Compliance Committee (from 1 September 2020) and a member of the People, Culture and Remuneration Committee (Chairman from 1 July 2020 to 1 September 2020) and a member of 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.</p> |
|   | <p>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.</p>   |
|  | <p>JoAnne is Acting Chairman of Myer Holdings and a Non-Executive Director of Challenger. She is also Chair of the Major Transport Infrastructure Board (Victoria).</p>  |
|  | <p><b>Other current Australian listed company directorships:</b><br/>Challenger (appointed 8 October 2012), Myer Holdings (appointed 28 November 2016)</p> <p><b>Former Australian listed company directorships in last three years:</b><br/>Asaleo Care (resigned 1 July 2021)</p>  |
| <p><b>Leanne Rowe AM</b><br/>64 years<br/>Doctor of Medicine (MD), MB BS, FRACGP, Dip RACOG, FAICD, HonLLD (Monash)</p> <p>Non-Executive Director<br/>Director since 1 July 2019</p> | <p>Chairman of the Zero Harm Committee and a member of the Audit, Risk and Compliance Committee and the People, Culture and Remuneration Committee.</p>  |
|   | <p>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.</p>  |
|  | <p>She is Chairman of Nexus hospitals and in addition to her current Australian listed company directorships is 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.</p>                       |
|  | <p>Leanne is a former Deputy Chancellor of Monash University and has been awarded a Doctor of Laws (<i>honoris causa</i>) 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.</p>  |
|  | <p><b>Other current Australian listed company directorships:</b><br/>Doctor Care Anywhere Group (appointed 17 September 2020), Australian Clinical Labs (appointed 28 April 2021)</p> <p><b>Former Australian listed company directorships in last three years:</b><br/>None</p>   |
| <p><b>No longer in Office:</b></p>   |  |
| <p><b>Richard England</b><br/>71 years<br/>FCA, MAICD</p> <p>Non-Executive Director<br/>Director from 19 March 2014 to 1 September 2020</p>  | <p>Chairman of the Audit, Risk and Compliance Committee and a member of the People, Culture and Remuneration Committee and the Zero Harm Committee (from 1 July 2020 to 1 September 2020).</p>   |
|   | <p>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.</p>  |
|  | <p>Richard is Chairman of Qantm Intellectual Property and Hobart International Airport. He is also a Non-Executive Director of Friendly Society Medical Association, HBF Health Limited and Indigenous Art Code.</p>   |
|  | <p>Prior to embarking on his career as a director, Richard was a Chartered Accountant in Public Practice and a partner at Ernst &amp; Young, where he was the national director of Corporate Recovery and Insolvency.</p>  |
|  | <p>Richard is a fellow of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors.</p>   |
|  | <p><b>Other current Australian listed company directorships:</b><br/>Qantm Intellectual Property (appointed 17 May 2016)</p> <p><b>Former Australian listed company directorships in last three years:</b><br/>Bingo Industries (resigned 13 November 2019), Automotive Holdings Group (resigned 31 October 2019), Nanosonics (resigned 31 August 2019), Atlas Arteria (resigned 30 November 2018)</p>   |

# Directors' Report continued

For the year ended 30 June 2021

## 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 Chartered Governance Institute 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:

| No. of meetings held                 | Board Meetings |          | Audit, Risk & Compliance Committee Meetings |          | People, Culture & Remuneration Committee Meetings |          |
|--------------------------------------|----------------|----------|---|----------|---|----------|
|                                      | Eligible       | Attended | Eligible                                    | Attended | Eligible  | Attended |
| Linda Bardo Nicholls AO <sup>1</sup> | 11             | 11       | 5   | 5        | 4   | 4        |
| Chris Price <sup>1</sup>             | 11             | 11       | 5   | 5        | 4   | 4        |
| David Blight                         | 11             | 11       | 5   | 5        | 4   | 4        |
| JoAnne Stephenson                    | 11             | 11       | 5   | 5        | 4   | 4        |
| Leanne Rowe AM                       | 11             | 11       | 5   | 5        | 4   | 4        |
| Richard England <sup>2</sup>         | 3              | 3        | 2   | 2        | 2   | 2        |

| No. of meetings held                 | Zero Harm Committee Meetings |          | Acquisition Committee Meetings <sup>3</sup> |          |
|--------------------------------------|------------------------------|----------|---|----------|
|                                      | Eligible                     | Attended | Eligible                                    | Attended |
| Linda Bardo Nicholls AO <sup>1</sup> | 4                            | 4        | 7   | 7        |
| Chris Price <sup>1</sup>             | 4                            | 4        | 7   | 7        |
| David Blight                         | 4                            | 4        | 7   | 7        |
| JoAnne Stephenson                    | 4                            | 4        | 7   | 7        |
| Leanne Rowe AM                       | 4                            | 4        | 7   | 7        |
| Richard England <sup>2</sup>         | 1                            | 1        | -   | -        |

1. Attended Committee meetings by invitation unless otherwise stated.

2. Retired 1 September 2020.

3. Non-standing Committee comprising all Directors for the purpose of considering indicative proposals received to acquire all of the shares in the Company.

## 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 Australia's largest providers and developers of residential aged care, with a large national footprint. With a team of around 6,000 nurses, carers and other support staff, Japara cares for more than 4,000 residents across 50 homes located in Victoria (33 homes), New South Wales (seven homes), Queensland (three homes), South Australia (five homes) and Tasmania (two homes).

The Group also operates five retirement villages comprising 180 Independent Living Units (**ILUs**) located adjacent to five of its residential care homes. Retirement living 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 aid COVID-19 pandemic (**COVID-19**) preparations and for various additional costs incurred during COVID-19 outbreaks. Approximately 73% (2020: 72%) of customer contract revenue for the financial year was from Federal Government care and accommodation funding (excluding government grant income).

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 27% (2020: 28%) of customer contract revenue for the financial year (excluding government grant income).

#### 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 Area.

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. IT systems 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.

# Directors' Report continued

For the year ended 30 June 2021

## 5. Operating and financial review continued

### Overview of the Group continued

#### 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 77% (2020: 74%) 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

|   | 2021<br>\$'000 | 2020<br>\$'000 | Change<br>% |
|---|----------------|----------------|-------------|
| Revenue and other income  | 438,793        | 427,532        | 2.6         |
| Earnings Before Interest, Tax, Depreciation and Amortisation ( <b>EBITDA</b> ) <sup>1</sup> | 19,822         | 32,875         | (39.7)      |
| Loss attributable to members of the Group   | (14,106)       | (292,087)      | 95.2        |
| Total comprehensive expense attributable to members of the Group                            | (12,404)       | (294,714)      | 95.8        |

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 \$19,822,000 for the financial year in a continued challenging operating environment.

Total revenue and other income of \$438,793,000 was up 2.6% on last financial year while a net loss after tax of \$14,106,000 was recorded, mainly attributable to the impacts of COVID-19 on occupancy rates and staff costs. A non-cash impairment of \$519,000 was taken in relation to the Group's Forest View aged care home, which was written down to its fair value less cost of disposal at 30 June 2021.

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 \$4,473,000 (2020: \$4,290,000) of additional COVID-19 specific funding from the Federal Government to assist in reinforcing safety and care levels for residents. Additionally, the Group submitted grant claims made available by the Federal Government in response to COVID-19 of which \$9,446,000 was recognised as revenue and \$7,106,000 received in cash during the financial year. A further \$6,673,000 of grant income in the form of aged care workforce retention bonuses was received from the Federal Government, which was passed on in full to eligible employees. The Group also generated net gains of \$1,467,000 from the disposal of real estate including the sale and lease-back of one of its homes in Victoria, which generated \$1,272,000 of the total net gains. Revenue from existing mature homes was lower as occupancy levels continued to remain low during the financial year, consistent with sector experience, primarily as a result of the various COVID-19 lockdowns that restricted resident admissions. Average occupancy for the financial year was 88.6% compared with 92.2% in the previous financial year.

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. Costs in responding to COVID-19 in homes also had a significant increase in staff and other operating costs including medical, cleaning and waste disposal. Where possible these costs were recovered under the government grant schemes detailed above. Other operating cost increases included resident costs including personal protective equipment and cleaning supplies, waste disposal costs, utility expenses and insurance premiums, somewhat offset by central administrative cost reductions.

A non-cash fair value increase through other comprehensive income occurred during the financial year amounting to \$1,702,000 (2020: loss of \$2,627,000) 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:

|                   | 2021<br>\$'000 | 2020<br>\$'000 | Change<br>% |
|-------------------|----------------|----------------|-------------|
| Total assets      | 1,277,502      | 1,252,016      | 2.0         |
| Total liabilities | 1,066,685      | 1,029,049      | 3.7         |
| Net assets        | 210,817        | 222,967        | (5.4)       |

### Review of financial position

The Group's total assets increased by 2.0% during the financial year. This was mainly a result of increased development activity during the year increasing property, plant and equipment, as well as fair value increases in investment property and accrued income relating to grant claims submitted but not yet received.

Total liabilities increased by 3.7%, mainly due to an increase in bank borrowings to fund the above increase in assets and from an increase in RADs, being monies refundable to residents.

During the financial year an additional \$51,000,000 of the Group's banking facilities was drawn down primarily to fund developments, with \$34,250,000 being repaid from net RAD cash inflows and net proceeds from asset sales.

A total of \$255,750,000 (2020: \$239,000,000) was drawn down from the Group's banking facilities as at the reporting date. Together with the Group's cash balances of \$43,551,000 (2020: \$48,286,000), the Group's net debt as at the reporting date amounted to \$212,199,000 (2020: \$190,714,000), of which \$70,949,000 (2019: \$36,214,000) is considered core net debt and \$141,250,000 (2019: \$154,500,000) is development debt.

The Group has \$345,000,000 of syndicated and bilateral 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 Group continues to meet all its lending financial covenants and continues to enjoy strong support from its lenders.

On-going portfolio management of the Group's real estate assets continued during the financial year. The sale and lease back of its Capel Sands home in Victoria realised cash in June 2021 of approximately \$7,900,000 net of costs, the majority of which was used to repay bank debt in July 2021.

In June 2021, the Group's Forest View aged care home was closed following relocation of the residents to the Group's new Corymbia home. A decision was made to sell the land and buildings at Forest View, and as such these assets were classified as available for sale at 30 June 2021. These assets were auctioned on 21 July 2021 and sold for \$4,560,000. The assets were recognised on the balance sheet at 30 June 2021 at \$4,466,000, being the sales price less costs of disposal of \$94,000. Settlement is scheduled to take place in January 2022.

Net RAD and ILU resident loan cash inflows for the financial year were \$24,920,000 (2020: \$55,763,000), the decrease reflecting the decrease in occupancy and associated RAD outflows in the year, offset by incoming RADs at new developments completed in the year, at Trugo Place, Victoria which opened in February 2021 and Corymbia, NSW which opened in June 2021.

The Group's current liabilities exceed current assets by \$678,712,000 (2020: \$675,758,000) as at 30 June 2021. 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, with the pandemic still presenting extreme challenges for the Group and the broader aged care sector. The disease is severe for frail elderly people, leading to higher fatality rates. The availability of a vaccine during the latter part of the financial year was welcomed and has since been made available to all residents and staff. National Cabinet has mandated that all staff working in aged care homes must have received at least their first dose by 16 September 2021. Take-up rates have been pleasing given the initial challenges faced, particularly for staff, due to limited vaccine availability and external logistics.

# Directors' Report continued

For the year ended 30 June 2021

## 5. Operating and financial review continued

### COVID-19 continued

The Group remained vigilant and well prepared to respond to COVID-19 circumstances during the financial year. A comprehensive COVID-19 response plan remained in place which included strict infection control measures compliant with the requirements of State and Commonwealth health authorities. 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 were in place. An experienced emergency management committee oversaw the Group's COVID-19 response plan. Notwithstanding the Group's preparedness, outbreaks were experienced at some of the Group's Victorian homes during the financial year associated with high community transmission rates. These outbreaks were promptly notified to the relevant authorities, with contact tracing immediately initiated and close contacts required to isolate. Our quality management team, in addition to State and Commonwealth health authorities and the aged care regulator, closely monitored the outbreaks. Visitor restrictions were introduced and isolation and cohorting measures undertaken while having regard to the particular circumstances.

COVID-19 continued to impact the Group's business during the year resulting in lower revenue due to lower occupancy levels and additional operating costs at homes. Federal Government's COVID-19 assistance funding and grants helped to offset some of the additional costs incurred. The Group was not entitled to receive any financial assistance for staff through the Federal Government's JobKeeper subsidy arrangements during the year.

Availability of staff at Group homes was impacted by COVID-19, most noticeably in July and August 2020 and particularly within Victoria where there was a considerable number of homes across the sector with COVID-19 outbreaks. The ability to access additional staff during outbreaks is limited, given regulatory and health restrictions in place.

The Group's consumable supply chains were also impacted. Supplies of personal protective equipment and cleaning supplies were more expensive and sometimes had longer delivery times. Additional cost for waste disposal were also experienced.

As a result of workplace restrictions due to COVID-19, the majority of the Group's Melbourne support office workforce worked from home during 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 when State borders have been closed.

### Sector reform

The Royal Commission into Aged Care Quality and Safety (**Royal Commission**) released its final report on 26 February 2021 making 148 recommendations covering quality, funding and sustainability reforms. The Federal Government responded to these recommendations in May 2021 with a five-year, five pillar aged care reform plan to address services and sustainability, quality and safety, workforce, governance and home care. A number of key proposed changes include:

- a new basic daily fee supplement of \$10 per resident from July 2021 subject to providers reporting on the adequacy of their daily living services to residents;
- a new residential care funding model (AN-ACC) to replace the current ACFI model for implementation from October 2022;
- measures to improve transparency including a Star Rating system for the quality of aged care services by the end of 2022;
- a new, value based Aged Care Act by July 2023;
- minimum care time for residents by October 2023 (being an average of 200 minutes per resident per day, including 40 minutes of registered nurse time); and
- discontinuing the Aged Care Approvals Round and allocating residential care places to consumers as opposed to the current bed license arrangement from July 2024.

The Group in principle supports the proposed aged care sector reforms to benefit the elderly and provide long-term financial sustainability to the sector.

### Climate change and sustainability

Climate change and global warming have been attributed to harmful effects world-wide on the environment, society and economic activity. Accordingly, these effects may potentially impact the Group as countries, including Australia, seek to decrease greenhouse gas emissions and move to lower-carbon economies and conserve natural resources. Additionally, physical effects from increased frequency in severe weather and other events pose risk for the Group's physical assets and business operations. The Group has therefore identified climate change as a material business risk in this report.

The financial impact of climate-related risks is considered, where relevant, when making estimates, judgements and assumptions in preparing the Group's consolidated financial statements. There are no climate-related risks currently expected to have a material financial impact on the value of the Group's assets or business operations to be reflected in the consolidated financial statements.

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

The Group remains 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 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. A number of development projects that were under construction proceeded as scheduled and were completed during the financial year.

Whilst the proposed reforms arising from the Royal Commission are worked through over time, with no certainty of outcome, the Group continues to face underlying structural issues of the cumulative and growing 'negative jaws' gap between indexation of Federal Government care funding and Fair Work Annual Wage Reviews and the significant taxation differences (including payroll, fringe benefits and income tax) favouring not-for-profit operators.

The Group seeks to support and participate in the proposed reforms 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 inspections have been made more challenging due to visitation restrictions. Additionally, consumer confidence appears lower with the spread of COVID-19 in the community and the slower than anticipated vaccine roll-out. There have also been new homes 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 are used for strategic direction and improvement initiatives.

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 recently reviewed its 'fee for service' offering of additional services to residents, with a pilot trialling modified packages now underway. Revenue from additional services continues to grow modestly and is expected to generate further revenue growth where more residents access these services. The majority of the Group's developments are 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.

### **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 aged care market.

The Group has an in-house managed development program. During the financial year, two new greenfield developments were completed and opened under this program adding 220 places. Additionally, a 25 place brownfield extension and significant refurbishments at three other existing homes were completed. The Group also seeks to expand further into selective senior living opportunities on a co-located basis with its existing homes, with a number of these projects being progressed through planning and development approval stages during the financial year.

The Group has 601 un-activated provisional licences issued by the Department of Health for development purposes. It also holds 403 other surplus licenses to support the places to be built under the Group's future development program.

# **Directors' Report** continued

For the year ended 30 June 2021

## **5. Operating and financial review** continued

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

#### **Development program** continued

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 is entitled to receive additional Federal Government funding from accommodation supplements for each concessionary resident in newly built or significantly refurbished homes. In all, 39 of the 50 homes in the portfolio now qualify for this additional supplement.

#### **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 Federal Government's proposed reform for the aged care sector involves significant regulatory and funding changes including a new, value based Aged Care Act from July 2023 and a new residential care funding model to replace the current ACFI model for implementation from October 2022.

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.

The Group's executive team is collectively responsible for managing regulatory risk and develop 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 is also 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. This risk has been exacerbated by COVID-19 where outbreak homes may require staff to isolate and restrictions are imposed to prevent staff working at multiple 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 available during COVID-19 outbreaks to retain and bolster the Group's workforce include paying more attractive temporary financial arrangements and accessing the Government's emergency surge workforce.

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 currently set without reference to State-based aged care labour costs. The Group's staff costs as a percentage of total revenue for the financial year was approximately 77% (2020: 74%). Increasing staff costs in excess of the increases in Federal Government funding, as currently occurring, may adversely affect the Group's financial performance.

The Group seeks to manage 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, as residents depart, revenue reduces and RADs are refunded, with a possible resulting increase in net debt. Such occurrences are likely to lead to a decline in the Group's profitability.

To mitigate occupancy level risk, occupancy is regularly monitored at home and line management levels. 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 refurbishment and 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 the quality of the accommodation provided and local 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 and monitored 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.

### 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 is 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. Related 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.

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 COVID-19 outbreaks, a dedicated external infection control expert is a key committee member. The Group has also appointed an infection prevention and control lead at each home, who has completed accredited training. The Group's executive leadership team and Board receive regular reports and monitor progress and developments for Outbreaks.

# **Directors' Report** continued

For the year ended 30 June 2021

## **5. Operating and financial review** continued

### **Material business risks** continued

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

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 also provide resource support and assistance. The Group may offer more attractive temporary financial arrangements to secure additional short-term staff. The Group's 50 homes are disbursed across five States which can assist with sharing of resources and geographical risk. Group support to its homes is available on both a central and regional basis from dedicated staff, including experienced quality and business managers.

#### **Health and safety**

The health, safety and wellbeing of residents, 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, and an Executive Clinical Governance Committee (when applicable), 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.

#### **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 replacement of key personnel can be expensive and time consuming.

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 and other business continuity payment arrangements as approved by the Board.

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

Residential aged care homes are required at law to be operated by Approved Providers and are 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 regulations 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. In some circumstances, an accreditation breach may result in the Group being unable to admit new residents until rectified and being required to undertake training for officers and staff and to appoint an eligible adviser for the breach period to assist with compliance at its own cost.

The above occurrences can potentially result in the breach of bank lending covenants and 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 actions monitored by an Executive Clinical Governance Committee, and 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 the 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.

### 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, like that resulting from regulatory findings and COVID-19 outbreaks, may lead to a reduction in occupancy at the Group's homes 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 encourages relevant advocacy groups to be 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, actions and penalties from statutory bodies 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.

These 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.

### Climate risk

Climate change and global warming have been attributed to harmful effects world-wide on the environment, society and economic activity. Accordingly, these effects may potentially impact the Group as countries, including Australia, seek to decrease greenhouse gas emissions and move to lower-carbon economies and conserve natural resources. Additionally, physical effects from increased frequency in severe weather and other events pose risk for the Group's physical assets, human safety, and business operations. This includes from storms, heat waves, floods and bushfires to which some of our homes are more exposed due to their geographical locations. Physical effects of climate change could also increase chronic illness levels of incoming residents, with associated additional care requirements.

# Directors' Report continued

For the year ended 30 June 2021

## 5. Operating and financial review continued

### Material business risks continued

#### Climate risk continued

Transitioning to a lower-carbon economy and more conservative use of natural resources may require or result in changes in policy, regulation, technology and markets. This may impact the availability and cost of resources (including water, energy, food and other consumables), supply and distribution chains and lead to reputational risk where socially demanded practices are not embraced.

The Group's Zero Harm Committee is responsible for overseeing environment and sustainability matters under its Charter. This includes overseeing the development and implementation of Group-wide processes and procedures for compliance, legal, regulatory and policy obligations, endorsing and monitoring KPIs and targets and in liaison with other Board committees, ensuring reporting and risk management procedures are effective.

The Group has adopted a Board approved Climate Change Position Statement and Sustainable Procurement Policy and is developing plans and pursing projects to minimise electricity consumption and water usage and improve waste management practices. Five Green Star builds are pursued for greenfield developments, with energy and other resource saving measures used within brownfield development and significant refurbishments at existing homes.

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

## 6. Dividends

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

|  |       |
|--|-------|
| Final dividend: nil cents per share (2020: nil cents)    | \$nil |
| Interim dividend: nil cents per share (2020: 2.00 cents) | \$nil |

The Directors have determined not to pay an interim dividend or final dividend for the 2021 financial year.

## 7. Significant changes in the state of affairs

### COVID-19

As mentioned earlier in this report, the COVID-19 pandemic presented extreme challenges for the Group during the financial year and the broader aged care sector. Increased levels of care and safety associated with COVID-19 were required, with additional costs for staffing, cleaning supplies and personal protective equipment being incurred. Although Federal Government's COVID-19 assistance funding and grants helped to offset these additional costs, the Group was financially impacted by lower revenue from lower occupancy levels.

### Other

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

## 8. Events subsequent to reporting date

### COVID-19

Community transmission of COVID-19 has significantly increased nationwide since late July 2021, with major lock-down restrictions remaining imposed in New South Wales and Victoria. This may impact near-term occupancy of affected Group homes within these States as inspections and admission are made more challenging due to uncertainty and visitation restrictions.

### Property divestment

In June 2021, the Group's Forest View aged care home in New South Wales was closed and the residents transferred to the Group's new Corymbia home. A decision was made to sell the land and buildings which were auctioned on 21 July 2021 and sold for \$4,560,000, with settlement due in January 2022.

### Scheme of arrangement

On 27 July 2021, the Company announced that it had entered into a Scheme Implementation Deed with Little Company of Mary Health Care Ltd (**Calvary**) for the acquisition of all of the issued shares in the Company by way of a Scheme of Arrangement (**Scheme**).

Calvary is a charitable Catholic not-for-profit organisation with public and private hospitals, retirement and aged care facilities and community care centres across Australia.

The Company's shareholders will be given the opportunity to vote on the Scheme at a meeting which is expected to be held in October 2021. If the Scheme is approved and implemented, shareholders will receive total cash consideration of \$1.40 per share.

The Board has concluded that the Scheme is in the best interests of shareholders and has unanimously recommended that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an independent expert concluding that the Scheme is fair and reasonable and in the best interests of shareholders.

#### **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 Indemnification**

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

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

#### **Insurance premiums**

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

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

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

### **11. Audit and non-audit services**

KPMG is engaged as the Group's auditor under an agreement letter to provide statutory services for half-year and annual financial reporting periods. An annual arrangements letter is issued by KPMG which confirms details including its audit plan, scope of engagement, timing and fees.

During the financial year, KPMG performed certain other 'non-audit' services in addition to its statutory duties. Other services are performed by KPMG at the Group's request where KPMG is considered the best qualified or positioned to provide them, including without compromising auditor independence requirements.

The directors have considered the other services provided during the financial 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 financial 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.

# Directors' Report continued

For the year ended 30 June 2021

## 11. Audit and non-audit services continued

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

|                              | 2021<br>\$'000 | 2020<br>\$'000 |
|------------------------------|----------------|----------------|
| Audit and review services    | 243            | 406            |
| Taxation compliance services | 71             | 61             |
| Taxation advisory services   | 14             | 9              |
| Other assurance services     | 25             | -              |
| Other advisory services      | -              | 23             |
|                              | <b>353</b>     | <b>499</b>     |

## 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 23 and forms part of this Directors' Report for the financial year ended 30 June 2021.

## 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 26 to 39 and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors:

Signed and dated at Melbourne on 30 August 2021



**Linda Bardo Nicholls AO**  
Chairman



**Chris Price**  
CEO & Managing Director

# Lead Auditor's Independence Declaration



## 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 2021 there have been:

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

KPMG

A handwritten signature in black ink that reads "Suzanne Bell".

KPMG

Suzanne Bell

*Partner*

Melbourne

30 August 2021

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

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Japara Healthcare Limited Audited Remuneration Report for the financial year ended 30 June 2021.

The report is presented against the background of a year where the impact of the COVID-19 pandemic has been extreme throughout the aged care sector. With a significant presence in Victoria, Japara was affected by both the COVID-19 outbreaks and the extended Victorian lockdowns. While the availability of vaccines promises some relief going forward, as the COVID-19 virus mutates and the Delta strain is more contagious, lockdowns have continued in the first months of the new financial year.

In a material event after year-end, the Board announced it was recommending an acquisition offer from the not-for-profit aged care provider, Calvary, at \$1.40 a share. The outcome of this offer will be decided by shareholders at an Extraordinary General Meeting in October 2021.

### FY2021 Performance

Japara ended the year with EBITDA<sup>1</sup> of \$19.8 million and a Net Loss after Tax of \$14.1 million. These results reflected lower occupancy and resident revenue due to the pandemic; higher costs of care, infection control, and biosecurity measures, as well as the growing gap between indexation of Federal Government care funding and Fair Work Annual Wage Reviews.

Greenfield and brownfield development projects at Trugo Place, Corymbia and Albury & District were completed together with significant refurbishments at Balmoral Grove, Cordelia Grove and Elouera. All other proposed greenfield development projects were paused.

Balance sheet strength and liquidity were maintained with adequate cash and undrawn debt available. All Japara homes were fully accredited at year end.

### FY2021 Remuneration Framework

Executive remuneration at Japara has three components: fixed remuneration (salary), and separate at-risk rewards for short-term and long-term results.

The remuneration framework is designed to balance several factors: financial and non-financial outcomes; short-term and long-term performance; the interests of shareholders and executives; talent retention; and recognition of the complexity and effort demanded of executives in a challenging and heavily regulated environment.

The framework presented to shareholders in the FY2020 Remuneration Report continued largely unchanged for FY2021 and followed the structure of common gateways to be achieved to qualify for any incentive award assessment.

The FY2021 gateways for the Short-Term Incentive (**STI**) were 1) ongoing accreditation at all residential aged care homes and 2) no material breach of regulatory or compliance guidelines across the Group's business. The FY2021 gateway for the Long-Term Incentive (**LTI**) was no material breach of regulatory or compliance guidelines across the Group's business.

The measures for the STI are individual performance measures for each executive. The STI is awarded in deferred equity or cash at the Board's discretion. The performance metrics for the LTI are growth in Earnings Per Share and Total Shareholder Return measured over four years. The LTI is granted in performance rights which vest at the end of the four-year testing period.

### FY2021 Remuneration Outcomes

There was no change to the fixed remuneration for the executive leadership team in FY2021 and no change to the incentive opportunities (as a percentage of fixed remuneration). The performance assessment scorecards for STI entitlements (set out in the Remuneration Report) show that while the executives successfully passed the gateways, not all performance measure were achieved and individual STI awards were reduced accordingly. The impact of external factors (particularly COVID-19) on target outcomes, business priorities and executive workloads were also considered. Additionally, the Board applied its discretion to reduce STI awards in light of the Group's financial performance against the FY2021 budget. As a result, the overall outcome of the STI was a range of 10%-25% of total fixed remuneration. Further, in recognition of the potential acquisition of the Company, the Board determined that it would be inappropriate to issue Japara shares, and consequently awarded FY2021 STI in cash.

1. Earnings before interest, tax, depreciation, amortisation and impairment of non-current assets.

The FY2021 LTI was granted in the form of performance rights with a four-year performance testing period ending 30 June 2024. One-off equity grants made to the CEO and CFO/CIO in FY2020 fully vested into Japara shares as the vesting condition had been met. There were no other historic or other grants which vested or lapsed during the year or remained eligible for vesting at year end. In the light of recent acquisition activity, the Board has sought to provide ongoing stability for the business by introducing a one-off conditional deferred payment to key executives to retain their employment through to the end of FY2022.

For the FY2021 year, non-executive directors took a fee reduction of 20%. The size of the Board was also reduced following the retirement of Richard England, a long serving director of Japara. JoAnne Stephenson replaced Richard as Chair of the Audit, Risk and Compliance Committee and I replaced JoAnne as Chair of the People, Culture and Remuneration Committee.

## FY2022 Remuneration Settings

The Board has reviewed the Remuneration Framework and concluded, in the absence of the acquisition of the Company, that it remains fit for purpose for FY2022. The following changes have been made to the remuneration settings for FY2022:

- 2.25% increase in executive fixed remuneration (exclusive of a 0.50% increase in legislated Superannuation Guarantee);
- no change in incentive opportunities as a percentage of fixed remuneration for executives; and
- re-instatement of non-executive directors' fees to 2019 levels.

In the event that the acquisition of the Company proceeds, the testing and award of FY2022 STI and LTI may be accelerated.

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

The Board looks forward to shareholders' continuing support of Japara's remuneration policies and guidelines and recommends this Report to you.



**David Blight**  
Chairman – People, Culture and Remuneration Committee

30 August 2021

# Remuneration Report – Audited

## 16. Remuneration Report – Audited

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### 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 2021 (**FY2021**).

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 following non-executive directors of the Company and Group executives were classified as KMP for the entire FY2021 period (unless otherwise stated):

#### Non-executive directors

|  |  |
|--|--|
| Linda Bardo Nicholls AO                  | Chairman   |
| JoAnne Stephenson                        | Chairman of the Audit, Risk and Compliance Committee (from 1 September 2020)<br>Chairman of the People, Culture and Remuneration Committee (to 1 September 2020) |
| Leanne Rowe AM                           | Chairman of the Zero Harm Committee  |
| David Blight                             | Chairman of the People, Culture and Remuneration Committee (from 1 September 2020)   |
| Richard England<br>(to 1 September 2020) | Chairman of the Audit, Risk and Compliance Committee (to 1 September 2020)   |

#### Executives

|                   |   |
|-------------------|---|
| Chris Price       | CEO & Managing Director ( <b>CEO</b> )              |
| Anthony Rice      | CFO and Chief Investment Officer ( <b>CFO/CIO</b> ) |
| Lindon Le Griffon | Chief Operations Officer ( <b>COO</b> )             |

### 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.

#### 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;
- compliance with required clinical, regulatory and other governance standards;
- 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; and
- the executive's ability to influence Group performance including clinical quality and resident well-being, operational performance and profitability and earnings growth.

## 16.3 FY2021 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                    | FY2021   | FY2020    | FY2019 | FY2018 | FY2017 |
|--------------------------------------|----------|-----------|--------|--------|--------|
| EBITDA (\$'000)                      | 19,822   | 32,875    | 49,553 | 50,653 | 60,160 |
| Net profit/(loss) after tax (\$'000) | (14,106) | (292,087) | 16,433 | 23,327 | 29,712 |
| EPS (cents)                          | (5.28)   | (109.47)  | 6.16   | 8.78   | 11.22  |
| Dividends per share (cents)          | 0.00     | 2.00      | 6.15   | 7.75   | 11.25  |
| Year end share price (\$)            | 1.28     | 0.49      | 1.13   | 1.81   | 2.10   |

The Group's financial performance since 1 July 2016, 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 the Royal Commission into Aged Care Quality and Safety.

### 16.3.2 Performance assessment – FY2021

A proportion of the maximum potential entitlements to short-term incentive (**STI**) remuneration was awarded to executives for FY2021. The Board had regard to achievements against individual performance requirements, regulatory accreditation performance and the impact of external factors (particularly COVID-19) on target outcomes, business priorities and executive workloads. The Board applied its discretion to reduce STI awards in light of the Group's financial performance against the FY2021 budget. It also applied its discretion under the STI plan and determined that it would be inappropriate to issue Company shares as STI, which was consequently awarded in cash.

Long-term incentives (**LTI**) granted to executives for FY2021 have a four-year performance period ending 30 June 2024. This incentive opportunity remains on-foot and will be tested for award purposes at the end of the performance period or earlier where there is a change of control event for the Company.

One-off equity grants made to the CEO and the CFO/CIO during FY2020 in their previous roles with the Company fully vested into Company shares during the year. The required satisfactory performance and continued employment vesting conditions were achieved by both executives, with vesting occurring on 6 October 2020. The CEO received 131,894 shares while the CFO/CIO received 98,040 shares. There were no historical incentive or other grants which vested or lapsed during FY2021.

The performance based remuneration arrangements that were in place for executives for FY2021 are set out below:

#### *FY2021 incentive based remuneration*

|                         | Maximum potential STI<br>\$'000 | STI awarded<br>\$'000 | Maximum potential LTI <sup>1</sup><br>\$'000 | LTI Awarded <sup>2</sup><br>\$'000 |
|-------------------------|---------------------------------|-----------------------|--|------------------------------------|
| Chris Price (CEO)       | 360                             | 180                   | 720  | -                                  |
| Anthony Rice (CFO/CIO)  | 260                             | 130                   | 520  | -                                  |
| Lindon Le Griffon (COO) | 153                             | 77                    | 230  | -                                  |

1. Performance rights equivalent to these values were granted to KMP in FY2021.

2. Testing for the award of FY2021 LTI to occur at the end of the performance period being 30 June 2024 or earlier where there is a change of control event for the Company.

#### *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 generally measured in terms of target returns while non-financial hurdles are generally measured in terms of target rates of growth, clinical quality and safety, regulatory compliance and operational improvement delivered. Financial hurdles for LTI purposes are measured in terms of growth in earnings per share and total shareholder returns. All measures are approved by the Board and chosen for being appropriate for the Group, objective and measurable.

# Remuneration Report – Audited continued

## 16.3 FY2021 executive remuneration outcomes continued

### 16.3.2 Performance assessment – FY2021 continued

The following performance criteria applied to FY2021:

#### STI gateways

- The Group maintaining ongoing aged care accreditation at all residential aged care homes (this was achieved); and
- No material breach of regulatory or compliance guidelines across the Group's business (this was achieved).

In assessing the gateways, the Board considered the Group's regulatory accreditation performance during the year, including improvement notices received for three homes, for which the related matters were promptly investigated and addressed.

An outline of the key STI performance metrics for FY2021 and the outcomes are set out below:

#### STI hurdles

#### Chris Price (CEO)

| Target area       | Performance requirement  | Weighting   | Outcome      |
|-------------------|--|-------------|--------------|
| <b>Safety</b>     | <ul style="list-style-type: none"> <li>• Deliver safe and effective COVID-19 management</li> </ul> <p><i>Rationale: Incentive to deliver safe and effective practices for resident and staff wellbeing</i></p>   | 20%         | Achieved     |
| <b>Regulatory</b> | <ul style="list-style-type: none"> <li>• Deliver improved aged care accreditation outcomes</li> </ul> <p><i>Rationale: Incentive to deliver continuous improvement across quality standards for enhanced resident outcomes and compliance</i></p>  | 20%         | Achieved     |
| <b>Operations</b> | <ul style="list-style-type: none"> <li>• Achieve a minimum targeted increase in occupied beds</li> </ul> <p><i>Rationale: Incentive to maintain and grow revenue through improved occupancy to sustain/increase shareholder returns</i></p> <ul style="list-style-type: none"> <li>• Implement business model and value creation strategies</li> </ul> <p><i>Rationale: Incentive to deliver sustainable operations and additional value to increase shareholder returns</i></p> | 20%         | Not achieved |
| <b>Finance</b>    | <ul style="list-style-type: none"> <li>• Deliver a return on invested capital equal to or exceeding targeted rate</li> </ul> <p><i>Rationale: Incentive to increase shareholder returns</i></p> <ul style="list-style-type: none"> <li>• No breach of bank debt covenants or conditions</li> </ul> <p><i>Rationale: Incentive to safeguard financial position and solvency</i></p>   | 20%         | Achieved     |
|                   |  | <b>100%</b> |              |

#### Anthony Rice (CFO/CIO)

| Target area       | Performance requirement   | Weighting   | Outcome         |
|-------------------|---|-------------|-----------------|
| <b>Finance</b>    | <ul style="list-style-type: none"> <li>• Deliver a return on invested capital equal to or exceeding targeted rate</li> </ul> <p><i>Rationale: Incentive to increase shareholder returns</i></p> <ul style="list-style-type: none"> <li>• No breach of bank debt covenants or conditions</li> </ul> <p><i>Rationale: Incentive to safeguard financial position and solvency</i></p>  | 20%         | Achieved        |
| <b>Operations</b> | <ul style="list-style-type: none"> <li>• Implement business model and value creation strategies</li> </ul> <p><i>Rationale: Incentive to deliver sustainable operations and additional value to increase shareholder returns</i></p> <ul style="list-style-type: none"> <li>• Improve reporting and commercial insight</li> </ul> <p><i>Rationale: Incentive to improve insight across the business to support decision making and increase shareholder returns</i></p> | 20%         | Partly achieved |
| <b>Growth</b>     | <ul style="list-style-type: none"> <li>• Deliver greenfield developments</li> </ul> <p><i>Rationale: Incentive to deliver in-construction greenfield developments on time and within budget to improve occupancy and increase shareholder returns over the longer term</i></p>  | 15%         | Achieved        |
| <b>Regulatory</b> | <ul style="list-style-type: none"> <li>• Achieve positive regulatory review outcomes</li> </ul> <p><i>Rationale: Incentive to ensure accounting and financial reporting processes are contemporary to safeguard regulatory compliance</i></p>   | 15%         | Achieved        |
|                   |   | <b>100%</b> |                 |

### Lindon Le Griffon (COO)

| Target area | Performance requirement  | Weighting | Outcome         |
|-------------|--|-----------|-----------------|
| Safety      | <ul style="list-style-type: none"> <li>Deliver safe and effective COVID-19 management</li> </ul> <p><i>Rationale: Incentive to deliver safe and effective practices for resident and staff wellbeing</i></p>   | 30%       | Achieved        |
| Operations  | <ul style="list-style-type: none"> <li>Achieve a minimum targeted increase in occupied beds</li> </ul> <p><i>Rationale: Incentive to maintain and grow revenue through improved occupancy to sustain/increase shareholder returns</i></p> <ul style="list-style-type: none"> <li>Achieve targeted service delivery and cost control improvements</li> </ul> <p><i>Rationale: Incentive to deliver improved allied services and operating cost control to enhanced resident wellbeing and operating efficiencies</i></p> <ul style="list-style-type: none"> <li>Deliver revenue equal to or exceeding targeted rate</li> </ul> <p><i>Rationale: Incentive to increase shareholder returns</i></p> | 20%       | Not achieved    |
| Regulatory  | <ul style="list-style-type: none"> <li>Deliver improved aged care accreditation outcomes</li> </ul> <p><i>Rationale: Incentive to deliver continuous improvement across quality standards for enhanced resident outcomes and compliance</i></p>  | 10%       | Partly achieved |
| Finance     | <ul style="list-style-type: none"> <li>Deliver a return on invested capital equal to or exceeding targeted rate</li> </ul> <p><i>Rationale: Incentive to increase shareholder returns</i></p>  | 10%       | Achieved        |
|             |  |           | <b>100%</b>     |

When assessing the above performance metrics, the Board had regard to the impact of external factors (particularly COVID-19) on target outcomes, business priorities and executive workloads. It also applied its discretion to reduce STI awards in light of the Group's financial performance against the FY2021 budget.

#### LTI gateway and hurdles

The LTI gateway for FY2021 was no material breach of regulatory or compliance guidelines across the Group's business. This was achieved. Details of the hurdles applying to equity granted to executives in FY2021 for LTI purposes are set out in section 16.5.3 of this report.

#### 16.3.3 Actual executive remuneration outcomes

Below is a summary of KMP remuneration outcomes for FY2021 and comparison with FY2020:

| Executives                                 | Total fixed remuneration paid <sup>1</sup><br>\$'000 | Remuneration received as equity <sup>1,2</sup><br>\$'000 | Total performance based remuneration awarded <sup>1,3</sup><br>\$'000 | Total remuneration received <sup>1</sup><br>\$'000 | Percentage of maximum potential performance based remuneration awarded <sup>3</sup><br>% |
|--|--|--|---|--|--|
| <b>Chris Price (CEO)<sup>4</sup></b>       |  |  |   |  |  |
| FY2021                                     | 733  | 34   | 180   | 947  | 50   |
| FY2020                                     | 580  | 114  | -   | 694  | -  |
| <b>Anthony Rice (CFO/CIO)<sup>5</sup></b>  |  |  |   |  |  |
| FY2021                                     | 533  | -  | 130   | 663  | 50   |
| FY2020                                     | 157  | n/a  | n/a   | 157  | n/a  |
| <b>Lindon Le Griffon (COO)<sup>6</sup></b> |  |  |   |  |  |
| FY2021                                     | 396  | -  | 77  | 473  | 50   |
| FY2020                                     | 136  | n/a  | n/a   | 136  | n/a  |

1. Remuneration granted and/or received while a KMP.

2. One-off equity grant made in FY2020 which vested during FY2021.

3. Relates to STI only for FY2021. LTI for FY2021 remains on foot but is not yet eligible for award.

4. Appointed CEO on 20 March 2020 (previously CFO).

5. KMP from 20 March 2020.

6. KMP from 17 February 2020.

# Remuneration Report – Audited continued

## 16.3 FY2021 executive remuneration outcomes continued

### 16.3.4 Business continuity arrangement

In light of the recent acquisition activity for the Company, the Board has sought to provide on-going stability for the business by introducing a business continuity arrangement for key executives. This arrangement involves a one-off, conditional deferred payment to retain employment through to end FY2022. Business continuity payments will be made to the relevant executives on 1 July 2022 subject to satisfactory performance and continued employment conditions being met. Executives will remain eligible to receive business continuity payments should the Company terminate their employment, without cause, prior to the payment date.

The KMPs' potential entitlements to business continuity payments are as set out below:

| Executive | \$'000 |
|-----------|--------|
| CEO       | 260    |
| CFO/CIO   | 260    |
| COO       | 96     |

### 16.3.5 Five year historical executive remuneration outcomes

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

|                            | FY2021                 |                  | FY2020 |      | FY2019                 |                        | FY2018 |      | FY2017 |      |
|----------------------------|------------------------|------------------|--------|------|------------------------|------------------------|--------|------|--------|------|
|                            | STI                    | LTI <sup>1</sup> | STI    | LTI  | Incentive <sup>2</sup> | Incentive <sup>2</sup> | STI    | LTI  | STI    | LTI  |
| <b>CEO<sup>3</sup></b>     |                        |                  |        |      |                        |                        |        |      |        |      |
| Awarded                    | 50%                    | 0%               | 0%     | 0%   | 0%                     | 0%                     | 0%     | 0%   | 0%     | 0%   |
|                            | \$180,000 <sup>5</sup> |                  |        |      |                        |                        |        |      |        |      |
| Forfeited                  | 50%                    | 0%               | 100%   | 100% | 100%                   | 100%                   | 100%   | 100% | 100%   | 100% |
| <b>CFO/CIO<sup>4</sup></b> |                        |                  |        |      |                        |                        |        |      |        |      |
| Awarded                    | 50%                    | 0%               | n/a    | n/a  | n/a                    | n/a                    | n/a    | n/a  | n/a    | n/a  |
|                            | \$130,000 <sup>5</sup> |                  |        |      |                        |                        |        |      |        |      |
| Forfeited                  | 50%                    | 0%               |        |      |                        |                        |        |      |        |      |
| <b>COO<sup>4</sup></b>     |                        |                  |        |      |                        |                        |        |      |        |      |
| Awarded                    | 50%                    | 0%               | n/a    | n/a  | n/a                    | n/a                    | n/a    | n/a  | n/a    | n/a  |
|                            | \$76,650 <sup>5</sup>  |                  |        |      |                        |                        |        |      |        |      |
| Forfeited                  | 50%                    | 0%               |        |      |                        |                        |        |      |        |      |

1. FY2021 LTI has not been tested, to occur at the end of the performance period being 30 June 2024 or earlier where there is a change of control event for the Company.

2. Single incentive arrangement. Separate short-term and long-term incentive arrangements existed during other periods.

3. Appointed CEO on 20 March 2020 (previously CFO and a KMP).

4. KMP from 20 March 2020.

5. Amount received.

## 16.4 FY2022 executive remuneration framework settings

The Board has reviewed the executive remuneration framework which applied in FY2021 and concluded that, in the absence of the acquisition of the Company, it remains fit for purpose for FY2022.

The following decisions and changes apply to remuneration settings for FY2022, having regard to the current environment:

- a 2.25% increase in fixed remuneration for executives, which excludes a 0.50% legislated increase in Superannuation Guarantee;
- no change in the incentive opportunities (as a percentage of fixed remuneration) for executives;
- re-instatement of non-executive directors' fees to 2019 levels; and
- no change in the total fee pool from which non-executive directors are remunerated.

## 16.5 FY2021 executive remuneration framework

The executive remuneration framework adopted in FY2020 was largely retained for FY2021. This 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 sectoral and other external factors including COVID-19.

The Board considered the appropriate balance between financial and non-financial measures in the practical application of the framework's principles for FY2021.

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 to be delivered as equity issued under the Company’s Equity Incentive Plan (**EIP**), to reward executives for exceeding targets set by the Board.

A clinical quality (accreditation) gateway and a regulatory and compliance gateway applied for the award of STI entitlements, along with performance hurdles to ensure focus was maintained on quality outcomes and the wellbeing of residents across the Company’s portfolio of homes.

A single regulatory and compliance gateway is used for the award of LTI entitlements, along with growth in earnings per share and total shareholder returns performance hurdles.

#### *Executive arrangements*

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:

| <b>Executive</b> | <b>Termination notice period</b> |
|------------------|----------------------------------|
| CEO              | 12 months                        |
| CFO/CIO          | 6 months                         |
| COO              | 6 months                         |

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 FY2021 fixed remuneration

There was no increase in fixed remuneration for executives for FY2021.

The fixed remuneration for the CEO, Chris Price, was \$720,000 per annum. Prior to becoming CEO on 20 March 2020, Mr Price was the CFO (and a KMP) on fixed remuneration of \$538,000 per annum. The current CFO/CIO, Anthony Rice, and the COO, Lindon Le Griffon were KMP for all of FY2021 and for part of the prior year following their respective appointments during FY2020.

The total fixed remuneration paid to each executive while a KMP for FY2021 and in the prior year is set out below:

| <b>Executives</b>                          | <b>Cash salary<sup>1</sup><br/>\$'000</b> | <b>Super-<br/>annuation<br/>\$'000</b> | <b>Fixed<br/>remuneration<br/>\$'000</b> | <b>Other<sup>2</sup><br/>\$'000</b> | <b>Total fixed<br/>remuneration<br/>paid<br/>\$'000</b> |
|--|---|--|--|-------------------------------------|---|
| <b>Chris Price (CEO)<sup>3</sup></b>       |   |  |  |                                     |   |
| FY2021                                     | 695                                       | 25                                     | 720                                      | 13                                  | 733   |
| FY2020                                     | 543                                       | 25                                     | 568                                      | 12                                  | 580   |
| <b>Anthony Rice (CFO/CIO)<sup>4</sup></b>  |   |  |  |                                     |   |
| FY2021                                     | 496                                       | 24                                     | 520                                      | 13                                  | 533   |
| FY2020                                     | 138                                       | 16                                     | 154                                      | 3                                   | 157   |
| <b>Lindon Le Griffon (COO)<sup>5</sup></b> |   |  |  |                                     |   |
| FY2021                                     | 350                                       | 33                                     | 383                                      | 13                                  | 396   |
| FY2020                                     | 120                                       | 12                                     | 132                                      | 4                                   | 136   |

1. Cash salary includes salary and leave entitlements paid during the year.

2. Other includes parking and other work related employee benefits.

3. Appointed CEO on 20 March 2020 (previously CFO).

4. KMP from 20 March 2020.

5. KMP from 17 February 2020.

# Remuneration Report – Audited continued

## 16.5 FY2021 executive remuneration framework continued

### 16.5.2 FY2021 performance based remuneration

Short and long-term performance based incentive arrangements applied for FY2021.

The CEO and CFO/CIO were eligible to receive up to 50% of their fixed remuneration (pre employee benefits) in STIs while the COO was eligible to receive STI of up to 40% of his fixed remuneration (pre employee benefits). STI was targeted to be delivered as equity at the end of the performance year, with performance being assessed against a group of financial and non-financial performance metrics relevant to each executive. The Board subsequently applied its discretion under the STI plan and determined that awarded STI should be delivered in cash instead of equity, considering it an inappropriate time to issue or deal in the Company's shares in the midst of acquisition activity for the Company.

The CEO and CFO/CIO were also eligible to receive up to 100% of their fixed remuneration (pre employee benefits) in LTIs to be delivered as equity while the COO was eligible to receive an LTI of up to 60% of his fixed remuneration (pre employee benefits). 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 and total shareholder returns growth hurdles, to be measured over a four-year performance period to 30 June 2024 or earlier where there is a change of control event for the Company. 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 regulatory and compliance guidelines for STI and LTI purposes, and ongoing aged care accreditation for STI purposes, as the gateway for FY2021. The Board has determined that STI gateways were achieved for FY2021, with the LTI gateway also being achieved and to be retested each year of the performance period.

Further details of performance based remuneration for FY2021 are provided in the executive remuneration framework tables in section 16.5.3 of this report.

There was no historical performance based incentive which vested or lapsed during FY2021 or remained eligible for vesting at 30 June 2021.

### 16.5.3 Further detail on FY2021 executive remuneration framework

#### Fixed remuneration

|                       |   |
|-----------------------|---|
| <b>Amount</b>         | <ul style="list-style-type: none"><li>Mid to upper quartile of a comparator group.</li></ul>  |
| <b>Delivery</b>       | <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> |
| <b>Considerations</b> | <ul style="list-style-type: none"><li>Capability and experience.</li><li>Role scope and responsibilities.</li><li>Comparator group benchmarking.</li><li>Satisfactory performance review.</li></ul>   |
| <b>Objectives</b>     | <ul style="list-style-type: none"><li>Attract and retain high calibre executives with exceptional skills and experience.</li></ul>  |

#### Short-term incentive (STI)

|                 |   |
|-----------------|---|
| <b>Amount</b>   | <ul style="list-style-type: none"><li>Maximum potential STI of 40% to 50% of fixed remuneration (pre employee benefits).</li></ul>  |
| <b>Delivery</b> | <ul style="list-style-type: none"><li>100% equity in the Company via the EIP (or cash at the Board's discretion).</li><li>Equity component delivered as restricted shares. Number of shares granted determined using the volume weighted average price (<b>VWAP</b>) of the Company's shares over the last 10 trading days of June 2021.</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><li>Cash amounts are unrestricted and payable at the end of the performance year.</li></ul> |

|                                  |   |
|----------------------------------|---|
| <b>Delivery</b><br>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 consolidated 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>  |
| <b>Considerations</b>            | <ul style="list-style-type: none"> <li>Common gateways requiring achievement of ongoing aged care accreditation and regulatory and compliance guidelines.</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 2020 to 30 June 2021) 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> </ul>   |
| <b>Objectives</b>                | <ul style="list-style-type: none"> <li>Incentivises achievement of prioritised and targeted short-term outcomes in key areas including growth, clinical quality and safety, regulatory compliance and operational improvement.</li> <li>Encourages performance above and beyond "come-to-work" requirements subject to first achieving minimum 'gateway' standards.</li> <li>Equity aligns executives with shareholders' interests and assists with retention through vesting arrangements.</li> </ul>  |
| <i>Long-term incentive (LTI)</i> |   |
| <b>Amount</b>                    | <ul style="list-style-type: none"> <li>Maximum potential LTI of 60% to 100% of fixed remuneration (pre employee benefits).</li> </ul>   |
| <b>Delivery</b>                  | <ul style="list-style-type: none"> <li>100% equity in the Company via the EAP (or cash at the Board's discretion).</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 2020.</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> <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 consolidated 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> |
| <b>Considerations</b>            | <ul style="list-style-type: none"> <li>Common gateway requiring achievement of 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 2020 to 30 June 2024).</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> </ul>   |

# Remuneration Report – Audited continued

## 16.5 FY2021 executive remuneration framework continued

### 16.5.3 Further detail on FY2021 executive remuneration framework continued

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

**Considerations** continued • Extent of award/vesting of LTI subject to level of growth achieved under each performance hurdle as follows:

##### EPS

| Compound annual growth in EPS | % of LTI eligible to vest (pre-weighting)    |
|-------------------------------|--|
| Below 2%                      | Nil  |
| 2% to 4%                      | 40% then increasing on a straight line basis |
| 4% and above                  | 100%   |

##### TSR

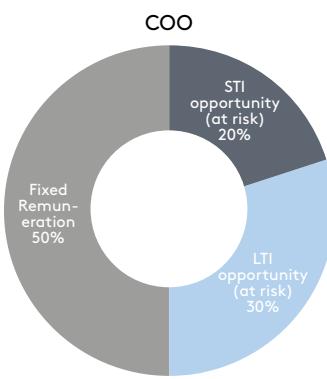
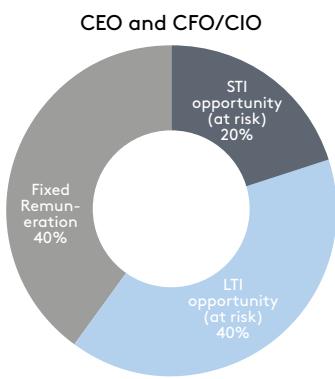
| Compound annual growth in absolute TSR | % of LTI eligible to vest (pre-weighting)    |
|--|--|
| Below 5%                               | Nil  |
| 5% to 8%                               | 40% then increasing on a straight line basis |
| 8% and above                           | 100%   |

- Calculation and achievement of LTI hurdles are at the Board's discretion having regard to any matters considered relevant.
- Structured to be earnings per share and returns positive for shareholders.
- Incentivises achievement of growth in earnings, dividends and share price.
- Assist executives to own equity in the Company for alignment with shareholders' interests.
- Assist executive retention through long-term vesting arrangements.

#### Objectives

## 16.5.4 FY2021 remuneration mix

Below is the maximum potential remuneration mix for executives in FY2021 showing the fixed and performance based 'at risk' components:



Note: The LTI opportunities depicted above were determined using the face value of granted performance rights at the beginning of FY2021. However, the fair value of the performance rights is used for statutory reporting purposes, based on a combination of the discounted cash flow method and a Monte-Carlo simulation.

## 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.

#### **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 FY2021.

#### **16.6.3 Remuneration by gender**

The Remuneration Committee reviews remuneration by gender at least annually and recommends to the Board strategies or changes to address any pay gaps. The remuneration for most staff is set under separately negotiated State based Enterprise Agreements and Awards which typically contain fixed annual increases and are gender neutral. The Group does not have banded remuneration levels for its other staff, with pay levels being position and not gender based. The Group's recruitment and remuneration practices are gender neutral.

### **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 fee 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 fee pool having regard to remuneration benchmarking as well as the Group's historical earnings, shareholder outcomes and other stakeholder expectations. 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 base 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. All non-executives met the shareholding policy requirement for FY2021.

#### **16.7.2 FY2021 non-executive director remuneration**

Total non-executive director fees for FY2021 were \$515,000 (FY2020: \$730,000). The annualised fees were as follows:

- \$200,000 to the non-executive Chairman (FY2020: \$250,000);
- \$84,000 to each other non-executive director (FY2020: \$105,000); and
- an additional \$16,000 to the Chairman of each standing committee of the Board (FY2020: \$20,000).

# Remuneration Report – Audited continued

## 16.7 Non-executive director remuneration continued

### 16.7.2 FY2021 non-executive director remuneration continued

Total fees were lower in FY2021 due to:

- the retirement of Richard England as a non-executive director on 1 September 2020; and
- the Board reducing non-executive director fees by 20% effective from 1 July 2020.

There was no change in the fee pool for FY2021.

|   | Board fees earned<br>\$'000 | Committee Chairman fees earned<br>\$'000 | Total fees earned<br>\$'000 |
|---|-----------------------------|--|-----------------------------|
| <b>Non-executive directors</b>                    |                             |  |                             |
| <b>Linda Bardo Nicholls AO (Chairman)</b>         |                             |  |                             |
| FY2021  | 200                         | -  | 200                         |
| FY2020  | 250                         | -  | 250                         |
| <b>JoAnne Stephenson</b>                          |                             |  |                             |
| FY2021  | 84                          | 16                                       | 100                         |
| FY2020  | 105                         | 20                                       | 125                         |
| <b>Leanne Rowe AM</b>                             |                             |  |                             |
| FY2021  | 84                          | 16                                       | 100                         |
| FY2020  | 105                         | 20                                       | 125                         |
| <b>David Blight</b>                               |                             |  |                             |
| FY2021  | 84                          | 13                                       | 97                          |
| FY2020  | 105                         | -  | 105                         |
| <b>Richard England (retired 1 September 2020)</b> |                             |  |                             |
| FY2021  | 15                          | 3  | 18                          |
| FY2020  | 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income for FY2021 follows:

|   | Short-term benefits | Post-employment benefits |                                      | Total fees \$'000 |
|---|---------------------|--------------------------|--------------------------------------|-------------------|
|   |                     | Fees paid<br>\$'000      | Non-monetary benefits paid<br>\$'000 |                   |
| <b>Non-executive directors</b>                    |                     |                          |                                      |                   |
| <b>Linda Bardo Nicholls AO (Chairman)</b>         |                     |                          |                                      |                   |
| FY2021  | 200                 | -                        | -                                    | 200               |
| FY2020  | 239                 | -                        | 11                                   | 250               |
| <b>JoAnne Stephenson</b>                          |                     |                          |                                      |                   |
| FY2021  | 91                  | -                        | 9                                    | 100               |
| FY2020  | 114                 | -                        | 11                                   | 125               |
| <b>Leanne Rowe AM</b>                             |                     |                          |                                      |                   |
| FY2021  | 91                  | -                        | 9                                    | 100               |
| FY2020  | 114                 | -                        | 11                                   | 125               |
| <b>David Blight</b>                               |                     |                          |                                      |                   |
| FY2021  | 97                  | -                        | -                                    | 97                |
| FY2020  | 100                 | -                        | 5                                    | 105               |
| <b>Richard England (retired 1 September 2020)</b> |                     |                          |                                      |                   |
| FY2021  | 17                  | -                        | 1                                    | 18                |
| FY2020  | 114                 | -                        | 11                                   | 125               |
| <b>Total</b>                                      |                     |                          |                                      |                   |
| FY2021  | 496                 | -                        | 19                                   | 515               |
| FY2020  | 681                 | -                        | 49                                   | 730               |

## 16.8 Other statutory disclosures

### 16.8.1 Total executive remuneration

The remuneration of executives calculated in accordance with applicable accounting standards for FY2021 follows:

| Executives                     | Short-term benefits |                                   |   | Post-employment benefits             |  |  | Performance based ('at risk') <sup>1</sup> |                        |  | Total fixed and performance based remuneration '\$000 |
|--------------------------------|---------------------|-----------------------------------|---|--------------------------------------|--|--|--|------------------------|--|---|
|                                | Salary paid \$'000  | Non-monetary benefits paid \$'000 | Other monetary benefits accrued <sup>2</sup> \$'000 | Super-annuation benefits paid \$'000 | Annual leave entitlements accrued \$'000 | Long-service leave entitlements accrued \$'000 | Total fixed remuneration \$'000            | Payable in cash \$'000 | Share-based payments accrued <sup>3</sup> \$'000 |   |
| <b>Chris Price (CEO)</b>       |                     |                                   |   |                                      |  |  |  |                        |  |   |
| FY2021                         | 647                 | 13                                | 16  | 25                                   | 51                                       | 44   | 796  | 180                    | 93   | 1,069   |
| FY2020 <sup>4</sup>            | 529                 | 12                                | -   | 25                                   | 39                                       | 11   | 616  | -                      | 114  | 730   |
| <b>Anthony Rice (CFO/CIO)</b>  |                     |                                   |   |                                      |  |  |  |                        |  |   |
| FY2021                         | 470                 | 13                                | 16  | 24                                   | 37                                       | -  | 560  | 130                    | 42   | 732   |
| FY2020 <sup>5</sup>            | 147                 | 3                                 | -   | 16                                   | 11                                       | -  | 177  | -                      | -  | 177   |
| <b>Lindon Le Griffon (COO)</b> |                     |                                   |   |                                      |  |  |  |                        |  |   |
| FY2021                         | 341                 | 13                                | 6   | 33                                   | 27                                       | -  | 420  | 77                     | 19   | 516   |
| FY2020 <sup>6</sup>            | 128                 | 4                                 | -   | 12                                   | 10                                       | -  | 154  | -                      | -  | 154   |
| <b>Total</b>                   |                     |                                   |   |                                      |  |  |  |                        |  |   |
| FY2021                         | 1,458               | 39                                | 38  | 82                                   | 115                                      | 44   | 1,776                                      | 387                    | 154  | 2,317   |
| FY2020                         | 1,321               | 27                                | -   | 72                                   | 101                                      | (75)   | 1,446                                      | -                      | 255  | 1,701   |

1. Granted while a KMP.

2. Pro rata accruals for business continuity payments due on 1 July 2022 subject to satisfaction of certain conditions.

3. Calculated using the discounted cash flow method in combination with a Monte-Carlo simulation (for the TSR component of performance rights) in accordance with AASB 2 Share-based payments (see Note D3 to the Company's 2021 Consolidated Financial Statements).

4. Appointed CEO on 20 March 2020 (previously CFO).

5. KMP from 20 March 2020.

6. KMP from 17 February 2020.

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**).

# Remuneration Report – Audited continued

## 16.8 Other statutory disclosures continued

### 16.8.1 Total executive remuneration continued

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 and accrued but yet to be awarded amounts to be recognised in the consolidated financial statements as part of the executives' employee benefit expense. A reconciliation between the two tables is set out below:

| Executives                     | Reconciliation to statutory total fixed and performance based remuneration for executives |  |  |                        |  |
|--------------------------------|---|--|--|------------------------|--|
|                                | Total remuneration received by executives <sup>1</sup><br>\$'000                          | Movement in leave provisions<br>\$'000 | Accrued business continuity payments<br>\$'000 | Unvested LTI<br>\$'000 | Total fixed and performance based remuneration statutory<br>\$'000 |
| <b>Chris Price (CEO)</b>       |   |  |  |                        |  |
| FY2021                         | 947   | 47                                     | 16   | 59                     | 1,069  |
| FY2020                         | 694   | 36                                     | -  | -                      | 730  |
| <b>Anthony Rice (CFO/CIO)</b>  |   |  |  |                        |  |
| FY2021                         | 663   | 11                                     | 16   | 42                     | 732  |
| FY2020                         | 157   | 20                                     | -  | -                      | 177  |
| <b>Lindon Le Griffon (COO)</b> |   |  |  |                        |  |
| FY2021                         | 473   | 18                                     | 6  | 19                     | 516  |
| FY2020                         | 136   | 18                                     | -  | -                      | 154  |

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

### 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 2020<br>No. of shares | Acquired during FY2021<br>No. of shares | Sold during FY2021<br>No. of shares | Held at 30 June 2021<br>No. of shares | Nominally held at 30 June 2021<br>No. of shares |
|------------------------------------|--------------------------------------|---|-------------------------------------|---------------------------------------|---|
| <b>Executives</b>                  |                                      |   |                                     |                                       |   |
| <b>Chris Price (CEO)</b>           | -                                    | 131,894 <sup>2</sup>                    | -                                   | 131,894                               | 131,894   |
| <b>Anthony Rice (CFO/CIO)</b>      | -                                    | 98,040 <sup>2</sup>                     | -                                   | 98,040                                | 98,040  |
| <b>Lindon Le Griffon (COO)</b>     | -                                    | -                                       | -                                   | -                                     | -   |
| <b>Non-executive directors</b>     |                                      |   |                                     |                                       |   |
| <b>Linda Bardo Nicholls AO</b>     | 244,022                              | 12,903                                  | -                                   | 256,925                               | 149,873   |
| <b>JoAnne Stephenson</b>           | 60,095                               | -                                       | -                                   | 60,095                                | 12,000  |
| <b>Leanne Rowe AM</b>              | 114,000                              | -                                       | -                                   | 114,000                               | 114,000   |
| <b>David Blight</b>                | 90,000                               | -                                       | -                                   | 90,000                                | 90,000  |
| <b>Richard England<sup>1</sup></b> | 79,300                               | -                                       | -                                   | n/a                                   | n/a   |

1. KMP during FY2021 from 1 July 2020 to 1 September 2020.

2. Received through vesting of performance rights and subject to dealing restrictions until the earlier of ceasing employment or 30 September 2021.

### 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:

|  | Held at<br>1 July<br>2020 |                 |                                   | Granted<br>No. of<br>securities <sup>1</sup> | Exercised<br>No. of<br>securities <sup>1</sup> | Forfeited<br>No. of<br>securities | Held at<br>30 June<br>2021        | Vested<br>during<br>FY2021        | Vested and<br>exercisable<br>at 30 June<br>2021 |
|--|---------------------------|-----------------|-----------------------------------|--|--|-----------------------------------|-----------------------------------|-----------------------------------|---|
|  | Grant<br>date             | Vesting<br>date | No. of<br>securities <sup>1</sup> |  |  |                                   | No. of<br>securities <sup>1</sup> | No. of<br>securities <sup>1</sup> | No. of<br>securities <sup>1</sup>               |
| <b>Rights<sup>2</sup></b>              |                           |                 |                                   |  |  |                                   |                                   |                                   |   |
| <b>Chris Price<br/>(CEO)</b>           | 11/12/20                  | 30/06/24        | 131,894                           | -  | (131,894)                                      | -                                 | -                                 | <b>131,894</b>                    | -   |
| <b>Anthony Rice<br/>(CFO/CIO)</b>      | 14/10/19                  | 30/09/20        | -                                 | 1,440,000                                    | -  | -                                 | <b>1,440,000</b>                  | -                                 | -   |
| <b>Lindon<br/>Le Griffon<br/>(COO)</b> | 11/12/20                  | 30/06/24        | 98,040                            | -  | (98,040)                                       | -                                 | -                                 | <b>98,040</b>                     | -   |
|  | 14/10/19                  | 30/09/20        | -                                 | 1,040,000                                    | -  | -                                 | <b>1,040,000</b>                  | -                                 | -   |
|  | 11/12/20                  | 30/06/24        | -                                 | 459,900                                      | -  | -                                 | <b>459,900</b>                    | -                                 | -   |

1. Granted, exercised or held while a KMP.

2. 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.

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 2021

|   | Note       | 2021<br>\$'000  | 2020<br>\$'000   |
|---|------------|-----------------|------------------|
| Revenue   | B2         | 419,540         | 422,242          |
| Other income  | B2         | 19,253          | 5,290            |
| <b>Total revenue and other income</b>                                   |            | <b>438,793</b>  | <b>427,532</b>   |
| Employee benefits expense   | D1         | (339,551)       | (315,064)        |
| Resident costs  |            | (41,087)        | (39,074)         |
| Occupancy costs   |            | (23,038)        | (21,622)         |
| Depreciation and amortisation expense                                   | F2 & F1    | (29,615)        | (26,441)         |
| Administrative expenses   |            | (15,295)        | (18,897)         |
| Impairment of non-current assets  | F3 & F1(c) | (519)           | (291,923)        |
| <b>Earnings before interest and tax</b>                                 |            | <b>(10,312)</b> | <b>(285,489)</b> |
| Finance income  |            | -               | 197              |
| Finance costs   | B3         | (8,799)         | (7,590)          |
| <b>Loss before income tax</b>   |            | <b>(19,111)</b> | <b>(292,882)</b> |
| Income tax credit   | B5         | 5,005           | 795              |
| <b>Loss for the year</b>  |            | <b>(14,106)</b> | <b>(292,087)</b> |
| Other comprehensive income/(expense), net of income tax                 | G6         | 1,702           | (2,627)          |
| <b>Total comprehensive expense for the year</b>                         |            | <b>(12,404)</b> | <b>(294,714)</b> |
| <b>Loss attributable to members of the Group</b>                        |            | <b>(14,106)</b> | <b>(292,087)</b> |
| <b>Total comprehensive expense attributable to members of the Group</b> |            | <b>(12,404)</b> | <b>(294,714)</b> |
| <b>Earnings per share</b>   |            |                 |                  |
| Basic loss per share (cents)  | B4         | (5.28)          | (109.47)         |
| Diluted loss per share (cents)  | B4         | (5.24)          | (109.00)         |

The accompanying notes form part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 30 June 2021

|                                      | Note | 2021<br>\$'000 | 2020<br>\$'000 |
|--------------------------------------|------|----------------|----------------|
| <b>ASSETS</b>                        |      |                |                |
| <b>Current assets</b>                |      |                |                |
| Cash                                 | G3   | 43,551         | 48,286         |
| Trade and other receivables          | C1   | 15,820         | 15,326         |
| Non-current assets held for sale     |      | 4,466          | 2,261          |
| Current tax receivable               | B5   | -              | 1,860          |
| Other assets                         |      | 7,245          | 3,681          |
| <b>Total current assets</b>          |      | 71,082         | 71,414         |
| <b>Non-current assets</b>            |      |                |                |
| Trade and other receivables          | C2   | 2,458          | 2,574          |
| Right-of-use assets                  | F2   | 29,574         | 30,140         |
| Property, plant and equipment        | F1   | 858,102        | 833,202        |
| Investment property                  | F4   | 50,525         | 48,925         |
| Intangible assets                    | F3   | 265,761        | 265,761        |
| <b>Total non-current assets</b>      |      | 1,206,420      | 1,180,602      |
| <b>TOTAL ASSETS</b>                  |      | 1,277,502      | 1,252,016      |
| <b>LIABILITIES</b>                   |      |                |                |
| <b>Current liabilities</b>           |      |                |                |
| Trade payables and other liabilities | E1   | 32,864         | 34,104         |
| Borrowings                           | G5   | 32,500         | 58,250         |
| Current tax payable                  | B5   | 1,907          | -              |
| Other financial liabilities          | G6   | 633,834        | 609,526        |
| Employee provisions                  | D2   | 45,727         | 42,954         |
| Lease liabilities                    | F2   | 2,862          | 2,338          |
| <b>Total current liabilities</b>     |      | 749,694        | 747,172        |
| <b>Non-current liabilities</b>       |      |                |                |
| Borrowings                           | G5   | 223,250        | 180,750        |
| Deferred tax liabilities             | B5   | 55,514         | 61,090         |
| Employee provisions                  | D2   | 5,643          | 5,608          |
| Other financial liabilities          | G6   | 3,337          | 5,039          |
| Lease liabilities                    | F2   | 29,247         | 29,390         |
| <b>Total non-current liabilities</b> |      | 316,991        | 281,877        |
| <b>TOTAL LIABILITIES</b>             |      | 1,066,685      | 1,029,049      |
| <b>NET ASSETS</b>                    |      | 210,817        | 222,967        |
| <b>EQUITY</b>                        |      |                |                |
| Issued capital                       | G9   | 524,658        | 524,285        |
| Share based payment reserve          |      | 185            | 304            |
| Hedging reserve                      |      | (3,337)        | (5,039)        |
| Retained earnings                    |      | (310,689)      | (296,583)      |
| <b>TOTAL EQUITY</b>                  |      | 210,817        | 222,967        |

The accompanying notes form part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2021

|   | Share Based<br>Issued<br>Capital<br>\$'000 | Payment<br>Reserve<br>\$'000 | Hedging<br>Reserve<br>\$'000 | Retained<br>Earnings<br>\$'000 | Total<br>\$'000 |
|---|--|------------------------------|------------------------------|--------------------------------|-----------------|
| <b>2021</b>   |  |                              |                              |                                |                 |
| <b>Balance at 1 July 2020</b>                         | 524,285                                    | 304                          | (5,039)                      | (296,583)                      | 222,967         |
| Loss attributable to members of the parent entity     | -  | -                            | -                            | (14,106)                       | (14,106)        |
| Other comprehensive income                            | -  | -                            | 1,702                        | -                              | 1,702           |
| <b>Total comprehensive expense</b>                    | -  | -                            | 1,702                        | (14,106)                       | (12,404)        |
| <b>Transactions with owners of the Company</b>        |  |                              |                              |                                |                 |
| Share based payment transaction                       | -  | (119)                        | -                            | -                              | (119)           |
| Treasury shares issued for vesting performance rights | 373  | -                            | -                            | -                              | 373             |
| <b>Balance at 30 June 2021</b>                        | 524,658                                    | 185                          | (3,337)                      | (310,689)                      | 210,817         |

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

The accompanying notes form part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the Year Ended 30 June 2021

|  | Note  | 2021<br>\$'000  | 2020<br>\$'000  |
|--|-------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>                |       |                 |                 |
| Receipts from residents and Government funding             |       | 418,634         | 421,567         |
| Government grant income                                    |       | 13,780          | -               |
| Payments to suppliers and employees                        |       | (413,864)       | (390,603)       |
| Income taxes refunded/(paid)                               |       | 3,196           | (3,316)         |
| Interest received  |       | -               | 231             |
| Finance costs paid   |       | (5,731)         | (8,444)         |
| Proceeds from RADs & ILU resident loans                    |       | 205,825         | 232,302         |
| Repayment of RADs/accommodation bonds & ILU resident loans |       | (180,905)       | (176,539)       |
| <b>Net cash provided by operating activities</b>           | J4    | <b>40,935</b>   | <b>75,198</b>   |
| <b>Cash flows from investing activities</b>                |       |                 |                 |
| Purchase of land and buildings                             |       | -               | (15,407)        |
| Proceeds from sale of land and buildings                   |       | 11,790          | 19,009          |
| Purchase of plant and equipment                            |       | (8,105)         | (6,458)         |
| Capital works in progress                                  |       | (62,422)        | (71,006)        |
| Proceeds from sale of surplus resident places              |       | -               | 4,690           |
| Deposits paid under land contracts                         |       | (87)            | -               |
| <b>Net cash used by investing activities</b>               |       | <b>(58,824)</b> | <b>(69,172)</b> |
| <b>Cash flows from financing activities</b>                |       |                 |                 |
| Purchase of treasury shares                                |       | -               | (617)           |
| Dividends paid   | G9(b) | -               | (14,297)        |
| Net proceeds from bank borrowings                          | G5(a) | 16,750          | 28,500          |
| Repayment of lease liabilities                             |       | (3,596)         | (2,798)         |
| <b>Net cash provided by financing activities</b>           |       | <b>13,154</b>   | <b>10,788</b>   |
| <b>Net increase in cash and cash equivalents held</b>      |       | <b>(4,735)</b>  | <b>16,814</b>   |
| Cash and cash equivalents at beginning of the year         |       | <b>48,286</b>   | <b>31,472</b>   |
| <b>Cash and cash equivalents at end of the year</b>        | G3    | <b>43,551</b>   | <b>48,286</b>   |

The accompanying notes form part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2021

## 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**).

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 \$678,612,000 as at 30 June 2021 (2020: \$675,758,000). 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 \$633,834,000 (2020: \$609,526,000) 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 had a significant impact on the residential aged care sector during the year, especially in Victoria where two thirds of the Group's aged care homes are located. While the Group has not been eligible to enrol in the Federal Government JobKeeper assistance program, the Federal Government did provide additional one-off and temporary funding and grant opportunities to the aged care sector. These grants and funding amounts were designed to offset the additional costs incurred, amongst other things, in the purchase of personal protective equipment (**PPE**) and cleaning supplies; additional staffing levels; to fund aged care workforce retention bonus payments; improve infection control training; reimburse aged care providers for some increased costs as a result of homes with declared COVID-19 outbreaks; and reimburse aged care providers for the increased costs of operating under the staff single site working initiative. However, the various Federal Government grant and funding amounts did not reimburse aged care providers for reduced occupancy levels as a result of the multiple city and State lockdowns that restricted the admission of new residents to aged care homes.

Effective 30 June 2020, the Directors recognised these challenges, and due to the uncertain outcome at that time of the COVID-19 pandemic and its financial outcome, together with the lack of a suitable and tested vaccine, the forecasts for the Group were prepared accordingly at that stage. Now, some twelve months on, while lockdowns and COVID-19 transmissions in the community are still occurring, improvements to overall infection control have been made and together with the Federal Government's roadmap to emerge from lockdowns, forecasts can be prepared with the knowledge that COVID-19 vaccines are effective and widely available with over 30% of the Australian adult population being fully immunised against COVID-19. Current forecasts predict that 80% of the Australian adult population being fully immunised for COVID-19 by December 2021.

Notwithstanding the above, the main financial risks associated with COVID-19 are from the impacts of reduced occupancy levels, mix of Refundable Accommodation Deposit (**RAD**) and Daily Accommodation Payment (**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, 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 the period from August 2020 to October 2020 as a result of the Victorian outbreaks, occupancy levels improved from January 2021 through to June 2021 as restrictions were eased and a reduced number of COVID-19 cases occurred in Australia. The current New South Wales and Victoria lockdowns are expected to have some downward occupancy pressure for next financial year.
- The mix of how residents choose to pay for their accommodation (through a RAD, a 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 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. While house prices did reduce in the first half of the year, the second half of the year saw a significant rebound in house prices. In light of the events of the year, 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 fall 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 isolation. Non-staff costs also increase through increased use of PPE and cleaning supplies. The Group saw increases in these costs during the year through outbreaks in some of its aged care homes. However, access to Federal Government grants to support aged care homes that incur an outbreak, has somewhat mitigated these increased costs. The Federal Government has indicated that these grant programs will continue until 30 June 2022 to support aged care providers of impacted homes.
- Net RAD cash inflows were received for the year. This was despite some short-term month by month net RAD outflows as a result of residents departing during the first half of the year, with repayments of these RADs occurring over the subsequent months after departure. As occupancy levels started to increase again in the second half of the year, together with the opening of two newly built homes, the Group received increased net RAD inflows for the second half of the year. The Group has considered possible occupancy scenarios that could arise in the coming 12 months, with the assumption that the current COVID-19 lockdowns ease and the vaccine roll-out progresses. The Group has reviewed its forecast short and medium-term net RAD flows, with reference to the likely occupancy rates, return to a more stable residential property sales market and the Group's new residential aged care home openings. Based on this scenario, the Group anticipates continuing net RAD inflows over the next 12 months.

The Group has a sound liquidity position at 30 June 2021 with available cash of \$43,551,000 (2020: \$48,286,000) and undrawn bank debt facilities of \$89,250,000 (2020: \$106,000,000). The Group has and expects to continue to remain compliant with its bank covenant requirements. Based upon reasonably possible scenarios in light of the current COVID-19 case numbers in New South Wales and Victoria, the vaccine roll-out, and no further significant outbreaks throughout the country, the Group's forecasts support 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.

The financial statements were authorised for issue by the Board of Directors on 30 August 2021. Details of the Group's accounting policies are included in their respective notes.

### A3. Functional and presentation currency

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

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

### A4. Use of estimates and judgements

In preparing these consolidated 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 2021 are included in the following notes:

- Note D3 – Share-based payment arrangements: Measurement of fair value;
- Note F2 – Leases: Significant judgements in determining the lease term of contracts with renewal options;
- Note F3 – Intangible Assets – 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 value; and financial assets impairment.

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## 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 mainly comprises 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  | 2021<br>\$'000 | 2020<br>\$'000 |
|---|-------|----------------|----------------|
| <b>Care income</b>                            |       |                |                |
| Department of Health funding                  |       | 279,512        | 277,955        |
| Other Government funding                      |       | 1,970          | 1,310          |
| Resident basic daily fees                     |       | 89,078         | 89,315         |
| Other resident fees                           |       | 4,363          | 5,726          |
| <b>Total care income</b>                      |       | 374,923        | 374,306        |
| <b>Accommodation income</b>                   |       |                |                |
| Department of Health funding                  |       | 26,908         | 27,565         |
| Resident fees                                 |       | 17,709         | 20,371         |
| <b>Total accommodation income</b>             |       | 44,617         | 47,936         |
| <b>Total revenue</b>                          |       | 419,540        | 422,242        |
| <b>Other income</b>                           |       |                |                |
| Movement in fair value of investment property | F4(a) | 1,600          | (2,438)        |
| Government grant income                       |       | 15,974         | -              |
| Gain on disposal of non-current assets        |       | 1,467          | 7,415          |
| Other income                                  |       | 212            | 313            |
| <b>Total other income</b>                     |       | 19,253         | 5,290          |

#### (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 resident. 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. 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.

### **Government grant income**

During the year, the Group received a significant amount of grant income from the Federal Government, in line with the COVID-19 grant awards that were put in place to support the aged care sector during the pandemic.

Grant income received under the "COVID-19 Aged Care Preparedness" and "Support for Aged Care Workers in COVID-19" grants is accrued to match costs incurred that are recoverable under the grant programme. The Group are entitled to recognise this revenue in advance of cash received to the extent that the costs are eligible under the grant programme, as there are no other conditions under which the funding becomes payable.

Under the "Aged Care Workforce Retention Bonus Payment", revenue was recognised upon cash receipt from the Government, with the corresponding expense recognised when the payment was made to eligible employees. All revenue received and associated expenses, including payroll tax and other on-costs which were not met by the Federal Government, were recognised within the year.

### **Resident basic daily fee**

The basic daily fee is a daily living expense paid by all residents as a contribution towards the daily living costs 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**

Other resident fees are recognised by the Group for additional services provided which are 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.

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

|   | 2021<br>\$'000 | 2020<br>\$'000 |
|---|----------------|----------------|
| <b>Finance costs</b>  |                |                |
| Loan establishment fees   | 558            | 485            |
| Total loan interest costs   | 6,314          | 6,512          |
| Loan interest costs capitalised   | (773)          | (1,529)        |
| Interest expense on lease liabilities                                       | 965            | 869            |
| RAD/accommodation bond settlement interest expense                          | 1,655          | 1,732          |
| Increase/(decrease) in fair value of Independent Living Unit loan liability | 80             | (479)          |
| <b>Total finance costs</b>  | <b>8,799</b>   | <b>7,590</b>   |

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## B. Business Performance continued

### 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) Loss attributable to ordinary shareholders

|  | 2021<br>\$'000  | 2020<br>\$'000   |
|--|-----------------|------------------|
| <b>Loss for the year attributable to ordinary shareholders</b> | <b>(14,106)</b> | <b>(292,087)</b> |

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

|  | 2021<br>No.        | 2020<br>No.        |
|--|--------------------|--------------------|
| Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS           | 267,135,658        | 266,820,905        |
| Weighted average number of dilutive rights outstanding   | 2,133,750          | 1,144,125          |
| <b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b> | <b>269,269,408</b> | <b>267,965,030</b> |

## 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:

|  | Note  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|-------|----------------|----------------|
| Current tax (credit)/expense                     | B5(e) | (6,436)        | 1,079          |
| Deferred tax expense/(credit)                    |       | 860            | (1,848)        |
| Under/(over) provision in respect of prior years |       | 571            | (26)           |
| <b>Income tax expense/(credit)</b>               |       | <b>(5,005)</b> | <b>(795)</b>   |

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

|  |  | 2021<br>\$'000  | 2020<br>\$'000   |
|--|--|-----------------|------------------|
| <b>Loss before income tax</b>  |  | <b>(19,111)</b> | <b>(292,882)</b> |
| Prima facie tax payable on profit at statutory rate of 30% (2020: 30%) |  | (5,733)         | (87,865)         |
| <b>Add/(less):</b>   |  |                 |                  |
| <b>Tax effect of:</b>  |  |                 |                  |
| - non-deductible tax expenses  |  | 157             | 220              |
| - impairment of goodwill   |  | -               | 86,850           |
| - under provision of income tax in respect of prior years              |  | 571             | -                |
| <b>Income tax expense/(credit)</b>                                     |  | <b>(5,005)</b>  | <b>(795)</b>     |

(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

|   | Note  | 2021<br>\$'000 | 2020<br>\$'000 |
|---|-------|----------------|----------------|
| The overall movement in current tax receivable is as follows: |       |                |                |
| Opening balance   |       | 1,860          | (377)          |
| Income tax credit/(expense) charged to profit or loss         | B5(a) | 6,436          | (1,079)        |
| Tax loss recognised as deferred tax asset                     |       | (6,436)        | -              |
| Income tax amounts paid during the year                       |       | 793            | 5,767          |
| Income tax amounts received during the year                   |       | (3,989)        | (2,451)        |
| Under provision of income tax in respect of prior years       |       | (571)          | -              |
| <b>Closing balance</b>  |       | <b>(1,907)</b> | <b>1,860</b>   |

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## B. Business Performance continued

### (f) Deferred tax assets/(liabilities)

|                                     | Opening<br>Balance<br>\$'000 | Charged to<br>Income<br>\$'000 | Closing<br>Balance<br>\$'000 |
|-------------------------------------|------------------------------|--------------------------------|------------------------------|
| Provisions                          | 15,950                       | 1,234                          | 17,184                       |
| Deferred legal costs                | (110)                        | -                              | (110)                        |
| Sundry creditors and accruals       | 879                          | 77                             | 956                          |
| ILU resident loans                  | 39                           | 91                             | 130                          |
| Deferred equity raising costs       | (151)                        | -                              | (151)                        |
| Property, plant and equipment       | (15,746)                     | (1,676)                        | (17,422)                     |
| Resident places                     | (60,518)                     | -                              | (60,518)                     |
| Deferred management fees receivable | (1,433)                      | -                              | (1,433)                      |
| Accrued income                      | -                            | (586)                          | (586)                        |
| Tax losses carried forward          | -                            | 6,436                          | 6,436                        |
| <b>Balance at 30 June 2021</b>      | <b>(61,090)</b>              | <b>5,576</b>                   | <b>(55,514)</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>Balance at 30 June 2020</b>      | <b>(62,938)</b>              | <b>1,848</b>                   | <b>(61,090)</b>              |

## C. Trade and Other Receivables

### C1. Trade and other receivables – current

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| <b>Current</b>                                   |                |                |
| Resident debtors                                 | 13,334         | 13,149         |
| Provision for expected credit loss               | (3,107)        | (3,153)        |
| <b>Total resident debtors</b>                    | <b>10,227</b>  | <b>9,996</b>   |
| Deferred management fees receivable              | 3,391          | 3,580          |
| Other receivables                                | 2,202          | 1,750          |
| <b>Total current trade and other receivables</b> | <b>15,820</b>  | <b>15,326</b>  |

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

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| <b>Non-current</b>                                   |                |                |
| Deferred management fees receivable                  | 2,458          | 2,574          |
| <b>Total non-current trade and other receivables</b> | <b>2,458</b>   | <b>2,574</b>   |

## D. Employee Remuneration

### D1. Employee benefits expense

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| Wages and leave expenses               | 278,720        | 257,732        |
| Superannuation contributions           | 24,290         | 23,294         |
| Payroll tax expense                    | 14,824         | 13,871         |
| Agency staff costs                     | 8,851          | 6,144          |
| WorkCover expense                      | 9,753          | 8,948          |
| Other staff costs                      | 3,113          | 5,075          |
| <b>Total employee benefits expense</b> | <b>339,551</b> | <b>315,064</b> |

### 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.

#### (a) Reconciliation of employee provisions

|                                  | 2021<br>\$'000 | 2020<br>\$'000 |
|----------------------------------|----------------|----------------|
| <b>Current</b>                   |                |                |
| Provision for redundancies       | -              | 1,228          |
| Provision for annual leave       | 27,096         | 23,973         |
| Provision for long service leave | 18,631         | 17,753         |
|                                  | <b>45,727</b>  | <b>42,954</b>  |
| <b>Non-current</b>               |                |                |
| Provision for long service leave | 5,643          | 5,608          |

### 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 2021, the Group had the following share-based payment arrangements:

##### (i) Long-term incentive

In December 2020, 3,855,538 performance rights were granted to senior executives under the Company's Equity Incentive Plan for long-term incentive purposes.

The performance rights are subject to a four-year performance period to 30 June 2024 for vesting purposes. As a vesting gateway, there must be no material breach of regulatory or compliance guidelines across the Group's business operations over the performance period. The Group uses a combination of growth in Earnings per Share (**EPS**) (60%) and Total Shareholder Returns (**TSR**) (40%) over the performance period as performance measures.

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## D. Employee Remuneration continued

### D3. Share-based payment arrangements continued

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

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

The fair value of the performance rights is estimated at the grant date. For the EPS component, a discounted cash flow methodology is applied, and for the TSR component a Monte-Carlo simulation is performed. A probability weighting is applied in respect of the likelihood of achieving the required performance measures.

Dividend yield: 2.0%

Expected volatility: 51.0%

Risk-free interest rate: 0.095% – 0.345%

Initial TSR: 37.9%

An expense of \$157,000 has been recognised for the year to 30 June 2021.

##### (ii) Other incentives

In November 2019, 352,484 performance rights were granted under the Company's Equity Incentive Plan to senior executives, with vesting subject to continued employment to 30 September 2020 and acceptable performance conditions.

Shares were acquired on-market by the Plan trustee during September 2019 using funds contributed by the Group 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 \$97,000 was recognised for the year to 30 June 2021.

## D4. Key management personnel

Key management personnel (**KMP**) remuneration included within the financial statements for the year is shown below. Further details are set out in the Remuneration Report.

|                              | 2021<br>\$'000 | 2020<br>\$'000 |
|------------------------------|----------------|----------------|
| Short-term employee benefits | 2,341          | 2,016          |
| Post-employment benefits     | 101            | 127            |
| Other short-term benefits    | 192            | 128            |
| Other long-term benefits     | 44             | (75)           |
| Share-based payments         | 154            | 255            |
|                              | <b>2,832</b>   | <b>2,451</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:

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| Trade payables – operational               | 12,362         | 6,939          |
| Trade payables – capital works in progress | 1,585          | 2,165          |
| Accrued wages                              | 5,133          | 5,641          |
| Accrued capital works in progress          | 358            | 5,913          |
| Accrued expenses                           | 5,144          | 4,773          |
| Other liabilities                          | 8,282          | 8,673          |
|  | <b>32,864</b>  | 34,104         |

## 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.

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## F. Asset Management continued

### F1. Property, plant and equipment continued

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

|   | Note  | Land and<br>Buildings<br>\$'000 | Property<br>Improvements<br>\$'000 | Plant and<br>Equipment<br>\$'000 | Motor<br>Vehicles<br>\$'000 | Capital<br>Works in<br>Progress<br>\$'000 | Total<br>\$'000 |
|---|-------|---------------------------------|------------------------------------|----------------------------------|-----------------------------|---|-----------------|
| <b>Year ended 30 June 2021</b>              |       |                                 |                                    |                                  |                             |   |                 |
| Balance at the beginning of the year        |       | 652,928                         | 60,867                             | 54,240                           | 11                          | 65,156                                    | 833,202         |
| Reclassification between asset categories   |       | (3,908)                         | (268)                              | 4,129                            | 47                          | -   | -               |
| Additions                                   |       | 486                             | 348                                | 7,000                            | -                           | 56,157                                    | 63,991          |
| Disposals                                   |       | (4,921)                         | (853)                              | (89)                             | -                           | -   | (5,863)         |
| Transfers from capital works<br>in progress |       | 75,648                          | 11,503                             | 5,453                            | -                           | (92,604)                                  | -               |
| Transfers to assets held for sale           |       | (5,846)                         | (100)                              | (22)                             | -                           | -   | (5,968)         |
| Depreciation expense                        |       | (12,405)                        | (2,566)                            | (11,754)                         | (16)                        | -   | (26,741)        |
| Impairment                                  | F1(c) | (519)                           | -                                  | -                                | -                           | -   | (519)           |
| <b>Balance at the end of the year</b>       |       | <b>701,463</b>                  | <b>68,931</b>                      | <b>58,957</b>                    | <b>42</b>                   | <b>28,709</b>                             | <b>858,102</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<br>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) 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 – Trugo Place in Victoria and Corymbia in Queensland. Significant refurbishment and brownfield extensions have also been completed. Costs totalling \$92,604,000 (2020: \$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

At 30 June 2021, the land and buildings at the Group's Forest View aged care facility were identified as assets held for sale, and were reclassified out of property, plant and equipment accordingly. As is required under AASB 5 Non-current Assets Held for Sale and Discontinued Operations, assets held for sale are recognised at the lower of their carrying value and their fair value less costs of sale. As the land and buildings at Forest View were sold subsequent to the year end for \$4,560,000 (note J3), this was taken as the fair value of the assets, before costs of disposal. Costs of disposal were \$94,000. Prior to impairment the carrying value of the assets was \$4,979,000. An expense of \$519,000 was therefore recognised when the assets were impaired to the fair value less costs of disposal of \$4,466,000.

## F2. Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## F. Asset Management continued

### F2. Leases continued

#### The Group as lessee continued

The right-of-use assets are presented as a separate line in the Consolidated Statement of Financial Position.

The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "administrative expenses" in profit or loss.

As a practical expedient, AASB 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

#### *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.

#### The Group as lessor – residential aged care

Resident accommodation agreements are considered a lease under AASB 16. The lease term for these arrangements is seven days (being the notice period required from a resident upon departure). The Group discloses DAP, Daily Accommodation Charges (**DAC**) and accommodation supplement revenue separately from revenue from contracts with residents (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 stay of the resident.

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.

#### 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.

### Movements in carrying amounts of right-of-use assets

|                           | Right-of-use assets          |                          |                           |                 |                           |
|---------------------------|------------------------------|--------------------------|---------------------------|-----------------|---------------------------|
|                           | Land and buildings<br>\$'000 | Motor vehicles<br>\$'000 | Other equipment<br>\$'000 | Total<br>\$'000 | Lease liability<br>\$'000 |
| <b>As at 1 July 2020</b>  | <b>29,519</b>                | <b>125</b>               | <b>496</b>                | <b>30,140</b>   | <b>31,728</b>             |
| Additions                 | 2,308                        | -                        | -                         | 2,308           | 3,012                     |
| Depreciation expense      | (2,661)                      | (65)                     | (148)                     | (2,874)         | -                         |
| Interest expense          | -                            | -                        | -                         | -               | 965                       |
| Payments                  | -                            | -                        | -                         | -               | (3,596)                   |
| <b>As at 30 June 2021</b> | <b>29,166</b>                | <b>60</b>                | <b>348</b>                | <b>29,574</b>   | <b>32,109</b>             |

The Group recognised rent expense from short-term leases of \$nil (2020: \$25,000), and variable lease payments of \$468,000 (2020: \$517,000) for the year.

During the year, the Group entered into a sale and leaseback transaction on its Capel Sands 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 \$8,200,000. A gain of \$1,271,000 was recognised upon completion of the sale. The lease term is for an initial six years, with three renewal options of four years each at the Group's election. Rent payments are \$525,000 per annum, with a fixed 3% per annum increase.

The below sets out the maturity analysis of lease liabilities:

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| <b>Maturity analysis – contractual undiscounted cash flows</b> |                |                |
| Less than one year   | 4,147          | 3,529          |
| One to five years  | 13,909         | 14,302         |
| More than five years   | 19,629         | 22,066         |
| <b>Total undiscounted lease liabilities</b>                    | <b>37,685</b>  | <b>39,897</b>  |

The below shows the split between current and non-current lease liabilities at 30 June 2021:

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| Current  | 2,862          | 2,338          |
| Non-current  | 29,247         | 29,390         |
| <b>Lease liabilities included in the Statement of Financial Position</b> | <b>32,109</b>  | <b>31,728</b>  |

### 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.

In its response to the Royal Commission into Aged Care Quality and Safety (**Royal Commission**), the Federal Government has indicated that it will aim to end the Aged Care Approvals Round (**ACAR**) process by July 2024 and remove the system of aged care providers controlling resident places, instead transferring them to residents themselves. In the event that this occurs, the Group will derecognise these assets in an appropriate manner in line with Australian Accounting Standards. Given the preliminary and unsubstantive nature of the announcement as at 30 June 2021, no adjustment has been made to these balances in relation to this matter during the year.

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## F. Asset Management continued

### F3. Intangible assets continued

#### 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.

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

|                                      | Goodwill<br>\$'000 | Resident<br>places<br>\$'000 | Total<br>\$'000 |
|--------------------------------------|--------------------|------------------------------|-----------------|
| <b>Year ended 30 June 2021</b>       |                    |                              |                 |
| Balance at the beginning of the year | 31,764             | 233,997                      | 265,761         |
| <b>Closing value at 30 June 2021</b> | <b>31,764</b>      | <b>233,997</b>               | <b>265,761</b>  |
| <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>  |

#### 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 being 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 higher than the carrying amount. This approach has been determined to be Level 3 within the fair value hierarchy.

The post-tax discount rate of 9.5% (2020: 10.0%) 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 decreased 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% (2020: 2.50%).

The completion of the Royal Commission and improved outcomes in aged care facilities relating to COVID-19 have had a significant impact on the outlook of management's forecast cash flows compared to last year. Management has considered this current environment in the determination of the FVLCoD of the CGU. While COVID-19 continues to be present in Australia, and the Federal Government is yet to announce details of a new funding model for aged care, two key factors have contributed to management's more positive outlook:

- The levels of COVID-19 vaccination in Group homes is around 85% for residents having received at least the first dose. As seen in the current COVID-19 outbreaks in Australia, the rate of infection and fatality in aged care facilities is lower than experienced earlier in the year. This should provide improved confidence in the sector.
- The announcement and implementation by the Federal Government of a new basic daily fee supplement of \$10 per resident. This is estimated to be worth around \$14,500,000 to the Group for next year, which will help cover additional costs that the Group has already been incurring in delivering care to its residents.

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

While the estimated recoverable amount of the CGU exceeded its carrying amount, management has identified that a reasonable possible change in four key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these four assumptions would individually need to change for the estimated recoverable amount to be equal to the carrying amount. At 30 June 2020 any adverse movement in these assumptions would have resulted in further impairment.

|                                 | 2021<br>basis points |
|---------------------------------|----------------------|
| Change in discount rate         | 286                  |
| Change in long-term growth rate | (436)                |
| Change in occupancy rate        | (270)                |
| Change in ACFI rate             | (112)                |

#### 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.

|  | Note  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|-------|----------------|----------------|
| Balance at beginning of year                 |       | 48,925         | 39,200         |
| Acquisitions                                 |       | -              | 10,473         |
| Transfers from property, plant and equipment |       | -              | 1,690          |
| Fair value adjustments                       | B2(a) | 1,600          | (2,438)        |
| <b>Balance at end of year</b>                |       | <b>50,525</b>  | <b>48,925</b>  |

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

Rental income from investment properties recognised by the Group during the year was \$1,153,000 (2020: \$1,380,000). Operating expenses incurred on investment properties for the year was \$584,000 (2020: \$872,000), including \$185,000 (2020: \$441,000) in repairs and maintenance.

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## F. Asset Management continued

### F4. Investment property continued

#### Use of estimates and judgements

##### *Investment property: Measurement of fair value*

The fair value of investment property of \$50,525,000 (2020: \$48,925,000) 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. The fair value of properties measured on this basis is \$27,950,000 (2020: \$27,700,000).

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 \$22,575,000 (2020: \$21,225,000).

## 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 and collecting 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.

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 residents, 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 continued

For the Year Ended 30 June 2021

## 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 and 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.

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 C – Trade and other receivables;
- Note E – Trade and other payables;
- Note G4 – Cash and cash equivalents;
- 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 \$3,337,000 of derivative liabilities at reporting date.

The directors of the Company 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.

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## G. Capital structure and financing continued

### G3. Financial risk management continued

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

|                                    | Weighted                                      |  |  |   |                                   |                 |  |
|------------------------------------|---|--|--|---|-----------------------------------|-----------------|--|
|                                    | average<br>effective<br>interest<br>rate<br>% | Floating<br>interest<br>rate<br>\$'000 | Maturing<br>within one<br>year<br>\$'000 | Maturing<br>after one<br>year<br>\$'000 | Non-interest<br>bearing<br>\$'000 | Total<br>\$'000 |  |
| <b>2021</b>                        |   |  |  |   |                                   |                 |  |
| <b>Financial assets</b>            |   |  |  |   |                                   |                 |  |
| Cash and cash equivalents          | -   | 43,551                                 | -  | -                                       | -                                 | 43,551          |  |
| Receivables                        | -   | -                                      | -  | -                                       | 18,327                            | 18,327          |  |
| <b>Total financial assets</b>      |   | <b>43,551</b>                          | -  | -                                       | <b>18,327</b>                     | <b>61,878</b>   |  |
| <b>Financial liabilities</b>       |   |  |  |   |                                   |                 |  |
| Accruals                           | -   | -                                      | -  | -                                       | (10,635)                          | (10,635)        |  |
| Trade and other payables           | -   | -                                      | -  | -                                       | (13,947)                          | (13,947)        |  |
| RADs/bonds and ILU loans           | -   | -                                      | -  | -                                       | (554,456)                         | (554,456)       |  |
| RADs/bonds (departed residents)    | 2.25  | -                                      | (79,378)                                 | -                                       | -                                 | (79,378)        |  |
| Bank loans                         | 1.89  | -                                      | (32,500)                                 | (223,250)                               | -                                 | (255,750)       |  |
| Interest rate swaps                | -   | -                                      | -  | -                                       | (3,337)                           | (3,337)         |  |
| <b>Total financial liabilities</b> |   | -                                      | (111,878)                                | (223,250)                               | (582,375)                         | (917,503)       |  |
| <b>2020</b>                        |   |  |  |   |                                   |                 |  |
| <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>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> |   | -                                      | (118,058)                                | (180,750)                               | (580,188)                         | (878,996)       |  |

#### (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, being aged care home residents, the Group monitors the level of receivables balances on an ongoing basis and any associated combined credit risk is mitigated by their independence of each other and individual immateriality to the Group. Aged debtors are common within residential aged care as probate is often awaited on deceased residents' estates to permit payment of outstanding debts. 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 \$2,061,000 (2020: \$3,862,000) 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 leaving.

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 ongoing COVID-19 pandemic on its expected credit loss model. A significant increase to the provision was recognised during last year, with the provision being materially the same at 30 June 2021.

At 30 June 2021, the ageing analysis of resident debtors is as follows:

| <b>30 June 2021</b>            | <b>Current</b> | <b>31-60 days</b> | <b>61-90 days</b> | <b>91+ days</b> | <b>Total</b> |
|--------------------------------|----------------|-------------------|-------------------|-----------------|--------------|
| Expected credit loss (%)       | 6.00           | 13.00             | 21.00             | 32.00           |              |
| Gross carrying amount (\$'000) | 2,657          | 1,469             | 2,108             | 7,100           | 13,334       |
| Expected credit loss (\$'000)  | (180)          | (200)             | (457)             | (2,270)         | (3,107)      |

#### **30 June 2020**

|                                |       |       |       |         |         |
|--------------------------------|-------|-------|-------|---------|---------|
| Expected credit loss (%)       | 7.00  | 15.00 | 26.00 | 32.00   |         |
| Gross carrying amount (\$'000) | 2,617 | 1,622 | 2,440 | 6,470   | 13,149  |
| Expected credit loss (\$'000)  | (179) | (246) | (645) | (2,083) | (3,153) |

#### **(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 26 months (2020: 28 months), resulting in approximately 46% (2020: 43%) 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 last year and the subsequent economic impacts continuing throughout the year, 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.

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## G. Capital structure and financing continued

### G3. Financial risk management continued

#### (c) Market risk

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

#### *Interest rate risk*

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, primarily relates to the Group's bank debt. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group reviews its bank borrowings on a monthly basis and monitors its position in respect of hedging interest rates or leaving them as floating rates in accordance with its interest rate hedging policy. As at 30 June 2021, the Group has bank borrowings of \$255,750,000 (2020: \$239,000,000).

The Group has hedging arrangements in place to further mitigate interest rate risk. At the reporting date, two 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:

|                      | <b>Notional<br/>Amount</b> | <b>Interest rate<br/>(BBSY)</b> | <b>Commencement<br/>Date</b> | <b>Maturity date</b> |
|----------------------|----------------------------|---------------------------------|------------------------------|----------------------|
| 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 2021. 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:

|                          | 2021             |                  | 2020             |                  |
|--------------------------|------------------|------------------|------------------|------------------|
|                          | +1.00%<br>\$'000 | -1.00%<br>\$'000 | +1.00%<br>\$'000 | -1.00%<br>\$'000 |
| Profit or loss after tax | 2,036            | (2,036)          | 1,718            | (1,718)          |
| Equity                   | 2,036            | (2,036)          | 1,718            | (1,718)          |

#### *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 amount of funding provided to approved providers of residential aged care services. As Government funding represents approximately 73% (2020: 72%) of the Group's revenue (excluding one-off government grants), 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 proposals for changes to funding for the aged care industry.

The Group has also assessed that it is materially exposed to the risk that increases in state based Enterprise Agreements (**EAs**) may exceed the increases in Federal Government funding. While the Group negotiates with the majority of 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 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 2021. 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 (excluding COVID-19 related funding), with all other variables remaining constant would be as follows:

|                          | 2021   | 2020    |        |         |
|--------------------------|--------|---------|--------|---------|
|                          | +1.00% | -1.00%  | +1.00% | -1.00%  |
|                          | \$'000 | \$'000  | \$'000 | \$'000  |
| Profit or loss after tax | 2,145  | (2,145) | 2,137  | (2,137) |
| Equity                   | 2,145  | (2,145) | 2,137  | (2,137) |

#### 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 2021. 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:

|                          | 2021    | 2020   |         |        |
|--------------------------|---------|--------|---------|--------|
|                          | +1.00%  | -1.00% | +1.00%  | -1.00% |
|                          | \$'000  | \$'000 | \$'000  | \$'000 |
| Profit or loss after tax | (2,377) | 2,377  | (2,205) | 2,205  |
| Equity                   | (2,377) | 2,377  | (2,205) | 2,205  |

#### 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

|                                     | 2021<br>\$'000 | 2020<br>\$'000 |
|-------------------------------------|----------------|----------------|
| <b>Current</b>                      |                |                |
| Bank loans                          | 32,500         | 58,250         |
| <b>Total current borrowings</b>     | <b>32,500</b>  | <b>58,250</b>  |
| <b>Non-current</b>                  |                |                |
| Bank loans                          | 223,250        | 180,750        |
| <b>Total non-current borrowings</b> | <b>223,250</b> | <b>180,750</b> |
| <b>Total borrowings</b>             | <b>255,750</b> | <b>239,000</b> |

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## G. Capital structure and financing continued

### G5. Borrowings continued

#### (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 at 30 June 2021 are \$345,000,000 (30 June 2020: \$345,000,000) with an expiry date of September 2023. The Group has complied with its banking covenants during the year and expects to meet these covenants during the next year, based on the assumption that the current COVID-19 cases in the New South Wales and Victorian communities continue to be managed, the vaccine roll-out continues, occupancy stabilises and significant net RAD outflows do not occur.

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, \$51,000,000 (2020: \$69,750,000) was drawn down from the Bank Facilities primarily to fund developments with repayments of \$34,250,000 (2020: \$41,250,000). A total of \$255,750,000 (2020: \$239,000,000) was drawn down against the Bank Facilities as at the reporting date. Subsequent to this date, a further \$6,500,000 (2020: \$12,000,000) has been drawn down to fund developments and the Group's WorkCover and general insurance premium expenses for the next financial year, and \$20,250,000 (2020: \$14,500,000) has been repaid.

### G6. Other financial liabilities

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| <b>Current</b>   |                |                |
| RADs/accommodation bonds                               | 610,689        | 584,506        |
| ILU resident loans                                     | 23,145         | 25,020         |
| <b>Total other financial liabilities – current</b>     | <b>633,834</b> | <b>609,526</b> |
| <b>Non-current</b>                                     |                |                |
| Interest rate swaps                                    | 3,337          | 5,039          |
| <b>Total other financial liabilities – non-current</b> | <b>3,337</b>   | <b>5,039</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.

## G7. Reconciliation of liabilities arising from financing activities

|   | 1 July 2020<br>\$'000 | Cash flows<br>\$'000 | Other<br>non-cash<br>\$'000 | 30 June 2021<br>\$'000 |
|---|-----------------------|----------------------|-----------------------------|------------------------|
| Borrowings – current                      | 58,250                | (25,750)             | -                           | 32,500                 |
| Borrowings – non-current                  | 180,750               | 42,500               | -                           | 223,250                |
| Other financial liabilities – current     | 609,526               | 24,920               | (612)                       | 633,834                |
| Other financial liabilities – non-current | 5,039                 | -                    | (1,702)                     | 3,337                  |
| Lease liabilities – current               | 2,338                 | (3,596)              | 4,120                       | 2,862                  |
| Lease liabilities – non-current           | 29,390                | -                    | (143)                       | 29,247                 |
| <b>Total</b>                              | <b>885,293</b>        | <b>38,074</b>        | <b>1,663</b>                | <b>925,030</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.

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<br>\$'000 | Fair value measurement using |                   |                   |
|-------------------------------|-------------------|-----------------|------------------------------|-------------------|-------------------|
|                               |                   |                 | Level 1<br>\$'000            | Level 2<br>\$'000 | Level 3<br>\$'000 |
| Investment properties         | 30 June 2021      | 50,525          | -                            | -                 | 50,525            |
| Independent Living Unit loans | 30 June 2021      | 23,146          | -                            | -                 | 23,146            |
| Interest rate swaps           | 30 June 2021      | 3,337           | -                            | 3,337             | -                 |
|                               |                   | 77,008          | -                            | 3,337             | 75,671            |

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

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## G. Capital structure and financing continued

### G9. Issued capital

#### (a) Ordinary shares

|   | 2021<br>No.        | 2020<br>No. |
|---|--------------------|-------------|
| At the beginning of the reporting period                  | <b>266,894,844</b> | 267,247,328 |
| Purchase of ordinary shares to be held as treasury shares | -                  | (530,567)   |
| Treasury shares issued for vesting performance rights     | <b>327,974</b>     | 178,083     |
| <b>At the end of the reporting period</b>                 | <b>267,222,818</b> | 266,894,844 |

#### 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, 327,974 ordinary shares previously acquired on market for use within the Company's Equity Incentive Plan were issued to senior management for vesting performance rights. 24,510 shares remained held within the Plan at 30 June 2021.

#### (b) Dividends

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| The following dividends were determined and paid:                  |                |                |
| 2019 Final 50% franked ordinary dividend of 3.35 cents per share   | -              | 8,953          |
| 2020 Interim 50% franked ordinary dividend of 2.00 cents per share | -              | 5,344          |
| <b>Total</b>   | <b>-</b>       | 14,297         |

The Group's directors have determined not to pay an interim or final dividend since the 2020 interim dividend.

#### Franking account

|   | 2021<br>\$'000 | 2020<br>\$'000 |
|---|----------------|----------------|
| <b>Franking credits available for subsequent financial years at a tax rate of 30%</b> | <b>-</b>       | 495            |

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 \$nil (2020: \$495,000) franking credits. This is after paying a \$2,700,000 true-up to the Group's franking credits account during July 2021, which arose from receiving an income tax cash refund during the year. The expense for this payment was recognised in full during the year.

## 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<br>2021 |
|---|-----------|------------------------|
| 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%                   |
| 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 (Kirrallee) 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%                   |

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## H. Group structure continued

### H1. Subsidiaries continued

#### (a) List of subsidiaries continued

| Name of entity   | Ownership | Equity holding<br>2021 |
|--|-----------|------------------------|
| 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%                   |
| 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 above mentioned 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.

## H3. Parent entity

As at, and throughout, the year ended 30 June 2021, the parent entity of the Group was Japara Healthcare Limited.

|   | 2021<br>\$'000   | 2020<br>\$'000 |
|---|------------------|----------------|
| <b>Statement of Financial Position</b>                            |                  |                |
| Assets  |                  |                |
| Current assets  | 3,538            | 946            |
| Non-current assets  | 490,482          | 478,970        |
| Total assets  | <b>494,020</b>   | 479,916        |
| Liabilities   |                  |                |
| Current liabilities   | (36,751)         | (61,375)       |
| Non-current liabilities   | (226,875)        | (180,861)      |
| Total liabilities   | <b>(263,626)</b> | (242,236)      |
| <b>Net assets</b>   | <b>230,394</b>   | 237,680        |
| Equity  |                  |                |
| Issued capital  | 524,658          | 524,081        |
| Hedging reserve   | (3,337)          | (5,039)        |
| Retained earnings   | (290,927)        | (281,362)      |
| <b>Total equity</b>   | <b>230,394</b>   | 237,680        |
| <b>Statement of Profit or Loss and Other Comprehensive Income</b> |                  |                |
| Total loss for the year   | (11,721)         | (291,741)      |
| Other comprehensive income/(expense), net of income tax           | 1,702            | (2,627)        |
| <b>Total comprehensive expense</b>                                | <b>(10,019)</b>  | (294,368)      |

### 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 continued

For the Year Ended 30 June 2021

## I. Related Parties

### I1. Nature of related parties

The ultimate parent entity, which exercises control over the Company, 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 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:

- \$2,428,000 (2020: \$35,490,000) in relation to various construction contracts and land acquisitions expected to be completed over the course of the next 12 months.

### 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 (2020: \$997,000). 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.

#### Contingent liabilities

The Group has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, disputes, regulatory compliance and interpretation of law. It is not considered that the ultimate outcome of any contingent liabilities will have a material adverse impact on the financial condition of the Group.

### 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

Community transmission of COVID-19 has significantly increased nationwide since late July 2021, with major lock-down restrictions remaining imposed in New South Wales and Victoria. This may impact near-term occupancy of affected Group homes within these States as inspections and admission are made more challenging due to uncertainty and visitation restrictions.

#### Scheme of arrangement

On 27 July 2021, the Company announced that it had entered into a Scheme Implementation Deed with Little Company of Mary Health Care Ltd (**Calvary**) for the acquisition of all of the issued shares in the Company by way of a Scheme of Arrangement (**Scheme**).

Calvary is a charitable Catholic not-for-profit organisation with public and private hospitals, retirement and aged care facilities and community care centres across Australia.

The Company's shareholders will be given the opportunity to vote on the Scheme at a meeting which is expected to be held in October 2021. If the Scheme is approved and implemented, shareholders will receive total cash consideration of \$1.40 per share.

The Board has concluded that the Scheme is in the best interests of shareholders and has unanimously recommended that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an independent expert concluding that the Scheme is fair and reasonable and in the best interests of shareholders.

#### Property divestment

In June 2021, the Group's Forest View aged care home in New South Wales was closed and the residents transferred to the Group's new Corymbia home. A decision was made to sell the land and buildings which were auctioned on 21 July 2021 and sold for \$4,560,000, with settlement due in January 2022.

#### J4. Cash Flow Information

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

|   | Note    | 2021<br>\$'000 | 2020<br>\$'000 |
|---|---------|----------------|----------------|
| Loss for the year   |         | (14,106)       | (292,087)      |
| Cash flows excluded from loss attributable to operating activities: |         |                |                |
| Non-cash flows in loss:   |         |                |                |
| - depreciation  | F2 & F1 | 29,615         | 26,441         |
| - net profit on disposal of non-current assets                      | B2(a)   | (1,467)        | (9,010)        |
| - non-cash movement in RADs/accommodation bonds                     |         | 80             | (479)          |
| - deferred management fee income                                    |         | (380)          | (1,777)        |
| - (increase)/decrease in fair value of investment property          | B2(a)   | (1,600)        | 2,438          |
| - equity settled share based payment transactions                   |         | 254            | 511            |
| - impairment of intangible assets                                   | F3(a)   | -              | 289,500        |
| - impairment of tangible assets                                     | F1(c)   | 519            | 2,423          |
| Changes in assets and liabilities:                                  |         |                |                |
| - increase in trade and other receivables                           |         | (524)          | (2,649)        |
| - (increase)/decrease in other assets                               |         | (3,769)        | 2,519          |
| - decrease in deferred tax liabilities                              |         | (5,576)        | (1,848)        |
| - increase in other financial liabilities                           |         | 24,920         | 55,763         |
| - increase/(decrease) in trade and other payables                   |         | 6,395          | (2,252)        |
| - increase/(decrease) in current tax liabilities                    |         | 3,767          | (2,237)        |
| - increase in provisions  |         | 2,807          | 7,942          |
| <b>Net cash provided by operating activities</b>                    |         | <b>40,935</b>  | <b>75,198</b>  |

#### J5. Remuneration of auditors

|  | 2021<br>\$     | 2020<br>\$     |
|--|----------------|----------------|
| Audit and review services:                       |                |                |
| - auditing or reviewing the financial statements | 243,000        | 405,450        |
| Other services:                                  |                |                |
| - Taxation compliance services                   | 70,800         | 60,909         |
| - Taxation advisory services                     | 14,000         | 8,800          |
| - Other assurance services                       | 25,000         | -              |
| - Other advisory services                        | -              | 23,496         |
| <b>Total</b>                                     | <b>352,800</b> | <b>498,655</b> |

Other assurance services detailed above relate to services provided by the Group's auditors, KPMG, in complying with the external audit requirements associated with some of the COVID-19 related grant claims submitted in the year.

# Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2021

## J. Other Information continued

### J6. New accounting standards and interpretations adopted during the year

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2020.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia.
- AASB 2020-4 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions.

The impact of adopting these new standards has had a nil or immaterial impact on the 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 July 2021 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 consolidated 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, AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections – effective for annual reporting periods beginning on or after 1 January 2022 (Editorial corrections in AASB 2017-5 applied from 1 January 2018)
- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current and AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date – 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 reporting periods beginning on or after 1 January 2022
- AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2 – effective for annual reporting periods beginning on or after 1 June 2021
- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates – effective for annual reporting periods beginning on or after 1 January 2023
- AASB 2021-3 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021 – effective for annual reporting periods beginning on or after 1 April 2021

# 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 40 to 76 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 2021 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 2021.
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 30 August 2021



**Linda Bardo Nicholls AO**  
Chairman



**Chris Price**  
CEO & Managing Director

# Independent Auditor's Report



## 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 2021 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 2021;
- 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 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.

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### 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.

This matter was 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 this matter.

| Recoverable amount of goodwill and resident places (\$265.8m)  |   |
|--|---|
| Refer to Note F3 to the Financial Report   |   |
| The key audit matter   | How the matter was addressed in our audit   |
| <p>A key audit matter for us was the Group's annual testing of goodwill and resident places for impairment given the size of the balance (being 21% of total assets), the significantly higher estimation uncertainty continuing from the business disruption impact of the COVID-19 global pandemic, and the level of judgement applied by us when evaluating the evidence available.</p> <p>We focussed on the significant forward-looking assumptions the Group applied in their fair value less costs of disposal model (FVLCD), including:</p> <ul style="list-style-type: none"><li>• occupancy rate, timing of payments through the mix of Daily Accommodation Deposits (DAP) and Refundable Accommodation Deposits (RAD) - the sector in which the Group operates have experienced reduced occupancy levels, increased costs and increased risk of sustained periods of negative net RAD cash flows as a result of COVID-19 outbreaks, increasing the risk of future fluctuations and inaccurate forecasting.</li><li>• forecast operating cash flows and terminal growth rates – the Group has experienced significant business disruption in the current year as a result of COVID-19. This impacted the Group through a reduction in the demand for services and an increase in costs. These conditions and the uncertainty of their continuation increase the possibility of goodwill and resident places being impaired, plus, the risk of inaccurate forecasts or significantly wider range of possible outcomes for us to consider. We focused on the expected occupancy rate for</li></ul> | <p>Our procedures included:</p> <ul style="list-style-type: none"><li>- We considered the appropriateness of the FVLCD method applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards.</li><li>- We assessed the integrity of the FVLCD model used, including the accuracy of the underlying calculation formulas.</li><li>- We met with management and those charged with governance to understand the impact of COVID-19 on the Group and the impact of government response programs to the FY21 results.</li><li>- We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the model.</li><li>- We compared the occupancy rate, mix of resident care, RAD flows and growth rates to published views of market commentators on future trends seeking authoritative and credible sources.</li><li>- We considered the sensitivity of the model by varying key assumptions, such as expected occupancy rate, discount rate and, terminal growth rates, within a reasonably possible range. We considered the interdependencies of key assumptions when performing the sensitivity analysis and what the Group consider to be reasonably possible. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.</li><li>- We challenged the Group's forecast cash flow and growth assumptions in light of the expected</li></ul> |

# Independent Auditor's Report continued



|  |  |
|--|--|
| <p>the Group, and continued access to government funding when assessing the feasibility of the Group's forecast cashflows.</p> <ul style="list-style-type: none"><li>• discount rates - these are complicated in nature and vary according to the conditions and environment the specific Cash Generating Unit (CGU) is subject to from time to time. We involve our valuation specialists with the assessment.</li></ul> <p>The Group uses complex models to perform its annual testing of goodwill for impairment. The models are largely manually developed, use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p> <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>continuation of unprecedented uncertainty of business disruption and impacts of the COVID-19 global pandemic. We assessed key assumptions such as expected occupancy rates for the Group, and the continued access to government funding. We used our knowledge of the Group, business and customers, and our industry experience. We sourced authoritative and credible inputs from our specialists.</p> <ul style="list-style-type: none"><li>- Working with our valuation specialists, we:<ul style="list-style-type: none"><li>- analysed the Group's discount rates against publicly available data of a group of comparable entities. We independently developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in;</li><li>- compared the implied multiples from comparable market transactions to the implied multiple from the Group's FVLCD model;</li><li>- compared the Group's terminal growth rates against publicly available market data; and</li><li>- compared the current price per share as per the scheme of arrangement for acquisition of the Group to the Group's valuation model.</li></ul></li><li>- We assessed the appropriateness of adjustments to forecasts made by the Group to capture the impacts of COVID-19.</li><li>- We assessed the disclosures in the financial report using our understanding of the matter obtained from our testing and against the requirements of the accounting standards.</li></ul> |
|--|--|



### 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; and
- 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.

# Independent Auditor's Report continued



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Japara Healthcare Limited for the year ended 30 June 2021, 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 26 to 39 of the Directors' report for the year ended 30 June 2021.

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*

KPMG

Suzanne Bell

*Partner*

Melbourne

30 August 2021

# 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 17 August 2021.

## (a) Distribution of shareholders – ordinary shares

| Range             | Ordinary shares    | %             | No of holders | %             |
|-------------------|--------------------|---------------|---------------|---------------|
| 100,001 and Over  | 217,586,862        | 81.42         | 137           | 2.35          |
| 10,001 to 100,000 | 34,954,660         | 13.08         | 1,285         | 22.05         |
| 5,001 to 10,000   | 8,104,405          | 3.03          | 1,055         | 18.11         |
| 1,001 to 5,000    | 5,916,534          | 2.21          | 2,072         | 35.56         |
| 1 to 1,000        | 684,867            | 0.26          | 1,278         | 21.93         |
| <b>Total</b>      | <b>267,247,328</b> | <b>100.00</b> | <b>5,827</b>  | <b>100.00</b> |

## (b) Less than marketable parcels of ordinary shares

There are 424 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<br>fully paid<br>ordinary shares | % of issued<br>capital |
|---|--|------------------------|
| 1 Citicorp Nominees Pty Limited   | 31,156,876                                 | 11.66                  |
| 2 CS Third Nominees Pty Limited (HSBC Cust Nom AU Ltd 12 A/C)   | 24,649,373                                 | 9.22                   |
| 3 HSBC Custody Nominees (Australia) Limited   | 23,486,248                                 | 8.79                   |
| 4 The Trust Company (Australia) Limited (A/C 4)   | 19,361,813                                 | 7.24                   |
| 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 J P Morgan Nominees Australia Pty Limited   | 14,875,902                                 | 5.57                   |
| 8 HSBC Custody Nominees (Australia) Limited – A/C 2   | 8,283,401                                  | 3.10                   |
| 9 Sudsie Pty Ltd  | 5,858,333                                  | 2.19                   |
| 10 National Nominees Limited  | 5,382,305                                  | 2.01                   |
| 11 CS Fourth Nominees Pty Limited (HSBC Cust Nom AU Ltd 11 A/C)   | 3,732,837                                  | 1.40                   |
| 12 Brispot Nominees Pty Ltd (House Head Nominee A/C)  | 3,325,381                                  | 1.24                   |
| 13 BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd (DRP A/C)  | 3,050,473                                  | 1.14                   |
| 14 Neweconomy Com AU Nominees Pty Limited (900 Account)   | 2,738,549                                  | 1.02                   |
| 15 CS Third Nominees Pty Limited (HSBC Cust Nom AU Ltd 13 A/C)  | 2,565,850                                  | 0.96                   |
| 16 Mrs Julia Michelle Manken + Mr Mike Darren Manken +<br>Miss Jessica Kelly Manken (Manken Family Super A/C) | 2,310,000                                  | 0.86                   |
| 17 BNP Paribas Noms Pty Ltd (DRP)   | 2,232,590                                  | 0.84                   |
| 18 Morgan Stanley Australia Securities (Nominee) Pty Limited (No 1 Account)                                   | 1,842,439                                  | 0.69                   |
| 19 Bundarra Trading Company Pty Ltd (Thomas Emery Kennedy A/C)  | 1,700,000                                  | 0.64                   |
| 20 SEP Super Pty Ltd (Sep Super Fund A/C)   | 1,311,480                                  | 0.49                   |
| <b>TOTAL</b>  | <b>187,975,850</b>                         | <b>70.33</b>           |

## Additional Information continued

### (d) Substantial holders

A substantial holder is one who has a relevant interest in 5% or more of the total issued shares in the Company. Following are the substantial holders in the Company based on notifications provided to the Company under the Corporations Act 2001:

| Holder   | Number of<br>fully paid<br>ordinary shares | % of issued<br>capital |
|--|--|------------------------|
| Moelis Australia Limited and its associated entities                                 | 35,421,025                                 | 13.25%                 |
| Aurrum Holdings Pty Ltd  | 24,649,373                                 | 9.22%                  |
| Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C) and its associate | 21,558,333                                 | 8.07%                  |

### (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 3,855,538 performance rights currently on issue to eight employees for vesting on 30 June 2024. 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 2020 Annual General Meeting for the participation of the CEO and Managing Director, Chris Price, in the Company's Equity Incentive Plan. In accordance with this approval, 1,440,000 performance rights were granted to Mr Price in December 2020 for long-term incentive purpose for vesting on 30 June 2024 subject to achievement of various accreditation and compliance gateway hurdles and financial return performance conditions. These performance rights remain on foot.

### (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.

# 5 Year Summary

|  | 2020/21                 | 2019/20              | 2018/19 | 2017/18 | 2016/17 |
|--|-------------------------|----------------------|---------|---------|---------|
| <b>Financial results</b>   |                         |                      |         |         |         |
| Operating revenue (\$million)  | <b>438.8</b>            | 427.5                | 399.8   | 373.2   | 362.2   |
| Earnings before interest, tax, depreciation and amortisation (\$million) | <b>19.8<sup>5</sup></b> | 32.9 <sup>5</sup>    | 49.6    | 50.7    | 60.2    |
| Net profit/(loss) after tax <sup>1</sup> (\$million)                     | <b>(14.1)</b>           | (292.1) <sup>6</sup> | 16.4    | 23.3    | 29.7    |
| Operating cash flow (\$million)  | <b>40.9</b>             | 75.2                 | 78.7    | 77.1    | 87.5    |
| – includes net RADs and bonds <sup>2</sup> inflow (\$million)            | <b>24.9</b>             | 55.8                 | 44.7    | 41.6    | 55.7    |
| Earnings/(loss) per share (cents)  | <b>(5.3)</b>            | (109.5)              | 6.2     | 8.8     | 11.2    |
| Dividend per share (cents)   | -                       | 2.00                 | 6.15    | 7.75    | 11.25   |
| Dividend payout rate (%)   | -                       | >100                 | 100     | 88      | 100     |
| Dividend yield (%)   | -                       | 4.1                  | 5.4     | 4.3     | 5.4     |
| <b>Other statistics – at financial year end</b>                          |                         |                      |         |         |         |
| Total assets (\$million)   | <b>1,277.5</b>          | 1,252.0              | 1,439.0 | 1,268.6 | 1,115.6 |
| Real estate portfolio <sup>3</sup> (\$million)                           | <b>854.5</b>            | 830.1                | 773.9   | 694.4   | 550.6   |
| RADs and bonds <sup>2</sup> (\$million)                                  | <b>633.8</b>            | 609.5                | 554.6   | 509.3   | 453.1   |
| Shares on issue (million)  | <b>267.2</b>            | 267.2                | 267.2   | 265.9   | 265.5   |
| Share price (\$)   | <b>1.28</b>             | 0.49                 | 1.13    | 1.81    | 2.10    |
| Share market capitalisation (\$million)                                  | <b>342.0</b>            | 130.9                | 301.9   | 481.3   | 557.6   |
| Shareholders   | <b>6,073</b>            | 7,195                | 7,879   | 8,700   | 8,949   |
| Staff  | <b>5,868</b>            | 6,064                | 5,628   | 5,451   | 5,255   |
| Average underlying occupancy <sup>4</sup> (%)                            | <b>88.6</b>             | 92.2                 | 93.0    | 93.2    | 94.6    |
| Operational places   | <b>4,507</b>            | 4,496                | 4,235   | 4,069   | 3,841   |
| Approved and provisional places  | <b>5,705</b>            | 5,705                | 5,799   | 5,457   | 4,950   |
| Residential homes  | <b>50</b>               | 51                   | 49      | 48      | 43      |
| Independent living units/apartments                                      | <b>180</b>              | 180                  | 180     | 180     | 180     |

1. Profit attributable to members of the Group.

2. Refundable accommodation deposits, accommodation bonds and independent living unit/apartment resident loans.

3. At book value.

4. Adjusted for places ramping up at new developments and offline for refurbishment.

5. Also before impairment of non-current assets.

6. Includes a \$291.9 million impairment of non-current assets.

# Corporate Information

## Registered and Head Office

Japara Healthcare Limited  
Q1 Building, Level 4  
1 Southbank Boulevard  
Southbank Victoria 3006  
Australia

## Postal Address

PO Box 16082  
Collins Street West Victoria 8007  
Australia

Telephone: +61 3 9649 2100  
Facsimile: +61 3 9649 2129  
Email: info@japara.com.au

## Company Website

japara.com.au

## Investor Centre Website

investor.japara.com.au/Investor-Centre/

## Company Numbers

ACN 168 631 052  
ABN 54 168 631 052

## Board of Directors

Linda Bardo Nicholls AO  
Non-Executive Chairman

Chris Price  
CEO & Managing Director

David Blight  
Non-Executive Director

JoAnne Stephenson  
Non-Executive Director

Leanne Rowe AM  
Non-Executive Director

Chief Financial Officer & Chief Investment Officer  
Anthony Rice

Company Secretary  
Bruce Paterson

## Auditor

KPMG  
Tower Two  
Collins Square  
727 Collins Street  
Melbourne Victoria 3008  
Australia

## Securities Exchange Listing

The Company's shares are listed on the Australian Securities Exchange (ASX).  
The Home Exchange is Melbourne.

ASX code: JHC

## Securities Registrar

Link Market Services Limited  
Tower 4  
727 Collins Street  
Melbourne Victoria 3008  
Australia

## Postal Address

Locked Bag A14  
Sydney South New South Wales 1235  
Australia

## Shareholder Enquiries

Telephone: +61 1300 554 474  
Facsimile: +61 2 9287 0303  
+61 2 9287 0309 (for proxy voting)  
Email: registrar@linkmarketservices.com.au

## Investor Centre

investorcentre.linkmarketservices.com.au

## Corporate Governance Statement

The Company's Corporate Governance Statement can be found on its investor centre website:  
investor.japara.com.au/Investor-Centre/



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