Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2020

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

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2020

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

* See Note A5.

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2020

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

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

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2020

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

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

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2020

A. About this Report

A1. Reporting entity

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

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

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

A2. Basis of accounting

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

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

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

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

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

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

- Occupancy consequences arising from COVID-19 outbreaks in residential care settings include the passing of residents or temporarily leaving the home to be cared for in hospital, at another aged care facility or at a relative's home. As residential aged care home visitation restrictions are in place and delays in selling residential property to fund RADs may occur, this then potentially creates a timing lag for replacement occupancy and RAD receipts. While the Group experienced some short-term reduction in occupancy levels during April 2020 and May 2020, occupancy levels improved in June 2020, before falling away slightly in July 2020. The reduction in occupancy is expected to continue throughout August 2020 and into September 2020 while the Stage 4 restrictions in Melbourne and Stage 3 restrictions throughout the rest of Victoria remain.
- The mix of how residents choose to pay for their accommodation (through a RAD, a Daily Accommodation Payment (**DAP**), or a combination of the two), can have an impact on the timing of cash flows to the Group. RAD payers provide upfront lump sum cash flows to the Group, whereas DAP payers spread these cash flows out over the duration of their stay. The receipt of a RAD is refundable to the resident upon their departure; the receipt of a DAP is non-refundable. A significant shift from RAD payers to DAP payers may have a negative impact on the Group's cash flows in the short term. A fall in the residential property market may drive such a transition from RAD to DAP payers, as residents may be slower to sell their homes and therefore not have the funds available to pay a full RAD. House price forecasts over the next 12 months are indicating a contraction in the market of around 5%, which may therefore impact the RAD/DAP mix for the Group. Management has considered the impact of such a contraction on the RAD/DAP mix; and management's forecast scenarios, while potentially reducing available cash in the short term, demonstrate the Group is able to meet its obligations as they come due.

A. About this Report continued

A2. Basis of accounting continued

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

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

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

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

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

A3. Functional and presentation currency

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

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

A4. Use of estimates and judgements

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

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

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

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

A5. Changes in significant accounting policies

AASB 16 Leases ("AASB 16")

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

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

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

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

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

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

The Group as lessee

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

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

The Group as lessor – residential aged care

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

A. About this Report continued

A5. Changes in significant accounting policies continued

AASB 16 Leases ("AASB 16") continued

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

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 now discloses this revenue separately from revenue from contracts with customers (see Note B2).

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

	1 July 2019 $'000
Assets	
Right-of-use assets	**29,041**
Prepayments	**(211)**
Liabilities	
Lease liabilities	**28,613**

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

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

Based on the foregoing, as at 1 July 2019:

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

	1 July 2019 $'000
Operating lease commitments at 30 June 2019	**9,992**
Change in determination of lease term	26,348
Change in measurement of lease payments	(414)
Items not previously classified as a lease	961
Gross lease liability at 1 July 2019	**37,715**
Weighted average incremental borrowing rate as at 1 July 2019	3%
Discounted lease liability at 1 July 2019	**28,613**

(b) Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

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

Short term leases and low-value assets

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

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

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

Income taxes

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

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

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

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

B. Business Performance

B1. Segment reporting

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

B2. Revenue and other income

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

All revenue is stated net of GST.

(a) Reconciliation of revenue and other income

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

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

(b) Disaggregation of revenue from contracts with customers

Department of Health funding (Care)

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

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

Other Government funding

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

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

Resident basic daily fee

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

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

Other resident fees

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

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

B3. Finance costs

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

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

(a) Reconciliation of finance costs

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

B4. Earnings per share

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

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

(a) Calculation of earnings per share

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

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

B. Business Performance continued

B4. Earnings per share continued

(a) Calculation of earnings per share continued

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

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

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

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

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

(c) Income tax rate

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

(d) Tax consolidation

Relevance of tax consolidation to the consolidated Group

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

Relevance of tax consolidation to the Company

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

Nature of tax funding arrangements and tax sharing agreements

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

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

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

(f) Deferred tax assets/(liabilities)

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

* See Note A5.

C. Trade and Other Receivables

C1. Trade and other receivables – current

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

C2. Trade and other receivables – non-current

	2020 $'000	2019 $'000
Non-current		
Deferred management fees receivable	2,574	2,347
Total non-current trade and other receivables	2,574	2,347

D. Employee Remuneration

D1. Employee benefits expense

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

D2. Employee provisions

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

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

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

(a) Reconciliation of employee provisions

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

(b) Contingent liability

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

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

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

D3. Share-based payment arrangements

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

(a) Description of equity-settled share option arrangements

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

(i) Long term incentive

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

(ii) Short term incentive

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

D. Employee Remuneration continued

D3. Share-based payment arrangements continued

(iii) Other incentives

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

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

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

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

Weighted average share price: $1.19

Dividend Yield: 5.00%

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

D4. Key management personnel

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

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

E. Trade and Other Payables

E1. Trade payables and other liabilities

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

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

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.

F. Asset Management continued

F1. Property, plant and equipment continued

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

Consolidated	Note	Land and Buildings $'000	Property Improvements $'000	Plant and Equipment $'000	Motor Vehicles $'000	Capital Works in Progress $'000	Total $'000
Year ended 30 June 2020							
Balance at the beginning of the year		606,868	41,405	55,201	46	84,247	787,767
Additions		15,624	2,398	8,817	-	71,531	98,370
Disposals		(9,422)	(2,697)	(46)	(8)	-	(12,173)
Transfers from capital works in progress		68,493	21,889	240	-	(90,622)	-
Transfers to investment property		(12,163)	-	-	-	-	(12,163)
Transfers to assets held for sale		(2,100)	-	-	-	-	(2,100)
Depreciation expense		(12,482)	(2,087)	(9,480)	(27)	-	(24,076)
Impairment	F1(c)	(1,890)	(41)	(492)	-	-	(2,423)
Balance at the end of the year		652,928	60,867	54,240	11	65,156	833,202
Year ended 30 June 2019							
Balance at the beginning of the year		542,585	5,185	33,317	84	106,549	687,720
Additions		14,299	3,951	30,147	-	73,995	122,392
Disposals		(550)	-	-	-	-	(550)
Transfers to investment property		(1,800)	-	-	-	-	(1,800)
Transfers from capital works in progress		63,801	32,496	-	-	(96,297)	-
Depreciation expense		(11,467)	(227)	(8,263)	(38)	-	(19,995)
Balance at the end of the year		606,868	41,405	55,201	46	84,247	787,767

(b) Property, plant and equipment under construction

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

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

(c) Impairment of property, plant and equipment

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

F2. Leases

(a) AASB 16 – from 1 July 2019

Leases as lessee

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

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

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

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

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

The below sets out the maturity analysis of lease liabilities:

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

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

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

Leases as lessor

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

(b) AASB 117 – up to 30 June 2019

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

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

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

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

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

F. Asset Management continued

F3. Intangible assets

Goodwill

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

Resident places

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

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

Impairment review of non-financial assets

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

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

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

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

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

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

(a) Movements in carrying amounts of intangible assets

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

* See Note A5.

Use of estimates and judgements

Impairment review: Calculation of fair value less cost of disposal

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

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

The post-tax discount rate of 10.0% (2019: 8.16%) was determined based on the cash rate target adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the CGU, with specific regard to the increased risk associated with an aged care operator within the current COVID-19 environment.

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

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

- Future occupancy rates within residential aged care homes run by the Group. Management has assumed short-term occupancy reductions in the first half of FY2021 which are expected to recover through to 30 June 2021, returning to a similar 91% rate that existed at 30 June 2020. Thereafter, modest increases in the occupancy rate are anticipated over the next 4 years of the forecast period to a sustainable terminal average rate of 93%.
- The rate and quantum of net RAD inflows to the Group over the forecast period. Management has considered a range of scenarios for net RAD inflows over the forecast period, given the significant uncertainty presented by COVID-19 and the economic environment. Management has assumed flat to modest growth in net RAD inflows from established homes during the forecast period, reflecting the recent slight preference change in RAD/DAP mix, occupancy levels and local government area house prices. Additionally, net RAD inflows from FY2020 completed greenfield, brownfield extensions and significantly refurbished homes and those expected to open in FY2021 have been forecast to provide net RAD inflows over the first three years of the forecast period to pay back a majority of the outstanding debt drawn to construct those homes.
- The method of payment chosen by an incoming resident (RAD/DAP or combination). Management has assumed that, of non-concessional residents, the ratio between RAD/DAP/Combination payers is stable across the forecast period at the June 2020 rates of 52%/29%/19%.
- The level of revenue growth anticipated through the Aged Care Funding Instrument over the forecast period. Management has assumed a 1.5% annual increase in COPE indexation, which is consistent with increases that have been seen in the sector over the last few years.

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

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

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

F. Asset Management continued

F4. Investment property

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

(a) Reconciliation of carrying amount

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

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

(b) Amounts recognised in profit or loss

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

Use of estimates and judgements

Investment property: Measurement of fair value

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

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

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

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

The valuation reports contained commentary by the valuer that the COVID-19 situation is evolving and the full impact of the pandemic is not capable of being qualitatively or quantitatively assessed at this time and is specifically excluded from the valuations. The Group is holding its investment properties primarily for long term capital appreciation and as such the Group believes it reasonable to assume that short-term impacts from COVID-19 will not significantly impact the valuations of the investment properties at 30 June 2020. The directors therefore assess that the independent valuations are fair and reasonable as at 30 June 2020.

G. Capital structure and financing

G1. Capital management

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

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

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

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

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

G2. Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset (e.g. trade date accounting is adopted). Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (**OCI**), and fair value through profit or loss.

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

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

Subsequent measurement

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

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.

G. Capital structure and financing continued

G2. Financial instruments continued

(a) Financial assets continued

Impairment

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

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

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

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

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

Presentation of allowance for ECL in the Statement of Financial Position

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

Write-off

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

(b) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

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

(c) Derivatives and hedge accounting

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

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

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

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

(d) Derecognition of financial instruments

Financial assets are derecognised where the contractual rights to the receipt of cash flows expires or the asset is transferred to another party whereby the Group no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Use of estimates and judgements

Financial instruments: Measurement of fair value

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

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

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

(e) Financial instruments material to the financial statements

The following financial instruments are material to the financial statements:

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

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

G. Capital structure and financing continued

G3. Financial risk management

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

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

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

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

(a) Credit risk

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

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

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

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

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

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

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

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

G. Capital structure and financing continued

G3. Financial risk management continued

(b) Liquidity risk

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

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

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

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

(c) Market risk

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

Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, primarily relates to the Group's bank debt. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group reviews its bank borrowings on a monthly basis and monitors its position in respect of hedging interest rates or leaving them as floating rates in accordance with its interest rate hedging policy. As at 30 June 2020, the Group has bank borrowings of $239,000,000 (2019: $210,500,000).

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

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

The hedging arrangements are as follows:

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

Interest rate risk sensitivity analysis

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

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

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

Price risk

The Group has assessed that it is materially exposed to the risk that the Federal Government, through the Department of Health, may alter the rate of funding provided to Approved Providers of residential aged care services. As Government funding represents approximately 72% (2019: 73%) of the Group's revenue, a fluctuation in the rate of Government funding may have a direct impact on the revenue of the Group. While the Group is not able to influence Government policy directly, it and members of its senior management team, participate in aged care industry public awareness discussions and in aged care industry dialogue with the Government about its proposals for changes to funding for the aged care industry.

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

G. Capital structure and financing continued

G3. Financial risk management continued

(c) Market risk continued

Price risk sensitivity analysis – Government funding

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

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

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

Price risk sensitivity analysis - EA wage rate increases

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

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

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

G4. Cash and cash equivalents

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

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

G5. Borrowings

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

(a) Bank facility agreements

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

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

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

G6. Other financial liabilities

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

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.

G. Capital structure and financing continued

G7. Reconciliation of liabilities arising from financing activities

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

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.

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

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

G9. Issued capital

(a) Ordinary shares

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

Ordinary shares

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

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

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

(b) Dividends

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

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

Franking account

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

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

H. Group structure

H1. Subsidiaries

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

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

(a) List of subsidiaries

Name of entity	Ownership	Equity holding 2020
Japara Holdings Pty Ltd	Direct	100%
Japara Property Holdings Pty Ltd	Direct	100%
Japara Aged Care Property Trust	Direct	100%
Japara Administration Pty Ltd	Indirect	100%
Aged Care Services One (Central Park) Pty Ltd	Indirect	100%
Japara Aged Care Services Pty Ltd	Indirect	100%
Aged Care Services Two (Roccoco) Pty Ltd	Indirect	100%
Aged Care Services Three (Balmoral Grove) Pty Ltd	Indirect	100%
Aged Care Services Five (Narracan Gardens) Pty Ltd	Indirect	100%
Aged Care Services Six (Mirridong) Pty Ltd	Indirect	100%
Aged Care Services Seven (Kelaston) Pty Ltd	Indirect	100%
Aged Care Services Eight (Elanora) Pty Ltd	Indirect	100%
Aged Care Services Nine (George Vowell) Pty Ltd	Indirect	100%
Aged Care Services 10 (Kingston Gardens) Pty Ltd	Indirect	100%
Aged Care Services 11 (View Hills) Pty Ltd	Indirect	100%
Aged Care Services 12 (Albury & District) Pty Ltd	Indirect	100%
Aged Care Services 13 (Lakes Entrance) Pty Ltd	Indirect	100%
Aged Care Services 14 (Lower Plenty Garden Views) Pty Ltd	Indirect	100%
Aged Care Services 15 (Rosanna Views) Pty Ltd	Indirect	100%
Aged Care Services 16 (Millward) Pty Ltd	Indirect	100%
Aged Care Services 17 (Bonbeach) Pty Ltd	Indirect	100%
Aged Care Services 18 (Hallam) Pty Ltd	Indirect	100%
Aged Care Services 19 (Goonawarra) Pty Ltd	Indirect	100%
Aged Care Services 20 (Bayview Gardens) Pty Ltd	Indirect	100%
Aged Care Services 21 (Barongarook Gardens) Pty Ltd	Indirect	100%
Aged Care Services 22 (Sandhurst) Pty Ltd	Indirect	100%
Aged Care Services 23 (Capel Sands) Pty Ltd	Indirect	100%
Aged Care Services 24 (St Judes) Pty Ltd	Indirect	100%
Aged Care Services 25 (Springvale) Pty Ltd	Indirect	100%
Aged Care Services 26 (Bayview) Pty Ltd	Indirect	100%
Aged Care Services 27 (Kirralee) Pty Ltd	Indirect	100%
Aged Care Services 28 (Elouera) Pty Ltd	Indirect	100%
Aged Care Services 29 (Mirboo North) Pty Ltd	Indirect	100%
Aged Care Services 30 (Brighton) Pty Ltd	Indirect	100%
Aged Care Services 31 (Vonlea Manor) Pty Ltd	Indirect	100%
Aged Care Services 32 (Scottvale) Pty Ltd	Indirect	100%

Name of entity	Ownership	Equity holding 2020
Aged Care Services 33 (Anglesea) Pty Ltd	Indirect	100%
Aged Care Services 34 (Yarra West) Pty Ltd	Indirect	100%
Aged Care Services 35 (The Homestead) Pty Ltd	Indirect	100%
Aged Care Services 36 (Trevu) Pty Ltd	Indirect	100%
Aged Care Services 37 (Oaklands) Pty Ltd	Indirect	100%
Aged Care Services 38 (Mitcham) Pty Ltd	Indirect	100%
Aged Care Services 39 (Noosa) Pty Ltd	Indirect	100%
Aged Care Services 40 (Coffs Harbour) Pty Ltd	Indirect	100%
Aged Care Services 41 (South West Rocks) Pty Ltd	Indirect	100%
Aged Care Services 42 (Gympie) Pty Ltd	Indirect	100%
Aged Care Services 43 (Glen Waverley) Pty Ltd	Indirect	100%
Aged Care Services 44 (Rye) Pty Ltd	Indirect	100%
Aged Care Services 45 (Woodend) Pty Ltd	Indirect	100%
Aged Care Services 46 (Riverside) Pty Ltd	Indirect	100%
Japara Home Care Pty Ltd	Indirect	100%
Aged Care Services 48 Pty Ltd	Indirect	100%
Aged Care Services 49 Pty Ltd	Indirect	100%
Aged Care Services 50 Pty Ltd	Indirect	100%
Aged Care Services 51 Pty Ltd	Indirect	100%
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 2020, the parent entity of the Group was Japara Healthcare Limited.

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

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.

I. Related Parties

I1. Nature of related parties

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

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

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

I2. Transactions with related parties

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

J. Other Information

J1. Commitments

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

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

J2. Contingencies

Security deposit guarantees

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

J3. Subsequent events

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

COVID-19 outbreaks

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

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

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

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

J. Other Information continued

J3. Subsequent events continued

Wyong closure

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

J4. Cash Flow Information

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

	Note	2020 $'000	**2019 $'000**
Profit/(loss) for the year		(292,087)	16,433
Cash flows excluded from profit/(loss) attributable to operating activities:			
Non-cash flows in profit/(loss):			
- depreciation	F1(a) & F2	26,441	19,995
- deferred gain on sale and leaseback		(1,595)	-
- net profit on disposal of non-current assets	B2(a)	(7,415)	(3,801)
- non-cash movement in RADs/accommodation bonds		(479)	(230)
- deferred management fee income		(1,777)	(920)
- decrease in fair value of investment property	B2(a)	2,438	(802)
- equity settled share based payment transactions		511	-
- impairment of intangible assets	F3(a)	289,500	-
- impairment of tangible assets	F1(c)	2,423	-
Changes in assets and liabilities:			
- (increase)/decrease in trade and other receivables		(2,649)	(3,865)
- (increase)/decrease in other assets		2,519	(939)
- increase/(decrease) in deferred tax liabilities		(1,848)	1,858
- increase in other financial liabilities		55,763	44,729
- increase/(decrease) in trade and other payables		(2,252)	(199)
- increase/(decrease) in current tax liabilities		(2,237)	3,006
- increase/(decrease) in provisions		7,942	3,423
Net cash provided by operating activities		75,198	78,688

J5. Remuneration of auditors

	2020 $	**2019 $**
Audit and review services:		
- auditing or reviewing the financial statements	405,450	275,600
Other services:		
- taxation services	60,909	111,700
- advisory services	32,296	49,700
Total	498,655	437,000

J6. New accounting standards and interpretations adopted during the year

The Group has adopted AASB 16 Leases during the year using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application (see Note A5).

Following the May 2020 publication of the IFRS Interpretation Committee's agenda decision addressing the multiple tax consequences of recovering an asset, the Group has retrospectively changed its accounting policy in accordance with AASB 108 *Accounting Policies, Changes to Accounting Estimates and Errors*. See Note A5 for details of the impact on the Group's consolidated financial statements.

J7. New accounting standards for application in future periods

A number of new standards and amendments to the standards are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted; however the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The Group has considered the impact of these new or amended standards and the potential changes to the financial statements in the period of initial application, and no material impact is expected upon adoption:

- AASB 17 Insurance Contracts – effective for annual reporting periods beginning on or after 1 January 2023
- AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia – effective for annual reporting periods beginning on or after 1 January 2020
- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current - effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 9 – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Part of Annual Improvements 2018-2020 Cycle) – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 3 – Reference to the Conceptual Framework – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 116 – Property, Plant and Equipment: Proceeds before Intended Use – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 141 – Taxation in Fair Value Measurement (Part of Annual Improvements 2018-2020 Cycle) – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendment to AASB 1 – Subsidiary as a First-time Adopter (Part of Annual Improvements 2018-2020 Cycle) – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-3 Amendments to AASB 137 – Onerous Contracts – Cost of Fulfilling a Contract – effective for annual reporting periods beginning on or after 1 January 2022
- AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions – effective for annual reporting periods beginning on or after 1 June 2020