# ESTIA INVESTMENTS PTY LTD

**ABN 87 164 350 387**

**National Approved Provider System (NAPS) ID: 5951**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2023**

# ESTIA INVESTMENTS PTY LTD

**ABN 87 164 350 387**

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# CORPORATE INFORMATION

## ABN 87 164 350 387

### DIRECTORS

Dr. Gary H Weiss AM (Chairman)

Sean Bilton (Managing Director and CEO, Appointed 11 July 2022)

Norah Barlow ONZM (Property and Investment Committee Chair)

Paul Foster (Nomination and Remuneration Committee Chair)

Helen Kurincic (Risk Management Committee Chair)

Karen Penrose (Audit Committee Chair)

Professor Simon Willcock AM (Commenced 1 September 2022)

Ian Thorley (Managing Director and CEO, Resigned 13 July 2022)

### COMPANY SECRETARY

Leanne Ralph

### REGISTERED OFFICE

Level 9, 227 Elizabeth Street
Sydney NSW 2000

### PRINCIPAL PLACE OF BUSINESS

Level 9, 227 Elizabeth Street
Sydney NSW 2000

### SOLICITORS

**Minter Ellison**

Governor Macquarie Tower

1 Farrer Place

Sydney NSW 2000

**King Wood & Mallesons**

Governor Phillip Tower

1 Farrer Place

Sydney NSW 2000

**Thomson Geer**

Rialto South Tower

525 Collins Street

Melbourne VIC 3000

### BANKERS

**Westpac Banking Corporation**

275 Kent Street

Sydney NSW 2000

**Commonwealth Bank of Australia**

201 Sussex Street

Sydney NSW 2000

**Australia and New Zealand Bank**

242 Pitt Street

Sydney NSW 2000

### AUDITORS

**Ernst & Young**

8 Exhibition Street

Melbourne VIC 3000

# DIRECTORS' REPORT

Your Directors submit their report on Estia Investments Pty Ltd ("the Company") and its subsidiaries ("Estia" or collectively the "Group") for the year ended 30 June 2023.

## DIRECTORS

The names and qualifications of the Directors of Estia Health Limited (“the Company”) and its subsidiaries (collectively the “Group” or “Estia Health”) who held office during the financial year and until the date of this report are set out below. Directors were in office for the entire year unless otherwise stated.

More information relating to the Directors can be found in the investor centre section of the Group's website. (https://investors.estiahealth.com.au/investor-centre).

### Dr. GARY H WEISS AM (CHAIRMAN)

Gary was appointed as an Independent Non-executive Director in February 2016 and was appointed as Chairman on 31 December 2016.

Gary holds the degrees of LL. B (Hons) and LL.M (with dist.) from Victoria University of Wellington, as well as a Doctor of Juridical Science (JSD) from Cornell University, New York.

### SEAN BILTON (MANAGING DIRECTOR AND CEO)

Sean was appointed as the Managing Director and CEO on 11 July 2022. Sean held the roles of Chief Operating Officer and Deputy CEO prior to the appointment.

Sean holds a Bachelor of Economics from UNSW, is a Fellow of the Financial Services Institute of Australia and a graduate of the Advanced Management Program at INSEAD.

### NORAH BARLOW ONZM (PROPERTY AND INVESTMENT COMMITTEE CHAIR)

Norah was appointed to the Board in November 2014 as an Independent Non-executive Director. Norah was appointed Acting CEO from September 2016, and appointed permanently to the roles of Managing Director and CEO in November 2016. Norah stepped down from the roles of Managing Director and CEO on 23 November 2018 and remains on the Board as a Non-executive Director.

Norah holds a Bachelor of Commerce and Administration from Victoria University of Wellington and is a Chartered Accountant.

### PAUL FOSTER (NOMINATION AND REMUNERATION COMMITTEE CHAIR)

Paul was appointed as an Independent Non-executive Director in February 2016.

Paul holds a Bachelor of Commerce (with Merit) from the University of Wollongong and a Master of Arts from the University of NSW.

### HELEN KURINCIC (RISK MANAGEMENT COMMITTEE CHAIR)

Helen was appointed as an Independent Non-executive Director in July 2017.

Helen originally qualified as a Registered Nurse specialising in Intensive Care and holds the degrees of Graduate Diploma in Women's Studies and an MBA from Victoria University, Melbourne and has also attended Harvard Business School where she completed programs in Best Practice Leadership and Business Innovations in Global Healthcare.

### KAREN PENROSE (AUDIT COMMITTEE CHAIR)

Karen was appointed to the Board on 17 October 2018 as an Independent Non-executive Director.

Karen holds a Bachelor of Commerce from the University of NSW, CPA and FAICD.

### PROFESSOR SIMON WILLCOCK AM

Simon was appointed to the Board on 1 September 2022 as an Independent Non-executive Director.

Simon has been the independent chair of the Group’s Clinical Governance Committee since 2019 and has an extensive academic and clinical career including a number of Commonwealth and State Ministerial appointments. He is a Director of Sydney North Primary Health Network and was previously a Director and Chair of Avant Mutual Group. Simon is currently Program Director for Primary Care and Wellbeing Services at MQ Health, a subsidiary of Macquarie University.

### IAN THORLEY (FORMER MANAGING DIRECTOR AND CEO)

Ian was appointed as the Managing Director and CEO on 23 November 2018. Ian previously held the roles of Chief Operating Officer and Deputy CEO prior to the appointment. Ian retired from the role of Managing Director and CEO with effect from 11 July 2022, resigned as a director on 13 July 2022 and remained with the Company until 29 July 2022.

Ian holds a Bachelor of Health Administration and a Master of Commerce from the University of NSW.

# DIRECTORS' REPORT

## DIRECTORS' MEETINGS

The number of meetings of Directors held during the year and the number of meetings attended by each Director were as follows:

| | Directors' meetings | |
|---|---|---|
| **No. of meetings held:** | 9 | |
| | Eligible | Attended |
| Dr. Gary H Weiss AM | 9 | 9 |
| Sean Bilton[1] | 9 | 9 |
| Norah Barlow ONZM | 9 | 9 |
| Paul Foster | 9 | 9 |
| Helen Kurincic | 9 | 9 |
| Karen Penrose | 9 | 9 |
| Professor Simon Wilcock AM[2] | 8 | 8 |
| Ian Thorley[3] | - | - |

[1] Appointed 11 July 2022

[2] Appointed 1 September 2022

[3] Resigned 11 July 2022

## DIRECTORS' HOLDINGS

As at the date of this report, current and former Directors held no ordinary shares in Estia Investments Pty Ltd.

## COMPANY SECRETARY

### LEANNE RALPH

Leanne is an experienced Company Secretary and is a Fellow of the Governance Institute of Australia and a member of the Australian Institute of Company Directors.

## PRINCIPAL ACTIVITIES AND STRATEGY

The principal activities of the Group during the year ended 30 June 2023 continued to be the provision of services in residential aged care homes in Australia as an Approved Provider under the *Aged Care Act 1997* (the "Act").

The Group's strategy is to:

- be a market leader in owning and developing high quality residential aged care homes in Australia;
- provide residents with the highest standards of aged care services in an innovative, supportive and caring environment;
- deliver earnings growth through sustained high occupancy rates, developing and commissioning new homes, enhancing existing homes, complementary acquisitions; and
- develop additional earnings from related services within the continuum of aged care.

Estia Investments Pty Ltd is a wholly owned subsidiary of Estia Health Ltd, a company incorporated in Australia and whose shares are publicly traded on the Australian Securities Exchange under the code 'EHE'. Further information about the Estia Health group can be found at www.estiahealth.com.au including the details about the directors and the executive team.

# DIRECTORS' REPORT

## THE MARKET IN WHICH ESTIA HEALTH OPERATES

### Services Provided

The Group provides permanent residential care in a safe and supportive environment for people who are no longer able to live at their own home. Short-term respite and reablement care is also provided for older Australians who normally live at their home, but temporarily require a higher level of support and care following a hospital stay, an accident or medical event, or to allow their normal carers to take a break.

### Size of the Residential Aged Care Sector

The sector is one of the largest in Australia, employing more than 278,000 workers, and represents 0.9% of the Australian GDP.

The Department of Health and Aged Care 2021-22 Report on the Operation of the Act disclosed the following in relation to residential aged care:

| | 2021/22 | 2020/21 |
|---|---|---|
| Approved Providers | 805 | 830 |
| Residential aged care homes | 2,671 | 2,704 |
| Permanent residential aged care operational places at the end of the year | 219,965 | 219,105 |
| Number of permanent residents in residential aged care homes at the end of the year | 180,750 | 183,894 |
| Number of people receiving permanent care services during the year | 245,719 | 243,117 |
| Number of people receiving respite care services during the year | 70,993 | 67,775 |
| Total funding and subsidies provided to Approved Providers under the Act by the Australian Government | $14.6 billion | $14.1 billion |

### Ageing Demographic

The ageing of the Australian population and the influence of the "baby boomer" generation is expected to result in a marked increase in Australia's aged population.

This demographic shift is expected to increase the number of Australians likely to need aged care, including residential aged care, in coming years. The Group's growth strategy is to provide services to meet this growing demand.

### Access to Services

Under the Act, in order to access Government supported residential aged care services, potential residents must be assessed as qualifying for such services by an Aged Care Assessment Team ("ACAT") and may then choose a residential aged care home that best meets their needs. Only Approved Providers are eligible to provide services which qualify for Government funding support.

### Regulatory Environment

The provision of services eligible for Government funding in residential aged care homes in Australia may only be delivered by Approved Providers and is highly regulated under the Act. The Royal Commission into Aged Care Quality and Safety delivered its final report in March 2021 which contained multiple recommendations intended to lead to a higher quality sector with greater choice and transparency available to residents and their families. The majority of these recommendations have now been implemented by Government with the intention of securing a higher level of confidence in the use of taxpayer-funded Government subsidies to the sector. Further reference to these changes is made later in this report.

## THE GROUP'S PORTFOLIO

The Group is one of the largest Approved Providers in Australia with 73 homes operating across four states.

| | Number of homes | Number of places | Average home size | Significantly refurbished homes | Number of places in single rooms | Approximate number of staff |
|---|---|---|---|---|---|---|
| New South Wales | 18 | 1,975 | 110 | 18 | 1,303 | 2,240 |
| Queensland | 10 | 1,104 | 110 | 10 | 1,035 | 1,330 |
| South Australia | 19 | 1,535 | 81 | 19 | 1,481 | 1,860 |
| Victoria | 26 | 2,106 | 81 | 26 | 1,842 | 2,790 |
| **Group** | 73 | 6,720 | 92 | 73 | 5,661 | 8,220 |

# DIRECTORS' REPORT

## CARE AND SERVICES PROVIDED

The quality of care and services provided to residents is the foremost priority of the Group. The Group is committed to delivering the highest quality care to people who choose to place their trust in Estia Health at an important time in their lives.

Each Estia Health home provides care, accommodation, hotel and lifestyle services, led by a Residential Aged Care Manager, supported by a team of nurses, clinical support staff, personal care assistants, lifestyle, allied health, chefs, cleaning, laundry and maintenance staff. Registered Nurses are rostered on all shifts, 24 hours a day, every day.

Clinical care and quality standards, protocols, policies and procedures are established centrally under the direction of the Clinical Governance Committee, chaired by Professor Simon Willcock, who joined the Board of Directors on 1 September 2022.

The application of these policies and procedures at a home level is managed by the Residential Aged Care Manager and Care Director of each home supported by regional teams. Quality of care is monitored against uniform clinical quality indicators, which are measured and reviewed by the Quality Improvement Committee. Internal reviews of quality of care are regularly undertaken by the Group’s Quality Team and key clinical performance data is assessed against industry benchmarks.

Upon entry to a home, the specific needs of new residents are assessed, in conjunction with families or carers in order to develop personalised clinical care, nutrition and lifestyle plans.

Food and nutrition form a critical part of the care and well-being of all residents. Menus are reviewed by nutritionists and meals are prepared fresh on-site every day by Estia Health chefs. Wherever possible, food is sourced from Australian producers with a focus on fresh, high-quality ingredients. All Estia Health chefs attend in-house masterclass workshops as part of their development in line with the Group’s commitment to delivering nutritious, high quality and enjoyable meals for all residents.

Lifestyle coordinators liaise with physiotherapists and other allied health support services to design and deliver a wide range of activities to support the mental, social and welfare needs of residents. Cultural and community engagement is further fostered through relationships with outside organisations including churches and schools.

Regular surveying of resident satisfaction levels is conducted. Up until 31 March 2023, this exercise was undertaken using the same criteria originally developed by the Aged Care Quality and Safety Commission (“ACQSC”) using Consumer Experience Reports (“CER”) during inspection visits to homes, which ask residents to respond to a series of question on a five-point scale. The Group achieved an overall average 92% (2022: 93%) satisfaction rating during the 9 months to 31 March 2023, based on the number of respondents that reported they were satisfied with services "most of the time" or "always".

The ACQSC introduced an expansion of the National Quality Indicator Program (NQIP) program from April 2023 to require mandatory quarterly surveying of all residents asking them to report against a new series of questions relating to Consumer experience and Quality of life, with results to be publicly available.

The Group is re-establishing its internal customer satisfaction reporting to align with the new ACQSC program to avoid duplication and ensure consistency in future reporting.

In addition, the Group regularly assesses performance of homes based on the new Star Ratings system, which was introduced in December 2022 across four measures. More information on Star Ratings is shown on page 10.

## REGULATORY ENVIRONMENT AND REFORM POST ROYAL COMMISSION

The Royal Commission into Aged Care Quality and Safety (“Royal Commission”) was established on 8 October 2018 and delivered its final report in March 2021.

The Government’s response has seen multiple reforms to the Residential Aged Care sector, the majority of which have now been legislated, including changes to funding models, introducing the Independent Health and Aged Care Pricing Authority (IHACPA), removing capacity constraints on bed licenses, mandating minimum care minutes and increased transparency, reporting and governance.

It is anticipated that these changes will lead to a better quality sector with greater choice and transparency available to residents, leading to a higher level of confidence in the use of taxpayer-funded Government subsidies to the sector.

The Group already operated in accordance with many of the proposed changes to Governance, Quality and Safety and does not currently expect to require further significant investment in order to meet the governance and prudential requirements.

The most significant changes which have now been enacted which impact future financial performance relate to:

- completion of the abolition of the Aged Care Approval Rounds (“ACAR”) restrictive licensing regime from 30 June 2024;
- the replacement of the Aged Care Funding Instrument (“ACFI”) with an alternative case-mix model (referred to as AN-ACC) in October 2022;
- the introduction of a publicly available 5 Star Rating system for all homes from December 2022;
- the creation of IHACPA to provide cost and pricing advice and recommendations to the Government in relation to the funding of aged care services, with its first advice recently made to take effect from 1July 2023;
- 24/7 attendance by a Registered Nurse; and
- mandated minimum care minutes from 1 October 2023, increasing from 200 to 215 per day from 1 October 2024.

## SECTOR FINANCIAL SUSTAINABILITY

The Group has previously highlighted the critical role to be played by IHACPA in maintaining financial sustainability of the sector following successive years where increases in Government funding did not keep pace with increasing input costs.

In May 2023, the Government announced a significant increase in funding to take effect from 1 July 2023 based on IHACPA’s initial advice and recommendations which were published shortly afterwards. These increases followed the introduction of AN-ACC to replace ACFI in October 2022, with a significant uplift in funding to enable Approved Providers to finance the Work Value Case decision of the Fair Work Commission (FWC) and contribute to minimum mandated care minutes, amongst other costs.

The Group is encouraged by the Government’s response to follow the initial advice from IHACPA in relation to increasing funding levels to meet the cost of service delivery as a first step in ensuring the enduring financial sustainability of the sector.

Based on its own assessment, the Group concurs with other industry commentators in expecting that in relation to FY24, the net effect of the following key changes is likely to be broadly neutral to the financial performance of the sector.

Beyond FY24, future sustainability and financial performance of the sector is expected to be largely dependent on the continued pricing advice of IHACPA and the Government’s response to that advice.

The Group also notes the establishment by Government of the Aged Care Taskforce in June 2023 to review funding arrangements for aged care and develop options for a system that is fair and equitable for all Australians. The taskforce will build on Royal Commission recommendations and review funding arrangements for aged care with a focus on:

- contribution arrangements that will support a sustainable system;
- equity for older people needing aged care now and into the future, and for all Australians contributing to aged care funding through their taxes;
- making innovation the sector default; and
- enhancing the elements of the system that Australians value, including putting people using aged care at the centre of the funding arrangements.

The Group will continue to advocate for sector reform which will deliver a sustainable and high-quality aged care sector where funding and financing arrangements support the financial viability of efficient providers and provide investment returns sufficient to attract the capital required to meet the increase in expected demand and quality.

### COVID-19

The Group continues to adopt a disciplined and carefully managed program of protective and preventative measures in accordance with local health authorities and its own risk assessments. These measures have varied throughout the year as external circumstances have evolved.

The impact of COVID-19 on the sector continued to reduce in the early part of the period, in line with the reduced impact in the wider Australian community and reduced Public Health settings. This saw a reduction in outbreaks, exposures and costs associated with Personal Protective Equipment (PPE), cleaning and waste disposal, as well as a reduction in enforced staff absences through sickness.

The 'Fourth Wave', which escalated in the community during November and into January 2023, resulted in a partial reversal of this decline, which was repeated during the 'Fifth Wave' in May and June 2023. Nevertheless, the high level of vaccination rates and the effectiveness of anti-viral medications is frequently resulting in shortened periods of infection and lower levels of impact on the health of residents and staff compared to prior periods. This has resulted in the direct operational and financial impacts of COVID-19 continuing to reduce, supported by the extension of Government grant schemes to recover the majority of costs associated with managing outbreaks.

At other times during the year, the extent of COVID-19 in the wider community has been reflected in lower frequency and impact of outbreaks in the whole sector, including the Group's homes.

The Group has ensured that all staff without medical exemption have had at least three doses of an approved COVID-19 vaccine, and mandates participation in the annual influenza vaccine program. In addition, the Group has strongly encouraged and facilitated vaccination of residents.

More than three years since the pandemic was declared, the Group's frontline staff continue to demonstrate extraordinary support and care for residents and families at a time when many are also experiencing the consequences of COVID-19 within their own families and communities. Their dedication and commitment to supporting residents in such difficult circumstances has been remarkable.

### GRANT RECOVERY OF ELIGIBLE COVID-19 RELATED COSTS

Approved Providers are able to apply to recover some of the costs associated with COVID-19 outbreaks through Government grant schemes. These grants do not cover preventative measures taken by the Group outside of outbreak periods in specific homes. The period covered by grant schemes has been extended on multiple occasions, including a new scheme covering costs up to 31 December 2023. The grant schemes are demand-driven and amounts allocated to the schemes have been increased on several occasions consistent with that definition.

Notwithstanding the processing delays occurring within the Department of Health and Aged Care, directors are confident based on experience to date that at least 95% by value of all claims submitted but not yet paid will be accepted by the Department and subsequently paid by Government.

The Government has indicated that in the medium-term it would expect cost impacts of COVID-19 to be incorporated into the recommendations of IHACPA for recurrent funding.

# DIRECTORS' REPORT

## WORKFORCE

The aged care sector is currently experiencing a significant workforce shortage, with the Committee for Economic Development of Australia (CEDA) in August 2021 estimating a shortfall of 35,000 workers in 2022 and a projected need for an additional 170,000 workers by 2030, as reported by the CEDA in 2021. Over recent years, the attractiveness of the sector for workers has been hampered by factors such as below-average pay compared to other healthcare sectors, the lingering effects of COVID-19, negative media coverage, and adverse sentiment resulting from the Royal Commission. Additionally, competition from other healthcare providers and the aging global population further compounds the shortage of skilled staff.

The sector's workforce challenges are expected to intensify with the forthcoming increase in mandatory care minutes, set to take effect from October 2023. This situation is exacerbated by the current record low levels of unemployment within the economy, which further hinders providers' efforts in attracting workers to the sector. Consequently, maintaining fully resourced homes to ensure continuity of care becomes challenging, driving unsustainable levels of expensive agency labour and overtime to meet staffing needs in the sector.

To address these issues, the recent 15% increase in the Aged Care Award by the FWC, effective from 30 June 2023, will aid in making employment in the sector more competitive with other sectors. Furthermore, the significant increase in the level of inward migration is expected to make a positive contribution to workforce availability and stability.

Estia Health has placed a strong emphasis on staff engagement and retention initiatives, resulting in a reduction in staff turnover during the year. The Group has made strategic investments in programs designed to attract, retain, train, and develop employees, aiming to effectively compete with other providers while addressing the staffing gaps exacerbated by the impact of COVID-19.

Addressing the workforce shortage in the aged care sector and successfully attracting and retaining skilled staff will necessitate ongoing attention and collaboration between providers, the Government, and training institutions.

## ACCREDITATION CARE AND QUALITY

The Government has increased funding to the ACQSC, which in turn has increased its activity levels and visits across the sector as the impact of COVID-19 has reduced. The ACQSC has also assumed responsibility for prudential and regulatory oversight.

The Group has implemented and complied with increased reporting obligations for all Approved Providers during the year, including detailed quarterly financial reporting and various clinical indicators in the National Quality Indicator Program (NQIP).

All homes remained fully accredited at all times during the year and at the date of this report, with 42 of the Group's homes undergoing a full reaccreditation during the financial year. During the year and up to 18 August 2023, no home received a Sanction or a Notice to Agree. One home entered into an Undertaking To Remedy a Non-Compliance, which has since been satisfied.

External complaints to ACQSC were 55% below industry levels reported in the most recent ACQSC published data. 35% of the Group's homes did not receive an external complaint during the year.

## ABOLITION OF ACAR AND IMPLICATIONS FOR BED LICENCE VALUATIONS

As previously reported, in September 2021, the Government affirmed its decision to abolish ACAR and associated supply restrictions on bed licences, which is expected to take full effect on 30 June 2024. The Directors support this move to more competitive markets as one of the most significant items within the reform agenda to date.

Importantly, the Government introduced simple transitional arrangements prior to the full implementation date to enable Approved Providers with homes and beds ready to operate, but without existing licences, to secure access to subsidised fees under the Act.

As a result of the former Government's announcement and the transitional arrangement that allows providers to apply directly to the Department of Health and Aged Care for an allocation of places, the secondary market for bed licences has ceased. The Group commissioned an independent assessment, which has supported its own analysis, that the fair value of bed licences is nil.

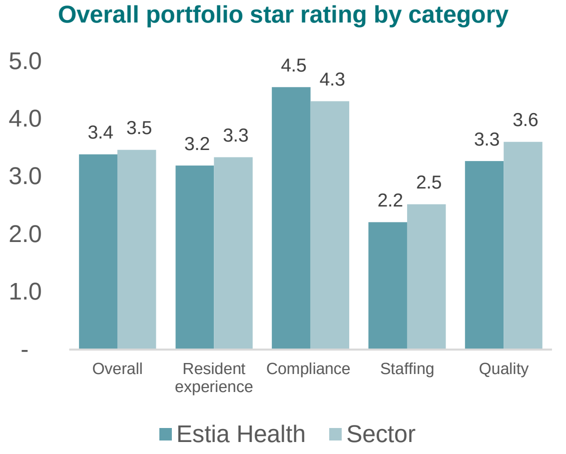
Notwithstanding the directors' view that the fair value of existing operational bed licences is nil, the directors have determined that in order to comply with Accounting Standards and the Group's accounting policy in relation to Goodwill and Intangible Assets (as set out in Note C4 to the Group's Consolidated Financial Statements (the "Financial Statements"), bed licences are now regarded as finite life intangible assets with the carrying value being amortised on a straight line basis over the period from 1 October 2021 to 30 June 2024.

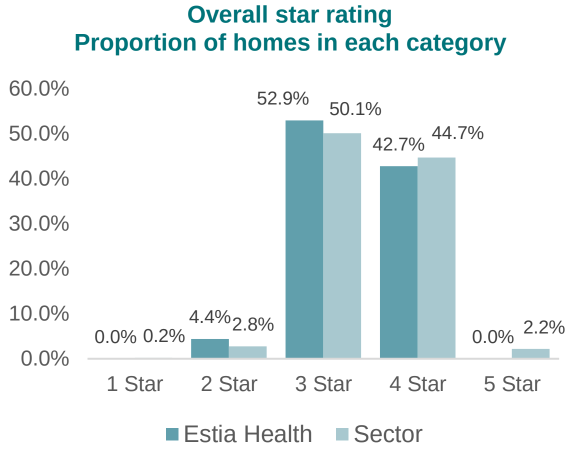
The Financial Statements in this Report include a bed licence amortisation charge of $57.0 million after tax. The carrying value of bed licences in the Balance Sheet on 30 June 2023 was $80.5 million (2022: $160.9 million). Other than the potential future tax implications explained below, the amortisation charge has no impact on the cash flows of the Group and nor does it impact the Group's compliance with its debt covenants or regulatory obligations.

Subject to further analysis, it is currently anticipated that the abolition of bed licences should result in a capital loss of up to $200 million on 30 June 2024, available to be carried forward from that date which could be utilised against future capital gains of the Group, subject to prevailing tax legislation and tax loss recoupment tests. It is unlikely that the criteria to recognise an associated deferred tax asset in the Financial Statements will be met until such time as future capital gains become probable.

## STAR RATINGS FOR RESIDENTIAL AGED CARE

The Government commenced publishing its Star Ratings for every residential aged care home on the My Aged Care portal in December 2022. The system provides an overall rating based on four criteria – compliance, customer experience, quality indicators and average care minutes. The Group's current overall ratings compared to the sector as a whole are shown below. The Group will continue to review the ratings of each home, in conjunction with its own pre-existing quality control and continuous improvement approach.




[1] The sector averages above were sourced from MyAgedCare as published on 7 August 2023.

# DIRECTORS' REPORT

## OPERATING AND FINANCIAL REVIEW

### REVIEW OF FINANCIAL PERFORMANCE

For the first time in many years, the decline in sector margins was halted with the introduction of increased funding from 1 October 2022 when the new AN-ACC pricing model was introduced, with an average increase in daily subsidy rates of approximately $36 (2022: Nil).

During the year, the Group also experienced a lesser impact from COVID-19 with a consequential reduction in the level of incremental costs relating to the prevention and response to COVID-19 at mature homes of $24.4 million (2022: $49.8 million). The Group also benefitted from an improved rate of processing and acceptance of grant claims, including amounts relating to prior periods.

Staff costs at mature homes excluding the impact of the incremental costs associated with COVID outbreaks increased by $46.1m to $490.1 million (2022: $444.0 million). This increase arose from increasing resident occupancy levels, EA increases and a greater level of agency staff and overtime costs associated with sector-wide staff shortages.

Following the Fair Work Commission's decision to increase the Aged Care Award by 15% for certain aged care workers, an increase in annual leave and long service leave provisions for past service totalling $9.1 million was made in the current financial year (2022: Nil). The Australian Government advised that a future grant opportunity would be established to reimburse a proportion of eligible employees' annual leave, personal leave and long service leave entitlements accrued at 30 June 2023. However, no details of this scheme have been released and as such it has not been possible to estimate the potential future financial benefits of such a grant opportunity if released.

Non-staff costs at mature homes excluding the impact of the incremental costs associated with COVID outbreaks increased by $10.2 million to $108.2 million (2022: $98.0 million). This increase arose from increasing resident occupancy levels, inflationary pressures on consumables including food and medical supplies, and higher utilities costs.

As referenced earlier in this report, the impact of COVID-19 on the sector continued to moderate in the early part of the period in line with the reduced impact in the wider Australian community and lessened Public Health settings. This saw a reduction in outbreaks, exposures and costs associated with Personal Protective Equipment (PPE), cleaning and waste disposal, as well as a reduction in enforced staff absences through sickness.

As referenced earlier the Group incurred a non-cash bed licence amortisation charge of $80.5 million ($57.0 million after tax) associated with the abolition of ACAR.

As a result, the loss after tax for the period, reduced to $71.5 million (2022: Loss after tax of $73.6 million).

Further details about the financial performance of the Estia Health Ltd group can be found at www.estiahealth.com.au.

## DIVIDENDS

As a result of the reported net loss after tax, excluding bed licence amortisation in the period, the directors determined not to declare a final dividend for the year (2022: Nil).

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than those explained in this report there were no significant changes in the state of affairs of the Group during the financial year ended 30 June 2023.

# DIRECTORS' REPORT

## SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

**Proposed acquisition of the ultimate holding company by Bain Capital**

On 7 August 2023 the Company's ultimate holding company, Estia Health Limited (ASX:EHE) notified the ASX that it had entered into a Scheme Implementation Agreement ("SIA") with Bain Capital for the acquisition of all of the issued shares in Estia Health Limited by way of a Scheme of Arrangement (the "Scheme"). The Scheme Implementation Agreement was also provided to the ASX on 7 August 2023. Further information relating to this proposal is contained within the Estia Health Limited 2023 Annual Financial Report.

Estia Health Limited shareholders will then be given the opportunity to vote on the Scheme at a meeting which is expected to be held in November 2023. Subject to shareholder approval being obtained by the requisite majorities and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented prior to the end of 2023. Bain Capital would execute the Scheme and acquire 100% of the issued share capital of Estia Health Ltd, and it is expected that the Estia Health Limited board of directors would resign and the company would be de-listed from the ASX. If that takes place, it is likely that the current board of directors of the Company would also resign and new directors would be appointed.

**Royal Freemasons homes acquisition**

The Group entered into a binding contract with Royal Freemasons to purchase two operational homes with a total of 264 operational places in Bendigo and Benalla in Victoria on 1 August 2023 for an estimated cash consideration of $17.3m which is expected to settle in October 2023.

**South Australia land acquisition**

On 5th July 2023, the Group completed the purchase of a block of land at Findon, SA, with an approved Development Application for a 120 bed residential aged care home from Premier Health Care for $5.4 million cash consideration.

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## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is not subject to significant environmental legislation under either Commonwealth or State legislation.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

In accordance with provisions in its constitution, the Company has executed deeds of indemnity in favour of former and current directors and officers of the Company in relation to potential liabilities including:

(a) liabilities incurred by the person in the capacity as an officer where permitted under section 199A (2) of the Corporations *Act 2001*;

(b) legal costs incurred in relation to civil or criminal proceedings in which the officer becomes involved because of that capacity;

(c) legal costs incurred in connection with any investigation or inquiry of any nature because of that capacity; and

(d) legal costs incurred in good faith in obtaining legal advice on issues relevant to the performance of their functions and discharge of their duties as an officer.

The terms of these indemnities require repayment of sums advanced by way of legal costs in the event that the relevant officer is found to have committed wrongs of a nature the Company is prohibited from indemnifying under section 199A(2) of the *Corporations Act 2001*.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered and the premium payable.

The contract does not provide cover for the independent auditors.

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young Australia during or since the financial year.

## NON-AUDIT SERVICES

The following non-audit services were provided by the Group's auditor, Ernst & Young Australia. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services, which represents 25% (2022: 18%) of the total fees received by the firm.

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Tax compliance services | 255 | 159 |
| Other | 21 | 18 |
| **Total Non-audit services** | **276** | **177** |

## ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars ($'000), under the option available to the Group under *ASIC Corporations (Rounding in Financial or Director' Reports) Instrument 2016/191*. Estia Investments Pty Ltd is an entity to which the class order applies.

This report is made on 22 August 2023 in accordance with a resolution of Directors.

Dr. Gary H Weiss AM

Chairman

22 August 2023

Building a better
working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

# Auditor's Independence Declaration to the Directors of Estia Investments Pty Ltd

As lead auditor for the audit of Estia Investments Pty Ltd for the financial year ended 30 June 2023, I declare to the best of my knowledge and belief, there have been:

a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Estia Investments Pty Ltd and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Paul Gower

Paul Gower
Partner
22 August 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

| | Notes | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Revenues | B1 | 754,298 | 671,067 |
| Other income excluding Government grants | B1 | 102 | 913 |
| Government grants | B2 | 51,628 | 8,053 |
| | | | |
| **Expenses** | | | |
| Employee benefits expense and agency staff expenses | B3 | 522,491 | 488,773 |
| Increase in leave liabilities arising from the 15% legislated increase to the Aged Care Award | | 9,054 | - |
| Administrative expenses | B4 | 59,244 | 44,318 |
| Occupancy expenses | B5 | 25,637 | 21,087 |
| Resident expenses | | 66,431 | 64,233 |
| Amortisation of bed licences | | 80,466 | 60,349 |
| Depreciation, impairment and amortisation of other assets | | 57,470 | 45,122 |
| Business acquisition related costs | | 9,112 | - |
| **Operating loss or the year** | | **(23,877)** | **(43,849)** |
| | | | |
| Net finance costs | B6 | 72,952 | 60,146 |
| **Loss before income tax** | | **(96,829)** | **(103,995)** |
| | | | |
| Income tax (benefit) / expense | B7 | (25,346) | (30,356) |
| **Loss for the year** | | **(71,483)** | **(73,639)** |
| | | | |
| **Other comprehensive income** | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax | | - | - |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax | | - | - |
| | | | |
| **Total comprehensive loss for the year, net of tax** | | **(71,483)** | **(73,639)** |

*The accompanying notes form part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2023

| | Notes | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | C1 | 23,174 | 20,407 |
| Trade and other receivables | C2 | 27,071 | 10,261 |
| Prepayments and other assets | | 4,050 | 4,437 |
| Consumable supplies | | 2,190 | 4,714 |
| **Total current assets** | | **56,485** | **39,819** |
| **Non-current assets** | | | |
| Property, plant, equipment | C3 | 951,309 | 840,343 |
| Investment properties | | 850 | 750 |
| Goodwill | C4 | 717,612 | 681,012 |
| Other intangible assets | C4 | 82,959 | 164,209 |
| Right of use assets | C5 | 54,446 | 56,367 |
| Prepayments | | 297 | 377 |
| **Total non-current assets** | | **1,807,473** | **1,743,058** |
| **Total assets** | | **1,863,958** | **1,782,877** |
| **Current liabilities** | | | |
| Trade and other payables | C6 | 54,234 | 51,854 |
| Other financial liabilities | | 596 | 466 |
| Related party loans payable | C7 | 371,246 | 318,980 |
| Provisions | C8 | 73,425 | 63,126 |
| Lease liabilities | C5 | 3,724 | 3,686 |
| Refundable accommodation deposits and bonds | D1 | 1,027,537 | 884,069 |
| Income tax payable | | 491 | - |
| **Total current liabilities** | | **1,531,253** | **1,322,181** |
| **Non-current liabilities** | | | |
| Lease liabilities | C5 | 57,336 | 58,766 |
| Related party loan payable | C7 | 70,000 | 100,000 |
| Provisions | C8 | 9,320 | 8,542 |
| Deferred tax liabilities | B7 | 58,109 | 83,965 |
| **Total non-current liabilities** | | **194,765** | **251,273** |
| **Total liabilities** | | **1,726,017** | **1,573,454** |
| **Net assets** | | **137,940** | **209,423** |
| **Equity** | | | |
| Issued capital | D2 | 455,987 | 455,987 |
| Deemed contributions | | 3,829 | 3,829 |
| Accumulated losses | | (321,876) | (250,393) |
| **Total equity** | | **137,940** | **209,423** |

*The accompanying notes form part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2023

| | Notes | Issued capital $'000 | Deemed contributions $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2021** | | **455,987** | **2,732** | **(162,053)** | **296,666** |
| Profit for the year, as restated | | - | - | (73,639) | (73,639) |
| Other comprehensive income | | - | - | - | - |
| **Total comprehensive income** | | **-** | **-** | **(73,639)** | **(73,639)** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of share capital | | - | - | - | - |
| Deemed capital contributions | | - | 1,097 | - | 1,097 |
| Dividends | D2 | - | - | (14,701) | (14,701) |
| **Balance as at 30 June 2022** | | **455,987** | **3,829** | **(250,393)** | **209,423** |
| **Balance at 1 July 2022** | | **455,987** | **3,829** | **(250,393)** | **209,423** |
| Loss for the year | | - | - | (71,483) | (71,483) |
| Other comprehensive income | | - | - | - | - |
| **Total comprehensive income** | | **-** | **-** | **(71,483)** | **(71,483)** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of share capital | | - | - | - | - |
| Dividends | D2 | - | - | - | - |
| **As at 30 June 2023** | | **455,987** | **3,829** | **(321,876)** | **137,940** |

*The accompanying notes form part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2023

| | Notes | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from residents | | 166,029 | 145,005 |
| Receipts from government excluding Government grants received | | 523,447 | 470,806 |
| Government grants received | | 31,528 | 7,049 |
| Payments to suppliers and employees | | (622,286) | (574,807) |
| **Net operating cash flows before interest, income tax and RAD, accommodation bond and ILU entry contributions** | | **98,718** | **48,053** |
| Interest received | | 616 | 16 |
| Finance costs paid | | (4,715) | (4,176) |
| Interest expense on lease liabilities | | (1,812) | (1,911) |
| **Net cash flows from operating activities excluding RAD, accommodation bond and ILU entry contributions** | | **92,807** | **41,982** |
| RAD, accommodation bond and ILU entry contribution received | | 363,684 | 268,430 |
| RAD, accommodation bond and ILU entry contribution refunded | | (278,010) | (245,629) |
| **Net cash flows from operating activities** | B8 | **178,481** | **64,783** |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for intangible assets | | (210) | (1,676) |
| Proceeds from sale of property, plant and equipment | | - | 64 |
| Proceeds from sale of assets held for sale | | - | 3,550 |
| Purchase of property, plant and equipment | | (61,777) | (31,780) |
| Business combinations, net of cash acquired | | (76,400) | - |
| **Net cash flows used in investing activities** | | **(138,387)** | **(29,842)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | D2 | - | (14,701) |
| Net borrowings repayment to related parties | | (33,520) | (29,143) |
| Repayment of lease liabilities | | (3,807) | (4,115) |
| **Net cash flows used in financing activities** | | **(37,327)** | **(47,959)** |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | | **2,767** | **(13,018)** |
| Cash and cash equivalents at the beginning of the year | | 20,407 | 33,425 |
| **Cash and cash equivalents at the end of the year** | C1 | **23,174** | **20,407** |

*The accompanying notes form part of these consolidated financial statements.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

## SECTION A: ABOUT THIS REPORT

### A1
### CORPORATE INFORMATION

The consolidated financial statements of Estia Investments Pty Ltd (the “Company” or the “Parent”) and its subsidiaries (collectively, the “Group”) for the year ended 30 June 2023 were authorised for issue in accordance with a resolution of the Directors on 22 August 2023.

The Company is a for-profit company limited by shares incorporated in Australia. The Company is a wholly owned subsidiary of Estia Health Limited, a company limited by shares and incorporated in Australia, and whose shares are publicly traded on the Australian Securities Exchange under the code 'EHE'.

The nature of the operations and principal activities of the Group are described in the Directors’ Report.

### A2
### BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand ($’000) unless otherwise stated.

### A3
### STATEMENT OF COMPLIANCE

The financial report also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

### A4
### BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its controlled subsidiaries as at 30 June 2023 (refer to Note E6 for the group structure). Control is achieved when the Group is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intercompany balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

## SECTION A: ABOUT THIS REPORT (CONTINUED)

### A5
### CURRENT OR NON-CURRENT CLASSIFICATION

The Group presents assets and liabilities in the Consolidated Statement of Financial Position based on current/ non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Expected to be realised within twelve months after the reporting period
- Held primarily for trading, or
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is due to be settled within twelve months after the reporting period
- Held primarily for trading, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classified all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### A6
### GOING CONCERN

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group's current liabilities exceed current assets by $1,474,767,000 as at 30 June 2023 (2022: $1,282,362,000) resulting in a net deficiency of current assets. This mainly arises because of the requirement to classify Refundable Accommodation Deposits ("RADs") of $1,027,537,000 (2022: $884,069,000) as current liabilities. Refer to Note C7 for details of related party loans and Note E7 for explanation of a Deed of Cross Guarantee entered into by the Company.

RADs and Bonds are classified as a current liability because the Group does not have an unconditional right to defer settlement of any specific RAD or Bond for at least twelve months after the reporting date. The total RAD and Bond liability represents the sum of separate payments from individual residents in different locations with differing circumstances, and frequently a departing RAD and Bond paying resident may be replaced quickly with a new RAD paying resident. The repayment of individual balances that make up the total current balance will be dependent upon the actual tenure of individual residents, which can be more than ten years but averages approximately 2 - 2.5 years (Note D1 contains further details).

The Group has access to the Estia Health Group syndicated financing facility of $330,000,000 of which $260,000,000 remains undrawn as at 30 June 2023 (2022: 230,000,000). This debt facility can be drawn down to repay RAD and bond refunds should the Group experience significant RAD and bond net outflows.

## SECTION A: ABOUT THIS REPORT (CONTINUED)

### A7
### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

The preparation of the Group's Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts and are reviewed on an ongoing basis. In making any judgement, estimate or assumption relating to reported amounts, management have also considered, where appropriate the impact of COVID-19.

Uncertainty associated with these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities impacted in future periods.

Information about critical judgements, estimates and assumptions that are material to the financial statements relate to the following areas:

| **Significant accounting judgements, estimates and assumptions** | |
|---|---|
| Note B1 | Revenue and other income excluding Government grants |
| Note B2 | Government grants |
| Note B6 | Net finance costs |
| Note C3 | Property, plant and equipment impairment test |
| Note C4 | Intangible assets impairment test |
| Note C5 | Leases |
| Note C8 | Provisions |
| Note C9 | Business combinations |

## SECTION B: OUR PERFORMANCE

### B1
### REVENUE AND OTHER INCOME EXCLUDING GOVERNMENT GRANTS

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| ACFI subsidies (ceased from 1 October 2022) | | 107,447 | 414,142 |
| AN-ACC subsidies (effective from 1 October 2022) | | 376,433 | - |
| Accommodation supplements | | 47,615 | 43,098 |
| Basic daily fee supplement (ceased from 1 October 2022) | | 5,195 | 20,569 |
| Other supplements | | 3,468 | 1,842 |
| **Total government funded subsidies & supplements** | (a) | **540,158** | **479,651** |
| Resident daily care fees | | 122,695 | 110,411 |
| Other resident fees | | 50,203 | 41,677 |
| **Total resident fees** | (b) | **172,898** | **152,088** |
| Imputed DAP revenue on RAD and bond balances under AASB 16 | (c) | 41,242 | 39,328 |
| **Total revenue** | | **754,298** | **671,067** |
| | | | |
| Net gain on disposals of assets held for sale | | - | 848 |
| Net gain on disposals of property, plant and equipment | | - | 64 |
| Other | | 102 | 1 |
| **Total other income excluding government grants** | | **102** | **913** |

The Group recognises revenue from residential aged care services over time as performance obligations are satisfied, which is as the services are rendered. Services provided by the Group include provision of accommodation, use of common areas or facilities, and the ongoing daily delivery of care. The Group has disaggregated revenue based on the source of the funding for the provision of residential aged care.

**(a) Government Funded Subsidies & Supplements**

The Australian Government (the “Government”) determines the amount of subsidies and supplements in accordance with the provisions of the Act 1997 (the “Act”). In accordance with the Act the level of subsidy or supplement is dependent on a range of factors, including a resident’s care needs, supported resident ratios in a particular home and whether a home has been newly built or significantly refurbished on or after 20 April 2012. The subsidies and supplements are calculated as a daily rate payable for each day that a resident is in a home.

The Government may require a resident to pay a proportion of that subsidy or supplement dependent on their own financial circumstances. This is referred to as a Means Tested Care Fee ("MTCF"). The MTCF reduces the amount the Government pays directly to the provider as a result. The total MTCF included within the total Government Funded Residential Care Subsidies and Supplements was $21,538,000 for the year ended 30 June 2023 (2022: $16,808,000).

On 1 October 2022, the Australian National Aged Care Classification (“AN-ACC”) care funding model replaced the Aged Care Funding Instrument (“ACFI”). The transition to the new funding model did not impact the Group's accounting policy for recognising Government-funded subsidies and supplements.

*Basic Daily Fee Supplement*

The Group received the Basic Daily Fee supplement from the Government which was introduced with effect from 1 July 2021. The supplement was paid at the rate of $10/day per resident and ceased under the transition to AN-ACC funding as at 1 October 2022.

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B1
### REVENUE AND OTHER INCOME EXCLUDING GOVERNMENT GRANTS

(CONTINUED)

**(b) Resident fees**

*Resident Daily Care Fees*

The Group receives Basic Daily Fees which are set by the Government in accordance with the Act and funded directly by the resident. The Basic Daily Fee is calculated as a daily rate payable for each day that a resident is in a home.

*Other Resident Fees*

The Group provides additional services and accommodation to residents that are funded directly by the resident, under the mutually agreed terms and conditions.

**(c) Imputed revenue on RAD and bond balances under AASB 16 *Leases* ("AASB 16")**

Accommodation services provided to residents who have elected to pay a RAD or accommodation bond are accounted for as a lease under AASB 16. Details in relation to the recognition policy can be found under Significant Accounting Policy below.

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B1
### REVENUE AND OTHER INCOME EXCLUDING GOVERNMENT GRANTS

(CONTINUED)

**SIGNIFICANT ACCOUNTING POLICY**

The Group recognises revenue under AASB 15 Revenue from Contracts with Customers ("AASB 15") which applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The Group uses the five-step model as set out in AASB 15 to account for revenue arising from contracts with customers.

The transaction price is allocated to performance obligations on the basis of their relative standalone selling prices and recognised as revenue as those performance obligations are fulfilled over time on a daily basis as the customer receives and consumes the benefits provided by the Group.

The provision of care to a resident is a single performance obligation. Other services, such as Additional Services (including services such as in-room Foxtel and additional menu choices) and Accommodation charges contain a number of different performance obligations.

The Group has applied the practical expedient not to disclose the transaction price allocation to unperformed performance obligations because all performance obligations are considered to be met on a daily basis. Therefore, the Group does not have any outstanding performance obligations that have not been met at the reporting date.

The following recognition criteria must also be met before revenue is recognised:

**Government fees and subsidies**

Revenue from the rendering of services is recognised upon delivery of the performance obligations to the residents, which is based on daily services for daily fees.

**Resident fees**

Revenue from the rendering of a service or supply of goods to residents is recognised upon delivery of the performance obligations to the residents, which is based on daily services for daily fees.

Other resident fees include income arising from provision of accommodation is accounted for in accordance with AASB 16 *Leases* on a straight-line basis over the length of stay.

**Imputed revenue on RAD and bond balances**

The Group has determined that the arrangement in which residents who choose to pay a RAD or a bond for their accommodation services meet the definition of a lease under AASB 16. The Group has recognised as revenue an imputed non-cash charge for accommodation representing the resident's right to occupy a room under the arrangement. The accounting treatment results in a non-cash increase in revenue for accommodation and a non-cash increase in finance costs on the outstanding RAD and bond balance, with no net impact on profit and loss for the year.

**SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

**Imputed Daily Accommodation Payment ("DAP") Revenue on RAD and Bond Balances**

The Group has determined the use of the Maximum Permissible Interest Rate ("MPIR") prevailing at the date of admission as the interest rate to be used in the calculation of the Imputed DAP Revenue on RAD and Bond Balances. The MPIR is a rate set by the Government and is used to calculate the DAP to applicable residents.

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B2
### GOVERNMENT GRANTS

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| COVID-19 costs reimbursement | 50,604 | 7,072 |
| Personal protective equipment received and consumed | 825 | 981 |
| Other | 199 | - |
| **Total Government grants recognised as income of the period** | **51,628** | **8,053** |

*COVID costs reimbursement*

Government grants primarily relate to claims disbursed from the Government which reimburse some of the costs incurred during COVID-19 outbreaks. The Group has recognised these grants where it has determined that it has reasonable assurance that they will be received. The status of the claims is shown in the table below.

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Claims approved | 33,487 | 7,072 |
| Claims submitted, not yet approved and recognised as income[1] | 17,117 | - |
| **Grant income recognised as income during the year** | **50,604** | **7,072** |
| Unapproved claims not yet recognised as income[2] | 523 | 29,298 |
| Claims recognised as income in prior period | 7,072 | - |
| Partially declined claims | 1,470 | 233 |
| Total claims submitted | 59,669 | 36,603 |

[1] To the date of this report, claims totalling $7,170,000 which were unapproved at 30 June 2023 have subsequently been approved (2022: Nil).

[2] Of the claims submitted but not recognised as income in the prior financial year, $28,241,000 has been recognised in the year ended 30 June 2023.

**SIGNIFICANT ACCOUNTING POLICY**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions have been complied with. Monetary grants relating to compensation for expenses already incurred or for the purpose of giving immediate financial support with no future related costs, which are recognised in the profit or loss of the period in which the Group determines receipt is reasonably assured in accordance with AASB120.

Other monetary grants, where there is no such lengthy experience of performance, are recognised when an approval letter is issued by the Government.

For non-monetary assets received from the Government, the replacement cost of the underlying assets received are initially recognised as assets and deferred grant income, which is subsequently released to profit or loss based on the pattern of consumption of the benefits of the underlying asset. Government grants are classified as Other Income.

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B2
GOVERNMENT GRANTS (CONTINUED)

**SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

**COVID-19 costs reimbursement**

Income associated with COVID-19 costs reimbursement claims submitted under the Aged Care Support Programs (GO4863 and GO6223) are recognised in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* when the Group obtains reasonable assurance that the grants will be received.

The Group has determined, based on the experience from the high volume and value of COVID-19 costs reimbursement claims processed to date, that the point in time when receipt becomes reasonably assured for income recognition of COVID-19 cost reimbursement grants is the date that a properly prepared grant application claimed is lodged on the Government portal.

During the current financial year, the Group has recognised $9,947,000, reflecting 95% of the total amount of grant applications that were submitted but not yet approved as income (2022: nil).This recognition reflects the Group's estimation of the minimum portion of grant applications that is expected to be approved by the Government.

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B3
### EMPLOYEE BENEFITS AND AGENCY STAFF EXPENSES

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Salaries and wages expense | 391,077 | 382,129 |
| Superannuation expense | 39,342 | 34,651 |
| Other employee expenses including agency staff expenses | 92,072 | 71,993 |
| **Total employee benefits expenses and agency staff expenses** | **522,491** | **488,773** |

Aged care retention bonus payments

The Group administered and disbursed aged care retention bonus payments to certain employees of $3,011,000 (2022: $4,385,000) on behalf of the Australian Government during the financial year. These payments were treated as a disbursement and presented as a pass-through in the financial statements.

### B4
### ADMINISTRATIVE EXPENSES

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Advertising and marketing expenses | 1,502 | 1,313 |
| Information technology and telephone expenses | 5,649 | 5,258 |
| Travelling expenses | 5,145 | 2,735 |
| Printing and stationery expenses | 1,034 | 1,190 |
| Professional services expenses | 35,145 | 23,421 |
| Insurance premiums | 4,237 | 5,241 |
| Recruitment expenses | 1,650 | 1,142 |
| Other administrative expenses | 4,882 | 4,018 |
| **Total administrative expenses** | **59,244** | **44,318** |

The costs included in administrative expenses have been reviewed during the year to reflect the nature of this cost category more closely. As a result the prior year value has been reclassified.

### B5
### OCCUPANCY EXPENSES

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Repairs and maintenance expense | 10,702 | 8,199 |
| Other occupancy expenses | 14,935 | 12,888 |
| **Total occupancy expenses** | **25,637** | **21,087** |

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B6
NET FINANCE COSTS

| | | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Finance income** | | | |
| Interest income from cash at banks | | 616 | 16 |
| **Total finance income** | | **616** | **16** |
| | | | |
| **Finance costs** | | | |
| Imputed interest expense on RAD and bond balances | B1 | 41,242 | 39,328 |
| Interest expense on related party loans | | 27,001 | 14,453 |
| Interest expense on RAD and bond balances for departed residents | | 2,853 | 2,654 |
| Interest expense on leases under AASB 16 | | 1,812 | 1,911 |
| Other finance costs | | 1,965 | 1,888 |
| Interest capitalised | | (1,305) | (72) |
| **Total finance costs** | | **73,568** | **60,162** |
| | | | |
| **Net finance costs** | | **72,952** | **60,146** |

**SIGNIFICANT ACCOUNTING POLICY**

**Interest income**

Interest income is recognised using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**Borrowing costs**

Borrowing costs comprise interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Note C5 on page 41 contains further details relating to interest expenses recognised under AASB 16.

**Imputed interest on RAD and bond balances**

Note B1 on page 22 contains details in relation to Imputed DAP revenue on RAD and bond balances under AASB 16.

**SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The Group has determined the use of the Maximum Permissible Interest Rate ("MPIR") as the interest rate in the calculation of the Imputed Interest Cost on RAD and Bond Balances. The MPIR is a rate set by the Government and is used to calculate the DAP to applicable residents.

Where the Group, as a lessee, cannot readily determine the interest rate implicit in a lease, it uses an Incremental Borrowing Rate ("IBR") to calculate interest expense on leases. The IBR is the interest rate that the lessee would have to pay to borrow over a similar term of each lease. The Group estimates the IBR using market interest rates and adjusts these rates to include the effect of the lessee's own stand-alone credit rating.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B7
INCOME TAX

**Major components of income tax expense**

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| *Current income tax* | | |
| Current income tax expense | (845) | (12,569) |
| Adjustments in respect of income tax of previous year | (2) | (2,135) |
| *Deferred income tax* | | |
| Relating to origination and reversal of temporary differences | (24,499) | (17,789) |
| Adjustments in respect of income tax of previous year | - | 2,137 |
| **Income tax benefit** | **(25,346)** | **(30,356)** |

**Reconciliation of income tax expense and accounting profit:**

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Accounting (loss) / profit before income tax | (96,829) | (103,995) |
| At the Australian statutory income tax rate of 30% (2022: 30%) | (29,049) | (31,199) |
| Adjustments in respect of income tax of previous year | (2) | 2 |
| Utilisation of previously unrecognised tax losses | - | - |
| Expenditure not allowable for income tax purposes | | |
| - Business acquisition related costs | 2,576 | - |
| - Other expenditure | 1,129 | 841 |
| **Income tax benefit** | **(25,346)** | **(30,356)** |

**Reconciliation of deferred tax liabilities, net:**

| | $'000 |
|---|---|
| Balance at 1 July 2021 | **(99,617)** |
| Income tax benefit during the year recognised in profit or loss | 17,789 |
| Adjustments in respect of income tax of previous year | (2,137) |
| Balance as at 1 July 2022 | **(83,965)** |
| Income tax benefit during the year recognised in profit or loss | 24,499 |
| Net deferred tax assets arising from business combinations | 1,357 |
| **Balance as at 30 June 2023** | **(58,109)** |

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B7
### INCOME TAX EXPENSE (CONTINUED)

**Major components of deferred tax**

| | Opening balance $'000 | Charged to consolidated profit or loss $'000 | Arose from business combinations $'000 | Closing balance $'000 |
|---|---|---|---|---|
| **2023** | | | | |
| **Deferred tax assets / (liabilities)** | | | | |
| Property, plant and equipment | (61,388) | 3,536 | 952 | (56,900) |
| Lease liabilities | 18,736 | (418) | - | 18,318 |
| Provisions and accruals | 23,951 | 2,965 | 369 | 27,285 |
| Right of use assets | (16,910) | 576 | - | (16,334) |
| Bed licences | (46,961) | 23,481 | - | (23,480) |
| Government grant income | - | (5,135) | - | (5,135) |
| Other | (1,393) | (506) | 36 | (1,863) |
| **Total** | **(83,965)** | **24,499** | **1,357** | **(58,109)** |
| | | | | |
| Reflected in the Consolidated Statement of Financial Position as follows: | | | | |
| Deferred tax assets | 42,919 | | | 45,886 |
| Deferred tax liabilities | (126,884) | | | (103,995) |
| **Deferred tax liabilities, net** | **(83,965)** | | | **(58,109)** |
| | | | | |
| **2022** | | | | |
| **Deferred tax assets / (liabilities)** | | | | |
| Property, plant and equipment | (59,849) | (1,539) | - | (61,388) |
| Lease liabilities | 21,889 | (3,153) | - | 18,736 |
| Provisions and accruals | 22,075 | 1,876 | - | 23,951 |
| Right of use assets | (17,897) | 987 | - | (16,910) |
| Bed licences | (64,571) | 17,610 | - | (46,961) |
| Other | (1,264) | (129) | - | (1,393) |
| **Total** | **(99,617)** | **15,652** | **-** | **(83,965)** |
| | | | | |
| Reflected in the Consolidated Statement of Financial Position as follows: | | | | |
| Deferred tax assets | 44,347 | | | 42,919 |
| Deferred tax liabilities | (143,964) | | | (126,884) |
| **Deferred tax liabilities, net** | **(99,617)** | | | **(83,965)** |

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B7
### INCOME TAX EXPENSE (CONTINUED)

**SIGNIFICANT ACCOUNTING POLICY**

**Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the Australian Taxation Office ("ATO"). The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Positions taken in the tax returns are evaluated with respect to situations in which applicable tax regulations are subject to interpretation and establishes a tax asset or liability where appropriate.

**Deferred tax**

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Tax consolidation legislation**

Estia Health Limited and its wholly-owned controlled entities implemented the tax consolidation legislation as of 19 June 2013.

The head entity, Estia Health Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the Group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

## SECTION B: OUR PERFORMANCE (CONTINUED)

### B8
### CASH FLOW RECONCILIATION

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Loss for the year | (71,483) | (73,639) |
| | | |
| **Adjustments to reconcile profit after income tax to net cash flows:** | | |
| Depreciation of property, plant and equipment | 40,127 | 40,031 |
| Depreciation on right of use assets | 4,336 | 4,142 |
| Amortisation of bed licences and other intangible assets | 81,471 | 61,180 |
| Impairment of property, plant and equipment | 11,448 | 118 |
| Write off of capitalised construction costs | 554 | - |
| Gain arising from change in fair value of investment properties | (100) | - |
| Write-down of consumable supplies | - | 326 |
| Net gain on disposal of property, plant and equipment | - | (64) |
| Net gain on sale of assets held for sale | - | (848) |
| Bond retention revenue | (2,399) | (2,661) |
| Imputed revenue on RAD and bond balances | 41,242 | 39,328 |
| Imputed interest cost on RAD and bond balances | (41,242) | (39,328) |
| Income tax benefit | (25,346) | (30,356) |
| Finance costs | 25,696 | 14,749 |
| Professional service expense | 29,512 | 16,812 |
| Share-based payments | 1,426 | 1,097 |
| Movement in allowance for expected credit losses | 34 | (328) |
| | | |
| **(Increase) / Decrease in:** | | |
| Trade and other receivables | (16,362) | (2,864) |
| Prepayments and other assets | 2,518 | (821) |
| **(Decrease) / Increase in:** | | |
| Trade and other payables | 1,530 | 26,274 |
| Provisions | 9,845 | 5,646 |
| Refundable accommodation deposits and bonds | 85,674 | 22,801 |
| **Net cash flows from operating activities** | **178,481** | **64,783** |

**SIGNIFICANT ACCOUNTING POLICY**

**Operating cash flow**

Daily inflows and outflows of refundable accommodation deposits are considered by the Group to be a normal part of the operations of the business and are utilised by the Group within the guidelines set out by the Prudential Compliance Standards and are therefore classified as an operating activity for the purposes ofcash flow reporting.

## SECTION C: ASSETS & LIABILITIES

### C1
### CASH AND CASH EQUIVALENTS

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Cash at bank | 23,109 | 20,352 |
| Cash on hand | 65 | 55 |
| **Total cash and cash equivalents** | **23,174** | **20,407** |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

**SIGNIFICANT ACCOUNTING POLICY**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Consolidated Statement of Cash Flows, "cash and cash equivalents" are as defined above, net of any outstanding bank overdrafts where offset is within the terms of the facility.

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C2
### TRADE AND OTHER RECEIVABLES

| | | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Trade receivables | | 7,182 | 8,290 |
| Allowance for expected credit losses | | (1,001) | (967) |
| Net trade receivables | | 6,181 | 7,323 |
| Other receivables | | 1,791 | 2,915 |
| COVID grants receivable | B1 | 19,099 | 23 |
| **Total trade and other receivables** | | **27,071** | **10,261** |

[1] Of the COVID grants receivable outstanding as at 30 June 2023, $1,940,000 has been received to the date of this report.

As at 30 June 2023, the Group recognised $19,099,000 (2022: $23,000) of COVID-19 costs reimbursement income as receivables, reflecting the balance of funding to be received from the Australian Government in relation to the COVID-19 costs reimbursement claims submitted under the Aged Care Support Programs (GO4863 and GO6223). In accordance with the Government guidelines, Approved Providers as defined under the Aged Care Act are able to claim for COVID-19 costs in accordance with the eligible criteria. Due to the volume of claims from across the sector, there is a backlog of pending claims awaiting Government review. The Group has determined, based on experience to date and the terms of the grant schemes that it is reasonably assured that properly prepared claims lodged with the Government for eligible COVID-19 costs will be recovered. Note B2 on page 25 contains further details on the significant accounting judgement exercised in relation to the recognition of the grant income.

**Allowance for expected credit loss**

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| As at 1 July | 967 | 1,295 |
| Net remeasurement of allowance for expected credit losses | 49 | (20) |
| Utilised | (15) | (308) |
| **As at 30 June** | **1,001** | **967** |

**SIGNIFICANT ACCOUNTING POLICY**

Trade receivables are recognised and carried at original invoice amount less an allowance for estimated future lifetime credit losses.

The Group uses a provision matrix based on days past due for categories of receivables with similar credit risk characteristics, adjusted for any material expected changes to the future credit risk of that category to determine the lifetime expected credit losses at the reporting date.

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C3
### PROPERTY, PLANT AND EQUIPMENT

**Reconciliation of property, plant and equipment**

| | Notes | Land $'000 | Buildings $'000 | Property improve-ments $'000 | Furniture, fixtures & equipment $'000 | Motor vehicles $'000 | Construction in progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at 1 July 2021 | | 190,065 | 567,238 | 88,852 | 137,665 | 992 | 12,492 | 997,304 |
| Additions | | - | - | 2,745 | 9,400 | 79 | 22,843 | 35,067 |
| Transfers | | - | - | 3,331 | 7,803 | - | (11,134) | - |
| Disposals | | - | - | (631) | (2,455) | (89) | (5) | (3,180) |
| Transfer to assets held for sale | | 378 | (3,323) | (737) | (787) | - | - | (4,469) |
| **Balance at 30 June 2022** | | **190,443** | **563,915** | **93,560** | **151,626** | **982** | **24,196** | **1,024,722** |
| Additions | | 2,975 | 14,222 | 4,556 | 15,145 | - | 46,645 | 83,543 |
| Acquisitions through business combinations | **C9** | 25,100 | 43,934 | - | 10,565 | 157 | - | 79,756 |
| Transfers | | 449 | - | 7,950 | 3,177 | - | (11,576) | - |
| Disposals | | - | - | (397) | (3,013) | - | (554) | (3,964) |
| **Balance at 30 June 2023** | | **218,967** | **622,071** | **105,669** | **177,500** | **1,139** | **58,711** | **1,184,057** |
| **Accumulated depreciation and impairment** | | | | | | | | |
| Balance at 1 July 2021 | | 821 | 67,148 | 14,296 | 68,914 | 660 | - | 151,839 |
| Depreciation expense | | - | 13,275 | 6,378 | 20,308 | 70 | - | 40,031 |
| Impairment expense | | 569 | - | - | - | - | 5 | 574 |
| Reversal of impairment expense | | (456) | - | - | - | - | - | (456) |
| Disposals | | - | - | (603) | (2,384) | (90) | (5) | (3,082) |
| Transfer to assets held for sale | | - | (3,154) | (694) | (679) | - | - | (4,527) |
| **Balance at 30 June 2022** | | **934** | **77,269** | **19,377** | **86,159** | **640** | **-** | **184,379** |
| Depreciation expense | | - | 13,557 | 6,864 | 19,530 | 176 | - | 40,127 |
| Impairment expense | | 428 | 8,762 | 1,013 | 1,245 | - | - | 11,448 |
| Disposals | | - | - | (356) | (2,850) | - | - | (3,206) |
| **Balance at 30 June 2023** | | **1,362** | **99,588** | **26,898** | **104,084** | **816** | **-** | **232,748** |
| **Net book value** | | | | | | | | |
| **As at 30 June 2022** | | **189,509** | **486,646** | **74,183** | **65,467** | **342** | **24,196** | **840,343** |
| **As at 30 June 2023** | | **217,605** | **522,483** | **78,771** | **73,416** | **323** | **58,711** | **951,309** |

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C3
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**SIGNIFICANT ACCOUNTING POLICY**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated. Such cost includes the cost of replacing parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in profit or loss as incurred.

Property, plant and equipment acquired through business combination are initially measured at fair value at the date on which control is obtained.

Depreciation is calculated on a straight-line or written down value basis over the estimated useful life of the asset as follows:

| | |
|---|---|
| Buildings and property improvements | 4 - 50 years |
| Furniture, fittings and equipment | 3 - 20 years |
| Motor vehicles | 4 - 8 years |

Assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively, if appropriate, at each reporting period end.

**De-recognition & Disposal**

An item of property, plant and equipment and any significant part initially recognised is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss and other comprehensive income when the asset is de-recognised.

**Impairment**

Property, plant and equipment are tested for impairment at the lowest level Cash Generating Unit ("CGU"). Each Mature Home is determined to be a separate CGU because it generates cash flows which are largely independent of other assets.

The Group also assesses the indicators for impairment at each reporting period end. If impairment indicators exist an impairment test will be performed. The impairment test consists of comparing the recoverable amount of a CGU against its carrying value. Recoverable amount is the higher of the CGU's fair value less costs of disposal or value in use. The carrying value is determined on a basis consistent with the way the recoverable amount of the CGU is determined. The carrying value of the CGU represents those assets that can be attributed directly or allocated on a reasonable and consistent basis

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C3
### PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

**Mature homes impairment assessment**

Due to the Group's decision to relocate its operations from the mature homes in Benalla and Bendigo to the neighbouring operational homes, which are to be acquired from Royal Freemasons under a binding contract executed as at 1 August 2023 (Note E4 contains further details), and subsequently close the existing mature homes in the region, impairment indicators have been identified in relation to these two homes.

Consequently, an impairment assessment was conducted, which determined that the carrying values of the mature home CGUs exceeded the recoverable amounts, being $887,000 for Benalla and $1,822,000 for Bendigo, respectively . The recoverable amount was determined as the fair value of the mature home CGU, less any cost of disposal, utilising a valuation technique that predominantly incorporates the price per square metre for comparable properties derived from observable market data (classified as level 3 in the fair value hierarchy), which is the most sensitive assumption applied in the valuation technique.

Therefore, total non-cash impairment charges of $11,448,000 have been recognised during the current financial year (2022: Nil) against the carrying value of the depreciable assets associated with the mature homes.

**Capitalisation of costs**

The Group capitalises costs relating to the construction and refurbishment of aged care facilities. The initial capitalisation of costs is based on the Group's judgement that the project is expected to generate future economic benefits. Subsequent to determining the initial eligibility for capitalisation the Group re-assesses on a regular basis whether projects are still sufficiently probable of completion and expected to deliver desired economic benefits.

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C4
GOODWILL AND OTHER INTANGIBLE ASSETS

| | Notes | Goodwill $'000 | Bed licences $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 July 2021 | | 817,071 | 221,281 | 8,957 | 1,047,309 |
| Additions | | - | - | 1,575 | 1,575 |
| Transfer to assets held for sale | | - | - | (10) | (10) |
| **Balance at 30 June 2022** | | **817,071** | **221,281** | **10,522** | **1,048,874** |
| Additions | | - | - | 221 | 221 |
| Acquisition through business combinations | | 36,600 | - | - | 36,600 |
| **Balance at 30 June 2023** | | **853,671** | **221,281** | **10,743** | **1,085,695** |
| **Accumulated amortisation and impairment** | | | | | |
| Balance at 1 July 2021 | | 136,059 | - | 6,423 | 142,482 |
| Amortisation expense | | - | 60,349 | 831 | 61,180 |
| Transfer to assets held for sale | | - | - | (9) | (9) |
| **Balance at 30 June 2022** | | **136,059** | **60,349** | **7,245** | **203,653** |
| Amortisation expense | | - | 80,466 | 1,005 | 81,471 |
| **Balance at 30 June 2023** | | **136,059** | **140,815** | **8,250** | **285,124** |
| **Net book value** | | | | | |
| **As at 30 June 2022** | | **681,012** | **160,932** | **3,277** | **845,221** |
| **As at 30 June 2023** | | **717,612** | **80,466** | **2,493** | **800,571** |

# SECTION C: ASSETS & LIABILITIES (CONTINUED)

## C4
## GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

### SIGNIFICANT ACCOUNTING POLICY

**Bed licences**

Bed licences are initially carried at cost or if acquired in a business combination, at fair value at the date of acquisition in accordance with AASB 3 Business Combinations.

Subsequently, the Group's bed licences, which were previously carried at cost less any accumulated impairment losses, are now measured at cost less accumulated amortisation and any accumulated impairment losses following the decision by the Australian Government to abolish bed licences with effect from 1 July 2024.

Impairment testing for bed licences is performed in line with the procedures noted below under Goodwill.

**Goodwill**

Goodwill is initially measured at cost and represents the excess of the total consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the group of CGUs to which the goodwill relates. When the recoverable amount of the group of CGUs is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

**Other intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, other than capitalised development and software costs, are not capitalised and the related expenditure is recognised in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Software costs are amortised over the estimated useful life of 3 - 5 years.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimates and are applied prospectively.

**De-recognition and disposal**

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is de-recognised.

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C4
### GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

**SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

**Impairment of goodwill and other intangible assets**

The Group performs impairment testing on goodwill and other intangible assets to ensure they are not carried above their recoverable amounts at least annually (for goodwill and other intangible assets with an indefinite useful life) and where there is an indication that assets may be impaired, which is assessed at least at each reporting date.

For impairment testing purposes, goodwill, bed licences and other intangible assets are allocated to the Group of CGUs, which is consistent with the operating segment identified in Note E5 and which represents the lowest level within the Group at which these assets are monitored. The carrying value of the CGU was compared against the recoverable amount which was determined on a value-in-use calculation basis by discounting cash flow projections for a five year period after which a terminal value is applied. The valuations used to test carrying values are based on forward-looking assumptions which are uncertain. The forecasts also considered the future impacts of mandated care minutes, the 15% increase in the Aged Care Award, potential costs associated with managing COVID-19 outbreaks, the activity of Independent Health and Aged Care Pricing Authority (“IHACPA"), announced changes to Government funding, existing grant schemes and climate related risks.

The most sensitive assumptions used in the calculation of the value in use are the discount rate, long term growth rate, and the assumption that margin deterioration driven by successive years of failure of Government funding increases to keep pace with increased input costs will cease following the appointment of IHACPA to monitor costs and make appropriate recommendations to Government. Sensitivity analysis on reasonably likely changes to these assumptions did not result in an outcome where impairment would be required.

**A discount rate** was applied to the cash flow forecasts, including the terminal value. This rate reflects the current market assessments of the risks specific to the industry the Group operates in and takes into consideration the time value of money. The calculation of the rate is based on the specific circumstances of the asset and is derived from its weighted average cost of capital.

**A long term growth rate** reflects the Group’s assessment of inflation and perpetual growth using market and economic data.

The discount and growth rates used at 30 June 2023 in assessing the recoverable amount are as follows:

| | 2023<br>% | 2022<br>% |
|---|---|---|
| Post-tax discount rate | 9.0 | 9.0 |
| Pre-tax discount rate | 12.1 | 12.1 |
| Long term growth rate | 2.3 | 2.3 |

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C5
### LEASES

The Group has lease agreements for various residential aged care homes, office space and office equipment with varying lease terms. Carrying amounts of right-of-use assets and associated lease liabilities and the movements during the year are shown below:

| | Right of use assets | | | Lease liabilities |
|---|---|---|---|---|
| | Property leases $'000 | Other equipment $'000 | Total right of use assets $'000 | $'000 |
| As at 1 July 2021 | 58,717 | 503 | **59,220** | **65,122** |
| Additions | - | 196 | **196** | **196** |
| Depreciation expense | (3,999) | (143) | **(4,142)** | **-** |
| Interest expense | - | - | **-** | **1,911** |
| Lease payments | - | - | **-** | **(5,987)** |
| Remeasurement of leases | 1,111 | (18) | **1,093** | **1,210** |
| **As at 30 June 2022** | **55,829** | **538** | **56,367** | **62,452** |
| Additions | - | 388 | **388** | **388** |
| Depreciation expense | (4,126) | (210) | **(4,336)** | **-** |
| Interest expense | - | - | **-** | **1,812** |
| Lease payments | - | - | **-** | **(5,619)** |
| Remeasurement of leases | 2,028 | (1) | **2,027** | **2,027** |
| **As at 30 June 2023** | **53,731** | **715** | **54,446** | **61,060** |

The Group had low-value leases relating to office equipment such as printers and photocopiers. An amount of $455,000 (2022: $90,000) was recognised as an expense during the year.

Under its lease agreements, the Group incurs expenditure in relation to insurance, council and water rates, and water consumption. The Group recognised an amount of $417,000 (2022: $447,000) as an expense during the year.

**SIGNIFICANT ACCOUNTING POLICY**

When a contract is entered into, the Group assesses whether a contract is, or contains, a lease. A lease arises when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

**Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease which is when 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 if any, 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 the 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 of the assets and the lease term. Right-of-use assets are subject to impairment testing.

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C5
LEASES (CONTINUED)

**SIGNIFICANT ACCOUNTING POLICY (CONTINUED)**

**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 using the Group's incremental borrowing rate ("IBR") if the rate implicit in the lease cannot be readily determined. 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 expense in the period on which the event or condition that triggers the payment occurs.

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 leases of low value assets**

The Group applies the short-term lease recognition exemption to its short-term leases of minor office equipment (that is, 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 to be low value. 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.

**Interest expense on lease liabilities**

Interest expense on lease liabilities is reported as a component of total finance costs, which is recognised over the term of the lease using the Group's IBR.

**SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

**Lease term**

The Group determines the lease term as the non-cancellable term of a lease, together with any periods covered by an option to extend if it is reasonably certain to be exercised.

Where the Group has the option to extend a lease for additional terms, judgement is applied in evaluating whether it is reasonably certain to exercise the option to renew, taking into account relevant factors that create an economic incentive to exercise the renewal option. After 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 it ability to exercise (or not exercise) the option to renew.

**Discount rates**

Where the Group cannot readily determine the interest rate implicit in the lease, it uses its IBR to calculate the present value of future lease payments. The Group estimates the IBR using market interest rates and adjusts these rates to include the effect of its own stand-alone credit rating.

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C6
### TRADE AND OTHER PAYABLES

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Trade creditors | 14,806 | 14,720 |
| Payroll liabilities | 17,923 | 16,466 |
| Sundry creditors and accruals | 21,505 | 20,668 |
| **Total trade and other payables** | **54,234** | **51,854** |

### C7
### RELATED PARTY LOANS

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Non-current related party loan receivables** | | |
| Amounts receivable from Estia Finance Pty Ltd | - | - |
| **Total non-current related party loan receivables** | **-** | **-** |
| | | |
| **Current related party loan payables** | | |
| Amounts payable to Estia Health Limited | 371,246 | 318,980 |
| **Total current related party loan payables** | **371,246** | **318,980** |
| | | |
| **Non-current related party loan payables** | | |
| Amounts payable to Estia Finance Pty Ltd | 70,000 | 100,000 |
| **Total non-current related party loan payables** | **70,000** | **100,000** |
| | | |
| **Total net related party loan payables** | **441,246** | **418,980** |

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C8
PROVISIONS

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Current** | | |
| Workcover provision | 1,610 | 1,929 |
| Annual leave provision | 46,148 | 40,139 |
| Long service leave provision | 25,667 | 21,058 |
| **Total current provisions** | **73,425** | **63,126** |
| | | |
| **Non-current** | | |
| Workcover provision | 3,807 | 3,773 |
| Long service leave provision | 5,513 | 4,769 |
| **Total non-current provisions** | **9,320** | **8,542** |
| | | |
| **Total provisions** | **82,745** | **71,668** |

An increase in annual leave and long service leave provisions totalling $9,054,000 was made in the current financial year (2022: Nil) following the Fair Work Commission's decision to increase the Aged Care Award by 15% for certain aged care workers. Note E2 contains details relating to a potential future Australian Government grant opportunity which may be used to partially offset future cash settlements of this provision.

**Movements of workcover provisions**

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **At 1 July** | 5,702 | 1,400 |
| Transfer during the year | 55 | 3,384 |
| Net charge during the year | 3,289 | 2,524 |
| Utilised during the year | (3,629) | (1,606) |
| **Balance at 30 June** | **5,417** | **5,702** |

# SECTION C: ASSETS & LIABILITIES (CONTINUED)

## C8
## PROVISIONS (CONTINUED)

### SIGNIFICANT ACCOUNTING POLICY

**General**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Long service leave and annual leave**

Long service leave or annual leave entitlements are not expected to be settled fully within the next 12 months but are recognised as a current liability when the Group does not have an unconditional right to defer settlement. The liability for long service leave and annual leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields of Australian corporate bonds at the reporting date, with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**Workcover provision**

The Group operates as an approved self-insured for worker's compensation in New South Wales and South Australia. Provisions are recognised based on claims reported and an estimate of claims which may have incurred but may not yet have been reported. These provisions are measured at present value using independent actuarial valuations performed at each reporting date.

### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

**Long service leave**

The provision for long service leave is measured based on the relevant regulations of each State. Judgement is required in determining the following key assumptions used in the calculation of the long service leave provision at the balance sheet date:

- future increases in salaries and wages;
- future probability of employee departures and periods of service; and
- an appropriate discount rate

**Workcover provision**

The workcover provision represents a self-insured risk liability based on a number of estimates and assumptions including, but not limited to:

- ultimate number of reported claims;
- discount rate;
- wage inflation;
- average claim size;
- superimposed inflation (i.e., Inflation above wage inflation) and
- claims administration expenses

These assumptions are reviewed periodically and any reassessment of these assumptions may impact the size of the provision required.

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C9
BUSINESS COMBINATIONS

**Premier Health Acquisition**

On 1 December 2022, the Group acquired the freehold sites and operations ("Premier Health Acquisition") of four residential aged care homes from Premier Health Care comprising two homes in South Australia and two homes in Queensland (the "Premier Homes"). The homes align with the Group's existing operating clusters and added 409 resident places in high quality aged care homes. The acquisition provides a number of strategic benefits consistent with the Group's growth strategy.

The amounts for the Premier Health Acquisition have been finalised and are disclosed as follows:

| | $'000 |
|---|---|
| Property, plant and equipment | 79,756 |
| Deferred tax assets, net | 933 |
| Consumable supplies | 250 |
| Other current assets | 210 |
| Refundable accommodation deposits and bonds | (46,883) |
| Employee liabilities (current) | (903) |
| Employee liabilities (non-current) | (80) |
| Other current liabilities | (99) |
| **Fair value of identifiable net assets** | **33,184** |
| **Goodwill arising** | **27,289** |
| **Business combination date fair value of consideration transferred** | **60,473** |
| **Cost of the combination:** | |
| Purchase consideration paid in cash | 60,473 |
| Business acquisition related costs | 6,490 |
| **Total cost of the combination** | **66,963** |

Goodwill of $27,289,000 arising from the Premier Health Acquisition represents the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. None of the goodwill recognised is expected to be deductible for income tax purposes.

At the date of the acquisition, the carrying value and the fair value of trade receivables were both $99,000. It is expected that the full contractual amounts can be collected.

Premier Homes contributed $23,601,000 to revenue and $1,947,000 to profit before tax for the Group from the date of acquisition to 30 June 2023. If the acquisition had taken place at the beginning of the period, 1 July 2022, the Group's revenue and loss before tax would have been $769,193,000 and $95,480,000, respectively.

Transactions separate to the Premier Health Acquisition

Separate to the Premier Health Acquisition, the Group has entered into contractual agreements to acquire two additional development sites located in South Australia from Premier Health Care for considerations totalling $10,000,000 exclusive of GST. The acquisition of the two additional sites was assessed to be a separate transaction from the Premier Health Acquisition.

The acquisition of the first site ($5,355,000) was completed in July 2023 with the second still subject to the closing conditions contained within the contract. Note E2 contains further details on the capital commitments concerning the transactions.

# SECTION C: ASSETS & LIABILITIES (CONTINUED)

## C9
## BUSINESS COMBINATIONS (CONTINUED)

**Mount Clear Acquisition**

On 1 May 2023 the Group completed the acquisition of a freehold site, residential aged care home, and 100% of the equity interest in OC Health Ballarat Pty Limited from OC Health Pty Limited. The acquisition, referred to as the Mount Clear Acquisition, encompasses a fully operational home situated in Mount Clear, Victoria, which includes 120 operating places. This acquisition aligns with the Group's growth strategy and presents several strategic advantages.

The recognised amounts for the business combination are outlined below. Accounting for the business combination is based on information available at reporting date and is provisional because the identification and fair value measurement of the assets and liabilities remains ongoing.

| | $'000 |
|---|---|
| Cash and cash equivalents | 11,302 |
| Property, plant and equipment | 20,482 |
| Deferred tax assets, net | 423 |
| Consumable supplies | 33 |
| Other current assets | 59 |
| Refundable accommodation deposits and bonds | (13,311) |
| Employee liabilities (current) | (234) |
| Employee liabilities (non-current) | (14) |
| Income tax liabilities | (491) |
| Other current liabilities | (150) |
| **Fair value of identifiable net assets** | **18,099** |
| **Goodwill arising** | **9,311** |
| **Business combination date fair value of consideration transferred** | **27,410** |
| | |
| **Cost of the combination:** | |
| Purchase consideration paid in cash | **27,229** |
| Less: Net cash acquired with the acquiree | (11,302) |
| Net cash outflow as a result of the business combination | **15,927** |
| Consideration payable | 181 |
| **Total provisional purchase consideration** | **16,108** |
| Acquisition costs | 2,055 |
| **Total cost of the combination** | **18,163** |

At the date of the acquisition, the carrying value and the fair value of trade receivables were $151,000 and $32,000. The difference between the fair value and the carrying value is the result of adjusting for counterparty credit risk. It is expected that the full contractual amounts can be collected.

Provisional goodwill of $9,311,000 arising from the Mount Clear acquisition represents the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. None of the goodwill recognised is expected to be deductible for income tax purposes.

Mount Clear contributed $2,017,000 to revenue and $259,000 to profit before tax for the Group from the date of acquisition to 30 June 2023. If the acquisition had taken place at the beginning of the period, 1 July 2022, the Group's revenue and loss before tax would have been $764,137,000 and $96,081,000, respectively.

## SECTION C: ASSETS & LIABILITIES (CONTINUED)

### C9
BUSINESS COMBINATIONS (CONTINUED)

**SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The Group recognises the identifiable assets and liabilities of businesses acquired based on fair values at the date of acquisition. Where a significant amount of properties, plant and equipment are recognised in the business combination, the fair value determination is supported by an independent external valuer using the Income method for real properties and the direct costs approach plant and equipment.

### C10
FAIR VALUE MEASUREMENT

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Investment properties | 850 | 750 |
| **Total** | **850** | **750** |

There were no transfers between levels during the financial year.

The Group's investment properties represent Independent Living Units ("ILUs") which are occupied by residents who have contributed a non-interest-bearing loan to occupy the ILUs. The resident vacates the property based on the applicable State-based Retirement Village Acts. These investment properties are measured at fair value, which is determined based on a valuation model recommended by the International Valuation Standards Committee that uses unobservable inputs (level 3 in fair value hierarchy) at the reporting date:

| | 2023 | 2022 |
|---|---|---|
| **Unobservable inputs** | | |
| Discount rate | 16.50% | 16.50% |
| Growth rate | 4.30% | 2.46% |
| Cash flow term | 50 years | 50 years |

**SIGNIFICANT ACCOUNTING POLICY (CONTINUED)**

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. All other financial instruments on the balance sheet are measured at amortised cost.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

# SECTION D: CAPITAL, FINANCING, RADS AND RISK

## D1
## REFUNDABLE ACCOMODATION DEPOSITS AND BONDS

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Current residents | 890,292 | 756,894 |
| Departed residents | 137,245 | 127,175 |
| **Total refundable accommodation deposits and bonds – amounts received** | **1,027,537** | **884,069** |

RADs and bonds are paid at the choice of residents upon their admission to homes and are refunded after a resident departs a home in accordance with the Act. Providers must pay a Government set Base Interest Rate on all refunds of RADs and bonds within legislated time frames and must pay a higher rate on refunds that are not made within legislated time frames.

RADs and bond refunds are guaranteed by the Government under the Accommodation Payment Guarantee Scheme, in the event that a provider is unable to refund the amounts. Providers are required to maintain sufficient liquidity to ensure that they can refund all amounts as they fall due. As required under legislation, the Group maintains a Liquidity Management Policy, which is monitored on regular basis and a full review is undertaken on an annual basis as a minimum, with the intention of ensuring it has sufficient liquidity, in the form of cash or undrawn lines of credit, to meet its RAD and bond refunds and other financial obligations as or when they fall due.

To ensure that funds are readily available when required, the minimum level of funds chosen by the Group are met by undrawn lines of credit under its existing financing facilities.

RADs and bonds are classified as a current liability as the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date. The total RAD and bond liability represents the sum of separate payments from a significant number of individual residents in different locations with differing circumstances and frequently a departing RAD- or Bond-paying resident is replaced shortly afterwards with a new RAD-paying resident. The repayment of individual balances that make up the total current balance will be dependent upon the actual tenure of individual residents, which can be more than ten years but averages approximately 2 -2.5 years.

## SECTION D: CAPITAL, FINANCING, RADS AND RISK

### D2
ISSUED CAPITAL AND RESERVES

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| *Issued and fully paid* | | |
| Ordinary shares | 455,987 | 455,987 |
| **Total share capital** | **455,987** | **455,987** |

**(a) Movements in ordinary shares on issue**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Numbers of shares | $'000 | Numbers of shares | $'000 |
| Beginning of the financial year | 455,987,003 | 455,987 | 455,987,003 | 455,987 |
| **End of the financial year** | **455,987,003** | **455,987** | **455,987,003** | **455,987** |

**(b) Dividends**

On 22 August 2023, the Directors determined not to declare a final dividend for the year end 30 June 2023 (2022: Nil).

## SECTION D: CAPITAL, FINANCING, RADS AND RISK

### D3
### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial liabilities consist of interest-bearing loans and borrowings, trade and other payables, refundable accommodation deposits and lease liabilities which finance the Group's operations. The Group's financial assets include trade receivables, derivative financial instruments and cash and short-term deposits that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. Policies for managing each of these risks are summarised below.

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings and deposits. The Group is not exposed to commodity, equity risks or currency risk.

The sensitivity analyses in the following sections relate to the position as at 30 June 2023 and 30 June 2022.

The sensitivity analyses have been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt are all constant at 30 June 2023 and 30 June 2022. Furthermore, the sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June 2023 and 30 June 2022.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents and long-term debt obligations with floating interest rates.

The Group's exposure to interest rate risk and the effective interest rate of financial assets and liabilities both recognised and unrecognised at the reporting date are as follows:

All other financial assets and liabilities are non-interest bearing.

| | Weighted average effective interest rates | | Fixed or Floating |
|---|---|---|---|
| | 2023<br>% | 2022<br>% | |
| Cash and liquid assets | 0.6 | 0.6 | Floating |
| Refundable accommodation deposits – departed residents | 2.3 | 2.3 | Floating |
| Non-current related party loans | 4.6 | 1.4 | Floating |

## SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

### D3
### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Interest rate sensitivity**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of cash and cash equivalents and related party loans. With all other variables held constant, the Group's profit before tax and equity are affected through the impact on floating rate financial instruments existing at the end of the respective period, as follows:

| | Effect on profit before tax Higher / (Lower) | | Effect on equity Higher / (Lower) | |
|---|---|---|---|---|
| | 2023 $'000 | 2022 $'000 | 2023 $'000 | 2022 $'000 |
| + / - 100 basis points | (468) | (547) | (328) | (383) |
| + / - 100 basis points | 468 | 547 | 328 | 383 |

**Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The maximum loss is equal to the carrying amount of the asset. The Group is exposed to credit risk from customer receivables and from its deposits with banks.

Approximately 72% (2022: 71%) of the revenue of the Group is obtained from Australian Government funding. This funding is maintained for providers as long as they continue to comply with Accreditation standards and other requirements per the Act.

*Trade receivables*

Customer credit risk is managed subject to an established Group policy, procedures and control relating to customer credit risk management.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customers with similar credit risk characteristics, adjusted for any material expected changes to the future credit risk of that group. The Group applies the simplified approach for measuring expected credit losses, using the lifetime expected loss allowance for all trade receivables.

Generally, trade and other receivables are written off only once all reasonable avenues to recover the balances have been exhausted.

Other receivables are primarily due from the Australian Government. The Group does not believe that there is a material credit risk for these receivables.

## SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

### D3
### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Credit risk (continued)**

The following table provides information about the expected credit losses for trade receivables, excluding the Commonwealth Government balance of $3,333,000 as at 30 June 2023 (2022: $5,060,000):

| | Expected credit loss rate % | Gross carrying amount $'000 | Allowance for expected credit loss $'000 |
|---|---|---|---|
| **As at 30 June 2023** | | | |
| Current (not past due) | 5 | 1,796 | 94 |
| <30 days past due | 12 | 651 | 75 |
| 30-60 days past due | 21 | 349 | 75 |
| 61-90 days past due | 28 | 202 | 56 |
| >90 days past due | 82 | 851 | 701 |
| **Total** | **26** | **3,849** | **1,001** |

| | Expected credit loss rate % | Gross carrying amount $'000 | Allowance for expected credit loss $'000 |
|---|---|---|---|
| **As at 30 June 2022** | | | |
| Current (not past due) | 7 | 1,612 | 108 |
| <30 days past due | 21 | 412 | 85 |
| 30-60 days past due | 28 | 239 | 68 |
| 61-90 days past due | 42 | 132 | 56 |
| >90 days past due | 78 | 835 | 650 |
| **Total** | **30** | **3,230** | **967** |

There has been no change to the underlying methodology or approach to the calculation of expected credit loss.

## SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

## D3
FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Liquidity risk**

The Group regularly monitors its risk to a shortage of funds. The Group maintains a balance between continuity of funding and flexibility through its financing facilities which are available for potential acquisitions, capital investments and working capital requirements. The Group has evaluated the risk concentration relating to the refinancing of its debt and concluded it to be low as a result of the maturity profile further referenced as follows.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

| | On demand $'000 | Less than 12 months $'000 | 1 to 5 years $'000 | More than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **As at 30 June 2023** | | | | | |
| Trade and other payables | 1,147 | 52,440 | - | - | 53,587 |
| Net related party loan payables | 371,246 | 2,423 | 76,456 | - | 450,125 |
| Refundable accommodation deposits and bonds | 1,027,537 | - | - | - | 1,027,537 |
| Other financial liabilities | 596 | - | - | - | 596 |
| Lease liabilities | - | 5,458 | 20,626 | 51,316 | 77,400 |
| **Total** | **1,400,526** | **60,321** | **97,082** | **51,316** | **1,609,245** |
| | | | | | |
| **As at 30 June 2022** | | | | | |
| Trade and other payables | 1,172 | 50,683 | - | - | 51,855 |
| Net related party loan payables | 319,773 | 1,691 | 104,529 | - | 425,993 |
| Refundable accommodation deposits and bonds | 884,069 | - | - | - | 884,069 |
| Other financial liabilities | 467 | - | - | - | 467 |
| Lease liabilities | - | 5,497 | 20,193 | 55,788 | 81,478 |
| **Total** | **1,205,481** | **57,871** | **124,722** | **55,788** | **1,443,862** |

**Capital management**

The Group's capital management strategy focuses on maintaining a strong capital base to support its ongoing operations and growth initiatives, while ensuring prudent risk management and financial stability.

The primary objective of the Group's capital management strategy is to ensure that the Company maintains adequate capital resources to support its business activities, enhance shareholder value, and meet regulatory requirements. The policy aims to strike a balance between providing a competitive return to shareholders and maintaining financial flexibility.

The Group's capital management policy is subject to market conditions, regulatory changes, and the evolving needs of the business. As a result, capital management is regularly reviewed in light of prevailing circumstances.

## SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

### D3
### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Capital management (Continued)**

Key Components of the Capital Management Policy.

**Capital Structure Optimisation:** The Group continuously evaluates its capital structure to ensure an optimal mix of debt and equity.

**Risk Management:** risks associated with its capital, such as interest rate risk, liquidity risk, and credit risk are actively identified, assessed, and managed. Risk mitigation strategies are implemented to safeguard the Company's financial position and ensure compliance with regulatory requirements.

**Dividend Policy and Share Buybacks:** the Group maintains a prudent dividend policy, considering various factors such as profitability, cash flows, capital requirements for growth, and the need to retain sufficient earnings to support ongoing operations and future investments.

**Capital Expenditure and Investment Allocation:** the Group allocates capital resources towards strategic initiatives, including organic growth, acquisitions, and capital expenditure projects. Investments are assessed based on their potential for generating long-term value and alignment with the Company's strategic objectives.

**Financial Planning and Forecasting:** The Group engages in detailed financial planning and forecasting processes to assess its future capital requirements and assess future funding needs. Scenario analysis is conducted to evaluate the potential impact of adverse economic conditions or unforeseen events on the Company's capital position.

**Compliance and Reporting:** The Group adheres to relevant legal and regulatory requirements regarding capital management. The Company discloses its capital management practices and key financial ratios in its financial statements and periodic reports to provide transparency to stakeholders, including the Department of Health and Aged Care.

# SECTION E: OTHER INFORMATION

## E1
## RELATED PARTY DISCLOSURES

The parent company of Estia Investments Pty Ltd is Estia Health Limited. Note E6 provides the information about the Group's structure including the details of the subsidiaries. Note C7 provides the information about the loans to related parties. There were no other transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

The Company is party to a syndicated debt facility (the "Facility") comprising other members of the Estia Health Group, with a number of major Australian banks. The Facility may be used for general corporate purposes including funding acquisitions, capital expenditure, working capital requirements and providing sufficient liquidity to redeem refundable accommodation deposits or bonds.

The Facility is secured by real property mortgages over all freehold property, security over material leases, cross guarantees and indemnities between members of the Estia Health Group and first ranking fixed and floating charges over the assets and undertakings of each member of the Estia Health Group.

The total debt facility available at 30 June 2023 was $330,000,000 (2022: $330,000,000). In addition, the Facility has an accordion feature which allows it to be increased by an additional $170,000,000 (2022: $170,000,000), subject to lender consent and approval. Of the total debt facility available, 50% will mature in March 2025 and 50% in March 2026.

During the year ended 30 June 2023, the Company received debt financing services from other members of the Estia Health Group which incurred interest expenses during the year amounted to $25,922,000 (2022: $14,453,000).

During the year ended 30 June 2023, the Company entered into a licensing arrangement with Estia Health Limited, under the terms of the arrangement, the Company pays a licence fee in exchange for the rights to utilise the Estia Health Brand and associated intellectual properties in the conduct of its business. The licence fee was determined after taking into considerations a range of comparable licensing arrangements between non-related market precedents and the specific circumstances applicable to the arrangements between the Company and Estia Health Limited. For the year ended 30 June 2023, the Company incurred a licence fee of $29,512,000 (2022: 16,811,000).

The table below discloses the compensation recognised as an expense during the reporting period related to Key Management Personnel.

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Short-term employee benefits | 3,005 | 2,963 |
| Post-employment benefits | 155 | 135 |
| Share-based payments | 1,061 | 820 |
| Termination benefits | 139 | - |
| **Total compensation of key management personnel** | **4,360** | **3,918** |

## SECTION E: OTHER INFORMATION

### E2
### COMMITMENTS AND CONTINGENCIES

**Capital commitments**

During the year, the Group entered into contracts relating to the development of aged care homes of which there were remaining capital commitments at 30 June 2023 of $24,495,000 (2022: $60,331,000).

The Group had also entered into contracts for the purchase of land for future development with a total value of $13,635,000. One of these contracts, for land at Findon in South Australia, settled for a sum of $5,355,000 on 5th July 2023 as referenced in Note E4 on page 57.

**Grant opportunity to reimburse increased leave entitlements**

The 2023 Federal Budget measures included $98,700,000 allocated to a future grant opportunity to provide one-off funding to assist residential aged care providers in meeting historical leave liabilities which were increased at 30 June 2023 because of the Fair Work Commission 15% increase in the Aged Care Award. The increase in the Group's leave provisions as a result of the Fair Work Commission 15% increase in the Aged Care Award was approximately $9,054,000 as explained in Note C8 on page 44. The Australian Government advised that the grant opportunity would reimburse a proportion of eligible employees' annual leave, personal leave and long service leave entitlements accrued at 30 June 2023. No details of this scheme have been released by the Government and therefore there can be no reasonable assurance of any amounts which may in future be available to the Group under the grant opportunity.

### E3
### AUDITOR REMUNERATION

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Fees to the auditor for statutory financial report | 928 | 810 |
| Fees for other services – Tax compliance | 255 | 159 |
| Fees for assurance services that are not required by legislation to be provided by the auditor | 37 | 38 |
| **Total auditor remuneration** | **1,220** | **1,007** |

The auditor of Estia Investments Pty Ltd and its subsidiaries is Ernst & Young.

## SECTION E: OTHER INFORMATION

### E4
### SUBSEQUENT EVENTS

**Government Grants**

$1,940,000 of COVID-19 costs reimbursement claims recognised as receivable at 30 June 2023 were subsequently remitted as cash at the date of this report.

**Proposed acquisition of the ultimate holding company by Bain Capital**

On 7 August 2023 the Company's ultimate holding company, Estia Health Ltd (ASX:EHE) notified the ASX that it had entered into a Scheme Implementation Agreement ("SIA") with Bain Capital for the acquisition of all of the issued shares in Estia Health Ltd by way of a Scheme. The Scheme Implementation Agreement was also provided to the ASX on 7 August 2023. Further information relating to this proposal is contained within the Estia Health Ltd 2023 Annual Financial Report.

Estia Health Ltd shareholders will be given the opportunity to vote on the Scheme at a meeting which is expected to be held in November 2023. Subject to shareholder approval being obtained by the requisite majorities and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented prior to the end of 2023. Bain Capital would execute the Scheme and acquire 100% of the issued share capital of Estia Health Ltd, and it is expected that the Estia Health Ltd board of directors would resign and the company would be de-listed from the ASX. If that takes place, it is likely that the current board of directors of Estia Investments Pty Ltd would also resign and new directors would be appointed.

**Royal Freemasons homes acquisition**

The Group entered into a binding contract with Royal Freemasons to purchase two operational homes with a total of 264 operational places in Bendigo and Benalla in Victoria on 1 August 2023 for an estimated cash consideration of $17,300,000 which is expected to settle in October 2023.

**South Australia land acquisition**

On 5 July 2023, the Group completed the purchase of a block of land at Findon, SA, with an approved Development Application for a 120 bed residential aged care home from Premier Health Care for $5,355,000 cash consideration.

Other than those mentioned above, no matters or circumstances have arisen since the end of the reporting period which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## SECTION E: OTHER INFORMATION

### E5
### SEGMENT REPORTING

For management reporting purposes, the Group has identified one reportable segment. Estia operates predominantly in one business and geographical segment being the provision of residential aged care services in Australia. The Group's operating performance is evaluated across the portfolio as a whole by the Chief Executive Officer on a monthly basis and is measured consistently with the information provided in these consolidated financial statements.

### E6
### INFORMATION RELATING TO SUBSIDIARIES

The Consolidated Financial Statements incorporate the assets, liabilities and results of Estia Investments Pty Ltd and the following controlled entities, that were held in both current and prior period unless otherwise stated:

| **100% owned Australian subsidiaries** |
|---|
| Estia Health Residential Aged Care Pty Ltd |
| OC Health Ballarat Pty Limited[1] |

[1] The entity's operations, assets and liabilities were transferred to Estia Investments Pty Limited immediately after the acquisition. The entity has since been dormant.

## SECTION E: OTHER INFORMATION (CONTINUED)

### E7
PARENT ENTITY INFORMATION

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| *Information relating to Estia Investments Pty Ltd* | | |
| Current assets | 56,484 | 39,819 |
| Non-current assets | 1,807,473 | 1,743,058 |
| **Total assets** | **1,863,957** | **1,782,877** |
| Current liabilities | 1,531,254 | 1,322,181 |
| Non-current liabilities | 194,765 | 251,273 |
| **Total liabilities** | **1,726,019** | **1,573,454** |
| **Net assets** | **137,940** | **209,423** |
| Issued capital | 455,987 | 455,987 |
| Deemed contributions | 3,829 | 3,829 |
| Accumulated losses | (321,876) | (250,393) |
| **Total shareholders' equity** | **137,940** | **209,423** |
| Loss for the year | (71,483) | (73,639) |
| **Total comprehensive loss for the year** | **(71,483)** | **(73,639)** |

The information presented above relating to the Parent is prepared using the same accounting policies that apply to the Group, except for the recognition and measurement of investments in subsidiaries which are carried at cost.

**Deed of cross guarantee**

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, Estia Health Limited entered into a deed of cross guarantee with the following entities:

- Estia Finance Pty Ltd
- Estia Investments Pty Ltd
- Estia Health Residential Aged Care Pty Ltd

The effect of the deed is that Estia Health Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Estia Health Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

Pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, relief has been granted to these entities from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

## SECTION E: OTHER INFORMATION (CONTINUED)

### E8
### TREATMENT OF GST

Revenue, expenses and assets are recognised net of the amount of GST, except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and,
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST, where the GST is expected to be recoverable.

### E9
### CHANGES IN ACCOUNTING POLICY

**Changes in accounting policy, disclosures, standards and interpretations**

The accounting policies adopted in preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Group's Consolidated Financial Statements for the year ended 30 June 2022, except for the adoption of amendments to standards effective as of 1 July 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**New and Amended Accounting Standards and Interpretations**

The amendments and interpretations apply for the first time in the current financial year do not have a significant impact on the financial statements of the Group.

**Standards issued but not yet effective**

A number of other accounting standards and interpretations have been issued and will be applicable in future periods. While these remain subject to ongoing assessment, no significant impacts have been identified to date. These standards have not been applied in the preparation of these financial statements.

# DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Estia Investments Pty Ltd, I state that in the opinion of the directors:

(a) the financial statements and notes of the consolidated entity for the financial year ended 30 June 2023 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2023 and ofits performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note A3; and

(c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

(d) there are reasonable grounds to believe that the Company and the controlled entities identified in Note E6 of the financial statements will be able to meet any obligations or liabilities to which they are or maybecome subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785)*.

On behalf of the Board

Dr. Gary H Weiss AM
Chairman
22 August 2023

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Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

# Independent Auditor's Report to the Members of Estia Investments Pty Ltd

## Opinion

We have audited the financial report of Estia Investments Pty Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2023 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

## Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

## Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Ernst & Young

Ernst & Young

Paul Gower

Paul Gower
Partner
Melbourne
22 August 2023