

## APPENDIX 4E

### Preliminary Final Report

### Year ended 30 June 2014

<b>Name of entity:</b>	<b>Generation Healthcare REIT</b>
<b>ARSN:</b>	118 712 584

#### Results for announcement to the market

	<b>\$'000</b>	
Revenues from ordinary activities	up 18% to 24,048	
Profit from ordinary activities after tax attributable to members	up 97% to 11,896	
Net profit for the period attributable to members	up 97% to 11,896	
Operating income	up 53% to 10,368 <sup>1</sup>	
Net tangible assets per unit	<b>30 June 2014</b> \$1.07	<b>30 June 2013</b> \$0.98

<sup>1</sup>Operating income for the financial year has been calculated as follows:

	<b>2014</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>
Net profit attributable to unitholders	11,896	6,047
Adjusted for:		
- Straight line lease revenue recognition	(866)	(778)
- Net (gain)/loss on change in fair value of:		
Investment properties	(4,705)	1,339
Derivatives	1,431	(1,205)
Investment properties included in share of net profit of equity accounted investments	(2,308)	(248)
- Net change in loans carried at amortised cost	433	-
- Share of gain on change in fair value of investment property payable to lessee	238	136
- Capital transaction costs	-	4
- Manager's performance fee	4,236	1,316
- Other	13	176
<b>Operating income</b>	<b>10,368</b>	<b>6,787</b>

<b>Distributions</b>	<b>Amount per unit (cents)</b>	<b>\$'000</b>
Interim – 31 December 2013	4.00	4,645
Final – 30 June 2014	4.00	4,821
<b>Total</b>	<b>8.00</b>	<b>9,466</b>
Previous corresponding period	7.34	6,316
Record date for determining entitlements to the distribution	30 June 2014	
Details of any distribution reinvestment plan in operation	Refer ASX announcement on 20 June 2014	
Last date for receipt of an election notice for participation in any distribution reinvestment plan	1 July 2014	

Note: Franked amount per unit is not applicable

**For further details, please refer to the following documents:**

- Full Year Results Announcement (attached)
- Directors' Report and Financial Statements (attached)
- Investor presentation (separate ASX release)



John Freemantle  
Company Secretary

21 August 2014



ARSN 118 712 584

Financial Report for the Financial Year  
Ended 30 June 2014

## Directors' report

The Directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit the annual financial report of Generation Healthcare REIT and of its controlled funds (together "the Fund") for the year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names of the Directors of APN Funds Management Limited during or since the end of the financial year are:

Geoff Brunsdon  
Michael Johnstone  
Jennifer Horrigan  
Howard Brenchley  
Michael Groth (alternate Director for Howard Brenchley appointed 20 March 2014)

### Principal activities

The principal activity of the Fund is investment in healthcare real estate. There was no significant change in the nature of the Fund's activities during the financial year.

The Fund is an externally managed fund and as such does not have any employees.

### Review of operations

The principal objective of the Fund is to deliver stable and growing returns from high quality healthcare properties.

### Results

The results of the operations of the Fund are disclosed in the consolidated statement of profit or loss and other comprehensive income of these financial statements. The net profit attributable to unitholders of the Fund for the year ended 30 June 2014 was \$11,896,000 (2013: \$6,047,000).

A summary of the Fund's results for the financial year is as follows:

	2014	2013
Net profit attributable to unitholders of the Fund (\$'000)	11,896	6,047
Underlying net operating income (\$'000)	10,368	6,787
Underlying net operating income per unit (cents)	9.18	8.86
Distributions per unit (cents)	8.00	7.34
Basic and diluted earnings per unit (cents)	10.53	7.89

The Responsible Entity uses the Fund's underlying net operating income as an additional performance indicator. Underlying net operating income does not take into account certain items recognised in the income statement including unrealised gains or losses on the revaluation of the Fund's investment properties and derivatives, and any performance fees paid or payable to the Manager.

Underlying net operating income for the financial year has been calculated as follows:

	2014 \$'000	2013 \$'000
Net profit attributable to unitholders	11,896	6,047
Adjusted for:		
- Straight line lease revenue recognition	(866)	(778)
- Net (gain)/loss on change in fair value of:		
Investment properties	(4,705)	1,339
Derivatives	1,431	(1,205)
Investment properties included in share of net profit of equity accounted investments	(2,308)	(248)
- Net change in loans carried at amortised cost	433	-
- Share of gain on change in fair value of investment property payable to lessee	238	136
- Manager's performance fee	4,236	1,316
- Other	13	180
<b>Underlying net operating income</b>	<b>10,368</b>	<b>6,787</b>

Underlying net operating income increased by 53% to \$10,368,000 for the twelve months to 30 June 2014 compared to \$6,787,000 for the twelve months to 30 June 2013. The increase is largely attributable to higher net property income, an increase in interest income and lower finance costs. Higher net property income resulted from a combination of CPI, fixed and market rent reviews, and a full year rental income contribution from the Leading Healthcare facility (completed in September 2012) and the Westmead Rehabilitation Hospital (acquired in May

2013). In addition there was a minor contribution from the additional investment in Epworth Freemasons Clarendon Street in June 2014 and the acquisition of 55 Little Edward Street, Brisbane in June 2014. Interest income has been recognised from the Fund's minority secured debt investment made in September 2013 associated with the Waratah Private Hospital. Lower finance costs were due to lower line and margin fees negotiated on the Fund's debt facilities and repayment of debt from the proceeds of two equity raisings during the year.

Underlying net operating income per unit for the 2014 financial year was up 4% to 9.18 cents, compared to 8.86 cents per unit for the 2013 year. The distribution for the 2014 financial year was 8.00 cents per unit compared to 7.34 cents per unit paid for the 2013 year, an increase of 9%. The distribution paid or payable from underlying net operating income for the 2014 financial year amounted to \$8,941,000 with a further \$524,000 paid from equity raised in November and December 2013. The amount paid from equity related to the portion of the six month distribution prior to the issue of the new units. The payout ratio of distributions from underlying net operating income for the 2014 year was 86%.

Earnings per unit as calculated under applicable accounting standards for the year were 10.53 cents, compared to 7.89 cents per unit for the 2013 financial year, an increase of 33%. In addition to the increase in underlying net operating income, there was a net gain in the change in fair value of investment properties partially offset by a net loss on the change in fair value of derivatives and an increase in the Manager's entitlement to performance fees with the Fund significantly outperforming the S&P ASX300 Property Accumulation Index.

Total assets increased by \$88,543,000 or 37% to \$324,891,000 over the year as a result of the acquisition of a minority secured debt interest associated with the Waratah Private Hospital, the commencement of construction on Casey Stage 1 in November 2013, an additional investment in the refurbishment and expansion at Epworth Freemasons Clarendon Street in June 2014, the purchase of 55 Little Edward Street, Brisbane in June 2014 and overall increases in existing property valuations.

The Fund undertook an equity raising of \$18,000,000 in November/December 2013 (\$17,572,000 after costs) through an institutional placement and unit purchase plan, reducing debt to provide capacity to fund the construction of the Casey Stage 1 project. In June 2014 a further \$64,787,000 was raised (\$63,260,000 after costs) through an institutional placement, entitlement offer and scrip consideration, to fund the acquisition of 55 Little Edward Street, Brisbane and a \$12,500,000 refurbishment and expansion at Epworth Freemasons Clarendon Street. New equity of \$2,463,000 was raised during the year under the Distribution Reinvestment Plan and \$4,675,000 worth of units were issued in satisfaction of the Manager's performance fee due at June 2013 and December 2013. Overall, the total number of units on issue increased by 75,868,524 to 174,509,381.

### **Events subsequent to reporting date**

On 2<sup>nd</sup> July 2014 the Fund announced that its 50% owned Joint Venture entity, Divine Logistics Trust, entered into a series of contracts with Healthscope Limited (Healthscope) in relation to Frankston Private. The contracts and various interdependent tenant business sale agreements have resulted in Healthscope acquiring the businesses of two existing Frankston Private tenants (approximately 49% of the existing rent roll of the property) being Frankston Private Day Surgery and Peninsula Oncology Centre, extending the term of these leases by 18 years and signing an Agreement for Lease for a major expansion of the existing facility.

On 20 August 2014 the Fund announced that it had entered into a non-binding memorandum of understanding with St John of God Health Care in relation to stages 2 and 3 at the Fund's site at 55 Kangan Drive, Casey, Victoria. Subject to agreeing outstanding commercial matters and satisfaction of pre conditions, including respective Board approvals, the parties will progress Stage 2 concept plans to develop a scale private hospital comprising 190 beds, six operating theatres, six birthing suites, a cardiac/vascular catheter laboratory, two endoscopy theatres, medical consulting suites and associated car parks. The total project cost is currently estimated at approximately \$120 million with the base building (shell) and car park to be jointly owned by both parties and the building fit out to be owned by St John of God Health Care. In the medium to longer term the master plan includes a Stage 3 for further capacity expansion to include additional operating theatres, beds and consulting space.

Other than what is noted above, there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected, or may significantly affect, the operations of the Fund, and results of those operations, or the state of affairs of the Fund, in future financial years.

### **Future developments and outlook**

The Fund remains focused on providing unitholders with attractive, risk-adjusted returns generated by a quality, diversified portfolio of healthcare properties. The healthcare sector outlook is expected to remain favorable for the foreseeable future, driven by continued population growth, an ageing population, medical treatment innovation and rising health related expenditure. The Fund is well positioned to capitalise on this operating environment by partnering with health operators to provide the necessary infrastructure to support the increased demand for health services.

The key strategy for the Fund over the short to medium term continues to be to proactively manage both the existing

property portfolio and costs to grow operational earnings and distributions. In delivering this strategy, key operational focus for the coming 12 months will be on the Fund's organic growth pipeline, including:

- delivering the \$19,000,000 Casey Stage 1 project on time and on budget (forecast to complete by January 2015);
- initiating the circa \$35,000,000 (minimum GHC share of 50% being \$17,500,000) expansion of Frankston Private;
- advancing town planning approval to initiate the \$25,000,000 Epworth Freemasons Cancer Centre project; and
- progressing the St John of God Health Care Memorandum of Understanding and the commercial, legal and design matters associated with the proposed Casey Stage 2 project.

Disclosure of additional information regarding likely prospects for the operations of the Fund in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Fund. Accordingly, additional information has not been disclosed in this report.

### **Environmental regulation**

The Fund's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

### **Options granted**

As the Fund is an externally managed vehicle, no options were:

- Granted over unissued units in the Fund during or since the end of the financial year; or
- Granted to the Responsible Entity.

No unissued units in the Fund were under option as at the date on which this Report is made. No units were issued in the Fund during or since the end of the financial year as a result of the exercise of an option over unissued units in the Fund.

### **Indemnification of officers of the responsible entity and auditors**

APN Funds Management Limited ('the Company') has agreed to indemnify the directors and officers of the Company and its controlled entities, both past and present, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company and its controlled entities, except where the liability arises out of unlawful conduct. The Company will meet the full amount of any such liabilities, including costs and expenses. The Company may also indemnify any employee by resolution of the Directors. In addition, the Company has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Company. The Company has not indemnified or made a relevant agreement to indemnify the auditor of the Fund or of any related body (corporate) against a liability incurred by the auditor.

### **Directors' interests in the Fund**

Directors of the Responsible Entity are not entitled to any interests in the Fund, or any rights or options over interests in the Fund. No Director has entered into contracts to which the Director is a party or under which the Director is entitled to a benefit that confers a right to call for or deliver an interest in the Fund.

### **Interests of the Responsible Entity**

#### **Responsible Entity's remuneration**

Fees the Responsible Entity is entitled to receive and fees paid to the Responsible Entity out of Fund property during the financial year are disclosed in note 17 to the financial statements.

The number of units in the Fund held by the Responsible Entity and its related parties as at the end of the financial year is disclosed in note 17 to the financial statements.

#### **Total units on issue**

The number of units in the Fund issued and/or disposed of during the financial year and the number of units in the Fund at the end of the financial year is disclosed in note 13 to the financial statements.

### **Non-audit services**

During the year, the auditor of the Fund performed certain other services in addition to their statutory duties. The board of the Responsible Entity has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Responsible Entity and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Fund, acting as advocate for the Fund or jointly sharing economic risks and rewards.

Non-audit services relating to audit of the compliance plan and other approved advisory services amounted to \$3,120 (2013: \$5,120).

### **Auditor's independence declaration**

The Auditor's Independence Declaration is included on page 6 of the financial report.

### **Rounding off of amounts**

The Fund is a fund of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



**Geoff Brunsdon**

Chairman

MELBOURNE, 21 August 2014

The Board of Directors  
APN Funds Management Limited  
Level 30  
101 Collins Street  
Melbourne, Vic 3000

Dear Board Members

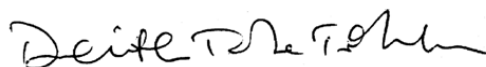
## **INDEPENDENCE DECLARATION – GENERATION HEALTHCARE REIT**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management Limited, the Responsible Entity, regarding the financial report for the Generation Healthcare REIT.

As lead audit partner for the audit of the financial statements of Generation Healthcare REIT for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



**Peter A. Caldwell**  
Partner  
Chartered Accountants  
Melbourne, 21 August 2014



## Independent Auditor's Report to the Unitholders of Generation Healthcare REIT

We have audited the accompanying financial report of Generation Healthcare REIT, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the fund and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 9 to 38.

### *Directors' Responsibility for the Financial Report*

The directors of the fund 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

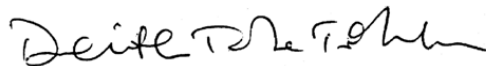
## *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Generation Healthcare REIT, would be in the same terms if given to the directors as at the time of this auditor's report.

## *Opinion*

In our opinion:

- (a) the financial report of Generation Healthcare REIT is 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 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell  
Partner  
Chartered Accountants  
Melbourne, 21 August 2014

## Directors' declaration

The Directors of the Responsible Entity declare that:

- a) in the Directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;
- b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund;
- c) in the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards as referred to in Note 1 of the financial statements; and
- d) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



**Geoff Brunsdon**

Chairman

MELBOURNE, 21 August 2014

## Consolidated statement of profit or loss and other comprehensive income for the financial year ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Revenue</b>			
Rental income		19,028	16,038
Other property income		3,021	2,952
Interest		1,999	1,310
		<b>24,048</b>	<b>20,300</b>
<b>Other income</b>			
Net change in the fair value of investment properties	5 (c)	4,705	(1,339)
Net change in the fair value of derivatives		(1,431)	1,205
Net change in loans carried at amortised cost		(433)	-
Share of change in fair value of investment property payable to lessee		(238)	(136)
		<b>2,603</b>	<b>(270)</b>
<b>Total income</b>		<b>26,651</b>	<b>20,030</b>
<b>Expenses</b>			
Property expenses		(4,761)	(4,309)
Finance costs	15	(7,722)	(8,256)
Responsible Entity's fees	17	(5,696)	(2,597)
Capital transaction costs		-	(4)
Other		(398)	(480)
<b>Total expenses</b>		<b>(18,577)</b>	<b>(15,646)</b>
Share of net profit of equity accounted investment	7	3,822	1,663
<b>Net profit attributable to unitholders of the Fund</b>		<b>11,896</b>	<b>6,047</b>
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>11,896</b>	<b>6,047</b>
		<b>Cents</b>	<b>Cents</b>
Distributions per unit	9	8.00	7.34
Basic and diluted earnings per unit	10	10.53	7.89

Notes to the financial statements are included on pages 14 to 38.

## Consolidated statement of financial position as at 30 June 2014

	Note	2014 \$'000	2013 \$'000
<b>Current assets</b>			
Cash and cash equivalents	3	3,219	1,940
Trade and other receivables	4	2,292	1,590
		<b>5,511</b>	<b>3,530</b>
<b>Non-current assets</b>			
Trade and other receivables	4	19,439	18,927
Investment properties	5	270,775	195,573
Loans carried at amortised cost	6	8,541	-
Equity accounted investments	7	20,625	18,271
Derivatives	12	-	47
		<b>319,380</b>	<b>232,818</b>
<b>Total assets</b>		<b>324,891</b>	<b>236,348</b>
<b>Current liabilities</b>			
Payables	8	8,381	3,839
Borrowings	11	376	365
Derivatives	12	2,342	2,268
Distribution payable	9	4,821	3,620
		<b>15,920</b>	<b>10,092</b>
<b>Non-current liabilities</b>			
Payables	8	7,359	7,015
Borrowings	11	108,651	117,975
Derivatives	12	5,600	4,290
		<b>121,610</b>	<b>129,280</b>
<b>Total liabilities</b>		<b>137,530</b>	<b>139,372</b>
<b>Net assets</b>		<b>187,361</b>	<b>96,976</b>
<b>Equity attributable to unitholders</b>			
Issued units	13	176,134	88,179
Retained earnings		11,227	8,797
<b>Total equity</b>		<b>187,361</b>	<b>96,976</b>
Net tangible assets per unit		\$1.07	\$0.98

Notes to the financial statements are included on pages 14 to 38.

## Consolidated statement of changes in equity for the financial year ended 30 June 2014

	Issued units \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2012</b>	<b>64,209</b>	<b>9,066</b>	<b>73,275</b>
Net profit for the year	-	6,047	6,047
Other comprehensive income	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>6,047</b>	<b>6,047</b>
Issue of units	23,970	-	23,970
Distributions paid to unitholders	-	(6,316)	(6,316)
<b>Balance at 30 June 2013</b>	<b>88,179</b>	<b>8,797</b>	<b>96,976</b>
Net profit for the year	-	11,896	11,896
Other comprehensive income	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>11,896</b>	<b>11,896</b>
Issue of units	87,955	-	87,955
Distributions paid to unitholders	-	(9,466)	(9,466)
<b>Balance at 30 June 2014</b>	<b>176,134</b>	<b>11,227</b>	<b>187,361</b>

Notes to the financial statements are included on pages 14 to 38.

# Consolidated statement of cash flows

for the financial year ended 30 June 2014

	Note	2014 Inflows/ (Outflows) \$'000	2013 Inflows/ (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Rental and other property receipts		24,281	20,927
Property and other payments		(8,634)	(7,669)
Distributions received from equity accounted investment		1,339	1,576
Interest received		55	61
Borrowing costs paid		(7,569)	(8,117)
<b>Net cash provided by operating activities</b>	18	<b>9,472</b>	<b>6,778</b>
<b>Cash flows from investing activities</b>			
Purchase of investment properties		(30,492)	(24,244)
Additions to investment properties and properties under construction		(20,367)	(2,822)
Additions to equity accounted investment		(92)	(2,140)
Loans advanced		(8,271)	-
<b>Net cash used in investing activities</b>		<b>(59,222)</b>	<b>(29,206)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		68,287	23,108
Unit issue costs		(1,937)	(1,128)
Distributions paid to unitholders		(5,801)	(4,183)
Proceeds from borrowings		83,280	13,626
Repayment of borrowings		(92,800)	(9,152)
<b>Net cash provided by financing activities</b>		<b>51,029</b>	<b>22,271</b>
Net increase / (decrease) in cash and cash equivalents held		1,279	(157)
Cash and cash equivalents at beginning of the financial year		1,940	2,097
<b>Cash and cash equivalents at end of the financial year</b>	3	<b>3,219</b>	<b>1,940</b>

Notes to the financial statements are included on pages 14 to 38.

# Notes to the financial statements

## 1. Summary of significant accounting policies

### Statement of compliance & basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Fund. For the purposes of preparing the consolidated financial statements, the Fund is a for profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on 21 August 2014.

The financial report has been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2014 and the comparative information presented in these financial statements.

### Adoption of new and revised accounting Standards and Interpretations

In the current year, the Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Except where noted, the adoption of these Standards and Interpretations has not had a material impact on the financial statements. These include:

Standard	Explanation
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	This standard removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures'. As a result the Fund only discloses the key management personnel compensation in total and for each of the categories required in AASB 124.
AASB CF 2013-1 'Amendments to the Australian Conceptual Framework' and AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part A Conceptual Framework)'	This amendment has incorporated IASB's Chapters 1 and 3 Conceptual Framework for Financial Reporting as an Appendix to the Australian Framework for the Preparation and Presentation of Financial Statements. As a result the Australian Conceptual Framework now supersedes the objective and the qualitative characteristics of financial statements, as well as the guidance previously available in Statement of Accounting Concepts SAC 2 'Objective of General Purpose Financial Reporting'.
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee; and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. The consolidated subsidiary is 100% owned by the Fund and there is no change in the assessment of control during the period.
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	<p>AASB 11 replaces AASB 131 'Interests in Joint Ventures' and deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for.</p> <p>The directors of the Fund reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of AASB 11. The directors concluded that the Group's investment in Divine Logistics Trust and Divine Logistics Pty Limited, which was classified as a jointly controlled entity under AASB 131 and was accounted for using the equity method, should be classified as a joint venture under AASB 11 and accounted for using the equity method.</p> <p>As the joint ventures are equity accounted for under both AASB 131 and AASB 11, there is no change to the accounting for these joint ventures and only updates to the disclosures in note 7.</p>



AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	AASB 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This has resulted in additional disclosures in note 6 and 22.
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	AASB 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, AASB 13 does not change the requirements regarding which items should be measured or disclosed at fair value. Other than the additional disclosures, the application of AASB 13 does not have any material impact on the amounts recognised in the financial statements.
AASB 127 'Separate Financial Statements (2011)' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	This deals with the requirements for separate financial statements, which have been carried over largely unamended from AASB 127 prior issuance of AASB 10.
AASB 128 'Investments in Associates and Joint Ventures (2011)' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement Standards'	This Standard supersedes AASB 128 'Investments in Associates' and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	A number of pronouncements are amended as a result of the 2009-2011 annual improvements cycle.
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	The transition guidance amendments to AASB 10 'Consolidated Financial Statements' and related Standards and Interpretations clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

### AASB Accounting Standards not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective. These are not expected to have any material impact on the Fund's financial report in future reporting periods.

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"> <li>AASB 9 'Financial Instruments', and the relevant amending standards'</li> <li>AASB 1031 'Materiality' (2013)</li> <li>AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'</li> <li>AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'</li> <li>AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'</li> <li>AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'</li> <li>AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'</li> <li>AASB 2014-1 'Amendments to Australian Accounting Standards' <ul style="list-style-type: none"> <li>Part A: 'Annual Improvements 2010-2012 and 2011-2013 Cycles'</li> <li>Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)'</li> <li>Part C: 'Materiality'</li> </ul> </li> <li>AASB 2014-1 'Amendments to Australian Accounting Standards' – Part D: 'Consequential Amendments arising from AASB 14'</li> <li>AASB 2014-1 'Amendments to Australian Accounting Standards' – Part E: 'Financial Instruments'</li> </ul>	<ul style="list-style-type: none"> <li>1 January 2018</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 January 2014</li> <li>1 July 2014</li> <li>1 January 2016</li> <li>1 January 2015</li> </ul>	<ul style="list-style-type: none"> <li>30 June 2019</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2015</li> <li>30 June 2017</li> <li>30 June 2016</li> </ul>

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
▪ Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	30 June 2017
▪ Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	30 June 2017
▪ IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018
▪ IFRS 9 Financial Instruments	1 January 2018	30 June 2019

### Rounding off of amounts

The Fund is a fund of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

### Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the year end financial report:

#### (a) Income recognition

Rental income arising in the ordinary course of activities is recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax levied and is recognised on a straight-line basis over the lease term. Rental income not received at reporting date is reflected in the balance sheet as a receivable or if paid in advance, as rent in advance.

Interest revenue is recognised as it accrues on a time proportionate basis taking into account the effective yield on the financial assets.

#### (b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

#### (c) Trade and other receivables

Trade receivables and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 1(a) above.

#### (d) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

#### (e) Leases

Finance leases, which transfer away from the Fund substantially all the risks and benefits incidental to ownership of the leased item, are recognised at the inception of the lease. A finance lease receivable is recognised on inception at the amount of the Fund's investment in the lease. Finance lease receipts are apportioned between the interest income and reduction in the lease receivable to achieve a constant rate of interest on the remaining balance of the receivable. Interest is recognised as income in the statement of comprehensive income.

Assets held under finance leases where the Fund is the lessee are initially recognised as assets of the Fund at their fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the statement of profit or loss.

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. For operating leases for which the Fund is lessor, initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the term of the lease on the same basis as the lease income.

Leasing fees that are directly associated with the negotiation and execution of a lease agreement (including commissions, legal fees and costs of preparing and processing documentation) are amortised and recognised as an expense over the term of the lease.

#### **(f) Expenses**

All expenses, including responsible entity fees are recognised in the statement of profit or loss on an accruals basis.

#### **(g) Distributions**

A liability for any distribution declared on or before the end of the reporting period is recognised in the statement of financial position in the reporting period to which the distribution pertains.

#### **(h) Issued units**

Issued and paid up units are recognised at the fair value of the consideration received by the Fund. Any transaction costs arising on issue of ordinary units are recognised directly in unitholders' interest as a reduction of the unit proceeds received.

#### **(i) Equity accounted investments**

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Associates are those entities over which the Fund has significant influence, but not control. Joint ventures, associates, and investments in those entities, are referred to as "equity accounted investments".

Equity accounted investments are accounted for in the Parent's financial statements using the cost method and in the consolidated financial statements using the equity method. The Fund's share of net profit is recognised in the consolidated statement of profit or loss and its share of any movement in reserves is recognised in reserves in the consolidated statement of financial position. Distributions received or receivable are recognised in the Parent's income statement and reduce the carrying value of the investment in the consolidated financial statements.

#### **(j) Income tax**

Under current income tax legislation the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the unitholders are not presently entitled and additionally, the Fund Constitution requires the distribution of the total taxable net income of the Fund to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Fund Constitution.

Tax allowances for building and fixtures depreciation are distributed to unitholders in the form of the tax deferred component of distributions.

#### **(k) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

## **(l) Financial assets and liabilities**

Current and non-current financial assets and liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified at fair value through profit or loss; loans and receivables; held-to-maturity investments; or available-for-sale. The Fund determines the classification of its financial assets and liabilities at initial recognition with the classification depending on the purpose for which the asset or liability was acquired or issued.

Financial assets and liabilities are initially recognised at fair value, plus directly attributable transaction costs unless their classification is at fair value through profit or loss. They are subsequently measured at fair value or amortised cost using the effective interest method. Changes in fair value of available-for-sale financial assets are recorded directly in equity. Changes in fair values of financial assets and liabilities classified as at fair value through profit or loss are recorded in the statement of profit or loss.

The fair values of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For those with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; a discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

### **(i) Effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through the profit or loss.

### **(ii) Loans and receivables**

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

### **(m) Impairment of financial assets**

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment can exist for example where there has been a significant or prolonged decline in the fair value below cost.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### **(n) Payables**

Trade and other payables are carried at amortised cost and due to their short-term nature are not discounted. They represent liabilities for goods and services provided to the Fund prior to the end of the financial year that are unpaid and are recognised when the Fund becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

The Fund has previously agreed to share, with a lessee, the gain on one of its investment properties. As the Fund has recognised an increase in the fair value of the relevant property, it has also recognised the related liability to the lessee.

classified as a financial liability at fair value through profit and loss. Changes in the fair value of the liability are recognised in the statement of profit or loss as “share of investment property gain payable to lessee”, whilst the liability is disclosed as a “payable” in non-current liabilities.

### **(o) Borrowings**

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Under this method, fees, costs, discounts and premiums that are yield related are included as part of the carrying amount of the borrowing and amortised over its expected life.

Where borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset they are capitalised as part of the acquisition cost of that asset.

Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### **(p) Derivative financial instruments**

The Fund enters into derivative financial instruments such as interest rate swaps, to manage its exposure to interest rates. The Fund may also invest in derivatives related to listed property equities and indices and may issue derivatives related to its own units.

Derivatives are categorised as held for trading and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit and loss immediately.

### **(q) Provisions**

Provisions are recognised when the Fund has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Fund has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

### **(r) Earnings per unit**

#### **(i) Basic earnings per unit**

Basic earnings per unit is calculated as net profit attributable to unitholders of the Fund for the year divided by the weighted average number of ordinary units outstanding during the year, adjusted for bonus elements in ordinary units issued during the year.

#### **(ii) Diluted earnings per unit**

Diluted earnings per unit adjust the figures used in the determination of basic earnings per unit to take into account the effect of interest and other financing costs associated with dilutive potential ordinary units and the weighted average number of units assumed to have been issued for no consideration in relation to dilutive potential ordinary units. As there are no potentially dilutive units on issue, diluted earnings per unit is the same as basic earnings per unit.

### **(s) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund (the “Group”). Control is achieved where the Fund has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor’s returns. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

## **2. Accounting estimates and judgements**

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Responsible Entity to exercise its judgement in the process of applying the Fund’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed below.

Estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources are based on historical experience and various other factors including expectations of future events that are believed to be

reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### (a) Critical accounting estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Fund had investment properties with a net carrying amount of \$281,876,000 (2013: \$206,387,000) (see note 5), representing estimated fair value. In addition, the carrying amount of the Fund's equity accounted investments of \$20,625,000 (2013: \$18,271,000) (see note 7) also reflects investment properties carried at fair value. These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation rates. In forming these assumptions, the Responsible Entity considered information about current and recent sales activity, current market rents, and discount and capitalisation rates, for properties similar to those owned by the Fund, as well as independent valuations of the Fund's property.

The Fund has a loan with a net carrying amount of \$8,541,000 (2013: Nil) (see note 6) representing the current carrying amount less impairment losses. This carrying amount reflects the present value of the loan's forecast cashflows discounted at the original effective interest rate. The forecast cashflows are subject to a number of assumptions including the quantum and timing of any additional investments required or capital returns. In forming these assumptions the Responsible Entity was guided by an independent valuation.

#### (b) Critical judgements in applying the entity's accounting policies

There were no judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that had a significant effect on the amounts recognised in the financial report.

### 3. Cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the statement of financial position as follows:

	2014 \$'000	2013 \$'000
Cash at bank and in hand	1,160	259
Cash held on escrow	1,500	-
Short term deposits	559	1,681
	<b>3,219</b>	<b>1,940</b>

### 4. Trade and other receivables

	2014 \$'000	2013 \$'000
<b>Current</b>		
Rental and other amounts due	511	316
Finance lease receivable	751	730
Accrued income, prepayments and deposits	1,030	544
	<b>2,292</b>	<b>1,590</b>
<b>Non-current</b>		
Finance lease receivable	19,439	18,927
	<b>19,439</b>	<b>18,927</b>

Rental and other amounts due are non-interest bearing and are generally on 0-30 day terms. An impairment loss would be recognised when there is objective evidence that an individual receivable is impaired.

As at 30 June 2014, no receivables were impaired (2013: Nil).

The ageing analysis of rental and other amounts due as at 30 June 2014 is as follows:

	2014 \$'000	2013 \$'000
Ageing analysis of receivables past due but not impaired		
0-30 days	480	293
31-90 days	7	6
91+ days	24	17
	<b>511</b>	<b>316</b>

The Fund has leased part of its ARCBS Facility at Kelvin Grove, Queensland, under a long-term lease that is a finance lease. Minimum lease payments receivable at reporting date, their net present value, and finance income recognised were:

	2014 \$'000	2013 \$'000
Minimum lease payments receivable:		
Not later than one year	778	756
Later than one year and not later than five years	3,354	3,256
Later than five years	199,975	200,851
	204,107	204,863
Unearned finance income	(183,917)	(185,206)
<b>Net present value of minimum lease payments</b>	<b>20,190</b>	<b>19,657</b>
Net present value of minimum lease payments receivable:		
Not later than one year	751	730
Later than one year and not later than five years	2,754	2,674
Later than five years	16,685	16,253
	<b>20,190</b>	<b>19,657</b>
<b>Finance income recognised and included in interest income in the statement of comprehensive income</b>	<b>1,289</b>	<b>1,255</b>

## 5. Investment properties

### (a) Summary of carrying amounts

	2014 \$'000	2013 \$'000
<b>Current assets</b>		
Finance lease receivable <sup>1</sup>	751	730
<b>Non-current assets</b>		
Finance lease receivable <sup>1</sup>	19,439	18,927
Investment properties	270,775	195,573
	290,214	214,500
<b>Total assets</b>	<b>290,965</b>	<b>215,230</b>
<b>Current liabilities</b>		
Finance lease payable <sup>1</sup>	376	365
<b>Non-current liabilities</b>		
Finance lease payable <sup>1</sup>	8,713	8,478
<b>Total liabilities</b>	<b>9,089</b>	<b>8,843</b>
<b>Total property valuations</b>	<b>281,876</b>	<b>206,387</b>

<sup>1</sup>See ARCBS Facility in note 5(b) on page 22.

**(b) Individual valuations and carrying amounts**

Property	Date of purchase	Cost to date	Latest external valuation		Carrying amount <sup>2</sup>		Capitalisation rate		Discount rate	
		\$'000	Date	Valuation \$'000	2014 \$'000	2013 \$'000	2014 %	2013 %	2014 %	2013 %
<b>ARCBS Facility<sup>1</sup></b> Cnr Musk Avenue & Blarney Street Kelvin Grove Brisbane QLD	Apr 08 <sup>3</sup>	65,314	Dec 12	69,500	72,500	70,900	8.0%	8.0%	9.5%	9.8%
<b>Epworth Freemasons</b> Private Hospital & Medical Centre Victoria Parade East Melbourne VIC	May 06	29,292	Jun 13	43,000	45,000	43,000	8.3%	8.5%	9.5%	9.8%
<b>Epworth Freemasons</b> Private Hospital Clarendon Street East Melbourne VIC	May 06	22,135	Jun 14	34,750	34,750	18,800	7.3%	7.8%	9.3%	9.3%
<b>Harvester Centre</b> Cnr Harvester & Devonshire Roads Sunshine VIC	Feb 07	15,200	Jun 14	13,600	13,600	12,500	9.3%	10.0%	10.0%	10.5%
<b>Pacific Private Clinic</b> 119-123 Nerang Street Southport QLD	Feb 07	34,497	Dec 13	28,000	29,100	29,800	9.8%	10.0%	9.8%	10.0%
<b>Leading Healthcare</b> 85 Mollison Street Bendigo VIC	Sep 12 <sup>3</sup>	8,547	Dec 12	8,600	9,000	8,600	8.0%	8.3%	9.0%	9.0%
<b>Westmead Hospital</b> Merrylands NSW	May 13	21,355	Jun 14	22,200	22,200	20,000	8.3%	9.0%	9.5%	9.5%
<b>Spring Hill</b> 55 Little Edward Street, Spring Hill QLD	Jun 14	47,750	Apr 14	44,500	44,500	-	8.3%	-	9.8%	-
		<b>244,090</b>		<b>264,150</b>	<b>270,650</b>	<b>203,600</b>	<b>8.3%</b>	<b>8.6%</b>	<b>9.5%</b>	<b>9.7%</b>
<b>Property under construction</b>										
<b>Casey Stage 1</b> Kangan Drive, Berwick VIC		9,275			9,275	1,035				
<b>Development land</b>										
<b>Casey development land</b> Kangan Drive, Berwick VIC		1,951			1,951	1,752				
<b>Total all investment properties</b>		<b>255,316</b>			<b>281,876</b>	<b>206,387</b>				

<sup>1</sup> The external valuation and carrying amounts shown for the ARCBS Facility include the related finance lease receivable (being a long term lease to a tenant of part of the Facility), and the related finance lease payable (being the long term ground lease for the Facility). These leases have been recorded separately in the statement of financial position; the amounts recognised are given in notes 4 and 11. See also note 1(e). The cost to date shown is the net of the total expenditure of \$84,773,000 less the initial receipt under the finance lease receivable of \$19,459,000 (excluding GST).

<sup>2</sup> Investment property that has not been valued by external valuers at reporting date is carried at the Responsible Entity's



estimate of fair value in accordance with the accounting policy at note 1(d).

<sup>3</sup>Date of completion of construction.

### (c) Movements in carrying amount

	2014 \$'000	2013 \$'000
Carrying amount at beginning of year	195,573	169,714
Purchase of new properties	47,756	23,990
Additions to existing property	13,787	808
Expenditure on property under construction	8,240	1,801
Amortisation of tenant incentives and leasing commissions	(168)	(156)
Straight line lease revenue recognition	882	755
Change in fair value – unrealised	4,705	(1,339)
Change in fair value – realised	-	-
<b>Carrying amount at end of year</b>	<b>270,775</b>	<b>195,573</b>

### (d) Fair value measurement, valuation techniques and inputs

In determining the appropriate classes of investment property, management has considered the nature, characteristics and risks of its investment properties as well as the level of fair value hierarchy within which the fair value measurements are categorised.

The adopted valuation for investment properties is generally the mid-point of the valuations determined using the discounted cash flow (DCF) method and the income capitalisation method. There has been no change to the valuation technique in the current year. The DCF and income capitalisation methods use unobservable inputs in determining fair value, as per the table below:

#### Unobservable inputs

Fair value hierarchy	Fair value at 30 June 2014 \$'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs 30 June 2014
Level 3	281,876	DCF and income capitalisation method	Net passing rent - \$/sqm Net market rent - \$/sqm Adopted capitalisation rate Adopted discount rate Adopted terminal yield	\$294 - \$678 \$305 - \$678 7.25% - 9.75% 9.00% - 10.00% 7.75% - 9.75%

#### Definitions

A definition is provided below for each of the inputs used to measure fair value:

Discounted cash flow method (DCF)	Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the assets life including an exit or terminal value. The DCF method involves a projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish the present value of the income stream associated with the real property.
Income capitalisation approach	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure and income reversions.
Net passing rent	Net passing rent is the contracted amount for which a property or space within a property is leased. The owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Net market rent	A net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. The owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.
Adopted discount rate	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it should reflect the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence and the prior external valuation.
Adopted terminal yield	The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation.

	The rate is determined with regards to market evidence and the prior external valuation.
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### Valuation process

The aim of the valuation process is to ensure that assets are held at fair value in the Fund's accounts and that the Fund is compliant with applicable regulations (Corporations Act, ASIC) and the relevant Accounting Standards. The Fund's investment properties are independently valued on a periodic basis.

The Fund's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties valued. Internal valuations have been performed by the Manager and reviewed and accepted by the Board of Directors of the Responsible Entity.

Appropriate capitalisation rates, discount rates and terminal yields based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation and discounted cash flow valuation. The adopted value is generally a mid-point of these two approaches.

### Sensitivity analysis

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net passing rent - \$/sqm	Increase	Decrease
Net market rent - \$/sqm	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted discount rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase

Generally, a change in the assumption made for the adopted capitalisation rates is accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the income capitalisation approach and the adopted terminal yield forms part of the discounted cash flow approach. The midpoint of the two valuations is then generally adopted.

When calculating a valuation under the income capitalisation approach, the net market income has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and increase (softening) in the adopted capitalisation rate could potentially offset the impact to fair value. The same can be said for decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

When calculating a valuation under the discounted cash flow approach, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving at a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value. In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield could potentially magnify the impact to fair value.

For all investment properties the current use equates to the highest and best use. During the financial year, the Fund received rental income and other property income totalling \$22,049,000 (2013: \$18,990,000) from its investment properties. Direct operating expenses arising from investment property that generated income during the year totalled \$4,761,000 (2013: \$4,309,000). Direct operating expenses arising from investment property that did not generate income during the year totalled Nil (2013: Nil).

### (e) Leases as lessor

The Fund leases out its investment property under long-term operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	2014 \$'000	2013 \$'000
Within one year	22,941	18,096
Later than one year and not later than five years	69,747	58,924
Later than five years	175,960	131,718
	<b>268,648</b>	<b>208,738</b>

## 6. Loans carried at amortised cost

	2014 \$'000	2013 \$'000
Opening balance	-	-
Purchase price including costs	6,401	-
Additional capital and other cost contributions	1,864	-
Capitalised interest income	666	-
Accrued costs	43	-
(Impairment)/revaluation	(433)	-
	<b>8,541</b>	<b>-</b>

The above balance represents the Fund's exposure to the assets and cashflows of Waratah Private Hospital via a secured loan acquired at a significant discount to its original face value. An impairment loss amounting to \$433,000 (2013: N/A) was recognised in the current period as a result of revisions to the quantum and timing of the loan's forecast cashflows, discounted at the original effective interest rate.

## 7. Equity accounted investments

The Fund accounts for investments in joint ventures using the equity method.

	2014 \$'000	2013 \$'000
<b>Investments accounted for using the equity method</b>		
Opening balance	18,271	15,830
Fund's share of joint venture profit	3,822	1,663
Distributions	(1,530)	(1,392)
Additional investment in joint venture	62	2,170
	<b>20,625</b>	<b>18,271</b>

### (a) Interests in joint ventures

		Ownership interest			
Name	Principal activity	2014	2013	Joint venture reporting date	Country
Divine Logistics Trust	Real estate investment	50.0%	50.0%	30 June	Australia
Divine Logistics Pty Limited*	Trustee	50.0%	50.0%	30 June	Australia

\* Divine Logistics Pty Limited is a non-operating entity and its sole purpose is as trustee of the Divine Logistics Trust.

### (b) Summarised financial information of Divine Logistics Trust

#### Financial position - 2014

Joint venture entity	Current assets \$'000	Non current assets \$'000	Total assets \$'000	Current liabilities \$'000	Non current liabilities \$'000	Total liabilities \$'000	Net assets \$'000	Share of J.V. assets equity accounted \$'000
Divine Logistics Trust	582	41,084	41,666	416	-	416	41,250	20,625
	<b>582</b>	<b>41,084</b>	<b>41,666</b>	<b>416</b>	<b>-</b>	<b>416</b>	<b>41,250</b>	<b>20,625</b>

#### Financial position - 2013

Joint venture entity	Current assets \$'000	Non current assets \$'000	Total assets \$'000	Current liabilities \$'000	Non current liabilities \$'000	Total liabilities \$'000	Net assets \$'000	Share of J.V. assets equity accounted \$'000
Divine Logistics Trust	380	36,484	36,864	322	-	322	36,542	18,271
	<b>380</b>	<b>36,484</b>	<b>36,864</b>	<b>322</b>	<b>-</b>	<b>322</b>	<b>36,542</b>	<b>18,271</b>

The above amounts of assets and liabilities include the following:

	2014 \$'000	2013 \$'000
Cash and cash equivalents	374	313
Current financial liabilities (excluding trade and other payables and provisions)	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

#### Financial performance

	2014 \$'000	2013 \$'000
Revenue	3,696	3,374
Gain on change in fair value of investment properties	4,616	496
Expenses	(668)	(544)
<b>Profit for the year</b>	<b>7,644</b>	<b>3,326</b>
Other comprehensive Income	-	-
<b>Total comprehensive Income</b>	<b>7,644</b>	<b>3,326</b>
Fund's share of profits of joint venture	3,822	1,663

The above profit for the year includes the following:

	2014 \$'000	2013 \$'000
Depreciation	-	-
Interest Income / (expense)	6	11
Income tax Income / (expense)	-	-

#### Distributions received from joint ventures

During the financial year, the Fund received distributions totaling \$1,530,000 (2013: \$1,392,000) from the joint venture.

The Fund has imposed no significant restrictions on its joint ventures. Further to this the Fund has no unrecognised losses from its joint ventures. As at 30 June 2014, the joint ventures have no commitments or contingent liabilities.

### 8. Payables

	2014 \$'000	2013 \$'000
<b>Current liabilities</b>		
Trade and other payables	7,558	3,059
Rent in advance	823	780
	<b>8,381</b>	<b>3,839</b>
<b>Non-current liabilities</b>		
Trade and other payables	2,056	1,950
Amounts payable to lessee	5,303	5,065
	<b>7,359</b>	<b>7,015</b>

### 9. Distributions paid and payable

	2014		2013	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the year	4.00	4,645	3.67	2,696
Distribution payable	4.00	4,821	3.67	3,620
	<b>8.00</b>	<b>9,466</b>	<b>7.34</b>	<b>6,316</b>

The distribution payable for the half year ended 30 June 2014 was recognised in the 2014 financial year and will be paid on 29 August 2014. The distribution payable for the half year ended 30 June 2013 was recognised in the 2013 financial year and was paid on 30 August 2013.

## 10. Earnings per unit

	2014	2013
Profit attributable to unitholders (\$'000)	11,896	6,047
Weighted average number of units outstanding (thousands)	112,971	76,636
Basic and diluted earnings per unit (cents)	10.53	7.89

## 11. Borrowings

	2014 \$'000	2013 \$'000
<b>Current liabilities</b>		
Finance lease	376	365
	<b>376</b>	<b>365</b>
<b>Non-current liabilities</b>		
Bank debt	99,938	109,497
Finance lease	8,713	8,478
	<b>108,651</b>	<b>117,975</b>

### (a) Bank debt

The Fund has three bank facilities:

- The first is a revolving cash advance facility varied in November/December 2013 to a current limit of \$77,800,000 drawn to \$50,530,000 at reporting date with \$26,880,000 (from a limit of \$38,900,000) repayable on 30 September 2017 and \$23,650,000 (from a limit of \$38,900,000) repayable on 30 September 2018;
- The second is a revolving cash advance facility with a limit of \$8,538,000 fully drawn at reporting date, repayable on 30 September 2015; and
- The third is a revolving cash advance facility with a limit of \$41,200,000 fully drawn at reporting date, repayable on 15 July 2016.

Unamortised borrowing costs of \$329,000 (2013: \$290,000) reduce the amounts drawn to the reported carrying amounts in the statement of financial position.

With the exception of Spring Hill and the secured debt position associated with Waratah Private Hospital, all of the Fund's assets and the assets of its equity accounted investment are pledged as security for these loans in the three different security pools. The facilities are also secured by a negative pledge that imposes certain covenants with respect to the particular security pool for each facility. These covenants include maintenance of the following financial ratios at reporting date:

- The ratio of net rental income (EBITDA for facility 3) to interest costs under the facility will not fall below 1.5;
- The ratio of outstanding principal under the facilities to the external bank accepted valuation of the properties will not exceed 60% for the first and second facilities and 65% for the third facility; and
- The ratio of outstanding principal, including the mark to market valuation of a derivative, to the external valuation of the property will not exceed 70% for the third facility.

### (b) Finance leases

The lease of land on which one of the Fund's investment properties is built is accounted for as a finance lease. The remaining term of the lease at 30 June 2014 was 74 years. There is no purchase option. Minimum payments under the lease and their present values are as follows:

	2014 \$'000	2013 \$'000
Minimum lease payments payable:		
Not later than one year	390	379
Later than one year and not later than five years	1,681	1,632
Later than five years	100,228	100,666
	102,299	102,677
Future finance charges	(93,210)	(93,835)
<b>Present value of minimum lease payments</b>	<b>9,089</b>	<b>8,842</b>
Present value of minimum lease payments:		
Not later than one year	376	365
Later than one year and not later than five years	1,360	1,320
Later than five years	7,353	7,157
	<b>9,089</b>	<b>8,842</b>

## 12. Derivatives

	2014 \$'000	2013 \$'000
<b>Non-current assets</b>		
Interest rate swap contracts	-	47
<b>Current liabilities</b>		
Interest rate swap contracts	2,342	2,268
<b>Non-current liabilities</b>		
Interest rate swap contracts	5,600	4,290

## 13. Issued units

### (a) Carrying amounts

	2014 \$'000	2013 \$'000
At beginning of the year	88,179	64,209
Issue of new units	82,787	23,108
Distribution reinvestment plan	2,463	944
Manager's performance fee	4,675	981
Unit issue costs	(1,970)	(1,063)
<b>At end of year</b>	<b>176,134</b>	<b>88,179</b>

### (b) Number of issued units

	2014 Units	2013 Units
On issue at beginning of the year	98,640,857	72,827,232
Issue of new units	69,778,993	23,822,432
Distribution reinvestment plan	2,225,185	1,020,288
Manager's performance fee	3,864,346	970,905
<b>On issue at end of year</b>	<b>174,509,381</b>	<b>98,640,857</b>

### (c) Terms of units

All units are fully paid and rank equally with each other for all purposes (except for the new units of 53,989,519 issued in June 2014 as these were not entitled to the distribution payable for the half year ended 30 June 2014). Each unit entitles the holder to one vote, in person or by proxy, at a meeting of unitholders.

## 14. Remuneration of auditors

	2014 \$	2013 \$
Auditing or reviewing the Financial Report	34,250	33,180
Other non-audit services	3,120	5,120
	<b>37,370</b>	<b>38,300</b>

The auditor of the Fund is Deloitte Touche Tohmatsu. Non-audit services relate to the audit of the compliance plan and other approved advisory services.

## 15. Finance costs

	2014 \$'000	2013 \$'000
Interest paid or payable	7,580	7,853
Finance lease interest	625	608
Less interest capitalised	(483)	(205)
	<b>7,722</b>	<b>8,256</b>

## 16. Segment information

### (a) Description of segments

The Fund invests in healthcare property located in Australia, where it leases the properties it owns. The Fund has identified its sole operating segments as being this activity, based on internal reporting to the chief operating decision maker. The Fund distinguishes only this activity in its internal reporting.

### (b) Major customers

The Fund has a number of customers from whom it receives rental revenue. The amounts received from major customers of the Fund are set out below:

	2014 \$'000	2013 \$'000
Customer 1	4,587	4,365
Customer 2	3,400	3,358
Customer 3	2,440	2,374

## 17. Related party disclosures

The Responsible Entity of Generation Healthcare REIT is APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). In addition, Generation Healthcare Management Pty Limited (GHM) and Generation Healthcare Management (Hurstville) Pty Limited (GHMH), subsidiaries of APN Property Group Limited, are companies in which a related party of the Fund's Chief Executive Officer has a financial interest, provide management services.

### Fees of the Responsible Entity and its related parties

In accordance with the Fund's constitution the Responsible Entity (including GHM) is entitled to receive:

- a fund management fee of up to 0.6% of the gross asset value of the Fund and the consolidated entities, payable monthly in arrears; GHM also receives property management fees at commercial rates;
- a performance fee being 5% of the dollar amount by which the Fund's actual performance exceeds the S&P/ASX300 Property Accumulation Index, plus 15% of outperformance above 2% per annum, calculated and payable on 31 December and 30 June;
- a project management services fee of up to 2% of the project cost for each project in respect of which project management services are provided;
- an acquisition fee of up to 2% of the total amount paid for each acquisition (including transaction costs);
- a development management services fee of up to 3% of the project cost for each project in respect of which development management services are provided; and
- reimbursement of fund expenses incurred on behalf of the Fund.

GHMH is entitled to property/asset management fees in relation to services provided to Cortez Enterprises Pty Ltd (Cortez). Cortez is a special purpose entity established to hold, amongst other assets, debt and other rights associated with Waratah Private Hospital. The Fund has a 12.5% interest in the debt and other rights associated with Waratah Private Hospital.

The following fees were paid to APN FM as Responsible Entity and related parties in relation to the above:

	2014 \$	2013 \$
Fund management fee	1,460,061	1,280,995
Performance fee	4,236,137	1,315,871
Property management fees	421,520	171,481
Property acquisition fees <sup>1</sup>	479,093	248,940
Development management fees	100,000	158,795
Property/asset management fees <sup>2</sup>	388,699	-
Other services	26,140	-
	<b>7,111,650</b>	<b>3,176,082</b>

<sup>1</sup> Net of third party acquisition costs totalling \$90,907 that were incurred by the Responsible Entity and its related party on behalf of the Fund.

<sup>2</sup> Services provided to Cortez Enterprises Pty Ltd.

### Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund and personnel of this entity are considered the Key Management Personnel of the Fund.

The names of the key management personnel of the Responsible Entity and related entities during the period were:

- Miles Wentworth (Fund Chief Executive Officer)
- Chris Adams (Director, GHM)
- Geoff Brunsdon (Chairman and Independent Non-Executive Director)
- Michael Johnstone (Independent Non-Executive Director)
- Jennifer Horrigan (Independent Non-Executive Director)
- Howard Brenchley (Director)
- John Freemantle (Company Secretary)
- Michael Groth (Chief Financial Officer and alternate Director for Howard Brenchley)

#### Key management personnel compensation

Key management personnel are paid by the parent of the Responsible Entity for their services. Payments made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel in respect of services rendered to the Fund itself.

Units held directly, indirectly or beneficially in the Fund by each key management person, including their related parties and distributions received or receivable from the Fund were as follows:

	2014		2013	
	Number of units held	Distributions \$	Number of units held	Distributions \$
Miles Wentworth	221,982	13,440	146,884	9,930
Chris Adams	354,385	28,167	323,473	21,868

#### Holdings of units by related parties

Related parties may purchase and sell units in the Fund in accordance with their respective Constitution and product disclosure statements. Details of units held in the Fund by related parties (including managed investment schemes for which a related party is the Responsible Entity) and distributions received or receivable are set out below.

Related parties of APN Funds Management Limited:

	2014		2013	
	Number of units held	Distributions \$	Number of units held	Distributions \$
Generation Healthcare Management Pty Limited	10,947,562	461,547	3,525,631	188,856
APN Property Group Limited <sup>1</sup>	4,940,000	221,600	-	183,024
APN Funds Management Limited	5,484,822	345,093	6,136,811	225,221
APN Property For Income Fund No.2	1,558,330	124,666	1,987,797	168,188
APN AREIT Fund	5,663,847	336,208	4,058,591	274,382
APN Property For Income Fund	1,820,686	145,655	721,625	26,484

<sup>1</sup> In 2013, APN Property Group Limited received distributions from units held during the financial year which were subsequently transferred to APN Funds Management Limited.



## 18. Notes to the cash flow statement

### (a) Reconciliation of profit for the period to net cash provided by operating activities

	2014 \$'000	2013 \$'000
Net profit for the year	11,896	6,047
<b>Adjustments for:</b>		
Straight line lease revenue recognition	(866)	(778)
Change in fair value (gain) / loss of investment properties	(4,705)	1,339
Change in fair value loss / (gain) of derivatives	1,431	(1,205)
Net change in loans carried at amortised cost	433	-
(Shortfall) of distributions received from equity accounted investments over share of profits	(2,482)	(107)
Interest income from loans carried at amortised cost	(666)	-
Other non-cash items	4,180	876
Operating profit for the year before changes in working capital	9,221	6,172
<b>Changes in working capital:</b>		
Decrease in receivables	(942)	(353)
Decrease in interest payable	(144)	(120)
Increase in other payables	1,337	1,079
<b>Net cash provided by operating activities</b>	<b>9,472</b>	<b>6,778</b>

### (b) Non-cash financing and investing activities

	2014 \$'000	2013 \$'000
Reinvestment of distributions pursuant to the Distribution Investment Plan	2,463	944

## 19. Capital management

The Group aims to meet its strategic objectives and operational needs and to maximise returns to unitholders through the appropriate use of debt and equity, while taking account the additional financial risks of higher debt levels.

In determining the optimal capital structure the Group takes into account the relative security of its income flows, the predictability of its expenses, its debt profile, the degree of hedging and the overall level of debt as measured by gearing. The Group also takes into account a number of factors, including the views of investors and the market in general, the capital needs of its portfolio, the relative cost of debt versus equity, the execution risk of raising equity or debt, and the additional financial risks of debt including increased volatility of earnings due to exposure to interest rate movements, the liquidity risk of maturing debt facilities and the potential for acceleration prior to maturity.

The actual capital structure at a point in time is the product of a number of factors, many of which are market driven and to various degrees outside the control of the Group. These include the impact of revaluations on gearing levels, the availability of new equity and the liquidity in real estate markets. While the Group periodically determines the optimal capital structure, the ability to achieve the optimal structure may be impacted by market conditions and the actual position may often differ from the optimal position.

The Group's capital position is primarily monitored through its ratio of net bank debt to total assets ("Gearing Ratio"). The Group's medium term strategy is to maintain the Gearing Ratio in the range of 40% to 50%. At 30 June 2014 the Gearing Ratio was 31.3% (2013: 47.6%). This is calculated as follows:

	2014 \$'000	2013 \$'000
Total consolidated borrowings	109,027	118,340
Less cash & cash equivalents <sup>1</sup>	(1,719)	(1,940)
Less finance fees payable	(9,089)	(8,843)
Net consolidated debt	98,219	107,557
Plus share of debt of equity accounted investments	-	-
<b>Net look-through debt</b>	<b>98,219</b>	<b>107,557</b>
Total consolidated assets	324,891	236,348
Less cash & cash equivalents <sup>1</sup>	(1,719)	(1,940)
Less finance fees payable	(9,089)	(8,843)
Less equity accounted investments	(20,625)	(18,271)
Plus share of assets of equity accounted investments	20,833	18,432
<b>Total look-through assets</b>	<b>314,291</b>	<b>225,726</b>
<b>Gearing ratio</b>	<b>31.3%</b>	<b>47.6%</b>

<sup>1</sup>Excludes amount held in escrow.

## 20. Financial instruments

The Group's principle financial instruments comprise receivables, financial assets, payables, interest bearing liabilities, other financial liabilities, cash and short-term deposits and derivative financial instruments.

### Categories of financial instruments

The Fund has the following categories of financial assets and liabilities:

	2014 \$'000	2013 \$'000
Financial assets at fair value through profit or loss	294,619	215,831
Loans and receivables	30,272	20,517
Financial liabilities at fair value through profit or loss	(7,942)	(6,558)
Financial liabilities measured at amortised cost	(129,588)	(132,814)

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group manages its exposure to these risks primarily through its Treasury Policy. The policy sets out various targets aimed at restricting the financial risk taken by the Group. Management reviews actual positions of the Group against these targets on a regular basis. If the target is not achieved, or forecast not to be achieved, a plan of action is, where appropriate, put in place with the aim of meeting the target within an agreed timeframe. Depending on the circumstances of the Group at a point in time, it may be that positions outside of the Treasury Policy are accepted and no plan of action is put in place to meet the Treasury targets, because, for example, the risks associated with bringing the Group into compliance outweigh the benefits. The adequacy of the Treasury Policy in addressing the risks arising from the Group's financial instruments is reviewed on a regular basis.

While the Group aims to meet its Treasury Policy targets, many factors influence its performance and it is probable that at any one time it will not meet all its targets. For example, the Group may be unable to negotiate the extension of bank facilities sufficiently ahead of time so that it fails to achieve its liquidity target. When refinancing loans, it may be unable to achieve the desired maturity profile or the desired level of flexibility of financial covenants, because of the cost of such terms or their unavailability. Hedging instruments may not be available, or their cost may outweigh the benefits of risk reduction. Other risks may be introduced such as mark to market valuation risk. Changes in market conditions may limit the Group's ability to raise capital through the issue of units or sale of properties.

### (a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates arises primarily from its use of borrowings. The main consequence of adverse changes in market interest rates is higher interest costs, reducing the Group's profit. In addition, one or more of the Group's loan agreements include minimum interest cover covenants. Higher interest costs resulting from increases in market interest rates may result in these covenants being breached, providing the lender the right to call in the loan or to increase the interest rate applied to the loan.

The Group manages the risk of changes in market interest rates by maintaining an appropriate mix of fixed and floating rate borrowings. Fixed rate debt is achieved either through fixed rate debt funding or through derivative financial instruments permitted under the Treasury Policy. The policy sets minimum and maximum levels of fixed rate exposure over a ten year time

horizon.

At 30 June 2014, after taking into account the effect of interest rate swaps, 75% of the Group's borrowings are at a fixed rate of interest (2013: 77%).

Exposure to changes in market rates also arises from financial assets such as cash deposits and loan receivables subject to floating interest rate terms. Changes in market interest rates will also change the fair value of any interest rate hedges.

### (b) Interest rate risk exposure

The Group's exposure to interest rate risk (excluding line, margin and establishment fees) and the effective interest rates on financial instruments at reporting date was as follows:

2014	Floating interest rate	Fixed interest maturing in:			Total
		Less than 1 year	1 to 5 years	More than 5 years	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>					
Cash at bank	2,660	-	-	-	2,660
Short term deposits	3	556	-	-	559
Loan receivable	-	-	8,541	-	8,541
Finance lease receivable	-	751	2,754	16,685	20,190
<b>Financial liabilities</b>					
Bank debt	99,938	-	-	-	99,938
Finance lease payable	-	376	1,360	7,353	9,089
Interest rate swaps:					
- Fund pays/(receives)					
- Current <sup>1</sup>	(75,025)	29,425	20,600	25,000	-
- Forward start	(44,269)	-	19,269	25,000	-
<b>Weighted average interest rates</b>	%	%	%	%	%
<b>Financial assets</b>					
Cash at bank	0.9	-	-	-	N/A
Short term deposits	2.5	3.6	-	-	N/A
Loan receivable	-	-	14.9	-	N/A
Finance lease receivable	-	6.5	6.5	6.5	N/A
<b>Financial liabilities</b>					
Bank debt	2.8	-	-	-	N/A
Finance lease payable	-	7.0	7.0	7.0	N/A
Interest rate swaps:					
- Fund pays/(receives)					
- Current	(2.8)	5.0	7.1	5.5	N/A
- Forward start	(2.8)	-	3.9	4.6	N/A

2013	Floating interest rate	Fixed interest maturing in:			Total
		Less than 1 year	1 to 5 years	More than 5 years	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>					
Cash at bank	259	-	-	-	259
Short term deposits	1,229	452	-	-	1,681
Finance lease receivable	-	730	2,674	16,253	19,657
<b>Financial liabilities</b>					
Bank debt	109,497	-	-	-	109,497
Finance lease payable	-	365	1,320	7,157	8,842
Interest rate swaps:					
- Fund pays/(receives)					
- Current <sup>1</sup>	(84,025)	9,000	61,025	14,000	-
- Forward start	(15,000)	-	10,000	5,000	-

<sup>1</sup> The amounts presented represent the notional principle values of interest rate swaps that have a contractual maturity date falling due in the timeframe indicated.

2013	Floating interest rate	Fixed interest maturing in:			Total
		Less than 1 year	1 to 5 years	More than 5 years	
Weighted average interest rates	%	%	%	%	%
<b>Financial assets</b>					
Cash at bank	0.7	-	-	-	N/A
Short term deposits	2.9	4.1	-	-	N/A
Finance lease receivable	-	6.5	6.5	6.5	N/A
<b>Financial liabilities</b>					
Bank debt	2.9	-	-	-	N/A
Finance lease payable	-	7.0	7.0	7.0	N/A
Interest rate swaps:					
- Fund pays/(receives)					
- Current	(2.9)	4.0	5.8	5.7	N/A
- Forward start	(2.9)	-	3.8	4.5	N/A

Other financial instruments of the Group not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

### (c) Interest rate sensitivity analysis

The impact of an increase or decrease in average interest rates of 1% (100 basis points) at reporting date, with all other variables held constant, is illustrated in the tables below. This analysis is based on the interest rate risk exposures in existence at reporting date. As the Group has no derivatives that meet the documentation requirements to qualify for hedge accounting, there would be no impact on unitholders' interest (apart from the effect on profit).

Increase in average interest rates of 1%	Effect on profit after tax Higher/(lower)	
	2014 \$'000	2013 \$'000
The effect on net interest expense for one year would have been:		
Variable interest rate instruments	(78)	(349)
The effect on change in fair value of derivatives would have been:		
Variable interest rate instruments	4,065	2,489
Decrease in average interest rates of 1%	Effect on profit after tax Higher/(lower)	
	2014 \$'000	2013 \$'000
The effect on net interest expense for one year would have been:		
Variable interest rate instruments	78	349
The effect on change in fair value of derivatives would have been:		
Variable interest rate instruments	(4,278)	(2,600)

### (d) Credit risk

Credit risk refers to the risk that a counterparty defaults on its contractual obligations resulting in a financial loss to the Group.

The major credit risk for the Group is default by tenants resulting in a loss of rental income while a replacement tenant is secured. Added risk is a further loss if the rent level agreed with the replacement tenant is below that previously paid by the defaulting tenant. In addition, a default of one of the Group's major tenants may trigger the right for one or more of the lenders to the Group to review or call in its loan.

The Group assesses the credit risk of prospective tenants, the credit risk of in-place tenants when acquiring properties, and the credit risk of existing tenants renewing upon expiry of their leases. Factors taken into consideration when making this assessment include the following:

- aggregate exposure the Group may have to the prospective tenant if the counterparty is already a tenant in the Group's portfolio;
- the strength of the prospective tenant's business;
- the level of its commitment to locating in the Group's property; and
- any form of security, for example a rental bond, to be provided by the tenant.

The decision to accept the credit risk associated with leasing space to a particular tenant is balanced against the risk of the potential financial loss of not leasing up vacant space.

Rent receivable balances are monitored on an ongoing basis and arrears are actively followed up in order to reduce, where possible, the extent of any losses should the tenant subsequently default. The Responsible Entity believes that the Group's receivables that are neither past due nor impaired do not give rise to any significant credit risk. Credit risk also arises from deposits placed with financial institutions and derivative contracts that may have a positive value to

the Group. The Group's Treasury Policy sets target limits for credit risk exposure with financial institutions and minimum counterparty credit ratings. Counterparty exposure is measured as the aggregate of all obligations of any single legal entity or economic entity to the Group, after allowing for appropriate set offs which are legally enforceable.

The Group's maximum exposure to credit risk at reporting date in relation to each class of financial instrument is its carrying amount as reported in the statement of financial position.

#### (e) Liquidity risk

The main objective of liquidity risk management is to reduce the risk that the Group does not have the resources available to meet its financial obligations as well as working capital and committed capital expenditure requirements. The Group's Treasury Policy sets a target for the level of cash and available undrawn debt facilities to cover future committed expenditure in the next year, loan maturities within the next year and an allowance for unforeseen events such as tenant default.

The Group may also be exposed to contingent liquidity risk under its term loan facilities where term loan facilities include covenants. If such covenants are breached it may give the lender the right to call in the loan thereby accelerating a cash flow which otherwise was scheduled for the loan maturity. The Group monitors adherence to loan covenants on a regular basis, and the Treasury Policy sets targets based on the ability to withstand adverse market movements and remain within loan covenant limits.

The Group monitors its debt expiry profile and aims to achieve debt maturities below a target level of total committed debt facilities, where possible, to reduce refinance risk in any one year.

The contractual maturities of the Group's non-derivative financial liabilities at reporting date are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the liabilities including interest at market rates.

	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2014</b>				
Liabilities				
Trade & other payables	8,381	7,359	-	15,740
Borrowings	5,380	112,106	99,778	217,264
	<b>13,761</b>	<b>119,465</b>	<b>99,778</b>	<b>233,004</b>
<b>2013</b>				
Liabilities				
Trade & other payables	3,839	7,015	-	10,854
Borrowings	5,755	121,141	100,227	227,123
	<b>9,594</b>	<b>128,156</b>	<b>100,227</b>	<b>237,977</b>

The contractual maturities of the Group's derivative financial liabilities at reporting date are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the liabilities including interest at market rates.

	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2014</b>				
Liabilities				
Derivative liabilities – net settled	1,967	7,046	259	9,272
<b>2013</b>				
Liabilities				
Derivative liabilities – net settled	1,900	5,560	(45)	7,415

#### (f) Fair value of financial instruments

The Group uses the following fair value measurement hierarchy:

- Level 1: fair value is calculated using quoted prices in active markets;
- Level 2: fair value is calculated using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: fair value is calculated using inputs for the asset or liability that are not based on observable market data.

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date, without any deduction for transaction costs.

The amount payable to a lessee was calculated by reference to the contractual obligation. For further disclosure on the unobservable Level 3 inputs see note 1(l) and note 5.

Financial instruments that trade in markets that are not considered active but values are based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include financial derivatives whose fair values have been determined using dealer quotations. The fair values of the interest rate swaps held by the Fund have been determined using dealer quotations.

The following tables present the Group's financial instruments that were measured and recognised at fair value at each reporting date:

Fair value measurement as at 30 June 2014				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial liabilities measured at fair value through profit or loss</b>				
Amounts payable to lessee	-	-	5,303	5,303
Derivatives – interest rate swaps	-	7,942	-	7,942
<b>Total</b>	<b>-</b>	<b>7,942</b>	<b>5,303</b>	<b>13,245</b>
Fair value measurement as at 30 June 2013				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial liabilities measured at fair value through profit or loss</b>				
Amounts payable to lessee	-	-	5,065	5,065
Derivatives – interest rate swaps	-	6,558	-	6,558
<b>Total</b>	<b>-</b>	<b>6,558</b>	<b>5,065</b>	<b>11,623</b>

The following tables present the changes in level 3 instruments for each year:

2014	Amount payable to lessee \$'000	Total \$'000
Opening balance	5,065	5,065
Additions	-	-
(Gains)/losses recognised in profit or loss	238	238
Transfers out of level 3	-	-
<b>Closing balance</b>	<b>5,303</b>	<b>5,303</b>
(Gains)/losses for the year included in profit or loss that relate to assets held at the end of the year	238	238
2013	Amount payable to lessee \$'000	Total \$'000
Opening balance	4,929	4,929
Additions	-	-
(Gains)/losses recognised in profit or loss	136	136
Transfers out of level 3	-	-
<b>Closing balance</b>	<b>5,065</b>	<b>5,065</b>
(Gains)/losses for the year included in profit or loss that relate to assets held at the end of the year	136	136

The Directors consider the carrying amounts of the Group's other financial instruments approximate their fair values.

## 21. Commitments and contingencies

Commitments for capital expenditure on investment property contracted but not provided for at reporting date is \$8,571,000 all of which is payable within one year (2013: \$808,000 of which \$62,000 is payable within one year and the balance within five years).

In addition, the Fund has entered into an agreement to acquire the freehold interest in the Epworth Freemasons Private Hospital & Medical Centre, East Melbourne. The contracted purchase price is \$10,700,000 plus stamp duty of \$647,000 and GST and is payable on the latter of the date 18 months (or earlier as agreed between the parties) after the vendor gives notice to the purchaser of completion of the plan of subdivision of the land, provided that the plan of subdivision has been registered by the Registrar, and the date 14 days after the registration of the plan by the Registrar. In addition, stamp duty of \$1,422,000 on the building purchase, which is accrued in non-current payables in the statement of financial position, is payable at the

same time. The seller has until 22 December 2015 (or, at the Group's discretion, until 22 December 2020) to procure the registration of the plan. If the plan is not registered by the expiry of that period, either party may terminate the contract. If the lease is terminated, the parties must enter into a 99 year lease with the Group paying 90% of the contracted purchase price.

The purchase of the Spring Hill investment property includes an additional contingent amount payable of \$1,500,000, dependent upon the signing of a 10 year lease by 30 September 2014. This amount is being held in escrow and is included in cash and cash equivalents on the statement of financial position.

## 22. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(s):

	Country of incorporation	Ownership interest	
		2014	2013
<b>Parent entity</b>			
Generation Healthcare REIT	Australia		
<b>Subsidiaries</b>			
Generation Healthcare Subsidiary Trust No.1	Australia	100%	100%

The Fund has no significant restrictions on its ability to access or use the assets and settle the liabilities of the group.

During the financial year, the Fund did not enter into any contractual arrangements that could require the parent or its subsidiaries to provide financial support to one of the consolidated entities (2013: Nil). Furthermore, neither the parent nor its subsidiaries have provided non-contractual financial or other support to one of the consolidated entities during the financial year (2013: Nil). There is currently no intention to provide contractual or non-contractual financial or other support to one of the consolidated entities going forward.

## 23. Parent entity disclosures

<b>Financial position</b>	<b>2014 \$'000</b>	<b>2013 \$'000</b>
<b>Assets</b>		
Current assets	11,372	9,226
Non-current assets	257,967	172,058
<b>Total assets</b>	<b>269,339</b>	<b>181,284</b>
<b>Liabilities</b>		
Current liabilities	13,199	7,400
Non-current liabilities	68,779	76,908
<b>Total liabilities</b>	<b>81,978</b>	<b>84,308</b>
<b>Net assets</b>	<b>187,361</b>	<b>96,976</b>
<b>Equity attributable to unitholders</b>		
Contributed equity	176,134	88,179
Retained earnings	11,227	8,797
<b>Total equity</b>	<b>187,361</b>	<b>96,976</b>
<b>Financial performance</b>	<b>Year ended 30 June 2014 \$'000</b>	<b>Year ended 30 June 2013 \$'000</b>
Net profit attributable to unitholders of the Fund	11,896	6,047
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>11,896</b>	<b>6,047</b>

During the financial year ended 30 June 2014, the parent entity did not enter into any guarantees in relation to debts of its subsidiaries (2013: Nil).

Other than as referred to in Note 21, there are no contingent liabilities or contractual commitments for acquisitions of property,

plant or equipment as at 30 June 2014 in the parent entity (2013: Nil).

## 24. Subsequent events

On 2<sup>nd</sup> July 2014 the Fund announced that its 50% owned Joint Venture entity, Divine Logistics Trust, entered into a series of contracts with Healthscope Limited (Healthscope) in relation to Frankston Private. The contracts and various interdependent tenant business sale agreements have resulted in Healthscope acquiring the businesses of two existing Frankston Private tenants (approximately 49% of the existing rent roll of the property) being Frankston Private Day Surgery and Peninsula Oncology Centre, extending the term of these leases by 18 years and signing an unconditional Agreement for Lease for a committed major expansion of the existing facility.

On 20 August 2014 the Fund announced that it had entered into a non-binding memorandum of understanding with St John of God Health Care in relation to stages 2 and 3 at the Fund's site at 55 Kangan Drive, Casey, Victoria. Subject to agreeing outstanding commercial matters and satisfaction of pre conditions, including respective Board approvals, the parties will progress Stage 2 concept plans to develop a scale private hospital comprising 190 beds, six operating theatres, six birthing suites, a cardiac/vascular catheter laboratory, two endoscopy theatres, medical consulting suites and associated car parks. The total project cost is currently estimated at approximately \$120 million with the base building (shell) and car park to be jointly owned by both parties and the building fit out to be owned by St John of God Health Care. In the medium to longer term the master plan includes a Stage 3 for further capacity expansion to include additional operating theatres, beds and consulting space.

Other than what is noted above, there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected, or may significantly affect, the operations of the Fund, and results of those operations, or the state of affairs of the Fund, in future financial years.

## 25. Additional information

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of Generation Healthcare REIT.

### Principal registered office

Level 30  
101 Collins Street  
MELBOURNE VIC 3000  
Tel: (03) 8656 1000

### Principal place of business

Level 30  
101 Collins Street  
MELBOURNE VIC 3000  
Tel: (03) 8656 1000