

## APPENDIX 4D

### Half-year Report

### Half-year ended 31 December 2014

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

#### Results for announcement to the market

	\$'000	
Revenues from ordinary activities	up 43% to 16,108	
Profit from ordinary activities after tax attributable to members	up 149% to 7,934	
Net profit for the period attributable to members	up 149% to 7,934	
Underlying net operating income	up 78% to 8,409 <sup>1</sup>	
Net tangible assets per unit	<b>31 December 2014</b> \$1.08	<b>30 June 2014</b> \$1.07

<sup>1</sup> Underlying net operating income for the financial half year has been calculated as follows:

	<b>2014</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>
Net profit attributable to unitholders	7,934	3,184
Adjusted for:		
- Straight line lease revenue recognition	(1,102)	(227)
- Net (gain)/loss on change in fair value of:		
Investment properties	(3,673)	(508)
Derivatives	2,686	(693)
Investment properties included in share of net profit of equity accounted investments	14	(1,519)
- Net (gain)/loss in loans carried at amortised cost	546	-
- Share of gain on change in fair value of investment property payable to lessee	-	238
- Manager's performance fee	1,977	4,236
- Other	27	26
<b>Underlying net operating income</b>	<b>8,409</b>	<b>4,737</b>

Distributions	Amount per unit (cents)	\$'000
Interim – 31 December 2014	4.20	7,352
Previous corresponding period	4.00	4,644
Record date for determining entitlements to the distribution	31 December 2014	
Details of any distribution reinvestment plan in operation	Refer ASX announcement on 19 December 2014	
Last date for receipt of an election notice for participation in any distribution reinvestment plan	2 January 2015	

Note: Franked amount per unit is not applicable

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

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



John Freemantle  
Company Secretary

16 February 2015



ARSN 118 712 584

Consolidated Financial Report for the  
Half Year Ended 31 December 2014

## Directors' report

The Directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit the consolidated financial report of Generation Healthcare REIT and of its controlled funds (together "the Fund") for the half year ended 31 December 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 half year are:

Geoff Brunsdon  
Michael Johnstone  
Jennifer Horrigan  
Howard Brenchley  
Michael Groth (alternative Director for Howard Brenchley)

## Review of operations

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.

## Results

The results of the operations of the Fund are disclosed in the condensed consolidated statement of comprehensive income of these financial statements. The net profit for the half year ended 31 December 2014 was \$7,934,000 (2013: \$3,184,000).

A summary of the Fund's result for the half year is:

	2014	2013
Net profit attributable to unitholders of the Fund (\$'000)	7,934	3,184
Underlying net operating income (\$'000)	8,409	4,737
Distributions per unit (cents)	4.20	4.00
Underlying net operating income per unit (cents)	4.81	4.63
Earnings per unit – basic and diluted (cents)	4.54	3.11

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 half year has been calculated as follows:

	2014 \$'000	2013 \$'000
Net profit attributable to unitholders	7,934	3,184
Adjusted for:		
Straight line lease revenue recognition	(1,102)	(227)
Net (gain)/loss on change in fair value of:		
Investment properties	(3,673)	(508)
Derivatives	2,686	(693)
Investment properties included in share of net profit of equity accounted investment	14	(1,519)
Net (gain)/loss in loans carried at amortised cost	546	-
Share of gain on change in fair value of investment property payable to lessee	-	238
Manager's performance fee	1,977	4,236
Other	27	26
<b>Underlying net operating income</b>	<b>8,409</b>	<b>4,737</b>

Underlying net operating income increased by 78% to \$8,409,000 from \$4,737,000 for the December 2013 half year. The increase is largely attributable to higher net property income from acquisitions and investments accompanied by portfolio rental growth, 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 six month's rental income from 55 Little Edward Street, Brisbane (purchased in June 2014) and from the additional investment in June 2014 in Epworth Freemasons Clarendon Street. Interest income has increased with the recognition of a full six months interest from the Fund's minority secured debt investment made in September 2013 associated with the Waratah Private Hospital. Lower finance costs were due to negotiated decreases in line and margin fees on the Fund's debt facilities in November

2013, April 2014 and September 2014 and repayment of debt from the proceeds of equity raisings in November/December 2013 and in June 2014.

Underlying net operating income per unit for the December 2014 half year increased by 4% to 4.81 cents, compared to 4.63 cents per unit for the December 2013 half year reflecting the higher operating performance of the Fund and the issue of new units. The distribution for the December 2014 half year has been declared at 4.20 cents per unit, a 5% increase on the prior corresponding period, with the payout ratio of distributions to underlying net operating income of 87%.

Earnings per unit as calculated under applicable accounting standards for the half year were 4.54 cents per unit, compared to 3.11 cents per unit for the December 2013 half year. In addition to the increase in the underlying net operating income, there was an increase in the net gain in the change in fair value of investment properties and a decrease in the Manager's performance fee expense. These were partially offset by a net loss on the change in the fair value liability on derivatives (compared to a gain in the December 2013 half year).

Total assets increased by \$16,496,000 to \$341,387,000, a 5% increase since 30 June 2014. This was primarily due to expenditure on the construction of the Casey Specialist Centre in Berwick, initial expenditure towards the Casey Stage 2 & 3 projects, additional investment in the Divine Logistics Trust to purchase land adjacent to Frankston Private for future development and an overall increase in property valuations.

New equity of \$680,000 (net of costs) was raised during the half year under the Distribution Reinvestment Plan with units issued in August 2014. The number of units on issue increased by 540,005 to 175,049,386.

#### ***Distributions***

In respect of the half year ended 31 December 2014 an interim distribution of 4.20 cents per unit was declared and announced on 19 December 2014 with payment to unitholders to be made on 27 February 2015 (2013: 4.00 cents).

For full details of distributions paid and payable during the half year, refer to note 2 to the financial statements.

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

The Auditor's Independence Declaration is included on page 4 of the half-year 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 consolidated half year 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.

On behalf of the Directors



Geoff Brunsdon  
Chairman  
MELBOURNE, 16 February 2015

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

16 February 2015

Dear Board Members

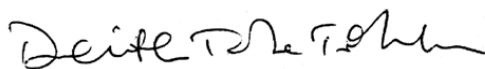
## **INDEPENDENCE DECLARATION – GENERATION HEALTHCARE REIT**

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 half year financial report for the Generation Healthcare REIT.

As lead audit partner for the review of the financial statements of Generataion Healthcare REIT for the half-year ended 31 December 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

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

We have reviewed the accompanying half-year financial report of Generation Healthcare REIT ("the Fund"), which comprises the condensed consolidated statement of financial position as at 31 December 2014, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration for the consolidated entity comprising the fund and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 17.

### *Directors' Responsibility for the Half-Year Financial Report*

The Directors of the Fund are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Generation Healthcare REIT's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Generation Healthcare REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### *Auditor's Independence Declaration*

In conducting our review, 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 review report.



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Generation Healthcare REIT is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Peter A Caldwell".

Peter A Caldwell  
Partner  
Chartered Accountants  
Melbourne, 16 February 2015



## Directors' declaration

In the opinion of the Directors of the Responsible Entity (APN Funds Management Limited) of Generation Healthcare REIT:

- a) 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) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Australian Accounting Standards and the Corporations Regulations 2001 and giving a true and fair view of the financial position and performance of the Fund; and
- c) 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.303(5) of the Corporations Act 2001.

On behalf of the Directors



Geoff Brunsdon  
Chairman  
MELBOURNE, 16 February 2015

## Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2014

	Note	Half year ended 31 December 2014 \$'000	Half year ended 31 December 2013 \$'000
<b>Revenue</b>			
Rental income		13,063	9,169
Other property income		1,683	1,376
Interest income		1,362	747
		16,108	11,292
<b>Other income</b>			
Net change in the fair value of investment properties	4	3,673	508
Net change in the fair value of derivatives		(2,686)	693
Net change in loans carried at amortised cost		(546)	-
Share of gain on change in fair value of investment property payable to lessee		-	(238)
		441	963
<b>Total income</b>		<b>16,549</b>	<b>12,255</b>
<b>Expenses</b>			
Property expenses		(2,906)	(2,152)
Finance costs		(3,472)	(4,088)
Responsible Entity's performance fee		(1,977)	(4,236)
Responsible Entity's fund management fee		(934)	(717)
Other expenses		(126)	(153)
		(9,415)	(11,346)
Share of net profit of equity accounted investment		800	2,275
<b>Net profit attributable to unitholders of the Fund</b>		<b>7,934</b>	<b>3,184</b>
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>7,934</b>	<b>3,184</b>
		<b>Cents</b>	<b>Cents</b>
Distributions per unit	2	4.20	4.00
Basic and diluted earnings per unit	3	4.54	3.11

Notes to the condensed consolidated financial statements are included on pages 12 to 17.

## Condensed consolidated statement of financial position as at 31 December 2014

	Note	31 December 2014 \$'000	30 June 2014 \$'000
<b>Current assets</b>			
Cash and cash equivalents		2,155	3,219
Trade and other receivables		2,555	2,292
		4,710	5,511
<b>Non-current assets</b>			
Trade and other receivables		19,699	19,439
Loans carried at amortised cost	8	9,093	8,541
Investment properties	4	285,335	270,775
Equity accounted investments		22,550	20,625
		336,677	319,380
<b>Total assets</b>		<b>341,387</b>	<b>324,891</b>
<b>Current liabilities</b>			
Payables		11,360	8,381
Borrowings	6	381	376
Derivatives		1,941	2,342
Distribution payable	2	7,352	4,821
		21,034	15,920
<b>Non-current liabilities</b>			
Payables		2,007	7,359
Borrowings	6	121,036	108,651
Derivatives		8,687	5,600
		131,730	121,610
<b>Total liabilities</b>		<b>152,764</b>	<b>137,530</b>
<b>Net assets</b>		<b>188,623</b>	<b>187,361</b>
<b>Equity attributable to unitholders</b>			
Issued units	5	176,814	176,134
Retained earnings		11,809	11,227
<b>Total equity</b>		<b>188,623</b>	<b>187,361</b>
Net tangible assets per unit		\$1.08	\$1.07

Notes to the condensed consolidated financial statements are included on pages 12 to 17.

**Condensed consolidated statement of changes in equity  
for the half year ended 31 December 2014**

	Issued units \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2013</b>	<b>88,179</b>	<b>8,797</b>	<b>96,976</b>
Net profit for the period	-	3,184	3,184
Other comprehensive income	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>3,184</b>	<b>3,184</b>
Issue of units	19,348	-	19,348
Distributions to unitholders	-	(4,644)	(4,644)
<b>Balance at 31 December 2013</b>	<b>107,527</b>	<b>7,337</b>	<b>114,864</b>
<b>Balance at 1 July 2014</b>	<b>176,134</b>	<b>11,227</b>	<b>187,361</b>
Net profit for the period	-	7,934	7,934
Other comprehensive income	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>7,934</b>	<b>7,934</b>
Issue of units	680	-	680
Distributions to unitholders	-	(7,352)	(7,352)
<b>Balance at 31 December 2014</b>	<b>176,814</b>	<b>11,809</b>	<b>188,623</b>

Notes to the condensed consolidated financial statements are included on pages 12 to 17.

**Condensed consolidated statement of cash flows  
for the half year ended 31 December 2014**

	Note	Half year ended 31 December 2014 Inflows/ (Outflows) \$'000	Half year ended 31 December 2013 Inflows/ (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Rental and other property receipts		14,821	11,505
Property and other payments		(4,383)	(4,192)
Distributions received from equity accounted investment		663	629
Interest received		52	24
Borrowing costs paid		(3,596)	(4,437)
<b>Net cash provided by operating activities</b>		7,557	3,529
<b>Cash flows from investing activities</b>			
Purchase of investment properties		(2,777)	-
Additions to investment properties and properties under construction		(11,511)	(894)
Additions to equity accounted investment		(1,914)	(39)
Loans advanced		(447)	(6,889)
<b>Net cash used in investing activities</b>		(16,649)	(7,822)
<b>Cash flows from financing activities</b>			
Proceeds from issue of units	5	-	18,000
Unit issue costs		(129)	(444)
Distributions paid to unitholders		(4,120)	(2,318)
Proceeds from borrowings	6	15,027	74,350
Repayment of borrowings	6	(2,750)	(85,900)
<b>Net cash provided by financing activities</b>		8,028	3,688
Net decrease in cash and cash equivalents held		(1,064)	(605)
<b>Cash and cash equivalents at beginning of the half year</b>		3,219	1,940
<b>Cash and cash equivalents at end of the half year</b>		2,155	1,335

Notes to the condensed consolidated financial statements are included on pages 12 to 17.

## Notes to the condensed consolidated financial statements

### 1. Summary of significant accounting policies

#### Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

#### Basis of preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

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 half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Fund's 2014 annual financial report for the financial year ended 30 June 2014, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

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 their operations and effective for the current reporting period. New and revised Standards and amendments thereof and Interpretations effective for the current half year that are relevant to the Fund include:

- AASB 1031 'Materiality' (2013)
- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'
- AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'
- AASB 2013-9 'Amendments to Australian Accounting Standards' – Part B: 'Materiality'
- AASB 2014-1 'Amendments to Australian Accounting Standards'
  - Part A: 'Annual Improvements 2010-2012 and 2011-2013 Cycles'
  - Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)'
  - Part C: 'Materiality'

The new and revised Standards and Interpretations have not had a material impact and not resulted in changes to the Fund's disclosure or the amounts recognized in its half-year financial statements.

### 2. Distributions paid and payable

	31 December 2014		31 December 2013	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution payable	4.20	7,352	4.00	4,644
	4.20	7,352	4.00	4,644

### 3. Earnings per unit

	31 December 2014	31 December 2013
Profit attributable to unitholders (\$'000)	7,934	3,184
Weighted average number of units outstanding (thousands)	174,876	102,367
Basic and diluted earnings per unit (cents)	4.54	3.11

#### 4. Investment properties

##### (a) Summary of carrying amounts

	31 December 2014 \$'000	30 June 2014 \$'000
<b>Assets</b>		
Current asset:		
Finance lease receivable <sup>(1)</sup>	762	751
Non-current assets:		
Finance lease receivable <sup>(1)</sup>	19,699	19,439
Investment properties	285,335	270,775
	305,034	290,214
<b>Total assets</b>	<b>305,796</b>	<b>290,965</b>
<b>Liabilities</b>		
Current liability:		
Finance lease payable <sup>(1)</sup>	381	376
Non-current liability:		
Finance lease payable <sup>(1)</sup>	8,832	8,713
<b>Total liabilities</b>	<b>9,213</b>	<b>9,089</b>
<b>Total property valuations</b>	<b>296,583</b>	<b>281,876</b>

<sup>(1)</sup> See note 4(b)(1).

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

Property	Date of purchase/ completion	Cost to date \$'000	Latest external valuation		Carrying amount <sup>(2)</sup>		Capitalisation rate		Discount rate	
			Date	Amount \$'000	31 Dec 2014 \$'000	30 June 2014 \$'000	31 Dec 2014 %	30 June 2014 %	31 Dec 2014 %	30 June 2014 %
ARCBS Facility <sup>(1)</sup>										
Cnr Musk Avenue & Blamey Street Kelvin Grove Brisbane QLD	Apr 08	65,314	Dec-14	71,500	71,500	72,500	7.85%	8.00%	9.50%	9.50%
Epworth Freemasons Private Hospital & Medical Centre										
Victoria Parade East Melbourne VIC	May 06	29,265	Jun-13	43,000	45,400	45,000	8.25%	8.25%	9.50%	9.50%
Epworth Freemasons Private Hospital										
Clarendon Street East Melbourne VIC	May 06	22,101	Jun-14	34,750	35,100	34,750	7.25%	7.25%	9.00%	9.25%
Harvester Centre										
Cnr Harvester & Devonshire Roads Sunshine VIC	Feb 07	15,047	Jun-14	13,600	13,900	13,600	9.25%	9.25%	9.75%	10.00%
Pacific Private Clinic										
119-123 Nerang Street Southport QLD	Feb 07	34,522	Dec-13	28,000	28,400	29,100	9.75%	9.75%	9.75%	9.75%
Leading Healthcare										
85 Mollison Street Bendigo VIC	Sep 12	8,547	Dec-12	8,600	9,000	9,000	8.00%	8.00%	9.00%	9.00%
Westmead Rehabilitation Hospital										
Merrylands NSW	May 13	21,355	Jun-14	22,200	22,400	22,200	8.25%	8.25%	9.25%	9.50%
Spring Hill										
55 Little Edward Street Spring Hill QLD	Jun 14	47,818	Apr-14	44,500	45,400	44,500	8.25%	8.25%	9.75%	9.75%
		<b>243,969</b>		<b>266,150</b>	<b>271,100</b>	<b>270,650</b>	<b>8.22%</b>	<b>8.26%</b>	<b>9.48%</b>	<b>9.54%</b>
<b>Properties under construction</b>										
Casey Specialist Centre										
Kangan Drive, Berwick VIC	Feb 15	16,146			20,400	9,275	8.50%		9.50%	
<b>Development land</b>										
Casey development land										
Kangan Drive, Berwick VIC		5,083			5,083	1,951				
<b>Total all investment properties</b>		<b>265,198</b>			<b>296,583</b>	<b>281,876</b>	<b>8.24%</b>		<b>9.48%</b>	

(1) 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 at note 4(a). 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).

(2) Investment property that has not been valued by independent valuers at reporting date is carried at the Responsible Entity's estimate of fair value in accordance with the Fund's accounting policy. This includes the Casey Specialist Centre which becomes income producing in February 2015.



**(c) Movements in carrying amounts**

	31 December 2014 \$'000	31 December 2013 \$'000
Carrying amount at beginning of half year	270,775	195,573
Purchase of new properties <sup>(1)</sup>	(34)	-
Additions to existing property <sup>(1)</sup>	(86)	180
Expenditure on property under construction	10,003	580
Amortisation of tenant incentives and leasing commissions	(90)	(82)
Straight line lease revenue recognition	1,094	229
Change in fair value - unrealised	3,673	508
Change in fair value - realised	-	-
<b>Carrying amount at end of half year</b>	<b>285,335</b>	<b>196,988</b>

<sup>(1)</sup> Includes costs recovered

**5. Issued units**

**(a) Carrying amounts**

	31 December 2014 \$'000	31 December 2013 \$'000
At beginning of the half year	176,134	88,179
Issue of new units	-	18,000
Distribution reinvestment plan	700	1,302
Manager's performance fee	-	438
Unit issue costs	(20)	(392)
<b>At end of the half year</b>	<b>176,814</b>	<b>107,527</b>

**(b) Number of issued units**

	31 December 2014 Units	31 December 2013 Units
At beginning of the half year	174,509,381	98,640,857
Issue of new units	-	15,789,474
Distribution reinvestment plan	540,005	1,258,708
Manager's performance fee	-	414,161
<b>On issue at end of the half year</b>	<b>175,049,386</b>	<b>116,103,200</b>

**6. Borrowings**

The Fund has three bank facilities:

1. The first is a revolving cash advance facility with a limit of \$77,800,000 drawn to \$62,806,000 at reporting date (\$50,530,000 at 30 June 2014). The additional drawings this half year have been primarily to fund the construction of the Casey Specialist Centre. Under this facility, \$36,876,000 (from a limit of \$38,900,000) is repayable on 30 September 2017 and \$25,930,000 (from a limit of \$38,900,000) is repayable on 30 September 2019 (extended from 30 September 2018).

Repayments amounting to \$2,750,000 (2013: \$85,900,000) were made under the first facility in line with cashflow management: \$1,000,000 was repaid on 25 September 2014, \$250,000 was repaid on 3 November 2014 and \$1,500,000 was repaid on 4 December 2014.

2. The second is a revolving cash advance facility with a limit of \$8,538,000 fully drawn at reporting date (\$8,538,000 at 30 June 2014) and repayable on 30 September 2019 (extended from 30 September 2015).
3. The third is a revolving cash advance facility with a limit of \$41,200,000 fully drawn at reporting date (\$41,200,000 at 30 June 2014) and repayable on 15 July 2016.

There have been no other additional borrowings for the half year ended 31 December 2014.

## 7. 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.

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. The fair values of the interest rate swap derivatives held by the Fund have been determined using dealer quotations.

The amount payable to a lessee is now contractually fixed and has been removed from Level for the half year ended 31 December 2014.

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 31 December 2014				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets measured at fair value through profit or loss</b>				
Derivatives – interest rate swaps	-	-	-	-
<b>Total</b>	-	-	-	-
<b>Financial liabilities measured at fair value through profit or loss</b>				
Amounts payable to lessee	-	-	-	-
Derivatives – interest rate swaps	-	10,628	-	10,628
<b>Total</b>	-	10,628	-	10,628

Fair value measurement as at 30 June 2014				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets measured at fair value through profit or loss</b>				
Derivatives – interest rate swaps	-	-	-	-
<b>Total</b>	-	-	-	-
<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>	-	7,942	5,303	13,245

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

	Amount payable to lessee \$'000	Total \$'000
<b>31 December 2014</b>		
Opening balance	5,303	5,303
(Gains)/losses recognised in profit or loss	-	-
Settlements	-	-
Transfers out of level 3	(5,303)	(5,303)
<b>Closing balance</b>	-	-
(Gains)/losses for the half year included in profit or loss that relate to assets held at the end of the half year	-	-

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

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

## 8. Loans carried at amortised cost

This balance represents the Fund's interest in 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 \$546,000 (2013: Nil) 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.

## 9. Segment information

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

## 10. Commitments and contingencies

Commitments for capital expenditure on investment property contracted but not provided for at reporting date is \$2,090,000 all of which is payable within one year (June 2014: \$8,571,000 payable within one year).

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 Fund also has an exclusive option for 24 months to purchase land adjacent to the Westmead Rehabilitation Hospital for \$800,000 for possible future expansion.

## 11. Subsequent events

There has not arisen in the interval between the end of the half year and the date of this report, any material transactions or events in the opinion of the Responsible Entity, to affect significantly the operation of the Fund, the results of those operations, or the state of affairs of the Fund in the future.

## 12. Additional information

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

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