



GENERATION
HEALTHCARE REIT

Generation Healthcare REIT

(ASX code: GHO) is Australia's only ASX-listed real estate investment trust that invests exclusively in healthcare property. The portfolio of seventeen¹ properties includes hospitals, medical centres, laboratories, residential aged care facilities and other purpose-built healthcare facilities. Generation Healthcare REIT™ (the 'Fund') partners with high quality healthcare tenants with well diversified income streams. The Fund has total assets under management of \$407 million with investments located in Victoria, New South Wales and Queensland.

1 Includes debt interest in Waratah Private Hospital

2 Pro-forma values including acquisition of RSL Aged Care assets which settled 25 June 2015, but remains subject to an interim structure prior to subdivision of the land.

\$407_m

TOTAL ASSETS

\$1.22

NET TANGIBLE ASSETS PER UNIT

97.8%²

PORTFOLIO OCCUPANCY

12.7 years²

WEIGHTED AVERAGE LEASE EXPIRE

111

TENANTS

26.6%

NET DEBT TO TOTAL ASSETS

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ABOUT THE RESPONSIBLE ENTITY **APN FUNDS MANAGEMENT LIMITED**

APN Funds Management Limited (APNFM) is the Responsible Entity of Generation Healthcare REIT. The Board of APNFM consists of four directors, of which three, including the Chairman are Independent Directors.

APNFM is a wholly owned subsidiary of APN Property Group (APNPG) Limited, a specialist real estate investment manager. APNPG is listed on the ASX (Code: APD) and has 48 employees located in Melbourne.

With a strong record of investment performance, APN actively invests in, develops and manages real estate and real estate securities on behalf of corporations, superannuation funds and individual investors.

APN has an 19 year track record as one of Australia's leading real estate investment managers with more than \$2 billion in funds under management as at 30 June 2015.

Further information on APN can be found at www.apngroup.com.au

ABOUT THE MANAGER **GENERATION HEALTHCARE MANAGEMENT PTY LIMITED**

Generation Healthcare Management Pty Ltd is a joint venture between APN Property Group Limited and senior management of Generation Healthcare REIT™; Miles Wentworth and Chris Adams. Operating as a property and development management company that specialises in the field of healthcare real estate, the partnership combines long dated experience, a proven track record and specialist skills to support the Fund's ongoing performance and growth.

The Manager's primary responsibilities include the day-to-day administration of the Fund, portfolio management, sourcing new opportunities and conducting due diligence on potential acquisitions. The Manager is also responsible for providing specialist property management, project management, development management and leasing services to the Fund as and when required by the Responsible Entity.





INVESTMENT STRATEGY▶

The strategy of the Fund is to:

- ▶ Own quality healthcare-related real estate over the long term that will add value and provide attractive risk adjusted returns for the Fund's investors;
- ▶ Partner with high quality healthcare tenants, providing secure, long term cashflows; and
- ▶ Deliver value-add by consistently seeking ways of improving the Fund's existing assets and sourcing other high quality opportunities for the Fund. Management's depth of experience and track record of success within the sector, enables us to leverage value adding opportunities.

RESULTS

FINANCIAL POSITION	2015	2014
TOTAL ASSETS	\$407.5m	\$324.9m
TOTAL LIABILITIES	\$148.9m	\$137.5m
NET DEBT TO TOTAL ASSETS	26.6%	31.3%
UNITS ON ISSUE	212.3m	174.5m
NET TANGIBLE ASSETS PER UNIT	\$1.22	\$1.07
MARKET CAPITALISATION*	\$347.1m	\$230.4m

FINANCIAL PERFORMANCE	2015	2014
STATUTORY NET PROFIT	\$31.3m	\$11.9m
UNDERLYING NET OPERATING INCOME	\$17.2m	\$10.4m
UNDERLYING NET OPERATING INCOME PER UNIT	9.57c	9.18c
DISTRIBUTIONS PER UNIT	8.58c	8.00c
TAX DEFERRED COMPONENT	68.6%	98.0%

* Market capitalisation as at 30 June 2015 based on a closing unit price of \$1.635

LETTER FROM THE CHIEF EXECUTIVE OFFICER ►



Miles Wentworth
Chief Executive Officer
Generation Healthcare REIT

Dear Investors,

The 2015 financial year has been a particularly busy and successful one for the Fund, having delivered a strong financial result, acquired a high quality portfolio of residential aged care facilities funded by way of an equity raising and advanced three material organic growth opportunities. The performance and value add activity has contributed to a total return (being the change in unit price plus distributions) for investors of 32.5%, outperforming the S&P ASX300 A-REIT Accumulation Index by 12.3%.

Financial Result

The underlying net operating income for the twelve months to 30 June 2015 increased by 66% to \$17.2 million. This increase is largely attributable, on the revenue side, to higher net property income from acquisitions, completed projects, accompanied by portfolio rental growth. On the expenses side, we had lower finance costs due to negotiated reductions in line and margin fees on the Fund's debt facilities, lower hedged interest rates and lower floating interest rates.

Underlying net operating income per unit was up 4.3% to 9.57 cents, reflecting the higher operating performance of the Fund and the issue of new units following the Fund's \$52 million equity raising in May 2015.

The distribution for the 2015 financial year was 8.58 cents per unit compared to 8.00 cents per unit paid for the 2014 year, an increase of 7.25%. The distribution paid or declared and payable represented a payout ratio of 88%.

Transactions undertaken / announced during the year

Transactions undertaken or announced during the year included the completion of the Casey Stage 1 project, the acquisition of a portfolio of 3 high quality aged care facilities and the significant progress made on our organic growth pipeline.

Casey Stage 1

We completed the \$17 million Casey Specialist Centre in February 2015 both on time and cost. With the facility currently 84% let and strong leasing interest, this has been a very successful project and a good forerunner to the \$120 million stage 2 project. This property was independently valued at \$23.1 million as at 30 June 2015.

Aged care portfolio acquisition

In April 2015, the fund announced the acquisition of a portfolio of three high quality residential aged care properties, two in Queensland and one in New South Wales, from RSL Care Limited ('RSL Care') for a combined amount of \$45.8 million. Co-located with RSL Care owned and operated retirement villages, each property is leased to RSL Care on an initial 20-year term with a purchase yield to the Fund of 7.65%. RSL Care and GHC have also signed a collaboration agreement to source and secure further residential aged care opportunities.

The acquisition was fully funded via a \$52.0 million equity raising at \$1.50 per new unit, comprising a \$5.0 million placement to a member of the Taverners Group and a \$47.0 million fully underwritten non-renounceable accelerated entitlement offer. By fully equity funding this acquisition, GHC has created the balance sheet capacity to deliver its committed development projects via debt funding.

Organic Growth Projects

Frankston Private Expansion

Following a competitive process, in July 2014, the Fund's 50% owned joint venture entity entered into a series of contracts with Healthscope Limited (Healthscope). This resulted in Healthscope acquiring the day surgery and day oncology businesses being two existing tenants (circa 49% of the rent roll of the property), extending the term of those leases by 18 years to 20 years and signing an Agreement for Lease for a major expansion of the existing facility.

The forecast total project cost of the expansion is now \$45 million, of which GHC's share will be approximately \$29 million. Council has issued a Notice of Decision to Issue a Permit for the project, the construction tender is in process and debt funding for the project is proceeding to documentation with building works expected to commence before the end of this calendar year. Supplementing the longer term expansion potential of Frankston Private, in November 2014 the joint venture acquired an adjacent property that Healthscope has leased for medical consulting for a 10 year term.

Casey Stage 2

In August 2014 it was announced that the Fund had agreed in-principal terms with St John of God Health Care for the \$120 million stage 2 project at Casey. The project will be co-owned with St John of God and St John of God will head lease the facility for an initial 20 year term. The Fund's investment will be circa \$45 million comprising a 50% interest in the base building and 90% of the carpark, with the building fitout to be funded and owned by St John of God. Conditional contracts have now been executed, planning permits have been received, the construction tender is in process and debt tenders have been shortlisted. Construction is expected to commence before the end of this calendar year.

Post balance date

Post balance date the Fund entered into a conditional Heads of Agreement to restructure the previously announced \$25 million Epworth Freemasons Cancer Centre project to be established at Epworth Freemasons Clarendon Street. The project is now proposed to also include a major underground car park and additional hospital services. The estimated total project cost is \$62 million and to be by way of a 50/50 Joint Venture with Epworth (GHC's share being \$31 million verse \$25 million previously). This project is conditional on town planning and debt finance.

Outlook

Two organic growth projects, being the expansion of Frankston Private and the Casey stage 2 project totalling approximately \$165 million (GHC's share circa \$75 million given they are joint ventures) are forecast to be under construction prior to the end of the 2015 calendar year. With both being a return on total project cost of 8.5% and 8.0% respectively and with two high quality hospital operators on 20 year leases, the value add to the portfolio and future earnings will be material.

The recently formed relationship with aged care operator, RSL Care Limited, who are looking to double the size of their business over the next five years, positions the Fund well to acquire high quality property to the portfolio, on the basis they add value to the Fund.

The 2016 financial year guidance is as follows:

- Forecast underlying net operating income per unit of 9.90 cents
- Forecast distributions per unit of 8.84 cents, a 3% increase on FY15's 8.58 cents

The Directors and Management would like to thank all stakeholders for their ongoing support of the Fund and look forward to a productive 2016 financial year.

Yours sincerely



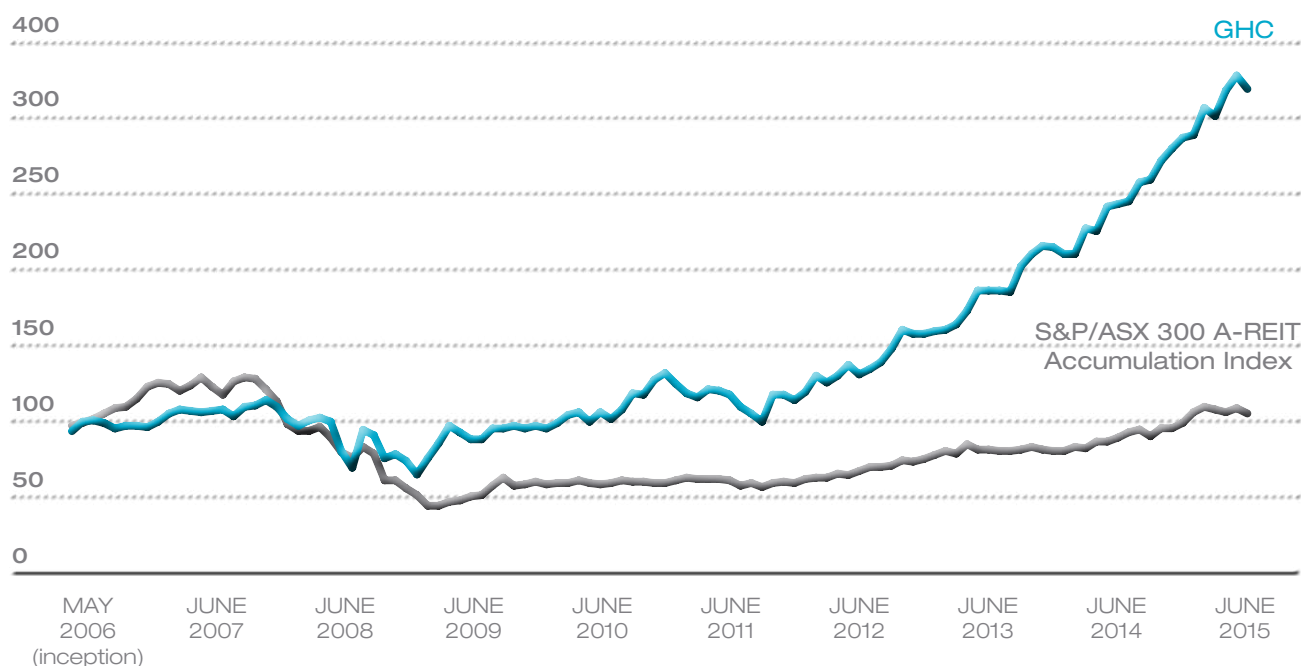
MILES WENTWORTH
Chief Executive Officer
Generation Healthcare REIT™



GROWING VALUE FOR INVESTORS OVER FY15



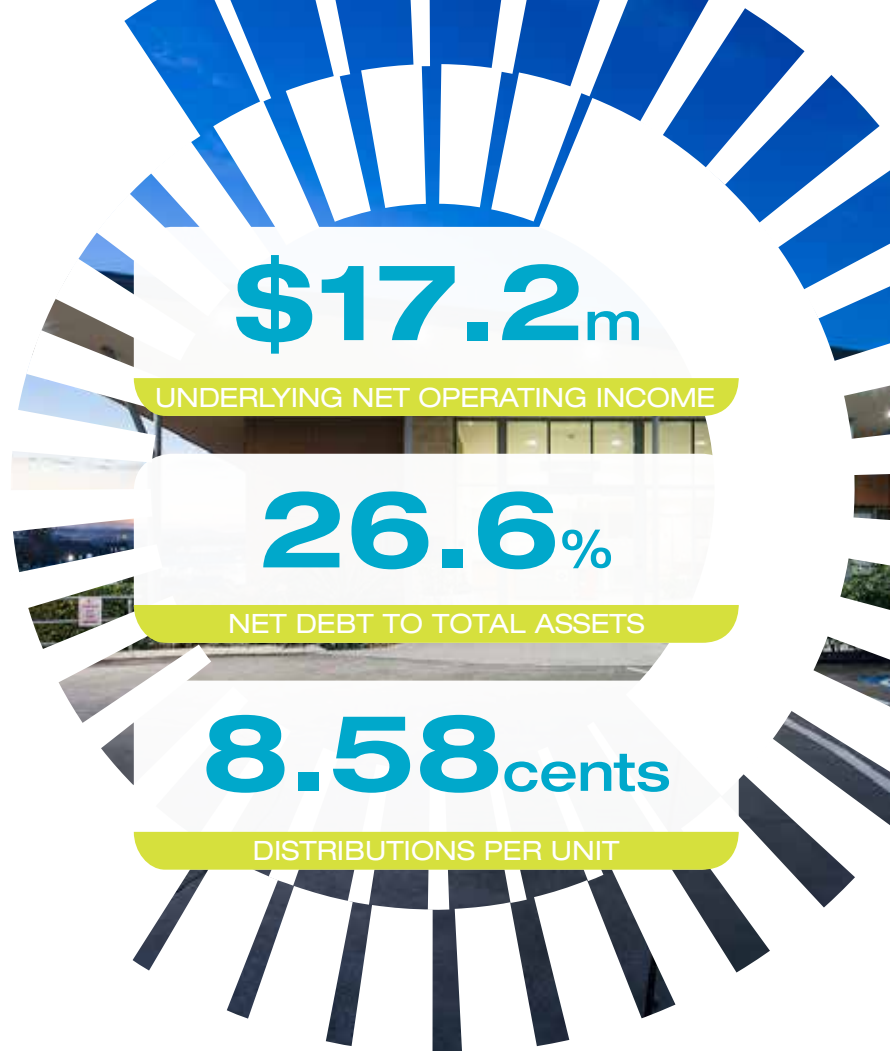
GHC TOTAL RETURN VERSUS BENCHMARK INDEX



OUTPERFORMANCE



FUND UPDATE ➤



Financial performance

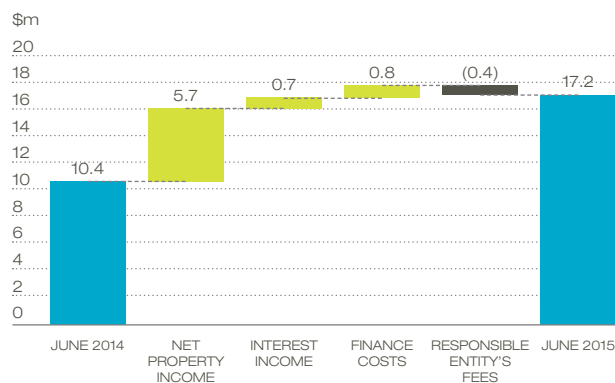
Underlying net operating income was up 66% to \$17.2 million for the 2015 financial year due to a combination of:

- Like-for-like property rental growth of 3.3%;
- Full year contribution from the 55 Little Edward Street, Spring Hill acquisition in June 2014;
- Full year contribution from the further investment in Epworth Freemasons Clarendon Street in June 2014;
- Completion of the Casey Specialist Centre in February 2015; and
- Lower finance costs from re-negotiated line/margin fees and lower hedged and floating interest rates.

Statutory profit of \$31.3 million was 164% higher than the prior year's profit of \$11.9 million, principally due to a 66% increase in underlying net operating income and a material net gain on the change in value of investment properties, partially offset by a net loss on the change in fair value of derivatives.

UNDERLYING NET OPERATING INCOME COMPARISON TO PRIOR YEAR

The portfolio continues to generate a secure and growing income stream





From top:
RSL Care Baycrest Aged Care Facility, QLD
RSL Care Tantula Rise Aged Care Facility, QLD
RSL Care Darlington Aged Care Facility, NSW

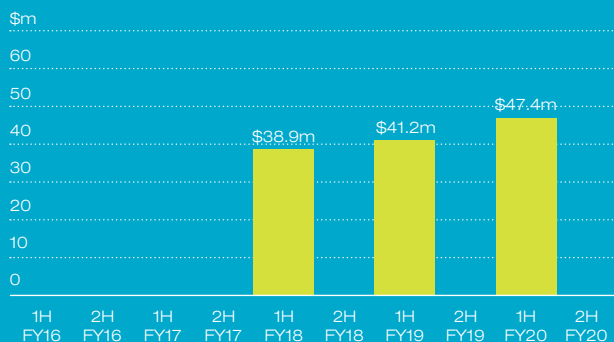
Capital management

The Fund undertook an equity raising of \$52.0 million in May 2015 through a \$5.0 million placement and a \$47.0 million fully underwritten non-renounceable entitlement offer, to fund the acquisition of the RSL Care portfolio of three aged care facilities and to provide balance sheet capacity for the Casey Stage 2 project.

New equity of \$2.87 million was raised during the year under the Distribution Reinvestment Plan and \$1.57 million worth of units were issued in satisfaction of the Manager's performance fee due at December 2014. Over the year the total number of units on issue increased by 37.78 million to 212.28 million.

Net debt to total assets was 26.6% at 30 June 2015, down 4.7 percentage points from 31.3% at 30 June 2014, following the continuation of the Fund's strategy to finance property acquisitions with equity to create the balance sheet capacity to deliver pre-committed organic growth projects.

DEBT MATURITY PROFILE*



* Excludes the restatement of the ground lease at Australian Red Cross Blood Service as it is a finance lease.

FUND UPDATE ➤



Portfolio update

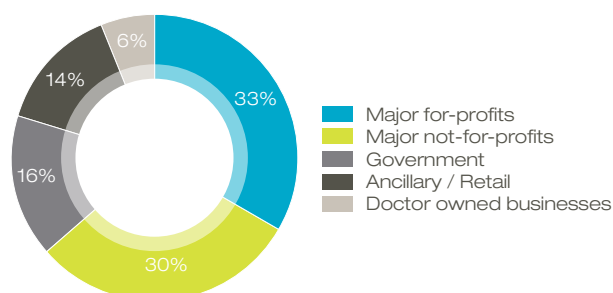
The property portfolio increased by \$82.5 million (27.3%) to \$385 million at 30 June 2015 primarily the result of the acquisition of a portfolio of three aged care facilities leased to RSL Care (valued at \$45.8 million), development works associated with the Casey Specialist Centre and other project related costs (\$12.8 million), as well as revaluation increases of \$22.2 million. Key contributors to the revaluation gains include Epworth Freemasons Victoria Parade which delivered \$6.8 million (15.1%) uplift and the recently completed Casey Specialist Centre which produced a revaluation gain of \$6.1 million as at June 2015.

Key portfolio metrics for the period include:

- Like-for-like rental growth of 3.3%;
- Continued strong occupancy (97.8%¹), marginally lower due to the completion of Casey Specialist Centre (84% leased) and vacancy at Spring Hill (predominantly leased post 30 June 2015);
- A weighted average lease term to expiry (WALTE) of 12.7 years up from 11.3 years due to significant leasing results and the acquisition of the RSL Care aged care assets;
- A tenant retention rate of 81.5% (by income) of the 14 leases that expired during the period, delivering a 6.7% average increase in rents, largely influenced by the Secure Parking uplift at Spring Hill (16%); and
- A 5.4% increase in the Fund's property values immediately prior to the year end with valuations reflecting a weighted average capitalisation rate of 7.82%¹.
- Portfolio's largest FY16 and FY17 expires now resolved via early renewal and lease extension at Harvester Centre and a new lease at ARCBS.

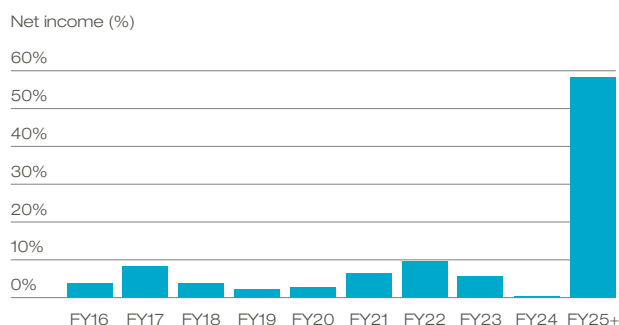
HEALTHCARE PROVIDER TYPE BY NET INCOME¹

Portfolio income supported by a diverse range of operating businesses



LEASE EXPIRY PROFILE

The Fund demonstrates security of income with over 50% of expiring leases more than 10 years away



Valuations

The book values of the Fund's properties owned for the full 12 months to 30 June 2015 increased by 12% to \$338 million. This growth was due to a combination of lower capitalisation rates reflecting a stronger property market, solid rental growth and capital works undertaken during the year. The weighted average capitalisation rate compressed from 8.24% as at 30 June 2014 to 7.82%¹ as at 30 June 2015.

Independent valuations undertaken at 30 June 2015 totalled 60.8%² of the property portfolio. Over the past 12 and 18 months, 88.9% and 100% of the property portfolio (by value) respectively, has been independently valued.

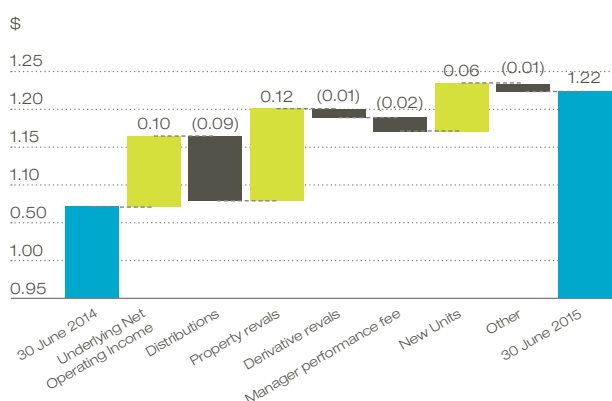
Across the portfolio, revaluation declines were \$1.6 million. Half of this decline can be attributed to Pacific Private Clinic, experiencing a 2.4% decline in value. This is a result of a structural change in the Southport market with the Gold Coast Public Hospital and Healthscope's Allamanda Private Hospital operations relocating to the Parklands site.

Movement in NTA per unit

Net tangible asset (NTA) backing per unit was \$1.22 as at 30 June 2015, an increase of 14% (\$0.15) from \$1.07 in the prior corresponding period. The increase is principally attributable to an increase in the values of the properties within the underlying portfolio, the equity raising undertaken at a price premium to NTA, partially offset by the issue of units to the Manager for a performance fee and the mark-to-market of interest rate swaps.

MOVEMENT IN NTA PER UNIT

Solid rental growth provided an uplift in the fair value of investment properties



¹ Pro-forma values including acquisition of RSL Aged Care assets which settled 25 June 2015, but remains subject to an interim structure prior to subdivision of the land.

² Excludes the RSL Care aged care assets which were independently valued prior to 30 June 2015.

Strategy

Generation Healthcare REIT™ is Australia's only listed real estate investment trust that invests exclusively in healthcare properties. By investing in a diversified portfolio of high quality healthcare properties, the Fund aims to deliver attractive risk adjusted returns.

There are six key pillars to our strategy:

1. Resolute focus on healthcare

Generation Healthcare REIT™ has an unwavering focus on investing exclusively in healthcare properties.

The demand for non-discretionary health services continues to grow, underpinned by strong demographic trends (a growing and ageing population), advances in technology and rising consumer expectations. These factors provide an attractive backdrop for an investment that is relatively immune to economic cycles and therefore less volatile than other asset classes.

Healthcare real estate is a unique category of property that is defined by long leases and financially secure tenants operating in a highly regulated sector which provides high barriers to entry.

2. Optimising value

The high quality assets held within the Fund are diversified by location, tenant and service type. We actively manage the portfolio to ensure maximum income and capital growth is derived throughout the cycle, whilst minimising risk.

3. Acquisition and development

In order to generate attractive risk-adjusted returns for investors, we continually seek value adding opportunities through acquisitions, developments and improving existing facilities over time.

4. Specialist expertise

The Management team offers a depth of health specific investment expertise. By bringing together experienced healthcare property specialists, the Fund's assets are strategically managed for long-term performance.

5. Comprehensive investment approach

A comprehensive top down and bottom up investment approach is undertaken. Analysing the broader industry and macroeconomic factors as well as the individual properties provides a rigorous decision making framework.

6. Alignment of interests

The ownership and reward structure of Management is closely aligned to the interests of investors. The Manager is a material unitholder in the Fund with a strong incentive to out-perform benchmarks.

FUND UPDATE

Tenant overview

Fund healthcare tenants

Income generated by the property portfolio is secured via a diversity of tenants including Government, market leading for-profit and not-for-profit operators including Healthscope Ltd (for-profit hospital operator), Epworth Foundation (not-for-profit hospital operator) and RSL Care (not-for-profit Aged Care operator) as well as doctor owned businesses. The strength of the Fund's tenant covenants provides stable, long dated, low risk cash flows with sound growth prospects.

GHC TOP 10 TENANTS

1.	Epworth Foundation	18%
2.	RSL Care	17%
3.	Australian Red Cross Blood Service	10%
4.	Healthscope	8%
5.	Pulse Health	6%
6.	Secure Parking	4%
7.	Cura Day Hospitals	3%
8.	Virtus Health	3%
9.	Queensland University of Technology	3%
10.	Genesis Care	3%
		75%

Epworth HealthCare

Epworth HealthCare is one of Australia's largest private not-for-profit hospital operators with eight operational hospitals comprising over 1,250 beds. During the FY14 year, Epworth HealthCare provided acute medical and surgical services, sub-acute care, diagnostics and rehabilitation to more than 132,000 in-patients. Additionally Epworth HealthCare provided for over 26,000 emergency attendances and more than 85,000 operations. Epworth is the hospital operator at two of the Fund's properties.

RSL Care

RSL Care is one of Australia's largest providers of services for older people including HomeCare, Retirement Living, Transitional and Residential Aged Care. RSL Care has a rich history spanning over 75 years and is the trustee of the RSL QLD War Veterans' Homes Trust which supports the Ex-Service community. RSL Care provides services to over 20,000 older Australians in metropolitan, rural and remote areas of Queensland and New South Wales. RSL Care's portfolio includes 24 residential aged care facilities and over 2,300 operational beds.

Australian Red Cross Blood Service (ARCBS)

The Australian Red Cross Blood Service is an operating division of the Fund's tenant, the Australian Red Cross Society. They are the national organisation responsible for providing the Australian community with safe, high quality blood products and related services. ARCBS is government-funded (Commonwealth, State and Territory) via an entity called the National Blood Authority (NBA). ARCBS supplies blood products and services to hospitals and healthcare providers, and during the year ended 30 June 2014, delivered more than 100,000 shipments of blood products Australia wide. It employs approximately 3,500 staff and is committed to employee diversity. For the year to 30 June 2014, ARCBS had over 1.3 million blood donations which created 2.14 million blood products. ARCBS reported total revenue of \$581.3m for the year ending 30 June 2014, with a financial surplus of \$24.8m for the corresponding period.

Healthscope Limited

Healthscope is Australia's second largest private hospital provider in Australia, owning or managing 45 medical/surgical, rehabilitation and psychiatric hospitals with over 4,500 inpatient beds. In addition, Healthscope operates 57 medical centres and specialist skin clinics across Australia catering for over 2 million patients per annum. Healthscope also operate a leading pathology business with facilities in New Zealand, Singapore, Malaysia and Vietnam.

Formed in 1985, the Healthscope Group was initially listed on the Australian Securities Exchange (ASX) in 1994.

In October 2010 the Healthscope business was acquired by a consortium of funds, advised and managed by TPG and The Carlyle Group and was subsequently de-listed from the ASX. Following a period of successful growth under private ownership, the Healthscope business was re-listed on the ASX on 28 July 2014. For the year ended 30 June 2015, Healthscope earned revenue of \$2.4 billion and achieved Net Profit After Tax of \$153 million.

Pulse Health Ltd

Pulse Health Ltd is an ASX listed operator of specialist private hospitals with eight hospitals located in Queensland and New South Wales.

Pulse Health Ltd has a market capitalisation of circa \$87 million, with its largest shareholder (approximately 30%) being the Wyllie Group of WA, via a family owned boutique investment company. The Chairman of Pulse Health Ltd is Stuart James who was the CEO of hospital operator Mayne Group from 2002 to 2005. Pulse Health Ltd reported revenue growth of 20% to \$56.3 million for the year ended 30 June 2015, with net profit after tax of \$2.55 million.

Secure Parking

Secure Parking was founded in 1979 and is the largest Australian-owned car park operator in the country, with close to 40 years' experience in the industry. Secure Parking has over 15,000 employees and presently operates more than 1,500 car parks worldwide with major city locations including Sydney, Melbourne, London, Shanghai, Mumbai and Jakarta. Secure Parking operates the car park located at 55 Little Edward Street, Spring Hill (owned by GHC) which has 484 bays available for use by tenants, patients and the general public.

Cura Day Hospitals Group (Queensland Eye Hospital)

The Queensland Eye Hospital was opened in 1997 with the facility comprising 4 operating theatres utilising the latest state-of-the-art equipment, a 12 bed first-stage recovery unit and 22 recliner chair second-stage recovery unit. It also has a post-operative paediatric corner and on-site pathology and laser services.

In December 2012, Queensland Eye Hospital became part of the Cura Day Hospitals Group.

Cura Day Hospitals Group commenced in 2008 with the primary purpose of becoming the leading provider of quality day hospital facilities in Australia. The Group currently operates 14 day hospitals located throughout Australia.

Cura Day Hospitals Group is owned by a consortium consisting of London based Intermediate Capital Group, Cura's doctor shareholders and the Cura management team.

Virtus Health Limited (Queensland Fertility Group)

Queensland Fertility Group (QFG) is part of Australia's leading group of fertility specialists, Virtus Health Limited. Virtus Health brings together leading clinicians, scientists, researchers and support staff to provide fertility care and related services.

Virtus Health is listed on the Australian Securities Exchange, and is the leading provider of fertility services in Australia and Ireland, with an established footprint in Singapore. Virtus Health medical teams are highly regarded internationally for their clinical and scientific breakthroughs with programs considered some of the safest and most successful in the world.

In FY15 Virtus Health's Revenue amounted to \$233.7m, with EBITDA of \$61.4m up 3.3% on FY14 results.

Queensland University of Technology (QUT)

QUT is a leading university funded by the Queensland State Government and has approximately 45,000 students across three state-of-the-art campuses located at Gardens Point, Kelvin Grove and Caboolture. For the 2014 year, QUT reported Revenue of \$907 million, Underlying Operating Result of \$43.3 million and Net Assets of \$1.37 billion.

Genesis Care

Genesis Care is Australia's largest provider of radiation oncology, cardiology and sleep treatments. Genesis Care employs over 1400 highly trained health professionals and support staff and provides essential health care services across more than 125 sites and clinics in the major capital cities, regional and rural centres.

Genesis Care is Australian owned and operated with over half the organisation owned by doctors and management who operate within the group. Genesis Care also has a private equity partner in Kohlberg Kravis Roberts & Co. L.P. (KKR).

Genesis Care is the radiotherapy tenant at GHC's Frankston Private, Casey and Waratah assets.





Australian healthcare market outlook

Healthcare is one of Australia's largest industries and health expenditure is growing at a significantly faster rate than inflation and GDP.

The operating environment for the Australian healthcare sector continues to be positive, driven by high growth, innovation and rising expenditure.

Key features of this market include:

- Expenditure on healthcare in Australia was estimated to be \$147.4 billion in 2012-13¹:
 - up from \$90.0 billion in 2002-03¹;
- Expenditure on healthcare was 9.7% of GDP in 2012-13:
 - up from 9.4% in 2010-11¹; and
 - up from 8.6% in 2002-03¹;
- Expenditure on healthcare is growing at 5.8% per annum¹ in real terms, driven by unique demand drivers including advances in medical technology covering surgical procedures, diagnostic services and pharmaceuticals;
- The Australian population is growing and notably, the group aged 65 years and over is forecast to increase by 64% over the period to 2031². This age group spends approximately four times more per capita on healthcare than persons under the age of 65 and this rises to over five times for persons over 85;
- There is an increase in life expectancy (average now around 82 years) which is closely tied to population ageing;
- A trend towards higher incidences of chronic diseases in Australia and other Western countries which has a two-fold effect on demand for services and a growing emphasis on preventative care;
- Bipartisan support for a strong private health system to complement the public health system.
- Private health insurance funds provided 8.0% (\$11.8 billion) of total healthcare expenditure in Australia in 2012-13¹.
- As at June 2015, 47.4% of Australia's population held policies with private health insurers covering them for hospital treatments.

- Government focus is to drive efficiencies in the broader health system including a desire to avoid an overlap of health bureaucracy and funding between State and Federal services. This approach is resulting in greater private sector involvement in public health services; and
- Evidence of increasing integration of health and associated services and the trend in the private sector towards continued market consolidation, the upgrading of facilities via brown-field development and the consideration of greenfield projects.

These current movements in the healthcare market indicate a continuing positive operating environment and favourable conditions for increasing demand for healthcare services.

The above factors contribute to significant real estate infrastructure requirements and associated investment opportunities. With long dated experience in the sector, a value-add skill set and a partnering approach, we believe the Fund is well placed to capitalise on the growth in the sector.



- 1 Australian Institute of Health and Welfare – Health Expenditure Australia 2012-13.
- 2 Australian Bureau of Statistics – 3222.0 Population Projections Australia, 2012 and 3235.0 Population by Age and Sex, Regions of Australia, 2014.
- 3 Australian Prudential Regulation Authority – Private Health Insurance Quarterly Statistics, June 2015.



DELIVERING STRATEGIC HEALTH CAMPUSES



During 2015 significant progress was made across each of the key organic growth opportunities within the GHC portfolio.

Projects include the Casey Private Hospital joint venture with St John of God Health Care, Frankston Private hospital expansion with Healthscope and Epworth Freemasons Clarendon Street which will involve the construction of a cancer centre and car park. These key projects are currently at various stages along the development process but each features a pre-agreed income return on project cost to a strong tenant covenant on a long term lease from completion.

Key factors in the success of these locations include

- Strategic locations within well established health precincts which may include co-location with major public hospitals;
- Working in conjunction with industry leading healthcare operators;
- Locations and facilities that provide overall convenience for doctors and patients via an integrated service offering;
- Significant on site amenity for patients including associated diagnostic services, retail and car parking;
- High levels of medical consulting space;
- Strong road access and access to public transport;
- Ideally, opportunities for continued growth on site via spare land or alternate expansion capacity; and
- High quality buildings including building plant and equipment.

CASEY SPECIALIST CENTRE - STAGE 1 CONSTRUCTION COMPLETED ➤

- Stage 1 is a cancer focussed specialist centre completed in February 2015.
- The facility features a pharmacy, pathology radiotherapy, radiology, medical oncology and cafe tenancies as well as accommodation for medical consulting suites.
- Key tenants include :
 - St. John of God Health Care
 - GenesisCare
 - MIA Radiology
 - Oncology Clinics Victoria
 - Berwick Surgical Group
- Co-located with Casey Public Hospital.



CASEY PRIVATE HOSPITAL- STAGE 2 AND 3 ➤

- Stage 2—scale private hospital (approximately \$120 million) with 190 beds, 6 theatres, 6 delivery suites, a cardiac/vascular catheter laboratory, two endoscopy theatres, medical consulting suites and associated car parks.
- Documentation has been executed with Australia's largest not-for-profit private healthcare group – St John of God Health Care for the co-ownership of the new hospital which will be leased by St John of God.
- Site co-located with Casey Public Hospital.
- All permits in place, construction and debt tender in process with the project forecast to start prior to the end of the calendar year.
- Stage 3 allows for further capacity expansion to include additional operating theatres, beds and consulting space.



EPWORTH FREEMASONS CLARENDON STREET

- A new Cancer Centre to be developed on part of the Clarendon Street site (subject to development approval).
- Linking existing and proposed cancer services across the Clarendon Street campus including radiotherapy, chemotherapy and consulting.
- In addition, major upgrade works of \$59 million to the co-located hospital building continues to progress (with the Fund contribution being \$12.5 million paid in June 2014), reinforcing Epworth's commitment to the site.
- Heads of Agreement documented with Epworth Foundation in August 2015 to vary existing project documentation and allow for a 50/50 joint venture with Epworth for the enlarged project which has an estimated total project cost of \$62 million (GHC interest \$31 million).
- The project will now include a circa 300 bay underground car park and further expansion of hospital services including additional beds.
- Total project to be head leased by Epworth for an initial 20 year term (from June 2014) at a blended yield on cost of 8.25% for the car park and 8.50% for the Cancer Centre.
- Master plan approach taken to town planning for the broader Clarendon Street site to provide for longer term expansion.
- Planning process expected to take 12 months.



Artist's impression





FRANKSTON PRIVATE HOSPITAL EXPANSION ►

- Healthscope Limited, Australia's second largest private healthcare operator, has pre-committed, via a head lease, to a major expansion of the facility estimated at \$45 million to provide inpatient beds, medical consulting and car parking.
- GHC has a 65% interest in the expansion resulting in a funding commitment of circa \$29 million.
- Construction is expected to commence prior to the end of the 2015 calendar year.
- 20 year head lease to Healthscope with an initial income return of 8.50% on total project cost (annual reviews thereafter). Healthscope lease to commence from practical completion with a 6 month rent free to provide for hospital ramp up.
- Master planning provides for the longer term development.
- Ancillary development site of 2,021 sqm acquired to provide medium to longer term expansion opportunity. Leased to Healthscope for 10 years and used for medical consulting.
- Located in Frankston health precinct and in close proximity to Frankston Public Hospital







RSL Care Tantula Rise Aged Care Facility, QLD

PROPERTY PORTFOLIO



EPWORTH FREEMASONS PRIVATE HOSPITAL & MEDICAL CENTRE

East Melbourne, Victoria
(Victoria Parade)

Description:	Maternity hospital, day surgery, medical consulting and ancillary services
Ownership:	100%
Ownership Type:	Leasehold
Built:	1980s
Book Value:	\$51.8 million
Major Tenant:	Epworth Foundation
No. of Tenants:	32
WALE:	7.8 years
Site Area:	4,490 sqm
NLA:	8,584 sqm
Occupancy:	100%
Car Parks:	321
Rental Reviews:	Combination of CPI, fixed and market reviews

Located within the exclusive inner suburb of East Melbourne, Epworth Freemasons Private Hospital and Medical Centre comprises the Epworth Freemasons private maternity hospital (one of Melbourne's leading maternity providers) with 34 in-patient beds, ten special care nursery beds and nine delivery suites. The facility also accommodates a four theatre day surgery unit, endoscopy room and delivery theatre as well as day oncology, ancillary services and numerous medical consulting tenancies in the specialties of obstetrics, gynaecology, paediatrics, oncology, urology, ophthalmology and general surgery.

The Fund has a contract to acquire the land for \$10.7 million (plus costs) subject to registration of a plan of subdivision. The permit for the subdivision of the land has now been issued. Settlement is expected prior to the end of calendar 2015.

EPWORTH FREEMASONS PRIVATE HOSPITAL

East Melbourne, Victoria
(Clarendon Street)

Description:	Hospital with ancillary diagnostic and cancer services
Ownership:	50%
Ownership Type:	Freehold
Built:	1935, with extensions in 1950s, 60s, 70s, 90s, 2007, 2014 and a major upgrade in 2015
Book Value:	\$38.6 million
Major Tenant:	Epworth Foundation
No. of Tenants:	1
WALE:	18.9 years
Site Area:	9,173 sqm
NLA:	13,990 sqm
Occupancy:	100%
Car Parks:	79
Rental Reviews:	Annual reviews the higher of CPI and 3%

This building includes a 176 bed hospital and associated facilities located in the exclusive inner suburb of East Melbourne. The Fund and the hospital operator (Epworth) are 50:50 joint venture owners in the property. This hospital comprises 164 inpatient beds, an eight bed critical care unit, four monitored beds and six operating theatres. There have been numerous upgrade works undertaken at the facility since purchase.

Most recently major upgrade works of \$59 million continue to progress (GHC contribution \$12.5 million).

Further in August 2015, agreement was reached with Epworth Foundation to jointly undertake a \$62 million project that would deliver a new cancer centre (circa \$25 million), further expansion of existing hospital services as well as construction of a circa 300 bay underground car park.

PROPERTY PORTFOLIO



HARVESTER CENTRE Melbourne, Victoria

Description:	Medical Office Building
Ownership:	100%
Ownership Type:	Freehold
Built:	Complete building refurbishment and extension 2007
Book Value:	\$14.1 million
Major Tenant:	Melbourne Health (State Government)
No. of Tenants:	10
WALE:	4.9 years
Site Area:	5,021 sqm
NLA:	4,413 sqm
Occupancy:	100%
Car Parks:	112
Rental Reviews:	Combination of CPI, fixed and market reviews

The Harvester Centre is a high quality, part new and part fully refurbished, two storey medical office building with a three level car park. It is located in the west Melbourne suburb of Sunshine and is part heritage listed with a section of the building dating back to 1909. The building accommodates a significant area for Melbourne Health to provide outpatient psychiatric health services to Melbourne's western suburbs. The facility also houses other public or government-funded tenants providing health and community based services to the region.

The site is prominently positioned within Sunshine and has attracted an excellent mix of complementary tenants. The suburb of Sunshine is approximately 13km from Melbourne's CBD and is located in close proximity to the Western Ring Road and railway services.

LEADING HEALTHCARE BENDIGO Bendigo, Victoria

Description:	Integrated primary medical centre
Ownership:	100%
Ownership Type:	Freehold
Built:	2012
Book Value:	\$10.0 million
Major Tenants:	Independent Practitioners Network (IPN), Pacific Smiles and Melbourne Pathology
No. of Tenants:	4
WALE:	6.9 years
Site Area:	2,034 sqm
NLA:	2,378 sqm
Occupancy:	86%
Car Parks:	55
Rental Reviews:	Combination of fixed reviews between 3%-4%

Completed in 2012, this 2,378 sqm integrated medical centre in Bendigo has been specifically designed to cater to the multiple needs of the patient.

The primary care centre provides for a range of healthcare services including general practice, dental, pathology and pharmacy.

PROPERTY PORTFOLIO



FRANKSTON PRIVATE

Frankston, Victoria

Description:	Day surgery, cancer services, diagnostic and medical office
Ownership:	50%
Ownership Type:	Freehold
Built:	2006
Book Value:	\$20.4 million
Major Tenants:	Healthscope Limited, Genesis Cancer Care and MIA Radiology
No. of Tenants:	7
WALE:	11.9 years
Site Area:	3,916 sqm
NLA:	4,528 sqm
Occupancy:	100%
Car Parks:	83
Rental Reviews:	Combination of <2 x CPI or 3%, CPI, CPI + 0.5% and fixed 4%

The Fund owns a 50% interest in Frankston Private, a four level, purpose built hospital and medical facility that was completed in August 2006. It is an integrated outpatient cancer facility strategically located near the region's major public hospital and within a significant medical precinct. The facility comprises a three theatre, 17 bed day surgery unit, radiation oncology, day oncology, medical imaging, pathology laboratory, medical consulting, pharmacy and supporting uses of a café, centre management and state-of-the-art education and conference unit. There are also 83 onsite car spaces. The other 50% interest is owned by two doctors who developed the facility.

The landlord entity has entered into an agreement for lease with Healthscope to undertake a major expansion of the facility. This is based on a return on cost model at 8.50% with Healthscope to take a 20 year head lease. Construction is expected to commence prior to the end of calendar 2015.

FRANKSTON DEVELOPMENT SITE

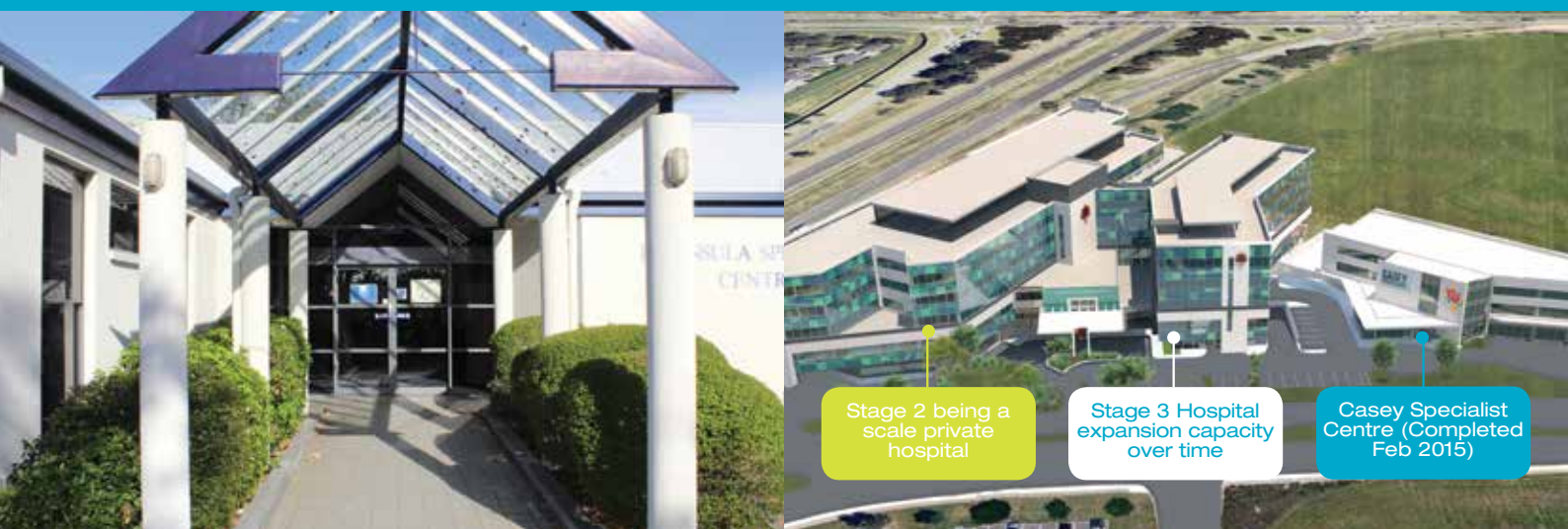
Frankston, Victoria

Description:	Development site
Ownership:	50%
Ownership Type:	Freehold
Built:	N/A
Book Value:	\$2.6 million
Major Tenant:	Zaly Pty Ltd
No. of Tenants:	1
WALE:	N/A
Site Area:	2,775 sqm
NLA:	N/A
Occupancy:	N/A
Car Parks:	N/A
Rental Reviews:	N/A

GHC has a 50% interest in the 2,775 sqm development site located immediately adjacent to Frankston Private and fronting the major Frankston-Flinders highway. The site was acquired in June 2013 with the vendor entering into a 3 year sale and leaseback, with a 6 month notice to vacate after the first 12 months, in favor of the lessor.

The notice has been issued and the lease will conclude in October 2015 to allow for construction of the expansion of Frankston Private.

PROPERTY PORTFOLIO ►



FRANKSTON SPECIALIST CENTRE

Frankston, Victoria

Description:	Medical office building
Ownership:	50%
Ownership Type:	Freehold
Built:	1989
Book Value:	\$1.2 million
Major Tenant:	Healthscope Limited
No. of Tenants:	1
WALE:	9.4 years
Site Area:	2,021 sqm
NLA:	600 sqm
Occupancy:	100%
Car Parks:	20
Rental reviews:	Lower of 2 x CPI or 3%

GHC has a 50% interest in the 2,021 sqm site located adjacent to Frankston Private. The site was acquired in July 2014 (settled in November 2014) subject to a 10 year lease to Healthscope Ltd with the premises to be used for specialist medical consulting. The site provides further medium to longer term expansion potential.

CASEY DEVELOPMENT SITE (STAGES 2 AND 3)

Berwick, Victoria

Description:	Co-located health campus - development land
Ownership:	100%
Ownership Type:	Freehold
Built:	N/A
Book Value:	\$6.6 million
Major Tenant:	N/A
No. of Tenants:	N/A
WALE:	N/A
Site Area:	7,760 sqm
NLA:	N/A
Occupancy:	N/A
Car Parks:	N/A
Proposed development stages:	Stage 2 construction expected to commence prior to January 2016

This is a 7,760 sqm strategically located site situated directly opposite the Casey Public Hospital, providing a significant opportunity to develop over time a scale co-located medical campus to service one of Victoria's largest and fastest growing municipalities. The proposed medical campus currently has an estimated development envelope in excess of \$200 million to be delivered in three stages.

Casey Specialist Centre, being Stage 1 was completed in February 2015. Stage 2 is a \$120 million private hospital including 300 car parks. St John of God Health Care will have a 20 year lease over the hospital and 188 car bays. Construction is expected to commence prior to the end of the 2015 calendar year.

After completion of the private hospital, further land is available for future expansion which may include additional beds, theatres and medical consulting suites.

PROPERTY PORTFOLIO



CASEY SPECIALIST CENTRE

Berwick, Victoria

Description:	Specialist Centre with cancer services focus
Ownership:	100%
Ownership Type:	Freehold
Built:	2015
Book Value:	\$23.1 million
Major Tenants:	St John of God, GenesisCare and MIA Radiology
No. of Tenants:	8
WALE:	10.2 years
Site Area:	4,440 sqm
NLA:	3,610 sqm
Occupancy:	84%
Car Parks:	71
Rental Reviews:	Combination of the greater of CPI and 3.5%, fixed 3% or 3.5%, CPI, CPI + 0.5%

This facility is a recently completed multi-tenanted specialist medical centre located adjacent to the Casey Development Land. Tenants provide a range of cancer treatment services including radiation oncology and chemotherapy as well as medical consulting suites, pharmacy, pathology and cafe tenancies. A total of 71 car bays are provided.

Leading providers located at the centre include Genesis Care, St John of God Health Care and MIA Radiology.

AUSTRALIAN RED CROSS BLOOD SERVICE FACILITY (ARCBS)

Brisbane, Queensland

Description:	The State blood testing, processing and distribution centre. Part of University Medical School
Ownership:	100%
Ownership Type:	Leasehold
Built:	2008
Book Value:	\$72.3 million
Major Tenants:	ARCBS and RSL Care
No. of Tenants:	11
WALE:	18.1 years
Site Area:	6,897 sqm
NLA:	20,250 sqm
Occupancy:	100%
Car Parks:	300
Rental Reviews:	Higher of CPI or 3%, fixed reviews between 3.5% and 5%, CPI and market reviews

This facility is the State headquarters for the ARCBS from which it undertakes testing, processing and distribution of all blood products to the public and private health systems. In addition, Queensland University of Technology (QUT) occupies the building for their schools of Biomechanics, Optometry and Podiatry. It is located in the Kelvin Grove Urban Village (KGVU) 2km from Brisbane's CBD. Completed in 2008, the building contains 20,250 sqm of lettable floor area over four levels. In addition 300 car spaces are accommodated within two basement levels. The building is of high quality and designed around a central atrium that allows natural light into the tenancy areas. The building was designed and purpose built for its two key users, ARCBS and QUT and is supported by ancillary commercial and retail spaces.

PROPERTY PORTFOLIO



PACIFIC PRIVATE CLINIC Gold Coast, Queensland

Description:	Day surgery and medical office building
Ownership:	100%
Ownership Type:	Freehold
Built:	2000
Book Value:	\$28.4 million
Major Tenant:	Healthscope Limited
No. of Tenants:	20
WALE:	3.6 years
Site Area:	3,723 sqm
NLA:	7,955 sqm
Occupancy:	95%
Car Parks:	227
Rental Reviews:	Combination of CPI, fixed and market reviews

Pacific Private Clinic is a multi-tenanted facility providing a broad range of clinical services including General surgery, Oncology and Ear Nose and Throat as well as other on-site services such as Pathology and Diagnostic Imaging. It is a high profile facility strategically located on the main road in Southport, in a designated health precinct. The precinct however, is undergoing change with the relocation of the Gold Coast Public Hospital in September 2013 and the pending relocation of Healthscope's Allamanda Private hospital to the Parklands site (10 minutes away). Half of the facility income is secured by Australia's second largest hospital owner/operator, Healthscope Group. The premise is well presented over seven floors with high quality tenant fitouts.

55 LITTLE EDWARD STREET Brisbane, Queensland

Description:	Day surgery and medical office building
Ownership:	100%
Ownership Type:	Freehold
Built:	1988
Book Value:	\$47.2 million
Major Tenants:	Cura Day Hospitals, Virtus Health and Secure Parking
No. of Tenants:	12
WALE:	6.9 years
Site Area:	5,771 sqm
NLA:	8,296 sqm
Occupancy:	96%*
Car Parks:	484
Rental Reviews:	Combination of fixed 3% to 4.5%, higher of CPI and 3.5% to 3.75% and market reviews

Spring Hill is a quality medical office building located in an established health precinct on the fringe of Brisbane CBD. Two significant private hospitals St Andrews Private and Brisbane Private are located in close proximity. The building is anchored by two leading healthcare providers, Cura Day Hospitals Group and Virtus Health.

* 999 sqm or 8% of net property income on a fully leased basis is subject to a rental guarantee.

PROPERTY PORTFOLIO ➤



RSL CARE TANTULA RISE AGED CARE FACILITY

Alexandra Headland, Queensland

Description:	Residential aged care facility
Ownership:	100%
Ownership Type:*	Freehold
Built:	2005 to 2007
Book Value:	\$17.9 million
Major Tenant:	RSL Care
No. of Tenants:	1
WALE:	20 years
Site Area:	7,600 sqm
Total floor area:	7,768 sqm
Occupancy:	100%
Rental Reviews:	Annual reviews to be the lesser of 3% and CPI, market review every 10 years with 5% cap and collar

Alexandra Headland is a suburb of the Sunshine Coast, located approximately 100 kms to the north of Brisbane. The facility accommodates 120 licenced places across 4 wings, with a total floor area of 7,768 square metres. The facility was built in two stages, the first of which was built in 2005 and comprised a total of 60 places. The second stage was built in 2007 and added an additional 60 places. The facility is co-located with an RSL Care operated retirement village which comprises a total of 40 independent living units. The units were built in 2007. Retail amenity is provided in the Maroochydore township and at Sunshine Plaza, which is located approximately 3 kms to the north.

* Remains subject to an interim structure prior to subdivision of the land.

RSL CARE BAYCREST AGED CARE FACILITY

Pialba, Queensland

Description:	Residential aged care facility
Ownership:	100%
Ownership Type:*	Freehold
Built:	Mid 1990.s, 60 new beds built in 2006
Book Value:	\$14.4 million
Major Tenant:	RSL Care
No. of Tenants:	1
WALE:	20 years
Site Area:	15,100 sqm
Total floor area:	6,676 sqm
Occupancy:	100%
Rental Reviews:	Annual reviews to be the lesser of 3% and CPI, market review every 10 years with 5% cap and collar
Development potential:	Refurbishment or redevelopment of the older 41 beds on the site are envisaged

Baycrest is a residential aged care facility located in the suburb of Pialba, Hervey Bay. The facility accommodates 101 licenced places across 6 interconnected wings, with a total floor area of 6,676 square metres. All rooms are single and have a private ensuite. The facility is co-located with an RSL Care operated retirement village, which comprises a total of 192 units. Retail amenity is provided in the township of Hervey Bay, located approximately 3 kms to the north.

* Remains subject to an interim structure prior to subdivision of the land.

PROPERTY PORTFOLIO >



RSL CARE DARLINGTON AGED CARE FACILITY

Banora Point, NSW

Description:	Residential aged care facility
Ownership:	100%
Ownership Type:*	Freehold
Built:	2005 to 2007
Book Value:	\$13.5 million
Major Tenant:	RSL Care
No. of Tenants:	1
WALE:	20 years
Site Area:	9,500 sqm
Total floor area:	6,289 sqm
Occupancy:	100%
Rental Reviews:	Annual reviews to be the lesser of 3% and CPI, market review every 10 years with 5% cap and collar
Development potential:	Adjoining land held by RSL Care

Darlington residential aged care facility is located in the suburb of Banora Point, Tweed Heads. The facility accommodates 90 licenced places across 6 wings, with a total floor area of 6,289 square metres. The facility is co-located with an RSL Care operated retirement village which comprises a total of 96 independent living units. Retail amenity is provided in the town of Tweed Heads, which is located approximately 6 kms to the north. There is a parcel of unimproved land adjacent to the aged care facility that is owned by RSL Care and may in future be developed with a complementary use such as expansion of the aged care facility.

* Remains subject to an interim structure prior to subdivision of the land.



PROPERTY PORTFOLIO



WESTMEAD REHABILITATION HOSPITAL Merrylands, New South Wales

Description:	Rehabilitation Hospital
Ownership:	100%
Ownership Type:	Freehold
Built:	2005, refurbishment and 5 bed expansion in 2014
Book Value:	\$23.0 million
Major Tenant:	Pulse Health Ltd
No. of Tenants:	1
WALE:	22.9 years
Site Area:	5,305 sqm
NLA:	2,702 sqm
Occupancy:	100%
Car Parks:	40
Rental Reviews:	Higher of CPI & 2.5%

This facility is a 65 bed purpose built rehabilitation hospital located in Merrylands, Sydney, three kilometres south of Parramatta and within close proximity of Westmead Public and Private hospitals. Fully equipped with a hydrotherapy pool, gymnasium and treatment rooms, the facility also provides speech, occupational therapy and physiotherapy along with psychological rehabilitation services.

WARATAH PRIVATE HOSPITAL (DEBT INTEREST) Sydney, New South Wales

Description:	Hospital with ancillary diagnostic and cancer services
Ownership:	Minority interest
Ownership Type:	Secured debt position
Built:	2010
Book Value:	\$9.3 million
Site Area:	2,696 sqm
NLA:	Approximately 13,497 sqm
Car Parks:	501

Waratah Private is a purpose built hospital with construction having been completed in late 2011. The building is 13,497 sqm in area and has 501 car parks. The Centre was established to provide high end medical services with a particular focus on integrated cancer care.

The Fund entered into a joint venture arrangement with Evolution HealthCare to acquire a minority interest in a secured debt position associated with Waratah Private Hospital in Hurstville, Sydney, New South Wales.

The Fund's interest is secured by first ranking mortgages over the land and building and other assets.

GHC is working with Evolution to provide specialist healthcare property expertise and to enhance the operations and asset management of the hospital.

Recent initiatives include the establishment of 34 additional overnight beds (to be completed in September 2015), which will increase the number of overnight beds to 92. Also, comprehensive medical imaging services have been introduced to the building via a partnership between Waratah Imaging and Alfred Medical Imaging.

SENIOR MANAGEMENT >



Chris Adams Director

Chris has experience in the property industry in Australia, New Zealand and the United Kingdom, including over 20 years experience in health sector property acquisitions, transaction structuring, large scale hospital developments and portfolio management.

Chris's responsibilities include overseeing the property portfolio along with acquisitions and developments undertaken by the Fund.

Chris holds a Bachelor of Property from Auckland University.

Miles Wentworth Chief Executive Officer

Miles has over 20 years' experience in financial services and property funds management, 18 of which have been specifically in healthcare fund, property and development management.

Miles has overall responsibility for the day to day management and performance of Generation Healthcare REIT. His responsibilities include formulating and implementing the overall strategy of the Fund, capital management, financial reporting and investor relations.

Miles holds a Bachelor of Commerce (Accounting) from Otago University, is a Chartered Accountant and member of the New Zealand Institute of Chartered Accountants.

CORPORATE GOVERNANCE ►

APN Funds Management Limited is the Responsible Entity of Generation Healthcare REIT. APN Funds Management is a wholly owned subsidiary of APN Property Group Limited, an ASX listed company.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Guidelines), unless otherwise stated.

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



Geoff Brunsdon

BCom, CA, F Fin, FAICD

Independent Non-Executive Chairman

- A Director since 2009.
- Chairman since 2012.
- A member of the Audit, Compliance & Risk Management Committee and the Nomination & Remuneration Committee.

Geoff has had a career in investment banking spanning more than 25 years. Until June 2009 he was Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited. He is a member of the Australian Takeovers Panel, Chairman of Sims Metal Management Limited (director since 2009), IPE Limited (director since 2004) and MetLife Insurance Limited (director since 2011) and a director of Campus Living Funds Management Limited (since 2014).



Jennifer Horrigan

BBus, GradDipMgt, GradDipAppFin, MAICD

Independent Non-Executive Director

- A Director since 2012.
- Chairman of the Nomination & Remuneration Committee and a member of the Audit, Compliance & Risk Management Committee.

Jennifer is currently Chief Operating Officer of Greenhill Australia, a leading independent investment bank. She also has 16 years' experience as a leading advisor to Australian and international corporations on financial communications, investor relations and corporate issues. She has advised on some of Australia's largest and most high profile transactions.

She has extensive experience in enterprise management, including the supervision and management of compliance, financial management and reporting, HR and other critical administrative areas.

Jennifer is also a director of Redkite (national children's cancer charity) and is involved with fundraising and support of The Mater Hospital, North Sydney (Patricia Ritchie Centre for Cancer Care).

CORPORATE GOVERNANCE➤



Michael Johnstone

BTRP, LS, AMP (Harvard)

Independent Non-Executive Director

- A Director since 2009.
- Chairman of the Audit, Compliance & Risk Management Committee and a member of the Nomination & Remuneration Committee.
- A member of the Investment Committee for APN's Development Fund No.2.

Michael has 40 years of global business experience in chief executive and general management roles and more recently in non-executive directorships. He has lived and worked in overseas locations including the USA, has been involved in a range of industries and has specialised in corporate and property finance and investment, property development and funds management. His career has included lengthy periods in corporate roles including 10 years as one of the Global General Managers of the National Australia Bank Group. He has extensive experience in mergers and acquisitions, capital raising and corporate structuring.

Michael is a non-executive director of the Responsible Entity of the listed Folkestone Education Trust (since 2004) and the Folkestone Social Infrastructure Fund (since 2004). He is also a non-executive director of a number of companies in private environments including the not for profit sector.



Howard Brenchley

BEC

Non-Executive Director

- A Director since 1998.

Howard has a long history in the Australian property investment industry with over 30 years' experience analysing and investing in the sector.

Howard joined APN in 1998 and was responsible for establishing the APN Funds Management business. In this capacity he developed a suite of new property securities and direct property funds, including the flagship APN Property for Income Fund, one of the largest property securities funds in Australia.

Prior to joining APN, Howard was co-founder and research director of Property Investment Research Pty Limited, one of Australia's leading independent research companies, specialising in the property trust sector.

Howard is also a director of APN Property Group Limited (since 1998) and National Storage Holdings Limited, part of the listed National Storage REIT (since 2014).

CORPORATE GOVERNANCE ►



Michael Groth

BCom, BSc, DipIFR, CA

Executive Alternate Director for Howard Brenchley

- An Alternate Director.

Michael's professional career includes over 7 years with KPMG Melbourne, where he worked closely with a number of major listed companies and stockbrokers before moving to the United Kingdom to work in the financial services industry and for a government regulatory body. Since joining APN in 2006, Michael has had broad exposure across all areas of the Group, and was appointed Chief Financial Officer in June 2014. Michael is responsible for accounting, taxation and treasury across the business and a key contributor to setting the business's direction and strategy.



John Freemantle

BBus, CPA

Company Secretary

- Company Secretary since 2007.

John has been involved in the property industry since 1977. Before joining APN in 2006, he worked with Dillingham Constructions, Jennings Property Group and Centro Property Group, where he held the roles of Chief Financial Officer and Company Secretary for 17 years.

CORPORATE GOVERNANCE➤

Board independence

APN Funds Management Limited (APN FM) is a wholly owned subsidiary of APN Property Group Limited (APN PG), a company listed on the Australian Securities Exchange (ASX). Both companies have separate Board structures and each operates independently of the other. The Board of APN FM comprises four Directors, three of whom are independent of the business and of the board of APN PG. The names and biographical details of the Board members are set out on pages 34 to 36.

Importantly, all directors of APN FM have a legal obligation to put the interests of investors in the fund ahead of their own and those of APN FM's sole shareholder, APN PG.

The Board of APN Funds Management Limited has adopted the following Corporate Governance policies and procedures:

Role and responsibilities

Without limitation to the duties and responsibilities of directors under the Corporations Act, the Constitution and all applicable laws, in order to ensure that APN FM complies with its responsibilities, the Board has adopted a board charter setting out its roles and responsibilities (including the roles and responsibilities of the Chairman). In accordance with the board charter, the Board is responsible for:

- the oversight of APN FM, including its control and accountability systems;
- subject to its overriding duties to security holders in the respective Funds, setting the aims, strategies and policies of APN FM;
- where appropriate, ratifying the appointment and the removal of senior executives including, but not limited to the fund managers of the respective Funds;
- providing input into and final approval of management's development of strategy and performance objectives in respect of the Funds;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance, particularly in respect of the Funds;
- identifying conflict of interest situations within APN FM's business and the business of the Funds and;
- determining whether the conflict of interest situation is to be avoided or whether it can be appropriately controlled; and

- if the conflict of interest situation can be appropriately controlled, determining and implementing the procedure necessary to control the conflict;
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures in respect of the Funds;
- approving the issue of disclosure documents in respect of the respective Funds; and
- approving and monitoring financial and other reporting obligations of the respective Funds, in particular ensuring compliance with the continuous disclosure obligations of the respective Funds under the Corporations Act and the Listing Rules.

A copy of the Board Charter is available at the Company's website (www.apngroup.com.au).

Terms of appointment

The Board has adopted a letter of appointment that contains the terms on which non-executive directors are to be appointed, including individual Directors' roles and responsibilities and the basis upon which they will be indemnified by the Responsible Entity. Non-executive Directors are entitled to take independent advice at the cost of the Responsible Entity in relation to their role as members of the Board.

Review of Board performance

The performance of the Board is reviewed at least annually by the Board. The evaluation includes a review of:

- the Board's membership and the charters of the Board and its committees;
- Board processes and its committee's effectiveness in supporting the Board; and
- the performance of the Board and its committees.

An annual review of each Director's performance is undertaken by the Chairman, after consultation with the other directors.

CORPORATE GOVERNANCE ➤

Board committees

Audit, Compliance and Risk Management Committee

The Board has appointed an Audit, Compliance and Risk Management Committee to oversee certain responsibilities of the Responsible Entity. The Committee's primary responsibility is to ensure a sound system of risk oversight and internal control. During the year, the Committee has received reports detailing the effectiveness of APN FM's current risk management programme from management and advised the Board accordingly. The specific responsibilities of the Committee include:

Audit

External audit

- to recommend to the Board the final accounts in respect of each of the Funds and APN FM (in its own capacity);
- to recommend to the Board the appointment and removal of the Fund's external auditors (including providing the Board with fee proposals in relation to the external auditors);
- to monitor compliance with the Corporations Act 2001 (Cth) in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditors;
- to review, consider and advise the Board on the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditors' reports;
- to commission such enquiry by the external auditors as the Committee deems appropriate;
- to consider management's responses to matters that arise from external audits;
- to conduct regular reviews of management's activity pertaining to audit findings to ensure any issues are being dealt with in a timely manner; and
- to perform annual assessments of the auditors' compliance with any applicable laws, regulations and any other relevant requirements.

Financial statements

- to review the financial statements and related notes, and ensure they are consistent with information known to the Committee and that they reflect appropriate accounting principles, standards and regulations;
- to review external auditors' reviews or audits of the Funds' financial statements and corresponding reports;

- to make recommendations to the Board regarding any significant changes required in external auditors' audit plans;
- to review accounting and reporting issues as they arise;
- to review, and advise the Board on, any disputes or issues that may arise during the course of an audit; and
- to advise the Board on any material matters that arise during an audit that the Committee becomes aware of.

Risk Management

- to monitor the management of risks relevant to APN FM and the Funds;
- to review and make recommendations to the Board regarding APN FM's current risk management program (including all internal policies developed and implemented to manage and identify all of the identified risks) and whether it identifies all areas of potential risk.
- to review and make recommendations to the Board on the strategic direction, objectives and effectiveness of APN FM's financial and risk management policies; and
- to oversee investigations of allegations of fraud or malfeasance and, where required, report details to relevant authorities.

Compliance

- to monitor the compliance of APN FM with:
 - the Corporations Act;
 - the compliance plan of each Fund;
 - the constitution of each Fund;
 - the Australian Financial Services Licence (AFSL) of APN FM; and
 - where a Fund is a Listed Scheme, the Listing Rules;
- to report to the Board any breach of the obligations listed above;
- to report to the Australian Securities and Investments Commission (ASIC) if the Committee is of the view that APN FM has not taken, or does not propose to take, appropriate action to deal with a matter reported;
- to assess at regular intervals whether each Fund's compliance plan is adequate;
- to report to the Board on its assessment of each Fund's compliance plan; and
- to make recommendations to the Board about any changes that it considers should be made to the Funds' compliance plans.

CORPORATE GOVERNANCE ➤

Related party transactions and conflicts of interest

- The Committee must monitor compliance with the Conflicts Policy adopted by APN PG and APN FM in respect of the APN Group and comply with the obligations under the Conflicts Policy.
- Without limiting its obligations under the Conflicts Policy, the Committee will ensure that:
 - any breach of the Conflicts Policy is noted on the compliance breach register;
 - the activity which caused the breach is reviewed and any steps necessary to ensure compliance with the Conflicts Policy in the future are taken; and
 - in cases of significant breaches or likely breaches, ASIC is notified in accordance with section 912D(1) of the Corporations Act.

A copy of the Audit, Compliance and Risk Management Committee Charter is available at the Company's website (www.apngroup.com.au).

The Committee currently comprises three Directors, all of whom are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The names and biographical details of the Committee members are set out on pages 34 to 36.

Nomination and remuneration

The Board has appointed a Nomination and Remuneration Committee to oversee the responsibilities of the Company for ensuring adequacy of the size and composition of the board of APN FM for itself and each APN fund. The specific responsibilities of the Committee include:

- determining the appropriate size and composition of the APN FM Board;
- the necessary and desirable competencies of Directors;
- the appointment, re-appointment and removal of Directors;
- developing formal and transparent procedures and criteria for the selection of candidates for, and appointments to, the APN FM Board;
- developing a succession plan for the APN FM Board and regularly reviewing the plan approved by the APN FM Board;
- implementing induction procedures designed to allow new APN FM Board appointees to participate fully and actively in APN FM Board decision-making at the earliest opportunity;

- implementing induction programs that enable Directors to gain an understanding of:
 - financial, strategic, operational and risk management position of APN FM;
 - their rights, duties and responsibilities; and
 - the role of the APN FM Board and other committees;
- providing Directors and key executives with access to continuing education to update their skills and knowledge and provide them access to internal and external sources of information which enhance their effectiveness in their roles;
- developing a process for performance and remuneration evaluation of the APN FM Board, its committees, Directors, and key executives, which can be made available to the public;
- developing remuneration and incentive policies which motivate Directors and management to pursue the long-term growth and success of APN FM within an appropriate control framework;
- developing policies which demonstrate a clear relationship between key executive performance and remuneration;
- the remuneration and incentive policies for senior management;
- the remuneration packages of senior management and Directors and whether securityholder approval is needed for any change to remuneration of Directors;
- any report on executive remuneration that may be required by the ASX Listing Rules or the Corporations Act 2001 (Cth) or proposed for inclusion in the annual report.

A copy of the Nomination and Remuneration Committee Charter is available on the Company's website (www.apngroup.com.au).

The Committee currently comprises three Directors, all of whom are independent as defined by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The names and biographical details of the Committee members are set out on pages 34 to 36.

CORPORATE GOVERNANCE ➤

Diversity

APN Property Group, including APN Funds Management Limited embraces a practice of Workplace Diversity as follows:

What is workplace diversity?

Workplace diversity recognises and leverages the different skills and perspectives people bring to our organisation through their gender, culture, physical and mental ability, sexual orientation, age, socio economic background, language, religion, education, and family/ marital status. It also refers to diverse ways of thinking and ways of working.

Statement of commitment

As an organisation we recognise the benefits to be gained from a diverse workforce where the differing skills, perspectives and experiences of individuals from different backgrounds can lead to more innovative and efficient business practices.

We are committed to creating an environment in which the principles of diversity are embedded in the culture and systems of the organisation and where every individual has the opportunity to excel.

Diversity policy

APN Property Group has adopted a Diversity Policy (a copy of which is available at the Company's website (www.apngroup.com.au)). The aims of the Diversity Policy are:

- to articulate APN Property Group's commitment to diversity within its organisation at all levels (including employee level, senior executive level and Board level); and
- to establish objectives and procedures which are designed to foster and promote diversity within APN Property Group. This includes placing obligations on APN Property Group and its Board to set objectives, measure against those objectives and disclose progress at appropriate intervals.

Gender diversity objectives

In accordance with its Diversity Policy, APN Property Group has set measureable objectives to achieve gender and other diversity, and has appointed the Compliance Officer to monitor compliance with those objectives and to report to the Board of APN Property Group at least annually.

For the financial year 2015/2016, APN Property Group has set the following measureable objectives for gender and other diversity:

- the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
- the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible;
- flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit;
- the Diversity Policy is available to all staff at all times; and
- all staff responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.

APN Property Group will report on the outcome of these measurable objectives each year.

For the financial year 2014/2015, APN Property Group set similar measureable objectives for gender and other diversity. These objectives and a report on the outcome are set out below:

- the selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.

The Board made one new appointment during the year. Mr Tim Slattery was appointed in September 2014 to fill the vacancy arising from the resignation of Mr John Lim the previous year. Mr Slattery is an executive director and has been with APN for a number of years. There were no changes to the Board of APN FM during the year.

CORPORATE GOVERNANCE ►

- the selection process for senior management appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible.

There were no senior management appointments in this financial year.

- the process for recruitment of new employees, having regard for the skills and expertise required for the role, will consider at least one female candidate wherever reasonably possible.

Thirteen new appointments were made during the year of which six (46%) were female;

- flexible work arrangements to balance family and other commitments with the role will continue to be considered for all employees, where the requirements of the role permit.

Flexible work arrangements have been agreed with a number of employees in relation to family balance, maternity needs and illness;

- the Diversity Policy is available to all staff at all times.

The policy was available on the company intranet which is available to all staff at all times; and

- all staff responsible for employment and promotion of employees will be reminded of the Diversity Policy and these objectives at least annually.

Staff were reminded on each occasion of a new appointment.

Gender Diversity in APN Property Group

At the date of this report, the proportion of women in APN Property Group was:

- Board of APN Property Group Limited: nil
- Board of APN Funds Management Limited (Responsible Entity of this fund): 25%
- Senior Management of the APN Property Group: 17%
- All employees of APN Property Group: 33%

Sustainability

APN Property Group, including APN Funds Management Limited believes that the sustainability of the business is intrinsically linked to the successful management of its financial, social and environmental risks, obligations and opportunities. We believe those companies that adopt sustainable practices are more likely to generate better long term returns for investors.

This philosophy is embedded in the culture of the business and monitored to ensure critical business risks are carefully managed. This is evidenced in the following key objectives:

Our Investors

- Prioritise the interests of investors;
- Separate Boards operating independently of each other to manage conflicts between the interests of investors in APN PG and investors in the funds we manage;
- Strong focus on investment performance;
- Regular and meaningful communications to investors.

Our Community

- Significant value attributed to 'sustainability conscious' companies in the investment decision process of the APN managed 'real estate securities' funds;
- Bias to 'green' rated direct property investments and development opportunities;
- Corporate values ethos required of all staff - integrity, passion, respect, accountability and professionalism.

CORPORATE GOVERNANCE➤

Our Staff

- Demanding recruitment standards;
- Attractive remuneration incentives for strong performance;
- Focus on diversity;
- Employee engagement in overall business performance, including regular staff briefings;

Our Governance

- Independent Board to manage the Responsible Entity of APN's managed funds;
- Strict compliance regime to ensure compliance with legislative framework overseen by independent Board Compliance Sub-Committee;
- Documented compliance programme and Company Policies to regulate compliance requirements;
- Annual compliance audits.

Other corporate governance policies and charters

Refer to the Company's website (www.apngroup.com.au) for:

- Board Charter;
- Audit, Compliance and Risk Management Committee Charter; and
- Nomination and Remuneration Committee Charter

and the following corporate governance policies, which have been adopted by all entities (including the Responsible Entity) within the APN Group in accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations:

- Securities Trading Policy;
- Continuous Disclosure Policy;
- Code of Conduct;
- Related Party Transactions and Conflicts of Interest Policy;
- Privacy Policy; and
- Communications Policy.

Compliance with ASX Corporate Governance Guidelines

The Responsible Entity complies with all of the ASX Corporate Governance Principles and Recommendations.

FINANCIAL INFORMATION ►

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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 its controlled funds (together "the Fund") for the year ended 30 June 2015. 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 (Chairman and Independent Non-Executive Director)
- Michael Johnstone (Independent Non-Executive Director)
- Jennifer Horrigan (Independent Non-Executive Director)
- Howard Brenchley (Non-Executive Director)
- Michael Groth (APN Chief Financial Officer and alternate Director for Howard Brenchley)

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. The net profit attributable to unitholders of the Fund for the year ended 30 June 2015 was \$31,346,000 (2014: \$11,896,000).

	2015	2014
Net profit attributable to unitholders of the Fund (\$'000)	31,346	11,896
Underlying net operating income (\$'000)	17,188	10,368
Underlying net operating income per unit (cents)	9.57	9.18
Distributions per unit (cents)	8.58	8.00
Basic and diluted earnings per unit (cents)	17.46	10.53

Underlying net operating income is a measurement used by management as the key performance indicator of the operating performance of the Fund. 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.

DIRECTORS' REPORT ►

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

	2015 \$'000	2014 \$'000
Net profit attributable to unitholders	31,346	11,896
Adjusted for:		
– Straight line lease revenue recognition	(2,051)	(866)
– Net (gain)/loss on change in fair value of:		
Investment properties	(17,980)	(4,705)
Derivatives	1,654	1,431
Investment properties included in share of net profit of equity accounted investments	(1,614)	(2,308)
Derivatives included in share of net profit of equity accounted investments	(10)	-
– Net change in loans carried at amortised cost	1,774	433
– Share of gain on change in fair value of investment property payable to lessee	-	238
– Manager's performance fee	4,024	4,236
– Other	45	13
Underlying net operating income	17,188	10,368

Underlying net operating income increased by 66% to \$17,188,000 for the twelve months to 30 June 2015 compared to \$10,368,000 for the twelve months to 30 June 2014. The increase is largely attributable to higher net property income from acquisitions, completed developments 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 full year rental income contributions from 55 Little Edward Street, Brisbane (purchased June 2014) and from the additional investment in June 2014 in Epworth Freemasons Clarendon Street. In addition the completion of the Casey Specialist Centre in February 2015 contributed further net property income to the Fund for five months of this financial year. Interest income has increased with the recognition of a full year's 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 reductions in line and margin fees on the Fund's debt facilities, lower hedged interest rates and lower floating interest rates.

Underlying net operating income per unit for the 2015 financial year was up 4.3% to 9.57 cents, compared to 9.18 cents per unit for the 2014 year reflecting the higher operating performance of the Fund noted above and the issue of new units. The distribution for the 2015 financial year was 8.58 cents per unit compared to 8.00 cents per unit paid for the 2014 year, an increase of 7.25%. The distribution paid or payable from underlying net operating income for the 2015 financial year amounted to \$15,129,000 representing a payout ratio of 88%.

Earnings per unit as calculated under applicable accounting standards for the year was 17.46 cents, compared to 10.53 cents per unit for the 2014 financial year, an increase of 66%. In addition to the increase in underlying net operating income, there was a material 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 a reduction in the carrying value of loans.

Total assets increased by \$82,599,000 or 25% to \$407,490,000 over the year as a result of the practical completion of the Casey Specialist Centre in February 2015, additional investment in the Divine Logistics Trust to purchase land adjacent to Frankston Private, the acquisition of the RSL Care portfolio of aged care facilities in June 2015 and a material increase in the value of the portfolio.

The Fund undertook an equity raising of \$52,089,000 in May 2015 (\$50,575,000 after costs) through a placement and entitlement offer, to fund the acquisition of the RSL Care portfolio of three aged care facilities and to provide balance sheet capacity for the Casey Stage 2 project. New equity of \$2,871,000 was raised during the year under the Distribution Reinvestment Plan and \$1,567,000 worth of units were issued in satisfaction of the Manager's performance fee due at December 2014. Overall, the total number of units on issue increased by 37,775,487 to 212,284,868. The net tangible asset backing of the Fund increased by 15 cents to \$1.22.

DIRECTORS' REPORT ►

Events subsequent to reporting date

In the interval between the end of the financial year and the date of this report no matter or circumstance has arisen 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 projects 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 healthcare 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, and to grow operational earnings and distributions. In delivering this strategy, the key operational focus for the coming 12 months will be on the Fund's organic growth pipeline, including:

- Progressing the new \$120,000,000 private hospital project in Casey Victoria, in conjunction with St John of God Health Care (SJGHC), having agreed commercial in-principle terms, with physical works forecast to start in late calendar year 2015 and with the project to be a joint venture with SJGHC, the Fund's investment is expected to be circa \$45,000,000;
- Progressing the \$45,000,000 (GHC share being 65%) expansion at Frankston Private following the agreement to lease with Healthscope Limited; and
- Advancing town planning approval for the \$62,000,000 Epworth Freemasons Cancer Centre and Epworth Clarendon Albert Street carpark projects, in which the Fund will have a 50% interest.

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' REPORT ►

Responsible Entity meetings

The following table sets out the number of meetings (including meetings of committees) held by the Responsible Entity during the financial year and the number of meetings attended by each Responsible Entity Director (while they were a director or committee member).

	APN FM Board		Audit, Compliance and Risk Management committee		Nomination and Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended
Geoff Brunsdon	11	9	10	8	2	2
Michael Johnstone	11	11	10	10	2	2
Jennifer Horrigan	11	11	10	10	2	2
Howard Brenchley	11	10	N/A	N/A	N/A	N/A
Michael Groth (alternate Director for Howard Brenchley)	11	11	N/A	N/A	N/A	N/A

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).

DIRECTORS' REPORT ►

Auditor's independence declaration

The Auditor's Independence Declaration is included on page 49 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

A handwritten signature in black ink, appearing to be 'G. Brunsdon', with a long horizontal line extending to the right.

Geoff Brunsdon

Chairman

MELBOURNE, 24 August 2015

AUDITOR'S INDEPENDENCE DECLARATION ►

Deloitte.

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

Dear Board Members

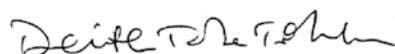
INDEPENDENCE DECLARATION – GENERATION HEALTHCARE REIT

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 2015, 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, 24 August 2015



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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 2015, 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 52 to 92.

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.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touché Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT ►

Deloitte.

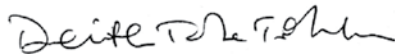
Auditor's Independence Declaration

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 2015 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, 24 August 2015

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, 24 August 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ►

For the financial year ended 30 June 2015

	Note	2015 \$'000	2014 \$'000
Revenue			
Rental income		26,556	19,028
Other property income		3,165	3,021
Interest		2,830	1,999
		32,551	24,048
Other income			
Net change in the fair value of investment properties and deposits	5(c)	17,980	4,705
Net change in the fair value of derivatives		(1,654)	(1,431)
Net change in loans carried at amortised cost	6	(1,774)	(433)
Share of change in fair value of investment property payable to lessee		-	(238)
		14,552	2,603
Total income		47,103	26,651
Expenses			
Property expenses		(5,754)	(4,761)
Finance costs	15	(6,907)	(7,722)
Responsible Entity's fees	17	(5,973)	(5,696)
Other		(376)	(398)
Total expenses		(19,010)	(18,577)
Share of net profit of equity accounted investment	7	3,253	3,822
Net profit attributable to unitholders of the Fund		31,346	11,896
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		31,346	11,896
		Cents	Cents
Distributions per unit	9	8.58	8.00
Basic and diluted earnings per unit	10	17.46	10.53

Notes to the financial statements are included on pages 57 to 92.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION ►

As at 30 June 2015

	Note	2015 \$'000	2014 \$'000
Current assets			
Cash and cash equivalents	3	1,618	3,219
Trade and other receivables	4	3,113	2,292
		4,731	5,511
Non-current assets			
Trade and other receivables	4	19,962	19,439
Loans carried at amortised cost	6	9,270	8,541
Investment properties	5	303,642	270,775
Deposit on investment properties	5	45,750	-
Equity accounted investments	7	24,135	20,625
		402,759	319,380
Total assets		407,490	324,891
Current liabilities			
Payables	8	14,422	8,381
Borrowings	11	387	376
Derivatives	12	2,676	2,342
Distribution payable	9	7,777	4,821
		25,262	15,920
Non-current liabilities			
Payables	8	680	7,359
Borrowings	11	116,055	108,651
Derivatives	12	6,920	5,600
		123,655	121,610
Total liabilities		148,917	137,530
Net assets		258,573	187,361
Equity attributable to unitholders			
Issued units	13	231,129	176,134
Retained earnings		27,444	11,227
Total equity		258,573	187,361
Net tangible assets per unit		\$1.22	\$1.07

Notes to the financial statements are included on pages 57 to 92.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ►

For the financial year ended 30 June 2015

	Issued units \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2013	88,179	8,797	96,976
Net profit for the year	-	11,896	11,896
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	11,896	11,896
Issue of units	87,955	-	87,955
Distributions paid to unitholders	-	(9,466)	(9,466)
Balance at 30 June 2014	176,134	11,227	187,361
Net profit for the year	-	31,346	31,346
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	31,346	31,346
Issue of units	54,995	-	54,995
Distributions paid to unitholders	-	(15,129)	(15,129)
Balance at 30 June 2015	231,129	27,444	258,573

Notes to the financial statements are included on pages 57 to 92.

CONSOLIDATED STATEMENT OF CASH FLOWS ►

For the financial year ended 30 June 2015

	Note	2015 Inflows/ (Outflows) \$'000	2014 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rental and other property receipts		31,573	24,281
Property and other payments		(10,090)	(8,634)
Distributions received from equity accounted investment		1,661	1,339
Interest received		382	55
Borrowing costs paid		(7,234)	(7,569)
Net cash provided by operating activities	18	16,292	9,472
Cash flows from investing activities			
Purchase of investment properties		(49,075)	(30,492)
Additions to investment properties and properties under construction		(14,194)	(20,367)
Additions to equity accounted investment		(1,875)	(92)
Loans advanced		(1,137)	(8,271)
Net cash used in investing activities		(66,281)	(59,222)
Cash flows from financing activities			
Proceeds from issue of units		52,089	68,287
Unit issue costs		(1,669)	(1,937)
Distributions paid to unitholders		(9,302)	(5,801)
Proceeds from borrowings		62,950	83,280
Repayment of borrowings		(55,680)	(92,800)
Net cash provided by financing activities		48,388	51,029
Net (decrease) / increase in cash and cash equivalents held		(1,601)	1,279
Cash and cash equivalents at beginning of the financial year		3,219	1,940
Cash and cash equivalents at end of the financial year	3	1,618	3,219

Notes to the financial statements are included on pages 57 to 92.

NOTES TO THE FINANCIAL STATEMENTS ►

1 Summary of significant accounting policies

Statement of compliance and 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 24 August 2015.

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 2015 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 2012-3 'Amendments to Australian Accounting Standards Offsetting Financial Assets and Financial Liabilities'	<p>The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.</p> <p>The directors of the Fund have assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments does not have any material impact on the amounts recognised in the Fund's consolidated financial statements.</p>
AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'	<p>The amendments to AASB 136 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by AASB 13 'Fair Value Measurements'.</p> <p>The application of these amendments does not have any material impact on the disclosures in the Fund's consolidated financial statements.</p>

NOTES TO THE FINANCIAL STATEMENTS ►

<p>AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'</p>	<p>The amendments to AASB 139 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.</p> <p>As the Fund does not have any derivatives that are subject to novation, the application of these amendments does not have any material impact on the disclosures or on the amounts recognised in the Fund's consolidated financial statements.</p>
<p>AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'</p>	<p>The amendments to AASB 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.</p> <p>As the Fund is not an investment entity (assessment based on the criteria set out in AASB 10 as at 1 July 2014), the application of the amendments does not have any material impact on the disclosures or the amounts recognised in the Fund's consolidated financial statements.</p>
<p>AASB 2014-1 'Amendments to Australian Accounting Standards'</p> <p>– Part A: 'Annual Improvements 2010-2012 and 2011-2013 Cycles'</p>	<p>A number of pronouncements are amended as a result of the 2010-2012 and 2011-2013 annual improvements cycle.</p> <p>The combination of these amendments does not have any material impact on the disclosures or on the amounts recognised in the Fund's consolidated financial statements.</p>
<p>AASB 1031 'Materiality' (2013)</p> <p>AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'</p> <p>AASB 2014-1 'Amendments to Australian Accounting Standards' (Part C: Materiality)</p>	<p>The revised AASB 1031 is an interim standard that cross-references to other Standards and the 'Framework for the Preparation and Presentation of Financial Statements' (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations. Once all of these references have been removed, AASB 1031 will be withdrawn. The adoption of AASB 1031, AASB 2013-9 (Part B) and AASB 2014-1 (Part C) does not have any material impact on the disclosures or the amounts recognised in the Fund's consolidated financial statements.</p>

NOTES TO THE FINANCIAL STATEMENTS ►

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
► AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
► AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2017	30 June 2018
► AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 June 2017
► AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
► AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	30 June 2017
► AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016	30 June 2017
► AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
► AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
► AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	1 July 2015	30 June 2016
► AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017

At the date of authorisation of the financial statements, there have been no IASB Standards or IFRIC Interpretations that are issued but not yet effective.

NOTES TO THE FINANCIAL STATEMENTS ►

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 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 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.

NOTES TO THE FINANCIAL STATEMENTS ►

(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.

NOTES TO THE FINANCIAL STATEMENTS ►

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 a financial asset is reduced by its impairment loss directly 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 financial asset 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" (see Note 8).

NOTES TO THE FINANCIAL STATEMENTS ►

(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.

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 adjusts 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.

NOTES TO THE FINANCIAL STATEMENTS ►

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 has investment properties and deposits on investment properties with a net carrying amount of \$360,787,000 (2014: \$281,876,000) (see note 5), representing estimated fair value. In addition, the carrying amount of the Fund's equity accounted investments of \$24,135,000 (2014: \$20,625,000) (see note 7) also includes 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 \$9,270,000 (2014: \$8,541,000) (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.

NOTES TO THE FINANCIAL STATEMENTS ►

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:

	2015 \$'000	2014 \$'000
Cash at bank and in hand	939	1,160
Cash held on escrow	-	1,500
Short term deposits	679	559
	1,618	3,219

4 Trade and other receivables

	2015 \$'000	2014 \$'000
Current		
Rental and other amounts due	528	511
Finance lease receivable	774	751
Accrued interest, prepayments and deposits	1,811	1,030
	3,113	2,292
Non-current		
Finance lease receivable	19,962	19,439
	19,962	19,439

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 2015, no receivables were impaired (2014: Nil).

The ageing analysis of rental and other amounts due as at 30 June 2015 is as follows:

	2015 \$'000	2014 \$'000
Ageing analysis of receivables past due but not impaired		
0-30 days	507	480
31-90 days	10	7
91+ days	11	24
	528	511

NOTES TO THE FINANCIAL STATEMENTS ►

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:

	2015 \$'000	2014 \$'000
Minimum lease payments receivable:		
Not later than one year	802	778
Later than one year and not later than five years	3,454	3,354
Later than five years	199,073	199,975
	203,329	204,107
Unearned finance income	(182,593)	(183,917)
Net present value of minimum lease payments	20,736	20,190
Net present value of minimum lease payments receivable:		
Not later than one year	774	751
Later than one year and not later than five years	2,837	2,754
Later than five years	17,125	16,685
	20,736	20,190
Finance income recognised and included in interest income in the statement of comprehensive income	1,324	1,289

5 Investment properties

(a) Summary of carrying amounts

	2015 \$'000	2014 \$'000
Current assets		
Finance lease receivable ¹	774	751
Non-current assets		
Finance lease receivable ¹	19,962	19,439
Investment properties	303,642	270,775
Deposits on investment properties ²	45,750	-
	369,354	290,214
Total assets	370,128	290,965
Current liabilities		
Finance lease payable ¹	387	376
Non-current liabilities		
Finance lease payable ¹	8,954	8,713
Total liabilities	9,341	9,089
Total property valuations	360,787	281,876

1 See ARCBS Facility in note 5(b) on page 67.

2 See RSL Care Portfolio in note 5(b) on page 67.

NOTES TO THE FINANCIAL STATEMENTS ►

(b) Individual valuations and carrying amounts

Property	Date of purchase	Cost to date \$'000	Latest external valuation		Carrying amount ²		Capitalisation rate		Discount rate	
			Date	Valuation \$'000	2015 \$'000	2014 \$'000	2015 %	2014 %	2015 %	2014 %
ARCBS Facility ¹ Cnr Musk Avenue & Blarney Street Kelvin Grove, Brisbane QLD	Apr 08 ³	65,337	Dec 14	71,500	72,290	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 15	51,800	51,800	45,000	7.50%	8.25%	8.25%	9.50%
Epworth Freemasons Private Hospital Clarendon Street, East Melbourne VIC	May 06	22,101	Jun 15	38,600	38,600	34,750	6.75%	7.25%	8.50%	9.25%
Harvester Centre Cnr Harvester & Devonshire Roads, Sunshine VIC	Feb 07	15,065	Jun 15	14,100	14,100	13,600	8.50%	9.25%	8.75%	10.00%
Pacific Private Clinic 119-123 Nerang Street, Southport QLD	Feb 07	34,594	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 ³	8,547	Jun 15	9,950	9,950	9,000	7.50%	8.00%	7.75%	9.00%
Westmead Hospital Merrylands NSW	May 13	21,355	Jun 14	22,200	23,000	22,200	8.10%	8.25%	9.25%	9.50%
Spring Hill 55 Little Edward Street, Spring Hill QLD	Jun 14	47,926	Jun 15	47,200	47,200	44,500	8.25%	8.25%	9.00%	9.75%
Casey Specialist Centre ⁴ Kangan Drive, Berwick VIC	Feb 15 ³	17,020	Jun 15	23,100	23,100	9,275	7.25%	-	8.00%	-
		261,210		306,450	308,440	279,925	7.88%	8.26%	8.89%	9.54%
Development land										
Casey development land Kangan Drive Berwick VIC		6,597			6,597	1,951				
Deposits on investment properties										
RSL Care Portfolio ⁵ (i) Pialba QLD (ii) Alexandra Headland QLD (ii) Banora Point NSW		46,288			45,750	-				
Total all investment properties		314,095			360,787	281,876				

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 in notes 4 and 11. See also note 1(e). The cost to date shown is the net of the total expenditure of \$84,796,000 less the initial receipt under the finance lease receivable of \$19,459,000 (excluding GST).

2 Investment property that has not been valued by 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).

3 Date of completion of construction.

4 Classified as 'Property under construction' as at 30 June 2014.

5 A full transaction amount of \$45,750,000 (net of acquisition costs of \$538,000) was deposited with RSL Care for the three RSL Care properties. Completion of the sale, including transfer of titles from RSL Care to the Fund, is conditional upon the town council approving the sub-division of each property from its co-located retirement village. Until the sale completion, interest income of 7.65% is recognised on the deposit as it accrues.

NOTES TO THE FINANCIAL STATEMENTS ►

(c) Movements in carrying amount

	2015 \$'000	2014 \$'000
Carrying amount at beginning of year	270,775	195,573
Purchase of new properties	-	47,756
Additions to existing property	108	13,787
Deposits on investment properties	46,288	-
Expenditure on property under construction	12,390	8,240
Amortisation of tenant incentives and leasing commissions	(190)	(168)
Straight line lease revenue recognition	2,041	882
Change in fair value – unrealised	17,980	4,705
Carrying amount at end of year	349,392	270,775

(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 2015 \$'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs 30 June 2015
Level 3	360,787	DCF and income capitalisation method	Net passing rent - \$/sqm Net market rent - \$/sqm Adopted capitalisation rate Adopted discount rate Adopted terminal yield	\$300 - \$690 \$293 - \$690 6.75% - 9.75% 7.75% - 9.75% 7.25% - 9.75%

NOTES TO THE FINANCIAL STATEMENTS

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, income reversions, periods of vacancy and tenant incentives.
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.

Valuation process

The purpose 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.

NOTES TO THE FINANCIAL STATEMENTS ►

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 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 \$29,721,000 (2014: \$22,049,000) from its investment properties. Direct operating expenses arising from investment property that generated income during the year totalled \$5,754,000 (2014: \$4,761,000). Direct operating expenses arising from investment property that did not generate income during the year totalled Nil (2014: 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:

	2015 \$'000	2014 \$'000
Within one year	25,789	22,941
Later than one year and not later than five years	83,863	69,747
Later than five years	183,096	175,960
	292,748	268,648

NOTES TO THE FINANCIAL STATEMENTS ►

6 Loans carried at amortised cost

	2015 \$'000	2014 \$'000
Opening balance	8,541	-
Purchase price including costs	-	6,401
Additional capital and other cost contributions	1,100	1,864
Capitalised interest income	1,374	666
Accrued costs	29	43
Impairment	(1,774)	(433)
	9,270	8,541

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 \$1,774,000 (2014: \$433,000) 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.

	2015 \$'000	2014 \$'000
Investments accounted for using the equity method		
Opening balance	20,625	18,271
Fund's share of joint venture profit	3,253	3,822
Distributions	(1,617)	(1,530)
Additional investment in joint venture	1,874	62
	24,135	20,625

(a) Interests in joint ventures

Ownership interest					
Name	Principal activity	2015	2014	Joint venture reporting date	Country
Divine Logistics Trust	Real estate investment	50.0%	50.0%	30 June	Australia
Divine Logistics Pty Limited ¹	Trustee	50.0%	50.0%	30 June	Australia

¹ Divine Logistics Pty Limited is a non-operating entity and its sole purpose is as trustee of the Divine Logistics Trust.

NOTES TO THE FINANCIAL STATEMENTS ►

(b) Summarised financial information of Divine Logistics Trust

Financial position - 2015

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	1,336	47,622	48,958	676	12	688	48,270	24,135
	1,336	47,622	48,958	676	12	688	48,270	24,135

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
	582	41,084	41,666	416	-	416	41,250	20,625

The above amounts of assets and liabilities include the following:

	2015 \$'000	2014 \$'000
Cash and cash equivalents	325	374
Current financial assets (excluding trade and other receivables and provisions)	42	-
Non-current financial assets (excluding trade and other receivables and provisions)	88	-
Current financial liabilities (excluding trade and other payables and provisions)	97	-
Non-current financial liabilities (excluding trade and other payables and provisions)	12	-

NOTES TO THE FINANCIAL STATEMENTS ►

Financial performance

	2015 \$'000	2014 \$'000
Revenue	3,926	3,696
Gain on change in fair value of investment properties	3,229	4,616
Gain on change in fair value of derivatives	21	-
Expenses	(670)	(668)
Profit for the year	6,506	7,644
Other comprehensive income	-	-
Total comprehensive income	6,506	7,644
Fund's share of profits of joint venture	3,253	3,822

The above profit for the year includes the following:

	2015	2014
Depreciation	-	-
Interest income	11	6
Interest expense	(42)	-
Income tax Income / (expense)	-	-

Distributions received from joint ventures

During the financial year, the Fund received distributions totaling \$1,617,000 (2014: \$1,530,000) 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 2015, the Fund's share of commitments from its joint venture is included in Note 21.

8 Payables

	2015 \$'000	2014 \$'000
Current liabilities		
Trade and other payables	8,109	7,558
Rent in advance	1,010	823
Amounts payable to lessee	5,303	-
	14,422	8,381
Non-current liabilities		
Trade and other payables	680	2,056
Amounts payable to lessee	-	5,303
	680	7,359

NOTES TO THE FINANCIAL STATEMENTS ►

9 Distributions paid and payable

	2015		2014	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the year	4.20	7,352	4.00	4,645
Distribution payable	4.38	7,777	4.00	4,821
	8.58	15,129	8.00	9,466

The distribution payable for the half year ended 30 June 2015 was recognised in the 2015 financial year and will be paid on 31 August 2015. The distribution payable for the half year ended 30 June 2014 was recognised in the 2014 financial year and was paid on 29 August 2014.

10 Earnings per unit

	2015	2014
Profit attributable to unitholders (\$'000)	31,346	11,896
Weighted average number of units outstanding (thousands)	179,565	112,971
Basic and diluted earnings per unit (cents)	17.46	10.53

11 Borrowings

	2014 \$'000	2013 \$'000
Current liabilities		
Finance lease	387	376
	387	376
Non-current liabilities		
Bank debt	107,101	99,938
Finance lease	8,954	8,713
	116,055	108,651

NOTES TO THE FINANCIAL STATEMENTS ►

(a) Bank debt

The Fund has three bank facilities:

- i. The first is a revolving cash advance facility with a limit of \$77,800,000 drawn to \$57,800,000 at reporting date with \$38,900,000 (from a limit of \$38,900,000) repayable on 30 September 2017 and \$18,900,000 (from a limit of \$38,900,000) repayable on 30 September 2019;
- ii. The second is a revolving cash advance facility with a limit of \$8,537,500 fully drawn at reporting date, repayable on 30 September 2019; and
- iii. The third is a revolving cash advance facility with a limit of \$41,200,000 fully drawn at reporting date, repayable on 15 July 2018.

Unamortised borrowing costs of \$437,000 (2014: \$329,000) reduce the amounts drawn to the reported carrying amounts in the statement of financial position.

With the exception of Spring Hill, the RSL Care property portfolio, and the secured debt position associated with Waratah Private Hospital, all of the Fund's assets and the assets of its equity accounted investment (excluding the property at 5-9 Foot Street) 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:

- a) The ratio of net rental income (EBITDA for facility 3) to interest costs under the facility will not fall below 1.5;
- b) 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.

(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 2015 was 73 years. There is no purchase option. Minimum payments under the lease and their present values are as follows:

	2015 \$'000	2014 \$'000
Minimum lease payments payable:		
Not later than one year	402	390
Later than one year and not later than five years	1,731	1,681
Later than five years	99,776	100,228
	101,909	102,299
Future finance charges	(92,568)	(93,210)
Present value of minimum lease payments	9,341	9,089
Present value of minimum lease payments:		
Not later than one year	387	376
Later than one year and not later than five years	1,401	1,360
Later than five years	7,553	7,353
	9,341	9,089

NOTES TO THE FINANCIAL STATEMENTS ►

12 Derivatives

	2015 \$'000	2014 \$'000
Current liabilities		
Interest rate swap contracts	2,676	2,342
Non-current liabilities		
Interest rate swap contracts	6,920	5,600

13 Issued units

(a) Carrying amounts

	2015 \$'000	2014 \$'000
At beginning of the year	176,134	88,179
Issue of new units	52,089	82,787
Distribution reinvestment plan	2,871	2,463
Manager's performance fee	1,567	4,675
Unit issue costs	(1,532)	(1,970)
At end of year	231,129	176,134

(b) Number of issued units

	2015 Units	2014 Units
On issue at beginning of the year	174,509,381	98,640,857
Issue of new units	34,725,672	69,778,993
Distribution reinvestment plan	2,009,671	2,225,185
Manager's performance fee	1,040,144	3,864,346
On issue at end of year	212,284,868	174,509,381

(c) Terms of units

All units are fully paid and rank equally with each other for all purposes (except for the new units of 34,725,672 issued in May 2015 as these were not entitled to the distribution payable for the half year ended 30 June 2015, but will have equal ranking from 1 July 2015). Each unit entitles the holder to one vote, in person or by proxy, at a meeting of unitholders.

NOTES TO THE FINANCIAL STATEMENTS ►

14 Remuneration of auditors

	2015 \$	2014 \$
Auditing or reviewing the Financial Report	34,250	34,250
Other non-audit services	3,120	3,120
	37,370	37,370

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

	2015 \$'000	2014 \$'000
Interest paid or payable	6,995	7,580
Finance lease interest	642	625
Less interest capitalised	(730)	(483)
	6,907	7,722

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, which are greater than 10% of the Fund's total revenues, are set out below:

	2015 \$'000	2014 \$'000
Customer 1	6,305	4,587
Customer 2	3,366	3,400
Customer 3	-	2,440

NOTES TO THE FINANCIAL STATEMENTS ►

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, and which 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 on 31 December and 30 June. The amount paid in a period is subject to a cap (fund management fee plus performance fee) of 1.5% of the monthly average gross assets, with amounts in excess of the cap being rolled forward to future periods and payable subject to GHC's total return for that period being positive. Amounts rolled forward are also payable immediately in limited circumstances;
- 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, the 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:

	2015 \$	2014 \$
Fund management fee	1,949,188	1,460,061
Performance fee	4,024,258	4,236,137
	5,973,446	5,696,198
Other		
Property management fees	578,289	421,520
Property acquisition fees ¹	303,484	479,093
Development management fees	429,698	100,000
Property/asset management fees ²	306,335	388,699
Other services	900	26,140
	1,618,706	1,415,452
	7,592,152	7,111,650

1 Net of third party acquisition costs totalling \$180,634 (2014: \$90,907) that were incurred by the Responsible Entity and its related party on behalf of the Fund.

2 Services provided to Cortez Enterprises Pty Ltd.

NOTES TO THE FINANCIAL STATEMENTS ►

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.

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 (Non-Executive Director)
- John Freemantle (Company Secretary)
- Michael Groth (APN 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 the Responsible Entity's 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 of the Responsible Entity, including their related parties and distributions received or receivable from the Fund were as follows:

	2015		2014	
	Number of units held	Distributions \$	Number of units held	Distributions \$
Miles Wentworth	170,755	14,651	221,982	13,440
Chris Adams	311,270	27,723	354,385	28,167

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, subject to the APN Property Group Securities Trading Policy. 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:

	2015		2014	
	Number of units held	Distributions \$	Number of units held	Distributions \$
Generation Healthcare Management Pty Limited	14,103,184	984,859	10,947,562	461,547
APN Property Group Limited	5,811,765	423,852	4,940,000	221,600
APN Funds Management Limited	6,452,732	470,598	5,484,822	345,093
APN Property For Income Fund No.2	1,176,471	85,800	1,558,330	124,666
APN AREIT Fund	7,308,963	493,013	5,663,847	336,208
APN Property For Income Fund	2,141,984	156,215	1,820,686	145,655

NOTES TO THE FINANCIAL STATEMENTS ►

18 Notes to the cash flow statement

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

	2015 \$'000	2014 \$'000
Net profit for the year	31,346	11,896
Adjustments for:		
Straight line lease revenue recognition	(2,051)	(866)
Change in fair value of investment properties	(17,980)	(4,705)
Change in fair value of derivatives	1,654	1,431
Net change in loans carried at amortised cost	1,774	433
Shortfall of distributions received from equity accounted investments over share of profits	(1,591)	(2,482)
Interest income from loans carried at amortised cost	(1,374)	(666)
Other non-cash items	3,231	4,180
Operating profit for the year before changes in working capital	15,009	9,221
Changes in working capital:		
Decrease in receivables	(921)	(942)
Decrease in interest payable	(132)	(144)
Increase in other payables	2,336	1,337
Net cash provided by operating activities	16,292	9,472

(b) Non-cash financing and investing activities

	2015 \$'000	2014 \$'000
Reinvestment of distributions pursuant to the Distribution Investment Plan	2,871	2,463

NOTES TO THE FINANCIAL STATEMENTS ►

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 2015 the Gearing Ratio was 26.6% (2014: 31.3%). This is calculated as follows:

	2015 \$'000	2014 \$'000
Total consolidated borrowings	116,442	109,027
Less cash & cash equivalents	(1,618)	(1,719)
Less finance lease liabilities	(9,341)	(9,089)
Net consolidated debt	105,483	98,219
Plus share of debt of equity accounted investments	-	-
Net look-through debt	105,483	98,219
Total consolidated assets	407,490	324,891
Less cash & cash equivalents	(1,618)	(1,719)
Less finance lease liabilities	(9,341)	(9,089)
Less equity accounted investments	(24,135)	(20,625)
Plus share of assets of equity accounted investments	24,479	20,833
Total look-through assets	396,875	314,291
Gearing ratio	26.6%	31.3%

NOTES TO THE FINANCIAL STATEMENTS ►

20 Financial instruments

The Group's principal 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:

	2015 \$'000	2014 \$'000
Financial assets at fair value through profit or loss	71,503	23,844
Loans and receivables	32,345	30,272
Financial liabilities at fair value through profit or loss	(9,596)	(7,942)
Financial liabilities measured at amortised cost	(139,321)	(129,588)

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 2015, after taking into account the effect of interest rate swaps, 75% of the Group's (excluding interest rate swaps entered into by joint ventures) borrowings are at a fixed rate of interest (2014: 75%).

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.

NOTES TO THE FINANCIAL STATEMENTS ►

(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:

2015	Floating interest rate \$'000	Fixed interest maturing in:			Total \$'000
		Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
Financial assets					
Cash at bank	939	-	-	-	939
Short term deposits	59	620	-	-	679
Loan receivable	-	-	9,270	-	9,270
Finance lease receivable	-	774	2,837	17,125	20,736
Financial liabilities					
Bank debt	107,101	-	-	-	107,101
Finance lease payable	-	387	1,401	7,553	9,341
Interest rate swaps:					
- Fund pays/(receives)					
- Current ¹	(80,600)	50,000	30,600	-	-
- Forward start	(80,000)	-	30,000	50,000	-
Weighted average interest rates	%	%	%	%	%
Financial assets					
Cash at bank	1.5	-	-	-	N/A
Short term deposits	1.4	2.9	-	-	N/A
Loan receivable	-	-	14.9	-	N/A
Finance lease receivable	-	6.5	6.5	6.5	N/A
Financial liabilities					
Bank debt	2.2	-	-	-	N/A
Finance lease payable	-	7.0	7.0	7.0	N/A
Interest rate swaps:					
- Fund pays/(receives)					
- Current	(2.2)	4.9	6.2	-	N/A
- Forward start	(2.2)	-	3.6	4.8	N/A

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

NOTES TO THE FINANCIAL STATEMENTS ►

2014	Floating interest rate \$'000	Fixed interest maturing in:			Total \$'000
		Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	
Financial assets					
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
Financial liabilities					
Bank debt	99,938	-	-	-	99,938
Finance lease payable	-	376	1,360	7,353	9,089
Interest rate swaps:					
- Fund pays/(receives)					
- Current ¹	(75,025)	29,425	20,600	25,000	-
- Forward start	(44,269)	-	19,269	25,000	-
Weighted average interest rates					
Financial assets					
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
Financial liabilities					
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

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

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.

NOTES TO THE FINANCIAL STATEMENTS ►

(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)	
	2015 \$'000	2014 \$'000
The effect on net interest expense for one year would have been: Variable interest rate instruments	(268)	(78)
The effect on change in fair value of derivatives would have been: Variable interest rate instruments	4,406	4,065
Decrease in average interest rates of 1%	Effect on profit after tax Higher/(lower)	
	2015 \$'000	2014 \$'000
The effect on net interest expense for one year would have been: Variable interest rate instruments	268	78
The effect on change in fair value of derivatives would have been: Variable interest rate instruments	(4,410)	(4,278)

NOTES TO THE FINANCIAL STATEMENTS

(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 occupying 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.

NOTES TO THE FINANCIAL STATEMENTS ►

	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
2015				
Liabilities				
Trade & other payables	14,422	680	-	15,102
Borrowings	4,223	118,304	99,309	221,836
	18,645	118,984	99,309	236,938
2014				
Liabilities				
Trade & other payables	8,381	7,359	-	15,740
Borrowings	5,380	112,106	99,778	217,264
	13,761	119,465	99,778	233,004

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
2015				
Liabilities				
Derivative liabilities – net settled	2,346	7,585	53	9,984
2014				
Liabilities				
Derivative liabilities – net settled	1,967	7,046	259	9,272

NOTES TO THE FINANCIAL STATEMENTS ►

(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 2015				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities measured at fair value through profit or loss				
Amounts payable to lessee	-	-	-	-
Derivatives – interest rate swaps	-	9,596	-	9,596
Total	-	9,596	-	9,596

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

NOTES TO THE FINANCIAL STATEMENTS ►

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

	Amount payable to lessee \$'000	Total \$'000
2015		
Opening balance	5,303	5,303
Additions	-	-
(Gains)/losses recognised in profit or loss	-	-
Transfers out of level 3	(5,303)	(5,303)
Closing balance	-	-
(Gains)/losses for the year included in profit or loss that relate to assets held at the end of the year	-	-
	Amount payable to lessee \$'000	Total \$'000
2014		
Opening balance	5,065	5,065
Additions	-	-
(Gains)/losses recognised in profit or loss	238	238
Transfers out of level 3	-	-
Closing balance	5,303	5,303
(Gains)/losses for the year included in profit or loss that relate to assets held at the end of the year	238	238

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

NOTES TO THE FINANCIAL STATEMENTS ►

21 Commitments and contingencies

Commitments for capital expenditure on investment property contracted but not provided for at reporting date is \$1,051,912 all of which is payable within one year (2014: \$8,571,000 all of which is payable within one year).

The Fund 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 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 signed a conditional (on town planning) agreement for lease in July 2014 to build Epworth Foundation a Cancer Centre on the Clarendon Street site. At the time, the project cost was estimated at \$25,000,000 with GHC to fund 100% up to this amount. Post balance date, the Fund entered into a Heads of Agreement to restructure its agreement. The project is to now include a significant underground carpark and additional operating theatres in addition to the cancer centre. The estimated total project cost is now \$62,000,000 and is to be undertaken on a 50:50 joint venture basis and is subject to town planning and finance.

The Fund's 50% owned joint venture entity, Divine Logistics Trust, has entered into a series of contracts with Healthscope Limited that will see the construction of a circa \$45,000,000 extension to the existing private hospital. GHC is to have a 65% interest in this project, representing a commitment of approximately \$29,300,000. This commitment is expected to be funded via debt utilising existing balance sheet capacity, with construction to commence following debt funding being contracted, town planning approval and appointment of a builder.

The purchase of the three RSL Care properties includes a contingent amount payable of \$2,661,874 in respect of stamp duty that will become due and payable on acquisition of the properties.

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	
		2015	2014
Parent entity			
Generation Healthcare REIT	Australia		
Subsidiaries			
Generation Healthcare Subsidiary Trust No.1	Australia	100%	100%
Generation Healthcare RSL Care Subsidiary Trust	Australia	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 (2014: 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 (2014: Nil). The Group is in the process of negotiating the financial arrangements in respect of the Casey Stage 2 project, which may include contractual or non-contractual financial or other support to one of the consolidated entities going forward.

NOTES TO THE FINANCIAL STATEMENTS ►

23 Parent entity disclosures

Financial position	2015 \$'000	2014 \$'000
Assets		
Current assets	10,097	11,372
Non-current assets	341,006	257,967
Total assets	351,103	269,339
Liabilities		
Current liabilities	26,560	13,199
Non-current liabilities	65,970	68,779
Total liabilities	92,530	81,978
Net assets	258,573	187,361
Equity attributable to unitholders		
Contributed equity	231,129	176,134
Retained earnings	27,444	11,227
Total equity	258,573	187,361

Financial performance	Year ended 30 June 2015 \$'000	Year ended 30 June 2014 \$'000
Net profit attributable to unitholders of the Fund	31,346	11,896
Other comprehensive income	-	-
Total comprehensive income	31,346	11,896

During the financial year ended 30 June 2015, the parent entity did not enter into any guarantees in relation to debts of its subsidiaries (2014: Nil).

Other than as referred to in Note 21, there are no contingent liabilities or contractual commitments for acquisitions of property, plant or equipment or developments as at 30 June 2015 in the parent entity (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS ►

24 Subsequent events

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
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MELBOURNE VIC 3000

Tel: (03) 8656 1000

Principal place of business

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MELBOURNE VIC 3000

Tel: (03) 8656 1000

TOP 20 UNITHOLDERS

Rank	Name	Number of units held at 3 Sep 2015	%
1	NATIONAL NOMINEES LIMITED	16,895,499	7.87
2	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	15,165,740	7.06
3	GENERATION HEALTHCARE MANAGEMENT PTY LTD	15,160,382	7.06
4	STOURTON PROPERTIES PTY LTD AS TRUSTEE FOR STOURTON PROPERTIES UNIT TRUST NO. 9	14,963,944	6.97
5	J P MORGAN NOMINEES AUSTRALIA LIMITED	10,607,160	4.94
6	TAVERNERS N PTY LTD	7,462,790	3.47
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,829,665	3.18
8	APN FUNDS MANAGEMENT LIMITED	6,452,732	3.00
9	CITICORP NOMINEES PTY LIMITED	6,194,034	2.88
10	APN PROPERTY GROUP LTD	5,811,765	2.71
11	BNP PARIBAS NOMS PTY LTD	5,553,748	2.59
12	AMP LIFE LIMITED	3,087,883	1.44
13	BNP PARIBAS NOMS (NZ) LTD	1,547,372	0.72
14	TAVERNERS J PTY LTD	1,493,569	0.70
15	MIRRABOOKA INVESTMENTS LIMITED	1,044,359	0.49
16	GAFFWICK PTY LTD	831,903	0.39
17	TAVERNERS NO 11 PTY LTD	744,717	0.35
18	B M R NOMINEES PTY LTD	708,358	0.33
19	STONEVILLE PTY LTD	662,285	0.31
20	MAREW ENTERPRISES PTY LTD	502,941	0.23
		121,720,846	56.68

Range of Unitholders

	Number of holders	Number of units	%
100,001 and Over	184	148,662,121	69.22
10,001 to 100,000	1,890	58,209,274	27.10
5,001 to 10,000	733	5,447,516	2.54
1,001 to 5,000	767	2,341,456	1.09
1 to 1,000	331	100,553	0.05
Total	3,905	214,760,920	100.00

INVESTOR RELATIONS ►

Substantial Holder Notices

The table below gives details of the last notice for each substantial unitholder lodged with the Australian Securities Exchange to 3 September 2015.

Effective date	Name	Number of units	%
3 July 2015	Australian Unity Funds Management as responsible entity for registered managed investment schemes	11,084,564	5.23
29 May 2015	Hume Partners Pty Limited on behalf of its clients	21,013,548	11.05
15 May 2015	APN Property Group and related entities (including investment by Stourton Properties Pty Ltd pursuant to a Voluntary Escrow Deed)	44,284,249	23.29
25 June 2014	Stourton Properties Pty Ltd As Trustee for Stourton Properties Unit Trust No. 9 and other related entities of the Bennelong Group	12,083,333	6.92

INVESTOR RELATIONS ►

Contact details

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Sydney South NSW 1235

Investor communications

Annual and Half Yearly reports along with all ASX announcements are available on www.generationreit.com.au

Distribution payments and annual taxation statement

Distributions are paid half yearly in February and August. You can view your 2014/2015 Annual Taxation Statement online by visiting www.generationreit.com.au and accessing 'My Unitholding' within the Investor Centre section of the website.

Distribution reinvestment plan

The distribution reinvestment plan (DRP) is currently in operation and allows unitholders to have their semi-annual distribution payment automatically reinvested as additional GHC units, without brokerage or other transaction costs. Participation is optional and unitholders can join, vary their participation or withdraw from the DRP at any time. Please visit our website to view a copy of the DRP Frequently Asked Questions.

2015/2016 Unitholder calendar*

Distribution paid for the half-year ending 31 December 2015	26 February 2016
Distribution paid for the half-year ending 30 June 2016	31 August 2016
Annual Taxation Statement for 2015/2016 financial year mailed	31 August 2016
2016 Annual Report available	30 September 2016

* These dates are indicative only and are subject to change.

Privacy Policy

APN Funds Management Limited is committed to ensuring the confidentiality and security of your personal information. The Privacy Policy, detailing our handling of personal information, is available on our website www.apngroup.com.au

Complaints

Any unitholder wishing to register a complaint should direct it to Investor Services in the first instance, at the Responsible Entity's address listed previously in this Report. APN Funds Management Limited is a member of an independent dispute resolution scheme, the Financial Ombudsman Service (FOS). If a unitholder feels that a complaint remains unresolved or wishes it to be investigated further, FOS can be contacted as below:

By telephone: 1300 780 808
In writing: Financial Ombudsman Service
GPO Box 3, Melbourne VIC 3001
By email: info@fos.org.au
Website: www.fos.org.au

CORPORATE DIRECTORY

GENERATION HEALTHCARE REIT™

ARSN 118 712 584

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Jennifer Horrigan, Independent Non-Executive Director

Michael Johnstone, Independent Non-Executive Director

Howard Brenchley, Non-Executive Director

Michael Groth, Alternate Executive Director for Howard Brenchley

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ANNUAL REPORT 2015

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GENERATION
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