

## APPENDIX 4D

### Half-year Report

### Half-year ended 31 December 2015

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

#### Results for announcement to the market

	\$'000	
Revenues from ordinary activities	up 22% to 19,687	
Profit from ordinary activities after tax attributable to members	up 87% to 14,802	
Net profit for the period attributable to members	up 87% to 14,802	
Underlying net operating income	up 28% to 10,799 <sup>1</sup>	
Net tangible assets per unit	<b>31 December 2015</b> \$1.25	<b>30 June 2015</b> \$1.22

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

	<b>2015</b> <b>\$'000</b>	<b>2014</b> <b>\$'000</b>
Net profit attributable to unitholders	14,802	7,934
Adjusted for:		
- Straight line lease revenue recognition	(780)	(1,102)
- Net (gain)/loss on change in fair value of:		
Investment properties	(13,042)	(3,673)
Derivatives	957	2,686
Investment properties included in share of net profit of equity accounted investments	(962)	14
Derivatives included in share of net profit of equity accounted investments	44	-
- Net change in loans carried at amortised cost	16	546
- Manager's performance fee	10,787	1,977
- Lease surrender and new tenant incentives associated with change of significant tenant	(1,051)	-
- Other	28	27
<b>Underlying net operating income</b>	<b>10,799</b>	<b>8,409</b>

Distributions	Amount per unit (cents)	\$'000
Interim – 31 December 2015	4.42	9,492
Previous corresponding period	4.20	7,352
Record date for determining entitlements to the distribution	31 December 2015	
Details of any distribution reinvestment plan in operation	Refer ASX announcement on 17 December 2015	
Last date for receipt of an election notice for participation in any distribution reinvestment plan	4 January 2016	

Note: Franked amount per unit is not applicable

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

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



John Freemantle  
Company Secretary

18 February 2016



ARSN 118 712 584

Consolidated Financial Report for the  
Half Year Ended 31 December 2015

## Directors' report

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

## Review of operations

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

## Results

The results of the operations of the Fund are disclosed in the condensed consolidated statement of profit or loss and other comprehensive income of these financial statements. The net profit for the half year ended 31 December 2015 was \$14,802,000 (2014: \$7,934,000).

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

	2015	2014
Net profit attributable to unitholders of the Fund (\$'000)	14,802	7,934
Underlying net operating income (\$'000)	10,799	8,409
Underlying net operating income per unit (cents)	5.05	4.81
Distributions per unit (cents)	4.42	4.20
Basic and diluted earnings per unit (cents)	6.92	4.54

The Responsible Entity uses the Fund's underlying net operating income as an additional performance indicator. Underlying net operating income does not take into account certain items recognised in the income statement including unrealised gains or losses on the revaluation of the Fund's investment properties and derivatives, performance fees paid or payable to the Manager and non-recurring lease surrender fees and the amortisation of new tenant incentives associated with significant tenant changes.

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

	2015 \$'000	2014 \$'000
Net profit attributable to unitholders	14,802	7,934
Adjusted for:		
Straight line lease revenue recognition	(780)	(1,102)
Net (gain)/loss on change in fair value of:		
Investment properties	(13,042)	(3,673)
Derivatives	957	2,686
Investment properties included in share of net profit of equity accounted investments	(962)	14
Derivatives included in share of net profit of equity accounted investments	44	-
Net change in loans carried at amortised cost	16	546
Manager's performance fee	10,787	1,977
Lease surrender and new tenant incentives associated with change of significant tenant	(1,051)	-
Other	28	27
<b>Underlying net operating income</b>	<b>10,799</b>	<b>8,409</b>

Underlying net operating income increased by 28% to \$10,799,000 from \$8,409,000 for the December 2014 half year. The increase is largely attributable to higher net property income from completed developments and the acquisition of additional properties accompanied by portfolio rental growth and lower finance costs. Higher net property income resulted from a combination of CPI, fixed and market rent reviews across the portfolio, six months rental income from the Casey Specialist Centre (completed in February 2015) and six months income following the acquisition of the RSL Care portfolio of three aged care facilities in June 2015. Lower finance costs were due to a negotiated decrease in line and margin fees on the Fund's debt facilities, lower hedged interest rates and lower

floating interest rates. These increases to underlying net operating income were partially offset by higher management fees given the increased funds under management.

Underlying net operating income per unit for the December 2015 half year increased by 5.0% to 5.05 cents, compared to 4.81 cents per unit for the December 2014 half year reflecting the higher operating performance of the Fund noted above. The distribution for the December 2015 half year has been declared at 4.42 cents per unit, a 5.2% increase on the prior corresponding period, with the payout ratio of distributions to underlying net operating income of 88%.

Earnings per unit as calculated under applicable accounting standards for the half year was 6.92 cents per unit, compared to 4.54 cents per unit for the December 2014 half year. In addition to the increase in the underlying net operating income, there was a material increase in the net gain on the change in fair value of investment properties, a decrease in the net loss on the change in fair value liability of derivatives and a material surrender payment received from a tenant's early lease surrender partially offset by a rental incentive for the replacement tenant. These factors were partially offset by an increase in the Manager's performance fee entitlement with the Fund significantly outperforming the S&P/ASX 300 AREIT Accumulation Index.

Total assets increased by \$31,822,000 to \$439,312,000, an 8% increase since 30 June 2015. This was primarily due to the acquisition of the freehold interest at Epworth Freemasons Victoria Parade, material property revaluations across the portfolio, further investment in the Frankston Private Hospital expansion project and a deposit paid for the purchase of retail suites at the Waratah Private Hospital. During the six months to December 2015, the Fund also sold a share of the Casey Stage 2 & 3 development site to St John of God Health Care with whom the Fund has a partnership arrangement for the development of a scale private hospital development on the site, having reached financial close.

In August 2015 new equity of \$2,245,000 was raised under the Distribution Reinvestment Plan and \$1,684,000 worth of units was issued in satisfaction of the Manager's performance fee due at December 2014 and June 2015. Over the half year the number of units on issue increased by 2,476,052 to 214,760,920.

#### **Distributions**

In respect of the half year ended 31 December 2015 an interim distribution of 4.42 cents per unit was declared and announced on 18 December 2015 with payment to unitholders to be made on 26 February 2016 (2014: 4.20 cents).

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

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

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

#### **Rounding off of amounts**

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

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to s 306(3) of the Corporation Act 2001.

On behalf of the Directors



Geoff Brunsdon  
Chairman  
MELBOURNE, 18 February 2016

The Board of Directors  
APN Funds Management Limited  
101 Collins Street  
MELBOURNE VIC 3000

18 February 2016

Dear Board Members

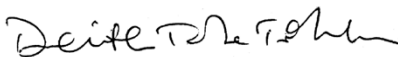
## **Generation Healthcare REIT**

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

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

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

## *Report on the Half-Year Financial Report*

We have reviewed the accompanying half-year financial report of Generation Healthcare REIT ("GHC"), which comprises the condensed statement of financial position as at 31 December 2015, and condensed statement of profit or loss, the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of GHC and the entities it controlled at the end of the half-year or from time to time during the half-year as set out in pages 7-19.

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

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

## *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of GHC's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of GHC, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

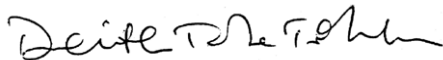
## *Auditor's Independence Declaration*

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

## *Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Peter A Caldwell  
Partner  
Chartered Accountants

Melbourne, 18 February 2016



## Directors' declaration

The Directors of the Responsible Entity (APN Funds Management Limited) of Generation Healthcare REIT 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; and
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Australian Accounting Standards and the Corporations Regulations 2001 and giving a true and fair view of the financial position and performance of the Fund.

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



Geoff Brunsdon  
Chairman  
MELBOURNE, 18 February 2016

**Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2015**

	Note	Half year ended 31 December 2015 \$'000	Half year ended 31 December 2014 \$'000
<b>Revenue</b>			
Rental income		14,825	13,063
Other property income		1,682	1,683
Interest income		3,180	1,362
		19,687	16,108
<b>Other income</b>			
Net change in the fair value of investment properties and deposits	4	13,042	3,673
Net change in the fair value of derivatives		(957)	(2,686)
Net change in loans carried at amortised cost	8	(16)	(546)
		12,069	441
<b>Total income</b>		<b>31,756</b>	<b>16,549</b>
<b>Expenses</b>			
Property expenses		(2,986)	(2,906)
Finance costs		(3,376)	(3,472)
Responsible Entity's performance fee		(10,787)	(1,977)
Responsible Entity's fund management fee		(1,228)	(934)
Other expenses		(302)	(126)
<b>Total expenses</b>		<b>(18,679)</b>	<b>(9,415)</b>
Share of net profit of equity accounted investment		1,725	800
<b>Net profit attributable to unitholders of the Fund</b>		<b>14,802</b>	<b>7,934</b>
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>14,802</b>	<b>7,934</b>
		<b>Cents</b>	<b>Cents</b>
Distributions per unit	2	4.42	4.20
Basic and diluted earnings per unit	3	6.92	4.54

Notes to the condensed consolidated financial statements are included on pages 12 to 19.

## Condensed consolidated statement of financial position as at 31 December 2015

	Note	31 December 2015 \$'000	30 June 2015 \$'000
<b>Current assets</b>			
Cash and cash equivalents		3,667	1,618
Trade and other receivables		5,377	3,113
		9,044	4,731
<b>Non-current assets</b>			
Trade and other receivables		20,228	19,962
Loans carried at amortised cost	8	10,073	9,270
Investment properties	4	329,163	303,642
Deposit on investment properties	4	45,750	45,750
Equity accounted investments		25,054	24,135
		430,268	402,759
<b>Total assets</b>		<b>439,312</b>	<b>407,490</b>
<b>Current liabilities</b>			
Payables		6,499	14,422
Borrowings	6	393	387
Derivatives		2,676	2,676
Distribution payable	2	9,492	7,777
		19,060	25,262
<b>Non-current liabilities</b>			
Payables		8,330	680
Borrowings	6	136,200	116,055
Derivatives		7,877	6,920
		152,407	123,655
<b>Total liabilities</b>		<b>171,467</b>	<b>148,917</b>
<b>Net assets</b>		<b>267,845</b>	<b>258,573</b>
<b>Equity attributable to unitholders</b>			
Issued units	5	235,091	231,129
Retained earnings		32,754	27,444
<b>Total equity</b>		<b>267,845</b>	<b>258,573</b>
Net tangible assets per unit		\$1.25	\$1.22

Notes to the condensed consolidated financial statements are included on pages 12 to 19.

**Condensed consolidated statement of changes in equity  
for the half year ended 31 December 2015**

	Issued units \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2014</b>	<b>176,134</b>	<b>11,227</b>	<b>187,361</b>
Net profit for the period	-	7,934	7,934
Other comprehensive income	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>7,934</b>	<b>7,934</b>
Issue of units	680	-	680
Distributions to unitholders	-	(7,352)	(7,352)
<b>Balance at 31 December 2014</b>	<b>176,814</b>	<b>11,809</b>	<b>188,623</b>
<b>Balance at 1 July 2015</b>	<b>231,129</b>	<b>27,444</b>	<b>258,573</b>
Net profit for the period	-	14,802	14,802
Other comprehensive income	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>14,802</b>	<b>14,802</b>
Issue of units	3,962	-	3,962
Distributions to unitholders	-	(9,492)	(9,492)
<b>Balance at 31 December 2015</b>	<b>235,091</b>	<b>32,754</b>	<b>267,845</b>

Notes to the condensed consolidated financial statements are included on pages 12 to 19.

**Condensed consolidated statement of cash flows  
for the half year ended 31 December 2015**

	Note	Half year ended 31 December 2015 Inflows/ (Outflows) \$'000	Half year ended 31 December 2014 Inflows/ (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Rental and other property receipts		16,866	14,821
Property and other payments		(5,858)	(4,383)
Distributions received from equity accounted investment		784	663
Interest received		1,799	52
Borrowing costs paid		(3,285)	(3,596)
<b>Net cash provided by operating activities</b>		10,306	7,557
<b>Cash flows from investing activities</b>			
Purchase of investment properties		(14,802)	(2,777)
Additions to investment properties and properties under construction		(4,064)	(11,511)
Additions to equity accounted investment		(1,261)	(1,914)
Share of gain on change in fair value of investment property paid to lessee		(5,833)	-
Sale of interest in land		3,505	-
Loans advanced		(117)	(447)
<b>Net cash used in investing activities</b>		(22,572)	(16,649)
<b>Cash flows from financing activities</b>			
Proceeds from issue of units	5	-	-
Unit issue costs		(53)	(129)
Distributions paid to unitholders		(5,532)	(4,120)
Proceeds from borrowings		22,500	15,027
Repayment of borrowings		(2,600)	(2,750)
<b>Net cash provided by financing activities</b>		14,315	8,028
Net increase / (decrease) in cash and cash equivalents held		2,049	(1,064)
Cash and cash equivalents at beginning of the half year		1,618	3,219
<b>Cash and cash equivalents at end of the half year</b>		3,667	2,155

Notes to the condensed consolidated financial statements are included on pages 12 to 19.

## Notes to the condensed consolidated financial statements

### 1. Summary of significant accounting policies

#### Statement of compliance

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

#### Basis of preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Fund's 2015 annual financial report for the financial year ended 30 June 2015, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half year. New and revised Standards and amendments thereof and Interpretations effective for the current half year that are relevant to the Fund include:

- AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'

#### Impact of the application of AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'

Completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations.

The adoption of amending Standards does not have any impact on the disclosures or the amounts recognised in the Fund's half year financial statements.

### 2. Distributions paid and payable

	31 December 2015		31 December 2014	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution payable	4.42	9,492	4.20	7,352
	4.42	9,492	4.20	7,352

### 3. Earnings per unit

	31 December 2015	31 December 2014
Profit attributable to unitholders (\$'000)	14,802	7,934
Weighted average number of units outstanding (thousands)	213,940	174,876
Basic and diluted earnings per unit (cents)	6.92	4.54

#### 4. Investment properties

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

	31 December 2015 \$'000	30 June 2015 \$'000
<b>Assets</b>		
Current asset:		
Finance lease receivable <sup>(1)</sup>	786	774
Non-current assets:		
Finance lease receivable <sup>(1)</sup>	20,228	19,962
Investment properties	329,163	303,642
Deposit on investment properties <sup>(2)</sup>	45,750	45,750
	395,141	369,354
<b>Total assets</b>	<b>395,927</b>	<b>370,128</b>
<b>Liabilities</b>		
Current liability:		
Finance lease payable <sup>(1)</sup>	393	387
Non-current liability:		
Finance lease payable <sup>(1)</sup>	9,076	8,954
<b>Total liabilities</b>	<b>9,469</b>	<b>9,341</b>
<b>Total property valuations</b>	<b>386,458</b>	<b>360,787</b>

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

<sup>(2)</sup> See note 4(b)(4).

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

Property	Date of purchase/ completion	Cost to date \$'000	Latest external valuation		Carrying amount <sup>(2)</sup>		Capitalisation rate		Discount rate	
			Date	Amount \$'000	31 Dec 2015 \$'000	30 June 2015 \$'000	31 Dec 2015 %	30 June 2015 %	31 Dec 2015 %	30 June 2015 %
ARCBS Facility <sup>(1)</sup>										
Cnr Musk Avenue & Blamey Street Kelvin Grove Brisbane QLD	Apr 08 <sup>(3)</sup>	65,963	Dec 14	71,500	73,100	72,290	7.85%	7.85%	9.00%	9.50%
Epworth Freemasons Private Hospital & Medical Centre										
Victoria Parade East Melbourne VIC	May 06	40,740	Jun 15	51,800	64,100	51,800	7.50%	7.50%	8.25%	8.25%
Epworth Freemasons Private Hospital										
Clarendon Street East Melbourne VIC	May 06	22,101	Jun 15	38,600	38,800	38,600	6.75%	6.75%	8.50%	8.50%
Harvester Centre										
Cnr Harvester & Devonshire Roads Sunshine VIC	Feb 07	15,143	Dec 15	15,750	15,750	14,100	7.75%	8.50%	8.50%	8.75%
Pacific Private Clinic										
119-123 Nerang Street Southport QLD	Feb 07	34,788	Dec 15	34,000	34,000	28,400	8.25%	9.75%	8.50%	9.75%
Leading Healthcare										
85 Mollison Street Bendigo VIC	Sep 12 <sup>(3)</sup>	8,574	Jun 15	9,950	10,300	9,950	7.50%	7.50%	7.75%	7.75%
Westmead Rehabilitation Hospital										
Merrylands NSW	May 13	21,355	Dec 15	25,900	25,900	23,000	7.25%	8.10%	8.75%	9.25%
Spring Hill										
55 Little Edward Street Spring Hill QLD	Jun 14	48,279	Jun 15	47,200	47,600	47,200	8.25%	8.25%	9.00%	9.00%
Casey Specialist Centre										
Kangan Drive Berwick VIC	Feb 15 <sup>(3)</sup>	17,593	Dec 15	25,800	25,800	23,100	7.00%	7.25%	8.00%	8.00%
		<b>274,536</b>		<b>320,500</b>	<b>335,350</b>	<b>308,440</b>	<b>7.63%</b>	<b>7.88%</b>	<b>8.59%</b>	<b>8.89%</b>
<b>Development land</b>										
Casey development land										
Kangan Drive, Berwick VIC		5,358			5,358	6,597				
<b>Deposits on investment properties</b>										
RSL Care Portfolio <sup>(4)</sup>										
(i) Pialba QLD										
(ii) Alexandra Headland QLD		45,750			45,750	45,750				
(ii) Banora Point NSW										
<b>Total all investment properties</b>		<b>325,644</b>			<b>386,458</b>	<b>360,787</b>				



- <sup>(1)</sup> The external valuation and carrying amounts shown for the ARCBS Facility include the related finance lease receivable (being a long term lease to a tenant of part of the Facility), and the related finance lease payable (being the long term ground lease for the Facility). These leases have been recorded separately in the statement of financial position; the amounts recognised are given at note 4(a). The cost to date shown is the net of the total expenditure of \$85,422,000 less the initial receipt under the finance lease receivable of \$19,459,000 (excluding GST).
- <sup>(2)</sup> Investment property that has not been valued by independent valuers at reporting date is carried at the Responsible Entity's estimate of fair value in accordance with the Fund's accounting policy.
- <sup>(3)</sup> Date of completion of construction.
- <sup>(4)</sup> A full transaction amount of \$45,750,000 (net of acquisition costs of \$546,000) was deposited with RSL Care Limited for the three RSL Care properties. Completion of the sale, including transfer of titles from RSL Care Limited 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.

**(c) Movements in carrying amounts**

	31 December 2015 \$'000	31 December 2014 \$'000
Carrying amount at beginning of half year	349,392	270,775
Purchase of new properties	11,474	(34)
Additions to existing property	1,803	(86)
Expenditure on property under construction	1,946	10,003
Disposals of existing property	(3,186)	-
Amortisation of tenant incentives and leasing commissions	(338)	(90)
Straight line lease revenue recognition	780	1,094
Change in fair value - unrealised	13,042	3,673
<b>Carrying amount at end of half year</b>	<b>374,913</b>	<b>285,335</b>

**5. Issued units**

**(a) Carrying amounts**

	31 December 2015 \$'000	31 December 2014 \$'000
At beginning of the half year	231,129	176,134
Issue of new units	-	-
Distribution reinvestment plan	2,245	700
Manager's performance fee	1,684	-
Unit issue costs	33	(20)
<b>At end of the half year</b>	<b>235,091</b>	<b>176,814</b>

**(b) Number of issued units**

	31 December 2015 Units	31 December 2014 Units
At beginning of the half year	212,284,868	174,509,381
Issue of new units	-	-
Distribution reinvestment plan	1,418,854	540,005
Manager's performance fee	1,057,198	-
<b>On issue at end of the half year</b>	<b>214,760,920</b>	<b>175,049,386</b>

**6. Borrowings**

	31 December 2015 \$'000	30 June 2015 \$'000
<b>Current liabilities</b>		
Finance lease	393	387
	<b>393</b>	<b>387</b>
<b>Non-current liabilities</b>		
Bank debt	127,124	107,101
Finance lease	9,076	8,954
	<b>136,200</b>	<b>116,055</b>

The Fund has four bank facilities:

1. The first is a revolving cash advance facility with a limit of \$108,400,000 drawn to \$77,700,000 at reporting date (\$57,800,000 at 30 June 2015).

Under this facility, \$48,900,000 (from a limit of \$48,900,000) is repayable on 30 September 2017 and \$28,800,000 (from a limit of \$48,900,000) is repayable on 30 September 2019.

2. The second is a revolving cash advance facility with a limit of \$8,537,500 fully drawn at reporting date (\$8,537,500 at 30 June 2015) and repayable on 30 September 2019.
3. The third is a revolving cash advance facility with a limit of \$41,200,000 fully drawn at reporting date (\$41,200,000 at 30 June 2015) and repayable on 15 July 2018.
4. The fourth is a joint facility with St John of God Health Care for the Casey 2 construction funding. The facility limit is the lower of \$60 million or 65% of the loan to total project cost, with a term of 3 years from December 2015 and nil drawn at reporting date.

Unamortised borrowing costs of \$313,000 (\$437,000 at 30 June 2015) reduce the amounts drawn to the reported carrying amounts in the statement of financial position.

There have been no other additional borrowings for the half year ended 31 December 2015.

## 7. Fair value of financial instruments

The Group uses the following fair value measurement hierarchy:

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

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

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

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

Fair value measurement as at 31 December 2015				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets measured at fair value through profit or loss</b>				
Derivatives – interest rate swaps	-	-	-	-
<b>Total</b>	-	-	-	-
<b>Financial liabilities measured at fair value through profit or loss</b>				
Derivatives – interest rate swaps	-	10,553	-	10,553
<b>Total</b>	-	10,553	-	10,553

Fair value measurement as at 30 June 2015				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets measured at fair value through profit or loss</b>				
Derivatives – interest rate swaps	-	-	-	-
<b>Total</b>	-	-	-	-
<b>Financial liabilities measured at fair value through profit or loss</b>				
Derivatives – interest rate swaps	-	9,596	-	9,596
<b>Total</b>	-	9,596	-	9,596

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

31 December 2015	Amount payable to lessee \$'000	Total \$'000
Opening balance	-	-
(Gains)/losses recognised in profit or loss	-	-
Settlements	-	-
Transfers out of level 3	-	-
<b>Closing balance</b>	-	-
(Gains)/losses for the half year included in profit or loss that relate to assets held at the end of the half year	-	-

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

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

## 8. Loans carried at amortised cost

This balance represents the Fund's interest in the assets and cashflows of Waratah Private Hospital via a secured loan acquired at a significant discount to its original face value. An impairment loss amounting to \$16,000 (2014: \$546,000) 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.

## 9. Segment information

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

## 10. Commitments and contingencies

Commitments for capital expenditure on existing investment property contracted but not provided for at reporting date is \$1,036,559 and on contracted purchase of property settled post balance date of \$4,572,086, all of which is payable within one year (June 2015: \$1,051,912 payable within one year).

During the period, the Fund entered into contractual documentation jointly with St John of God Health Care ("SJGHC") to undertake the Casey Stage 2 project. The total project cost is forecast at \$114 million, of which \$35 million represents hard fitout for which St John of God is solely responsible for. The net amount that the Fund and SJGHC are jointly responsible for, adjusted for costs incurred to 31 December 2015, is circa \$74 million. In conjunction with the Casey State 2 project, the Fund and SJGHC have jointly entered into a construction financing facility for up to \$60 million, of which \$Nil has been drawn down as at 31 December 2015.

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 \$45.5 million extension to the existing private hospital (Frankston Private Expansion). GHC has entered into agreements that will result in it funding a circa 65% interest in this extension, representing approximately \$29 million. As at 31 December 2015, \$7.7m of the total forecast project cost of \$45.5m had been incurred of which \$6.3m had been spent and \$1.4m was committed.

The purchase of the three RSL Care properties in June 2015 includes a contingent amount payable of \$2,661,874 in respect of stamp duty that will become due and payable with the completed acquisition of the properties following subdivision along with a contracted capex contribution of \$100,000. This is in process and expected to be completed by the end of the current financial year.

## 11. Subsequent events

In January 2016, the Fund contracted a further increase of \$10 million to the limit of one of its revolving cash advance facilities. Undrawn capacity exists under this facility to fund the settlement of the retail suites at the Waratah Private Hospital, the equity components of the Casey 2 and Frankston development projects and general working capital.

In February 2016, the Divine Logistics Trust entered into a building contract for the Frankston Private Expansion project with the total project cost currently forecast at \$45.5 million of which \$7.7 million had been spent / committed as at 31 December 2015.

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

## 12. Additional information

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

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