

APPENDIX 4D

Half-year Report

Half-year ended 31 December 2016

Name of entity:	Generation Healthcare REIT
ARSN:	118 712 584

Results for announcement to the market

	\$'000	
Revenues from ordinary activities	up 7% to 21,059	
Profit from ordinary activities after tax attributable to members	up 195% to 43,708	
Net profit for the period attributable to members	up 195% to 43,708	
Underlying net operating income	up 3% to 11,156 ²	
Net tangible assets per unit attributable to members ¹	31 December 2016 \$1.54	30 June 2016 \$1.38

¹ Net tangible assets adjusted to exclude the amount attributable to non-controlling interests.

² Underlying net operating income for the financial half year has been calculated as follows:

	2016 \$'000	2015 \$'000
Net profit attributable to unitholders	43,708	14,802
Adjusted for:		
- Straight line lease revenue recognition	(885)	(780)
- Net (gain)/loss on change in fair value of:		
Investment properties	(29,942)	(13,042)
Derivatives	(6,534)	957
Investment properties included in share of net profit of equity accounted investments	-	(962)
Derivatives included in share of net profit of equity accounted investments	-	44
- Net change in loans carried at amortised cost	146	16
- Manager's performance fee	-	10,787
- Lease surrender and new tenant incentives associated with change of significant tenant	324	(1,051)
- Gain arising on additional investment in Divine Logistics Trust	(164)	-
- Non-controlling interest attributable to the above adjustments	4,433	-
- Other	70	28
Underlying net operating income	11,156	10,799

Distributions	Amount per unit (cents)	\$'000
Interim – 31 December 2016	4.4865	9,840
Previous corresponding period	4.4200	9,492
Record date for determining entitlements to the distribution	30 December 2016	
Details of any distribution reinvestment plan in operation	Refer ASX announcement on 15 December 2016	
Last date for receipt of an election notice for participation in any distribution reinvestment plan	3 January 2017	

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)

Chantal Churchill

Chantal Churchill
Company Secretary

20 February 2017



ARSN 118 712 584

Consolidated Financial Report for the
Half Year Ended 31 December 2016

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 2016. 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 Brunson (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 Group 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 2016 was \$43,708,000 (2015: \$14,802,000).

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

	2016	2015
Net profit attributable to unitholders of the Fund (\$'000)	43,708	14,802
Underlying net operating income (\$'000)	11,156	10,799
Underlying net operating income per unit (cents)	5.10	5.05
Distributions per unit (cents)	4.4865	4.4200
Basic and diluted earnings per unit (cents)	19.96	6.92

Underlying net operating income is an unaudited 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.

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

	2016 \$'000	2015 \$'000
Net profit attributable to unitholders of the parent	43,708	14,802
Adjusted for:		
Straight line lease revenue recognition	(885)	(780)
Net (gain)/loss on change in fair value of:		
Investment properties	(29,942)	(13,042)
Derivatives	(6,534)	957
Investment properties included in share of net profit of equity accounted investments	-	(962)
Derivatives included in share of net profit of equity accounted investments	-	44
Net change in loans carried at amortised cost	146	16
Manager's performance fee	-	10,787
Lease surrender and new tenant incentives associated with change of significant tenant	324	(1,051)
Gain arising on additional investment in Divine Logistics Trust	(164)	-
Non-controlling interest attributable to the above adjustments	4,433	-
Other	70	28
Underlying net operating income	11,156	10,799

Underlying net operating income increased by 3% to \$11,156,000 for the December 2016 half year from \$10,799,000 for the December 2015 half year. The increase is largely attributable to higher net property income. In addition to portfolio rental growth from a combination of CPI and fixed reviews, there was an increase to full occupancy for the Casey Specialist Centre, six months rental from the Waratah Private Hospital ground floor suites (acquired in January 2016) and a decrease in ground rent expense following the purchase of the Victoria Parade land freehold in

December 2015. Interest income increased with the Fund's investment into the Epping Medical Centre in November 2016 via the provision of loan facilities. Finance costs increased with the debt funding of this investment and the purchase of the freehold interest in the Victoria Parade land and the Waratah Private Hospital ground floor suites. The 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 2016 half year increased by 1.0% to 5.10 cents, compared to 5.05 cents per unit for the December 2015 half year reflecting the higher operating performance of the Fund noted above partially reduced by units issued to the Manager in satisfaction of the performance fee.

Earnings per unit as calculated under applicable accounting standards for the half year was 19.96 cents per unit, compared to 6.92 cents per unit for the December 2015 half year. In addition to the increase in the underlying net operating income, there was a material gain on the change in fair value of investment properties, and a material net gain on the change in fair value of derivatives, compared to a gain on the change in the fair value of investment properties and a net loss on the change in the fair value of derivatives for the December 2015 half year. The December 2015 half year had also included a material surrender payment and a Manager's performance fee entitlement.

Total assets increased by \$105,191,000 to \$620,919,000, a 20% increase since 30 June 2016. This was primarily due to material property revaluations across the portfolio, the investment in the Epping Medical Centre and significant further progress on the Frankston Private Hospital expansion project (with practical completion expected before April 2017) and the St John of God Berwick Hospital construction project (with practical completion expected in late calendar 2017).

In August 2016 new equity of \$2,174,000 was raised under the Distribution Reinvestment Plan and in December 2016 \$93,000 worth of units was issued to the Manager in partial payment of the December 2015 performance fee subject to the 1.5% cap on total base and performance fees payable to the Manager for the year ended June 2016. Over the half year the number of units on issue increased by 1,104,775 to 219,334,623.

Distributions

In respect of the half year ended 31 December 2016 an interim distribution of 4.4865 cents per unit was declared and announced on 15 December 2016 with payment to unitholders to be made on 28 February 2017 (2015: 4.4200 cents). The payout ratio of distributions to underlying net operating income is the same in both periods at 88%.

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 Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument 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 306(3) of the Corporation Act 2001.

On behalf of the Directors



Geoff Brunsdon
Chairman
MELBOURNE, 20 February 2017

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

20 February 2017

Dear Board Members

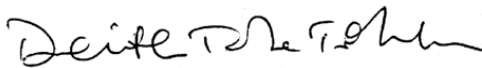
Independence Declaration –Generation Healthcare REIT

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management Limited, the Responsible Entity, regarding the half-year financial report for 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 2016, 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 ("the Fund"), which comprises the condensed consolidated statement of financial position as at 31 December 2016, and condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, 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 end of the half year-year or from time to time during the half year as set out in pages 7 to 19.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2016 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 the Fund 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.

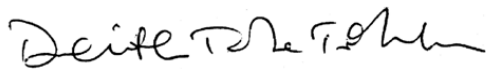
Auditor's Independence Declaration

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, would be in the same terms if given to the Directors as at the time of this auditor's review report.

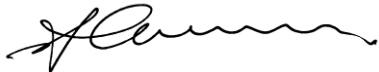
Conclusion

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 the Fund is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 31 December 2016 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, 20 February 2017

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, 20 February 2017

Condensed consolidated statement of profit or loss and other comprehensive income for the half year ended 31 December 2016

	Note	Half year ended 31 December 2016 \$'000	Half year ended 31 December 2015 \$'000
Revenue			
Rental income		17,198	14,825
Other property income		1,928	1,682
Interest income		1,933	3,180
		21,059	19,687
Other income			
Net change in the fair value of investment properties and deposits	4	29,942	13,042
Net change in the fair value of derivatives		6,534	(957)
Net change in loans carried at amortised cost	8	(146)	(16)
Gain arising on additional investment in Divine Logistics Trust		164	-
		36,494	12,069
Total income		57,553	31,756
Expenses			
Property expenses		(3,032)	(2,986)
Finance costs		(3,819)	(3,376)
Responsible Entity's performance fee		-	(10,787)
Responsible Entity's fund management fee		(1,448)	(1,228)
Other expenses		(320)	(302)
Total expenses		(8,619)	(18,679)
Share of net profit of equity accounted investment		-	1,725
Net profit attributable to unitholders of the Fund		48,934	14,802
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		48,934	14,802
Net profit / total comprehensive income attributable to non-controlling interests		(5,226)	-
Net profit / total comprehensive income attributable to unitholders of the Fund		43,708	14,802
		Cents	Cents
Distributions per unit	2	4.4865	4.4200
Basic and diluted earnings per unit	3	19.96	6.92

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

Condensed consolidated statement of financial position as at 31 December 2016

	Note	31 December 2016 \$'000	30 June 2016 \$'000
Current assets			
Cash and cash equivalents		3,367	2,610
Trade and other receivables		3,824	3,267
Assets classified as held for sale	11	11,420	-
		18,611	5,877
Non-current assets			
Trade and other receivables		20,769	20,497
Loans carried at amortised cost	8	36,665	7,430
Investment properties	4	544,212	467,624
Deposit on investment property		-	14,300
Derivatives		662	-
		602,308	509,851
Total assets		620,919	515,728
Current liabilities			
Trade and other payables		17,217	11,626
Borrowings	6	404	398
Derivatives		3,311	3,292
Distribution payable	2	9,840	9,646
		30,772	24,962
Non-current liabilities			
Trade and other payables		798	3,164
Borrowings	6	206,805	146,299
Derivatives		6,054	11,945
		213,657	161,408
Total liabilities		244,429	186,370
Net assets		376,490	329,358
Equity attributable to unitholders			
Issued units	5	243,830	241,578
Retained earnings		93,586	59,718
Equity attributable to unitholders of the parent		337,416	301,296
Non-controlling interests		39,074	28,062
Total equity		376,490	329,358
Net tangible assets per unit attributable to unitholders ¹		\$1.54	\$1.38

¹ Adjusts net tangible assets to exclude the amount attributable to non-controlling interests.

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 2016**

	Issued units \$'000	Retained earnings \$'000	Total attributable to unit holders of the parent \$'000	Non- controlling interests \$'000	Total Interests \$'000
Balance at 1 July 2015	231,129	27,444	258,573	-	258,573
Net profit for the period	-	14,802	14,802	-	14,802
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	14,802	14,802	-	14,802
Issue of units	3,962	-	3,962	-	3,962
Distributions to unitholders	-	(9,492)	(9,492)	-	(9,492)
Balance at 31 December 2015	235,091	32,754	267,845	-	267,845
Balance at 1 July 2016	241,578	59,718	301,296	28,062	329,358
Net profit for the period	-	43,708	43,708	5,226	48,934
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	43,708	43,708	5,226	48,934
Issue of units	2,252	-	2,252	-	2,252
Non-controlling interest arising on additional investment in Divine Logistics Trust	-	-	-	6,580	6,580
Distributions paid to unitholders	-	-	-	-	-
Unitholders of the parent (Note 2)	-	(9,840)	(9,840)	-	(9,840)
Non-controlling interests	-	-	-	(794)	(794)
Balance at 31 December 2016	243,830	93,586	337,416	39,074	376,490

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 2016**

Note	Half year ended 31 December 2016 Inflows/ (Outflows) \$'000	Half year ended 31 December 2015 Inflows/ (Outflows) \$'000
Cash flows from operating activities		
Rental and other property receipts	19,711	16,866
Property and other payments	(4,701)	(5,858)
Distributions received from equity accounted investment	-	784
Interest received	447	1,799
Borrowing costs paid	(3,426)	(3,285)
Net cash provided by operating activities	12,031	10,306
Cash flows from investing activities		
Purchase of investment properties	(2,750)	(14,802)
Additions to investment properties and properties under construction	(38,701)	(4,064)
Additions to equity accounted investment	-	(1,261)
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	(28,860)	(117)
Net cash used in investing activities	(70,311)	(22,572)
Cash flows from financing activities		
Proceeds from issue of units	5	-
Proceeds from issue of units in subsidiary to non-controlling interests	6,744	-
Unit issue costs	(16)	(53)
Distributions paid to unitholders	(7,472)	(5,532)
Proceeds from borrowings	60,855	22,500
Repayment of borrowings	(300)	(2,600)
Distributions paid to non-controlling interests	(774)	-
Net cash provided by financing activities	59,037	14,315
Net increase in cash and cash equivalents held	757	2,049
Cash and cash equivalents at beginning of the half year	2,610	1,618
Cash and cash equivalents at end of the half year	3,367	3,667

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 Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the half year financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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 2016 annual financial report, 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 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

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 2016		31 December 2015	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution payable	4.4865	9,840	4.4200	9,492
	4.4865	9,840	4.4200	9,492

3. Earnings per unit

	31 December 2016	31 December 2015
Profit attributable to unitholders (\$'000)	43,708	14,802
Weighted average number of units outstanding (thousands)	218,939	213,940
Basic and diluted earnings per unit (cents)	19.96	6.92

4. Investment properties

(a) Summary of carrying amounts

	31 December 2016 \$'000	30 June 2016 \$'000
Assets		
Current asset:		
Finance lease receivable ⁽¹⁾	809	797
Non-current assets:		
Finance lease receivable ⁽¹⁾	20,769	20,497
Investment properties	544,212	467,624
Assets classified as held for sale	11,420	-
Deposit on investment properties ⁽²⁾	-	14,300
	576,401	502,421
Total assets	577,210	503,218
Liabilities		
Current liability:		
Finance lease payable ⁽¹⁾	404	398
Non-current liability:		
Finance lease payable ⁽¹⁾	9,325	9,200
	9,729	9,598
Total liabilities	9,729	9,598
Total property valuations	567,481	493,620

⁽¹⁾ See ARCBS facility in note 4(b) on page 14

⁽²⁾ See RSL Care portfolio in note 4(b) on page 14

(b) Individual valuations and carrying amounts

Property	Date of purchase/ completion	Cost to date \$'000	Latest external valuation		Carrying amount		Capitalisation rate		Discount rate	
			Date	Amount \$'000	31 Dec 2016 \$'000	30 June 2016 \$'000	31 Dec 2016 %	30 June 2016 %	31 Dec 2016 %	30 June 2016 %
ARCBS Facility¹										
Cnr Musk Avenue & Blarney Street Kelvin Grove, Brisbane QLD	Apr 08 ²	67,372	Jun 16	79,000	81,500	79,000	7.05%	7.05%	8.25%	8.25%
Epworth Freemasons Private Hospital & Medical Centre										
Victoria Parade, East Melbourne VIC	May 06	41,211	Dec 16	77,800	77,800	72,300	6.25%	6.75%	6.75%	7.25%
Epworth Freemasons Private Hospital										
Clarendon Street, East Melbourne VIC	May 06	22,507	Dec 16	48,700	48,700	44,650	5.50%	6.00%	7.00%	7.50%
Harvester Centre										
Cnr Harvester & Devonshire Roads, Sunshine VIC	Feb 07	15,932	Dec 16	19,000	19,000	17,200	7.00%	7.50%	7.75%	8.50%
Pacific Private Clinic										
119-123 Nerang Street, Southport QLD	Feb 07	35,868	Dec 15	34,000	32,900	33,200	8.25%	8.25%	8.50%	8.50%
Westmead Hospital										
Merrylands NSW	May 13	21,355	Dec 15	25,900	27,000	26,700	7.00%	7.25%	8.50%	8.75%
Spring Hill										
55 Little Edward Street, Spring Hill QLD	Jun 14	48,826	Dec 16	64,000	64,000	58,000	6.75%	7.25%	8.00%	8.75%
Casey Specialist Centre										
Kangan Drive, Berwick VIC	Feb 15 ²	18,099	Dec 16	31,750	31,750	28,000	6.00%	6.50%	7.50%	8.00%
Waratah Private Hospital Ground Floor Suites										
31 Dora Street, Hurstville NSW	Jan 16	7,515	Aug 16	7,300	7,300	5,472	6.75%	-	-	-
RSL Care RDNS Baycrest Aged Care Facility										
Pialba, QLD	Jun 16	15,402	Jun 16	15,300	15,300	15,300	7.25%	7.25%	8.75%	8.75%
RSL Care RDNS Tantula Rise Aged Care Facility										
Alexandra Headland, QLD	Jun 16	19,179	Jun 16	19,000	19,100	19,000	7.25%	7.25%	8.75%	8.75%
RSL Care RDNS Darlington Aged Care Facility⁴										
Banora Point, NSW	Oct 16	14,384	Jun 16	14,300	14,300	14,300	7.25%	7.25%	8.75%	8.75%
Frankston Private Hospital⁵										
26 Frankston Flinders Road, Frankston VIC	Mar 16 ³	31,635	Dec 16	52,500	52,500	43,800	6.00%	6.75%	7.50%	7.75%
Frankston Specialist Centre⁵										
5-9 Foot Street, Frankston VIC	Mar 16 ³	3,204	Jun 16	3,100	3,200	3,100	5.75%	5.75%	6.50%	6.50%
		362,489		491,650	494,350	460,022	6.67%	6.99%	7.79%	8.12%

Property	Date of purchase/ completion	Cost to date \$'000	Latest external valuation		Carrying amount		Capitalisation rate		Discount rate	
			Date	Amount \$'000	31 Dec 2016 \$'000	30 June 2016 \$'000	31 Dec 2016 %	30 June 2016 %	31 Dec 2016 %	30 June 2016 %
Properties under construction										
St John of God Berwick Hospital Kangan Drive, Berwick VIC		25,780	-	-	25,780	9,907	-	-	-	-
Frankston Private expansion⁵ 30-36 Frankston Flinders Road, Frankston VIC		35,931	-	-	35,931	13,241	-	-	-	-
Assets classified as held for sale										
Leading Healthcare 85 Mollison Street, Bendigo VIC	Sep 12 ²	8,713	Jun 16	10,450	11,420	10,450	n/a	7.25%	n/a	7.75%
Total all investment properties		432,913		502,100	567,481	493,620	6.67%	7.00%	7.79%	8.11%

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 presented in notes 4 and 6. The cost to date shown is the net of the total expenditure of \$86,831,000 less the initial receipt under the finance lease receivable of \$19,459,000 (excluding GST).

² Date of completion of construction.

³ Date control was obtained over the Divine Logistics Trust (previously this trust and the interest in investment property it held were reflected as an equity accounted investment).

⁴ The acquisition of the RSL Care RDNS Darlington Aged Care Facility was completed in October 2016. The carrying amount of this asset at 30 June 2016 was classified as deposits on investment properties.

⁵ The Frankston properties are owned via the Fund's non-wholly owned subsidiary, Divine Logistics Trust. The total cost to date, valuation and carrying amounts are shown for each property on a 100% interest basis.

(c) Movements in carrying amounts

	31 December 2016 \$'000	31 December 2015 \$'000
Carrying amount at beginning of half year	481,924	349,392
Purchase of new properties	-	11,474
Additions to existing property	2,826	1,146
Expenditure on property under construction	38,563	1,946
Disposal of existing property	-	(3,186)
Leasing incentives and leasing costs	2,103	657
Amortisation of tenant incentives and leasing commissions	(611)	(338)
Straight line lease revenue recognition	885	780
Change in fair value - unrealised	29,942	13,042
Property reclassified as held for sale (note 11)	(11,420)	-
Carrying amount at end of half year	544,212	374,913

5. Issued units

(a) Carrying amounts

	31 December 2016 \$'000	31 December 2015 \$'000
At beginning of the half year	241,578	231,129
Issue of new units	-	-
Distribution reinvestment plan	2,174	2,245
Manager's performance fee	93	1,684
Unit issue costs	(15)	33
At end of the half year	243,830	235,091

(b) Number of issued units

	31 December 2016 Units	31 December 2015 Units
At beginning of the half year	218,229,848	212,284,868
Issue of new units	-	-
Distribution reinvestment plan	1,057,433	1,418,854
Manager's performance fee	47,342	1,057,198
At end of the half year	219,334,623	214,760,920

6. Borrowings

	31 December 2016 \$'000	30 June 2016 \$'000
Current liabilities		
Finance lease	404	398
	404	398
Non-current liabilities		
Bank debt	197,480	137,099
Finance lease	9,325	9,200
	206,805	146,299

The Fund has five bank facilities:

1. The first is a revolving cash advance facility with NAB with a total limit of \$118,400,000 drawn to \$109,833,516 at reporting date. Of the drawn amount, \$60,933,516 (from a limit of \$64,500,000) is repayable on 31 March 2019 and \$48,900,000 (from a limit of \$53,900,000) is repayable on 30 September 2019.

2. The second is a revolving cash advance facility with NAB with a term facility limit of \$10,113,750 fully drawn at reporting date and repayable on 23 May 2020, and a construction facility limit of the lesser of \$15,665,000 or 55% of the Fund's share of the Frankston expansion costs with \$6,130,321 drawn at reporting date and expiring on 23 May 2020;
3. The third is a revolving cash advance facility with Bank of Melbourne with a limit of \$41,200,000 fully drawn at reporting date, repayable on 15 July 2018; and
4. The fourth is a joint and several facility with St John of God Health Care to part fund the construction cost of the St John of God Berwick Hospital with a limit of the lesser of \$60,000,000 or 65% of total project cost (limit expected to be \$52,843,000), with \$9,111,019 drawn at reporting date (Fund's share \$5,170,422) and expiring on the earlier of 42 months post first drawing under the facility (which was 28 November 2016) or 14 months post completion of the project; and a GST facility limit of \$1,050,000 with \$882,326 drawn at reporting date (Fund's share \$500,817) and expiring on the earlier of 36 months post first drawing or 6 months post completion of the project.
5. The fifth is a revolving cash advance facility with ANZ with a limit of \$25,000,000 fully drawn at reporting date, repayable on 19 October 2019.

Unamortised borrowing costs of \$469,000 (\$295,000 at 30 June 2016) reduce the amounts drawn to the reported carrying amounts in the statement of financial position.

7. Fair value of financial instruments

The Fund 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 where 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 Fund's financial instruments that were measured and recognised at fair value at each reporting date:

Fair value measurement as at 31 December 2016				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets measured at fair value through profit or loss				
Derivatives – interest rate swaps	-	662	-	662
Total	-	662	-	662
Financial liabilities measured at fair value through profit or loss				
Derivatives – interest rate swaps	-	9,365	-	9,365
Total	-	9,365	-	9,365

Fair value measurement as at 30 June 2016				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets measured at fair value through profit or loss				
Derivatives – interest rate swaps	-	-	-	-
Total	-	-	-	-
Financial liabilities measured at fair value through profit or loss				
Derivatives – interest rate swaps	-	15,237	-	15,237
Total	-	15,237	-	15,237

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

8. Loans carried at amortised cost

	31 December 2016 \$'000	30 June 2016 \$'000
Waratah Private Hospital secured loan ¹	7,967	7,430
Epping Medical Centre secured loan ²	28,698	-
Total	36,665	7,430

- 1) Represents the Fund's interest in the assets and cashflows of Waratah Private Hospital via a secured loan that was acquired at a significant discount to its original face value. An impairment loss amounting to \$146,000 (2015: \$16,000) 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.
- 2) Represents the Fund's loan to the Epping Medical Centre that settled on 2 November 2016. The loan comprises a \$22,250,000 secured first mortgage senior loan (fully drawn) and a secured and shareholder guaranteed subordinated loan currently drawn to \$6,448,000 (facility limit of \$8,375,000).

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. Business combinations

The principal activity of the Divine Logistics Trust (Divine), a subsidiary of the Fund, is to own the Frankston Private Hospital and related expansion and the Frankston Specialist Centre in conjunction with the Fund's joint venture partners. During the half year ended 31 December 2016, the Fund has contributed additional equity to Divine of \$12,525,000 towards its 65% share of the Frankston Private Hospital expansion. The Fund's ownership interest in Divine has now increased from 52.05% at 30 June 2016 to 55.37% at 31 December 2016. This has resulted in a gain on the additional investment in Divine amounting to \$164,000 (representing the excess of the fair value of the assets of Divine over the fair value of the additional equity contributed).

11. Assets classified as held for sale

	31 December 2016 \$'000	30 June 2016 \$'000
Investment property held for sale	11,420	-

The Fund entered into an unconditional contract to sell 84 Mollison Street, Bendigo for \$12,000,000 on 22 December 2016 with settlement occurring on 11 January 2017. Following the sale of this asset, the Fund will receive \$11,420,000 (net of sales costs). A deposit of \$1,200,000 was paid by the purchaser as at 31 December 2016.

12. Commitments and contingencies

Commitments for capital expenditure on existing investment property contracted but not provided for at reporting date is \$1,343,900 and on contracted purchase of property settled post balance date of \$757,990. Of these commitments at reporting date, \$1,987,890 is payable within one year and the balance within two years (June 2016: \$1,004,014 payable within one year and \$125,000 within two years).

The Fund's share of the St John of God Berwick Hospital stage 2 development costs is circa \$46.4 million including contingencies. The project reached financial close in December 2015 and construction commenced in January 2016. The Fund's expenditure to date on stage 2 of this development is \$24.4 million, with circa \$22.0 million committed to the completion of the project expected to be late in the first half of FY18.

The Frankston Private Hospital expansion project is being undertaken by the Fund's subsidiary, Divine Logistics Trust with the Fund's share being 65%. Construction commenced in December 2015 and the Fund's share of project costs to reporting date is \$23.4 million with a further circa \$6.1 million committed to the completion of the project which is expected to be in the second half of FY17.

The Fund's investment in the Epping Medical Centre includes an \$8.375 million subordinated loan facility which has been drawn to \$6.448 million at 31 December 2016 leaving an undrawn commitment of \$1.927 million.

13. Subsequent events

The sale of 84 Mollison Street, Bendigo, which went unconditional in December 2016, was settled on 11 January 2017.

In December 2016, the Fund's contract to purchase 17 Coleman Street, South Wentworthville NSW went unconditional and settlement occurred on 24 January 2017. This was a residential property adjoining the Fund's Westmead Hospital and is now leased by the hospital's operator initially for consulting rooms with provision to expand the hospital over time as demand requires.

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.

14. 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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