

Australian Unity Healthcare Property Trust

ARSN 092 755 318

Annual financial report for the year ended 30 June 2018

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Directors' report

The directors of Australian Unity Funds Management Limited (ABN 60 071 497 115), the Responsible Entity of Australian Unity Healthcare Property Trust ("the Scheme"), present their report together with the consolidated financial statements of the Scheme for the year ended 30 June 2018.

Directors

The following persons were directors of the Responsible Entity during the whole of the financial year and up to the date of this report (unless otherwise stated):

Rohan Mead, Chairman and Group Managing Director

David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer

Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)

Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

Principal activities

The Scheme aims to provide unitholders with regular income and the opportunity for long term capital growth.

The Scheme primarily invests in a diversified portfolio of healthcare property and related assets. The Scheme may invest in Australian healthcare related direct property, managed funds or companies that predominantly hold healthcare property and related assets. The Scheme may also invest in international healthcare related direct property and managed funds that predominantly hold healthcare property and related assets, in countries with healthcare systems and property markets with attributes similar to Australia.

Review and results of operations

Property valuations

The current year revaluations were in total above the revalued properties carrying values resulting in recording a net revaluation fair value increment of \$66,552,890 (2017: \$41,576,885).

Property acquisitions

On 10 July 2017, the Scheme completed the purchase of Sunshine Private Medical Centre and Western Day Surgery for a purchase price of \$33,000,000 and acquisition costs of \$2,493,602.

On 13 September 2017, the Scheme completed the purchase of 3 Wiowera Road, Kanwal, NSW for a purchase price of \$470,000 and acquisition costs of \$43,781.

On 27 November 2017, the Scheme completed the purchase of 4 Ginifer Court, St Albans, VIC for a purchase price of \$1,300,000 and acquisition costs of \$107,304.

On 21 December 2017, the Scheme completed the purchase of 15 Dwyer Avenue, Woy Woy, NSW for a purchase price of \$725,000 and acquisition costs of \$48,638.

On 15 March 2018, Primary Healthcare Property Trust ("PHPT"), the Scheme's controlled entity, completed the purchase of 14 Highfileds Circuit, Port Macquarie, NSW for a purchase price of \$1,800,000 and acquisition costs of \$128,807.

On 27 March 2018, the Scheme completed the purchase of 2 Ginifer Court, St Albans, VIC for a purchase price of \$1,200,000 and acquisition costs of \$103,197.

On 11 April 2018, the Scheme completed the purchase of 15 Gillon Court, St Albans, VIC for a purchase price of \$1,000,000 and acquisition costs of \$97,449.

On 30 April 2018, the Scheme completed the purchase of 1 Wiowera Road, Kanwal, NSW for a purchase price of \$625,000 and acquisition costs of \$70,560.

On 9 May 2018, the Scheme completed the purchase of 651 Pacific Highway, Kanwal, NSW for a purchase price of \$1,150,000, inclusive of GST, and acquisition costs of \$89,003.

On 11 May 2018, PHPT completed the purchase of 1 and 3 Addison Road, Pennington, SA for a purchase price of \$8,000,000 and acquisition costs of \$388,041.

Review and results of operations (continued)

Property disposals

On 14 December 2017, the Scheme sold Calvary Wakefield Private Hospital and Medical Clinic, Adelaide, SA for a consideration of \$50,000,000, excluding selling costs of \$473,447. The Scheme recognised a realised gain of \$9,308,976 from the sale of the property.

Herston Quarter Development

In June 2018, the construction of the Specialist Public Health Facility has commenced at Herston Quarter. This is the first building to commence construction as part of the Herston Quarter development.

On 30 April 2018, the Scheme was granted leasehold rights for the proposed Herston Private Hospital. This is also part of the Herston Quarter development in Brisbane being undertaken by the Australian Unity Group.

Derivatives

In the current year, the Scheme recognised a net loss on derivative instruments held at fair value through profit or loss of \$717,399 (2017: gain of \$1,323,260).

Capital Management

On 16 November 2017, the Scheme raised \$242,004,222 from the issuance of Funding Units to help fund the Scheme's pipeline of growth, development and acquisition opportunities.

On 22 January 2018, the bank loan facility was refinanced. The new \$740,000,000 facility comprise four tranches:

- Tranche A is a \$220,000,000 facility expiring on 22 January 2023;
- Tranche B is a \$320,000,000 facility expiring on 22 January 2023;
- Tranche C is a \$100,000,000 facility expiring on 22 January 2023; and
- Tranche D is a \$100,000,000 facility expiring on 22 January 2025.

Results

For the year ended 30 June 2018, the Scheme's:

- Retail units posted a total return of 12.26% (split between a distribution return of 5.84% and a growth return of 6.42%)*
- Wholesale units posted a total return of 12.78% (split between a distribution return of 6.38% and a growth return of 6.40%)*
- Class A units posted a total return of 10.55% (split between a distribution return of 5.45% and a growth return of 5.10%)*
- Funding units posted a total return of 1.94% since inception (split between a distribution return of 1.72% and a growth return of 0.22%)*

Unit prices (ex distribution) as at 30 June 2018 (2017) are as follows:

Retail units \$1.7550 (\$1.6493)*

Wholesale units \$1.7135 (\$1.6106)*

Class A units \$1.1259 (\$1.0714)*

Funding units \$1.0022 *

*The reported performance numbers and reported unit prices (which are not audited) have been derived based on the declared unit prices calculated in accordance with the Responsible Entity's unit pricing policy, and are not based on the net assets of these IFRS compliant consolidated financial statements. Return calculations assume reinvestment of distributions.

Review and results of operations (continued)

Results (continued)

The performance of the Scheme, as represented by the results of its operations, was as follows:

	2018	2017
	\$'000	\$'000
Profit before finance costs attributable to unitholders	128,864	102,351
<i>Distributions - Retail units</i>		
Distributions paid and payable	8,790	8,924
<i>Distributions - Wholesale units</i>		
Distributions paid and payable	39,301	35,144
<i>Distributions - Class A units</i>		
Distributions paid and payable	12,348	16,425
<i>Distributions - Funding units</i>		
Distributions paid and payable	4,083	-

Significant changes in the state of affairs

The Scheme has amended its constitution as part of a process to become eligible to elect into the new Attribution Managed Investment Trust ("AMIT") tax regime.

The Scheme has satisfied the eligibility for AMIT and has been operated as an AMIT effective 1 July 2017. The AMIT regime enacted under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 (Cth)* has changed the way to which the net taxable income of a trust is allocated to its unitholders. Where a trust is an AMIT, responsible entities and trustees are required to attribute the trust's net taxable income to unitholders on a fair and reasonable basis in accordance with the tax law, taking into account the unitholders entitlement to distributable income.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Scheme that occurred during the year, except those mentioned elsewhere in the report.

Events occurring after end of the year

On 2 July 2018, the Scheme completed the sale of 17-19 Fullarton Rd, Kent Town, SA for a consideration of \$11,000,000, excluding selling cost of \$128,136. The Scheme recognised realised loss on sale of \$128,136.

On 10 July 2018, the Scheme completed the purchase of 13 Gillon Court, St Albans, VIC for purchase price of \$1,400,000, excluding acquisition costs of \$113,229.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years.

Likely developments and expected results of operations

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

Further information on likely developments in the operations of the Scheme and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Scheme.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Funds Management Limited or the auditors of the Scheme. So long as the officers of Australian Unity Funds Management Limited act in accordance with the Scheme's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Fees paid to and interests held in the Scheme by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in note 19 to the consolidated financial statements.

No fees were paid out of Scheme property to the directors of the Responsible Entity during the year.

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the year are disclosed in note 19 to the consolidated financial statements.

Units in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 8 to the consolidated financial statements.

The value of the Scheme's assets and liabilities is disclosed in the consolidated statement of financial position and derived using the basis set out in note 2 to the consolidated financial statements.

Environmental regulation

The property operations of the Scheme are subject to environmental regulations under Australian law. There have been no known reportable breaches of these regulations.

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of a kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars, where indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Signed in accordance with a resolution of the directors of Australian Unity Funds Management Limited.



Director



Director

20 September 2018



Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Healthcare Property Trust for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Unity Healthcare Property Trust and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'G. Sagonas', is written over a horizontal line.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
20 September 2018

Australian Unity Healthcare Property Trust
Consolidated statement of comprehensive income
For the year ended 30 June 2018

Consolidated statement of comprehensive income

	Notes	2018 \$'000	2017 \$'000
Income			
Rental income	3	85,169	77,923
Property expenses	4	<u>(12,123)</u>	<u>(11,256)</u>
Net property income		73,046	66,667
Interest income		338	84
Distribution income	5	7,695	6,150
Net (losses)/gains on financial instruments held at fair value through profit or loss	6	(3,267)	12,018
Realised gain on disposal of investment property		9,309	-
Net fair value increment of investment properties	13(b)	66,553	41,577
Other income		<u>407</u>	<u>171</u>
Total income net of property expenses		<u>154,081</u>	<u>126,667</u>
Expenses			
Responsible Entity's fees	19	13,063	11,612
Borrowing costs		11,792	11,844
Other expenses		<u>362</u>	<u>860</u>
Total expenses, excluding property expenses		<u>25,217</u>	<u>24,316</u>
Profit before finance costs attributable to unitholders		<u>128,864</u>	<u>102,351</u>
Finance costs attributable to unitholders			
Distributions to unitholders	9	(64,522)	(60,493)
Increase in net assets attributable to unitholders	8	<u>(64,342)</u>	<u>(41,858)</u>
Total comprehensive income attributable to unitholders		<u>-</u>	<u>-</u>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Australian Unity Healthcare Property Trust
Consolidated statement of financial position
As at 30 June 2018

Consolidated statement of financial position

	Notes	2018 \$'000	2017 \$'000
Assets			
Cash and cash equivalents	10	168,127	107,055
Receivables	11	12,927	3,445
Financial assets held at fair value through profit or loss	12	71,833	68,153
Other assets		893	4,416
Investment properties	13	1,251,269	1,071,458
Total assets		1,505,049	1,254,527
Liabilities			
Distributions payable	9	16,142	22,103
Payables	14	5,767	6,154
Borrowings	15	173,636	192,795
Total liabilities (excluding net assets attributable to unitholders)		195,545	221,052
Net assets attributable to unitholders - liability	8	1,309,504	1,033,475

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Australian Unity Healthcare Property Trust
Consolidated statement of changes in net assets attributable to unitholders - liability
For the year ended 30 June 2018

Consolidated statement of changes in net assets attributable to unitholders - liability

	2018	2017
	\$'000	\$'000
Balance at the beginning of the year	1,033,475	835,396
Profit before finance costs attributable to unitholders	128,864	102,351
Distributions to unitholders	(64,522)	(60,493)
Applications net of transaction costs	240,348	181,447
Redemptions	(48,879)	(39,682)
Units issued upon reinvestment of distributions	20,218	14,456
Balance at the end of the year	1,309,504	1,033,475

The above consolidated statement of changes in net assets attributable to unitholders - liability should be read in conjunction with the accompanying notes.

Australian Unity Healthcare Property Trust
Consolidated statement of cash flows
For the year ended 30 June 2018

Consolidated statement of cash flows

	Notes	2018 \$'000	2017 \$'000
<i>Cash flows from operating activities</i>			
Interest received		157	81
Distributions and other income received		7,466	3,323
Rental income received		80,875	78,443
Payments to suppliers		<u>(21,626)</u>	<u>(25,107)</u>
Net cash inflow from operating activities	20	<u>66,872</u>	<u>56,740</u>
<i>Cash flows from investing activities</i>			
Purchase of investment properties		(55,728)	(32,390)
Acquisition costs on purchases		(3,910)	(2,570)
Loan to related party		(6,146)	-
Payments for additions to owned investment properties		(91,830)	(108,162)
Proceeds from sale of investment properties		50,000	-
Disposal costs paid		(385)	-
Purchase of financial instruments held at fair value through profit or loss		(6,956)	(1,567)
Proceeds from sale of financial instruments held at fair value through profit or loss		-	56,240
Net cash outflow from investing activities		<u>(114,955)</u>	<u>(88,449)</u>
<i>Cash flows from financing activities</i>			
Proceeds from applications by unitholders		240,348	181,447
Payments for redemptions by unitholders		(48,879)	(39,682)
Distributions paid		(50,266)	(35,448)
Borrowing costs paid		(10,985)	(12,587)
Repayment of borrowings		(14,900)	(15,000)
Finance establishment costs paid		(6,163)	-
Net cash inflow from financing activities		<u>109,155</u>	<u>78,730</u>
Net increase in cash and cash equivalents		61,072	47,021
Cash and cash equivalents at the beginning of the year		<u>107,055</u>	60,034
Cash and cash equivalents at the end of the year	10	<u>168,127</u>	<u>107,055</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

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1 General information

These consolidated financial statements cover Australian Unity Healthcare Property Trust ("the Scheme") and its subsidiaries. The Scheme was constituted on 17 June 1998 and will terminate on the 80th anniversary or earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Funds Management Limited (ABN 60 071 497 115) ("the Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

The controlled entities of the Scheme are:

- Primary Health Care Property Trust ("PHPT") which was established by Trust Deed dated 21 December 2015; and,
- Herston SRACC Trust which was established by Constitution dated 20 February 2017.

The consolidated financial statements are for the year 1 July 2017 to 30 June 2018.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 20 September 2018. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures.

(a) Basis of preparation

These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The Scheme is a for-profit entity for the purposes of preparing the consolidated financial statements.

The consolidated financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The consolidated statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within 12 months, except for investment properties, loan receivables, financial assets/(liabilities) held at fair value through profit or loss, borrowings, and net assets attributable to unitholders, where the amount expected to be recovered or settled within 12 months after the end of the year cannot be reliably determined.

(i) Compliance with Australian Accounting Standards and International Financial Reporting Standards

The consolidated financial statements of the Scheme comply with Australian Accounting Standards as issued by AASB and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated financial statements of the Scheme have been prepared on a consolidated basis to provide the end users of the financial information with the most appropriate information in making financial decisions.

The consolidated financial statements are presented in the local reporting currency being Australian dollars.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New accounting standards amendment adopted by the Scheme

The Scheme applied the following accounting standard amendment that became mandatory for the first time during the year:

AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107
AASB 2016-2 amends AASB 107 *Statements of Cash Flows* to require entities to provide disclosure that enable users of financial statements to evaluate cash and non-cash changes in their financing activities. The adoption of the new disclosure requirement did not have a material impact on the Scheme's financial statements.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by the Scheme as at 30 June 2018 and their results for the year then ended. The Scheme and its subsidiaries together are referred to in this financial report as the consolidated entity.

Subsidiaries are all entities over which the Scheme is exposed, or has rights, to variable returns from its involvement with the subsidiary and the ability to affect those returns through its powers over the subsidiaries.

Consolidation of subsidiaries begins from the date the Scheme obtains control of the subsidiary and ceases when the Scheme loses control of the subsidiary.

The acquisition method of accounting is used to account for business combinations by the Scheme.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Scheme.

Investments in subsidiaries are accounted for at fair value through profit or loss in the individual financial statements of the parent entity.

(c) Investment properties

Initially, investment properties are measured at the cost of acquisition, being the purchase consideration determined at the date of acquisition plus costs incidental to the acquisition. Costs incidental to acquisition may include legal fees, stamp duty and other government charges, professional fees preceding acquisition and where applicable financing charges incurred during the construction or development of an asset.

Subsequent to initial recognition investment properties are stated at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of comprehensive income in the year in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the consolidated statement of comprehensive income in the year of derecognition.

Independent valuations of investment properties are obtained from suitably qualified valuers generally at least once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. Such valuations are reflected in note 13. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount because the Scheme does not expect to be ultimately liable for capital gains tax in respect of the assets.

2 Summary of significant accounting policies (continued)

(c) Investment properties (continued)

Expenditure capitalised to properties includes the cost of acquisition, capital and refurbishment additions, lease commissions and incentives, related professional fees incurred and other directly attributable transaction costs.

(d) Financial instruments

(i) Classification

- *Financial assets and liabilities designated at fair value through profit or loss*

The Scheme's investments are classified as held at fair value through profit or loss. They comprise:

- *Financial instruments designated at fair value through profit or loss upon initial recognition*
These include financial assets and liabilities that are not held for trading purposes and which may be sold. These may include investments in listed property trusts, unlisted property trusts and other unlisted trusts.

Financial instruments designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Loans and receivables/payables*

Loans and receivables/payables are non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. This category includes short term receivables/payables.

(ii) Recognition/derecognition

The Scheme recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset; or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement

- *Financial assets and financial liabilities held at fair value through profit or loss*

Financial assets and financial liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Measurement (continued)

- *Fair value in an active market*

The fair value of financial assets and financial liabilities traded in active markets is based on their quoted market prices at the end of the year without any deduction for estimated future selling costs.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Scheme's financial instruments that are valued based on active markets generally include listed property trusts.

- *Fair value in an inactive or unquoted market*

The fair value of financial assets and liabilities not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is the market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period.

There may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Scheme recognises the difference in the statement of comprehensive income to reflect a change in factors, including time, that market participants would consider in setting a price.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Scheme would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as the net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the most appropriate option valuation model.

Investments in unlisted unit trusts are recorded at the net asset value per unit as reported by the managers of such trusts.

The Scheme's financial instruments that are valued based on inactive or unquoted markets generally include investments in unlisted unit trusts and over the counter derivatives, where applicable.

- *Borrowings and receivables/payables*

Borrowings and receivables/payables are measured initially at fair value plus transaction costs.

Subsequently, borrowings are carried at amortised cost using the effective interest method. Short term receivables/payables are carried at their initial fair values.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when, and only when, there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2 Summary of significant accounting policies (continued)

(e) Derivatives

In order to minimise exposure to fluctuations in interest rates, the Scheme may use a combination of interest rate swaps and options to ensure that the rate of interest on debt is predominantly fixed. Derivative financial instruments are not held for speculative purposes and are carried on the consolidated statement of financial position at fair value. Changes in fair value are recognised in the consolidated statement of comprehensive income.

Interest payments and receipts under interest rate swap contracts are recognised on an accrual basis in the consolidated statement of comprehensive income, as an adjustment to interest expense when the hedge transaction occurs.

(f) Net assets attributable to unitholders

Units are redeemable at the unitholders' option via withdrawal facility offers by the Responsible Entity and are therefore classified as financial liabilities. The units can be put back to the Scheme for cash equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the year if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the consolidated statement of comprehensive income as they arise.

(g) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the consolidated statement of financial position.

(h) Investment income

Interest income is recognised in the consolidated statement of comprehensive income for all financial instruments using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(d).

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

Net gains/(losses) on financial assets and liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at the end of the year and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the consolidated financial statements.

(i) Expenses

All expenses, including property expenses, Responsible Entity's fees and custodian fees, are recognised in consolidated statement of comprehensive income on an accruals basis.

(j) Income tax

Under current legislation, the Scheme is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

(k) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the consolidated statement of comprehensive income as finance costs attributable to unitholders.

(l) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in consolidated statement of comprehensive income as finance costs.

2 Summary of significant accounting policies (continued)

(m) Receivables

Receivables may include amounts for dividends, interest, rental income arrears, trust distributions and securities sold where settlement has not yet occurred. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each year from the time of last payment in accordance with the policy set out in note 2h above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance 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. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the consolidated statement of comprehensive income within other expenses or property expenses, if related to rental income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against property expenses in the consolidated statement of comprehensive income.

(n) Payables

Payables include liabilities and accrued expenses owed by the Scheme which are unpaid as at the end of the year.

Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at the end of each year are included in payables.

The distribution amount payable to unitholders as at the end of each year is recognised separately in the consolidated statement of financial position when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

Liabilities for trade creditors are carried at original invoice amount which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Scheme.

Payables to related parties are recognised and carried at the nominal amount due. They are carried at the nominal amount due to the short term nature of the payable. Interest is taken up as an expense on an accrual basis.

Provisions are recognised when the Scheme has a present obligation as a result of the past event and it is probable that the Scheme will be requested to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(o) Applications and redemptions

Applications received for units in the Scheme are recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined in accordance with the Scheme's Constitution by reference to the net assets of the Scheme divided by the number of units on issue.

2 Summary of significant accounting policies (continued)

(p) Borrowings and borrowing costs

All loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with borrowings.

After initial recognition, loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the consolidated statement of comprehensive income when liabilities are derecognised or impaired.

(q) Goods and Services Tax (GST)

The consolidated statement of comprehensive income is shown exclusive of GST, unless the GST incurred (or part thereof) on expenses that are not recoverable. Expenses of various services provided to the Scheme by third parties, such as custodial services and investment management fees, may have non-recoverable GST components, as applicable. In these cases, the non-recoverable GST component is recognised as part of the particular expense in the consolidated statement of comprehensive income.

Accounts payable and receivable are stated inclusive of the GST receivable and payable, respectively. The net amount of GST recoverable, or payable, is included in receivables or payables in the consolidated statement of financial position.

Cash flows relating to GST are included in the consolidated statement of cash flows on a gross basis.

(r) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue brought to account but not received at the end of the year is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

Rental revenue

Rental income is recognised on a straight line basis over the lease term.

Contingent rentals, such as turnover rent and market rent adjustments, are recognised as income in the financial year in which they are earned.

Fixed rental increases which do not represent direct compensation for underlying cost increases or capital expenditure are recognised on a straight line basis over the term of the lease.

The rental adjustments resulting from this policy are disclosed in the consolidated financial statements for financial reporting presentation purposes only.

Incidental income (costs) derived from an investment property undergoing construction or development but not directly related to bringing the assets to the working condition, are recognised in profit for the year.

Rent not received at the end of the year is reflected in the consolidated statement of financial position as a receivable or if paid in advance, as a liability.

Interest revenue

Interest income is recognised in the consolidated statement of comprehensive income as it accrues.

2 Summary of significant accounting policies (continued)

(s) Leases

Leasing costs

Lease costs are costs that are directly associated with negotiating and arranging an operating lease (including commissions, legal fees and costs of preparing and processing documentation for new leases). These costs are capitalised and are amortised on a straight-line basis over the term of the lease as property expenses. The carrying amount of the leasing cost is reflected in the carrying value of investment properties.

Lease incentives

Incentives such as cash, rent-free periods, lessee or lessor owned fitouts may be provided to lessees to enter into an operating lease. These incentives are capitalised and are amortised on a straight-line basis over the term of the lease as a reduction of rental income or as property expenses. The carrying amount of the lease incentives is reflected in the carrying value of investment properties.

(t) Use of judgements and estimates

The preparation of the Scheme's consolidated financial statements requires it to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. However, estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements are made by the Scheme in respect of the fair values of investment properties. These investments are reviewed regularly by reference to external independent property valuations and market conditions, using generally accepted market practices.

The key weighted average assumptions used by the external independent property valuers in the latest valuations have been used by the Scheme for the investment properties and the weighted average total for all properties, including the weighted average lease expiry ("WALE"), have been disclosed in note 18.

The Scheme's financial instruments are valued primarily based on the prices provided by independent pricing services.

When the fair values of the reported financial instruments cannot be derived from active markets, they are determined using prices obtained from inactive or unquoted markets and/or other valuation techniques. The inputs to these valuation techniques (if applicable) are taken from observable markets to the extent practicable. Where observable inputs are not available, the inputs may be estimated based on a degree of judgements and assumptions in establishing fair values.

Where appropriate, the outcomes of the valuation techniques that are used in establishing fair values are validated using prices from observable current market transactions for similar instruments (without modification or repackaging) or based on relevant available observable market data.

The determination of what constitutes 'observable' requires significant judgement by the Scheme. The Scheme considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

In addition, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates and judgements. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

2 Summary of significant accounting policies (continued)

(u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 9 Financial Instruments (and applicable amendments) (effective 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has now also introduced revised rules for hedge accounting and impairment. The Standard is applicable for reporting periods beginning on or after 1 January 2018 but is available for early adoption. The Scheme does not expect this to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements and the Scheme does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Scheme's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Scheme. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the year commencing 1 July 2018.

(ii) AASB 15 Revenue from Contracts with Customers (effective 1 January 2018)

AASB 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. AASB 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised only when the control of a good or service transfers to a customer. This notion of control replaces the existing notion of risks and rewards. The Scheme's main source of income includes rental income, distributions, interest and gains on financial instruments held at fair value through profit or loss. All of these are outside the scope of the Revenue standard. Consequently, the Scheme does not expect AASB 15 to have a significant impact on the Scheme's financial statements. The Scheme does not intend to early adopt AASB 15. The Scheme will apply AASB 15 in its financial statements for the year commencing 1 July 2018.

(iii) AASB 2016-3 Amendments to Australian Accounting Standards - Clarifications to AASB 15 (effective 1 January 2018)

AASB 2016-3 amends AASB 15 *Revenue from Contracts with Customers* to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. It also provides further practical expedients on transition to AASB 15. No significant impact is expected upon adoption of the amendments. The Scheme does not intend to early adopt AASB 2016-3. The Scheme will apply AASB 2016-3 in its financial statements for the year commencing 1 July 2018.

(iv) AASB 16 Leases (effective 1 January 2019)

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. AASB16 substantially carries forward the lessor accounting requirements in AASB 17 and require enhanced disclosures to be provided by the lessor that will improve information disclosed about the lessor's risk exposure, particularly to residual value risk. The standard will be effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided AASB 15 has been applied, or is applied at the same date as AASB16. Based on the existing recognition of leases, the Scheme does not expect a material impact from the application of this standard. The Scheme is currently assessing the effects of applying AASB 16 on the financial statement disclosures. The Scheme does not intend to early adopt AASB 16. The Scheme will apply AASB 16 in its financial statements for the year commencing 1 July 2019.

(v) Rounding of amounts

The Scheme is an entity of the kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the consolidated financial statements. Amounts in the consolidated financial statements have been rounded off to the nearest thousand dollars, where indicated.

2 Summary of significant accounting policies (continued)

(w) Functional and presentation currency

Items included in the financial statements of each of the Scheme's operations are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Scheme's functional and presentation currency.

3 Rental income

	2018 \$'000	2017 \$'000
Rental income	77,967	71,248
Outgoings income	7,202	6,675
	<u>85,169</u>	<u>77,923</u>

Rental income includes an adjustment for the straight lining of rental income of \$357,854 (2017: \$949,834).

4 Property expenses

	2018 \$'000	2017 \$'000
Recoverable outgoings	8,471	8,041
Non-recoverable outgoings	3,263	3,012
Bad debts expense	52	27
Amortisation of lease commissions & lease incentives	337	176
	<u>12,123</u>	<u>11,256</u>

5 Distribution income

	2018 \$'000	2017 \$'000
Related unlisted managed investment schemes	3,454	1,527
Listed property trusts	4,241	4,623
	<u>7,695</u>	<u>6,150</u>

6 Net gains/(losses) on financial instruments held at fair value through profit or loss

	2018 \$'000	2017 \$'000
Listed property trusts	(2,559)	7,712
Derivatives	(717)	1,323
Related unlisted managed investment scheme	(10)	40
Net unrealised (losses)/gains on financial assets held at fair value through profit or loss	(3,286)	9,075
Listed property trust	-	2,943
Related unlisted managed investment scheme	19	-
Net realised gains on financial assets held at fair value through profit or loss	19	2,943
Total net (losses)/gains on financial instruments held at fair value through profit or loss	(3,267)	12,018

7 Auditors' remuneration

The auditor's remuneration is paid directly by the Responsible Entity.

During the year the following fees were paid or payable for services provided by the auditor of the Scheme:

	2018 \$	2017 \$
<i>Audit services - PricewaterhouseCoopers</i>		
Audit and review of financial statements	70,880	42,000
<i>Taxation services - Ernst & Young</i>		
Tax compliance services	17,340	14,640

8 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. There are four classes of units in the Scheme being Retail, Wholesale, Class A and Funding Units.

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	2018	2017	2018	2017
	No. '000	No. '000	\$'000	\$'000
Contributed equity				
Opening balance	715,178	625,533	876,979	720,758
Retail units				
Applications	79	1,895	143	3,218
Redemptions	(3,652)	(3,879)	(6,350)	(6,138)
Units issued upon reinvestment of distributions	2,293	1,948	3,849	2,940
	(1,280)	(36)	(2,358)	20
Wholesale units				
Applications	359	99,134	626	165,474
Redemptions	(15,051)	(6,612)	(25,888)	(10,423)
Units issued upon reinvestment of distributions	9,689	7,525	15,768	11,134
	(5,003)	100,047	(9,494)	166,185
Class A units				
Applications	13	11,463	15	12,755
Redemptions	(14,895)	(22,210)	(16,582)	(23,121)
Units issued upon reinvestment of distributions	559	381	601	382
	(14,323)	(10,366)	(15,966)	(9,984)
Funding units				
Applications	239,667	-	242,064	-
Units issued transaction costs	-	-	(2,500)	-
Redemptions	(59)	-	(59)	-
	239,608	-	239,505	-
Closing balance	934,180	715,178	1,088,666	876,979

8 Net assets attributable to unitholders (continued)

Undistributed income

Opening balance	156,496	114,638
Increase in net assets attributable to unitholders	64,342	41,858
Closing balance	220,838	156,496

Total net assets attributable to unitholders	1,309,504	1,033,475
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Capital risk management

The Scheme considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications whilst redemptions occur quarterly for Retail and Wholesale units and monthly for Class A units, at the discretion of unitholders.

Applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

On 9 April 2016, the Scheme temporarily suspended application of units whilst existing regular savings plans and distribution reinvestment plans continue to operate. The decision to temporarily suspend applications will be reviewed by the Responsible Entity on an ongoing basis as the Scheme progress its development and acquisition program.

On 15 May 2017, the temporary suspension of applications in the Scheme was lifted. The required level of funding was reached on 16 May 2017, consequently, application of units to the Scheme was again temporarily suspended until further notice.

On 16 November 2017, the Scheme raised \$242,004,222 from the issuance of Funding Units to help fund the Scheme's pipeline of growth, development and acquisition opportunities. Funding units are currently non-redeemable and intended to be exchanged for Wholesale units at a date to be determined by the Responsible Entity.

9 Distributions to unitholders

The distributions for the year were as follows:

	2018 \$'000	2018 CPU	2017 \$'000	2017 CPU
Distributions - Retail units				
30 September	1,899	2.0160	2,151	2.2760
28 December (2017: 31 December)	2,191	2.3330	2,140	2.2760
31 March	2,224	2.3740	2,132	2.2760
28 June (2017: 30 June)	2,476	2.6600	2,501	2.6370
	<u>8,790</u>		<u>8,924</u>	
Distributions - Wholesale units				
30 September	8,421	2.1300	7,213	2.4480
28 December (2017: 31 December)	9,848	2.4820	7,236	2.4480
31 March	10,073	2.5640	7,253	2.4480
28 June (2017: 30 June)	10,959	2.8260	13,442	3.4130
	<u>39,301</u>		<u>35,144</u>	
Distributions - Class A units				
30 September	2,832	1.2790	3,511	1.5090
28 December (2017: 31 December)	3,170	1.4530	3,445	1.5090
31 March	2,873	1.3320	3,309	1.5090
28 June (2017: 30 June)	3,473	1.6380	6,160	2.7200
	<u>12,348</u>		<u>16,425</u>	
Distributions - Funding units				
28 December	350	0.1460	-	0.0000
31 March	1,730	0.7220	-	0.0000
28 June	2,003	0.8360	-	0.0000
	<u>4,083</u>		<u>-</u>	
Total distributions	<u>64,522</u>		<u>60,493</u>	

10 Cash and cash equivalents

	2018	2017
	\$'000	\$'000
Cash at bank	2,760	10,395
Cash management trusts	<u>165,367</u>	<u>96,660</u>
	<u>168,127</u>	<u>107,055</u>

11 Receivables

	2018	2017
	\$'000	\$'000
Trade receivables	3,464	125
Distributions receivables	1,460	1,221
Loan to related party	6,854	527
GST receivables	<u>1,149</u>	<u>1,572</u>
	<u>12,927</u>	<u>3,445</u>

12 Financial assets and liabilities held at fair value through profit or loss

	2018	2017
	\$'000	\$'000
Derivatives	606	1,323
Listed property trusts	<u>71,227</u>	<u>66,830</u>
Total financial assets held at fair value through profit or loss	<u>71,833</u>	<u>68,153</u>

An overview of the risk exposures and fair value measurements relating to financial assets and liabilities at fair value through profit or loss is included in note 17.

13 Investment properties

(a) Property details

	Type	Ownership (%)	Acquisition date	Independent valuation date	Independent valuation amount \$'000	Independent valuer	Carrying value 2018 \$'000	Carrying value 2017 \$'000
Peninsula Private Hospital, Langwarrin, VIC	Hospital	100	14/07/2006	18/05/2018	147,500	JLL	147,531	133,641
The Valley Private Hospital, Dandenong North, VIC	Hospital	100	07/07/1999	22/12/2017	121,400	JLL	122,082	98,516
15 Butterfield Street, Herston, Brisbane, QLD	Medical Centre	100	11/04/2016	01/08/2017	81,500	m3property	81,500	82,700
Beleura Private Hospital and Clinic, Mornington, VIC	Hospital	100	07/07/1999	21/08/2017	81,000	JLL	81,057	76,320
Specialist Public Health Facility, Herston QLD	Hospitals Under Development	100	22/02/2017	30/06/2018	80,000	JLL	80,000	33,120
RPAH Medical Centre, Newton, NSW	Medical Centre	100	01/07/2002	23/02/2018	79,350	m3property	79,381	76,022
103 Victoria Parade, Collingwood VIC	Medical Centre	100	20/06/2016	23/11/2017	47,000	JLL	47,000	47,000
8 Herbert Street, St Leonards, NSW	Medical Centre	100	05/12/2013	18/05/2018	45,500	JLL	45,500	40,086
Brisbane Waters Private Hospital, Woy Woy, NSW	Hospital	100	21/07/2014	18/05/2018	45,100	m3property	45,446	33,653
310 Selby Road North, Osborne Park, WA	Medical Centre	100	20/06/2016	23/11/2017	39,000	JLL	39,000	37,500
Brunswick Private Hospital, Brunswick, VIC	Hospital	100	17/08/2009	23/02/2018	37,900	m3property	37,962	32,300
Manningham Medical Centre, Templestowe Lower, VIC	Medical Centre	100	29/07/2008	18/05/2018	36,450	JLL	36,464	34,516
Robina Private Hospital, Robina, QLD	Hospital	100	17/06/2015	23/11/2017	35,850	JLL	35,898	31,971
Sunshine Private Hospital and Western Day Surgery	Hospital	100	11/07/2017	21/02/2018	33,300	m3property	35,753	-
Greensborough Primary Medical Centre, , VIC	Medical Centre	100	01/04/2016	23/02/2018	22,400	m3property	27,833	11,083
Campus Alpha, Robina, QLD	Hospital	100	28/07/2016	23/11/2017	27,400	m3property	27,448	27,100
North Shore Specialist Day Hospital, Greenwich, NSW	Medical Centre	100	21/08/2008	23/11/2017	20,100	m3property	20,109	19,000
HIS Diagnostic Imaging Centre, Richmond, VIC	Medical Centre	100	23/12/2015	23/02/2018	19,750	JLL	19,750	18,800
Berkeley Vale Private Hospital, Berkeley Vale, NSW	Hospital	100	31/10/2000	23/11/2017	19,700	m3property	19,700	19,600
Constitution Hill Aged Care, Northmead, NSW	Aged Care	100	22/12/2008	23/11/2017	19,600	m3property	19,600	19,500
Figtree Private Hospital, Figtree, NSW	Hospital	100	31/10/2000	14/08/2017	19,200	m3property	19,324	14,101
Hunters Hill Private Hospital, Hunters Hill, NSW	Hospital	100	31/10/2000	14/08/2017	18,800	m3property	18,800	18,417
Townsville Private Clinic, Townsville, QLD	Hospital	100	20/10/2014	23/02/2018	18,000	JLL	18,000	16,500
Gosford Private Medical Centre, NSW	Medical Centre	100	02/04/2015	18/05/2018	14,100	JLL	14,100	13,800
Ipswich Medical Centre and Day Hospital, QLD	Medical Centre	100	31/05/2007	23/11/2017	13,600	m3property	13,639	13,000
Mackay Medical Centre and Day Hospital, Mackay, QLD	Medical Centre	100	08/05/2007	23/11/2017	11,300	m3property	11,407	11,190
17-19 Fullarton Rd, Kent Town, SA	Medical Centre	100	14/11/2014	NA	11,000	Transaction, refer to Note 22	11,000	11,150
46-50 Underwood Street, Corrimal, NSW	Medical Centre	100	23/12/2015	14/08/2017	15,100	m3property	15,100	14,863
Calvary Rehabilitation Hospital, Walkerville, SA	Hospital	100	07/07/1999	21/08/2017	13,250	JLL	13,250	15,290
Robina Primary Medical Centre, Robina QLD	Medical Centre	100	20/04/2016	14/08/2017	3,920	m3property	12,312	3,936
1 and 3 Addison Road, Pennington	Medical Centre	100	11/05/2018	12/02/2018	8,300	m3property	8,388	-
Eureka Medical Centre, Ballarat, VIC	Medical Centre	100	12/09/2005	18/05/2018	7,800	CBRE	7,800	5,600

13 Investment properties (continued)

(a) Property details (continued)

	Type	Ownership (%)	Acquisition Date	Independent valuation date	Independent valuation amount \$'000	Independent valuer	Carrying value 2018 \$'000	Carrying value 2017 \$'000
Tuggerah Lakes Hospital, Kanwal, NSW	Hospitals under development	100	31/01/2017	23/02/2018	4,390	m3property	7,223	2,804
Herston Private Hospital	Assets held pending development	100	24/05/2018	NA	NA	NA	6,903	-
80-82 Bridge Road, Richmond, VIC	Medical Centre	100	23/12/2015	23/02/2018	6,500	m3property	6,500	5,902
34 Investigator Drive, Robina, QLD	Assets held pending development	100	28/07/2016	24/02/2018	3,700	m3property	3,700	3,700
14 Highfields Circuit, Port Macquarie, NSW	Hospitals under development	100	15/03/2018	09/02/2018	1,900	Opteon	1,951	-
Figtree Consulting Suites, Figtree, NSW	Medical Centre	100	05/05/2008	14/08/2017	1,560	m3property	1,560	1,470
4 Ginifer Court, St Albans, VIC	Assets held pending development	100	27/11/2017	20/06/2017	800	m3property	1,407	-
2 Ginifer Court, St Albans, VIC	Assets held pending development	100	27/03/2018	25/09/2017	730	m3property	1,303	-
651 Pacific Highway, Kanwal, NSW	Assets held pending development	100	09/05/2018	23/01/2018	700	Preston Rowe Paterson	1,134	-
95 Herbert Street, Mornington, VIC	Assets held pending development	100	25/03/2015	21/08/2017	1,100	JLL	1,100	1,100
15 Gillon Court, St Albans, VIC	Assets held pending development	100	13/04/2018	20/06/2017	810	m3property	1,097	-
101 Herbert Street, Mornington, VIC	Assets held pending development	100	12/12/2014	21/08/2017	800	JLL	800	800
12 View Road, Walkerville, SA	Assets held pending development	100	14/07/2010	21/08/2017	850	JLL	850	800
15 Dwyer Avenue, Woy Woy, NSW	Assets held pending development	100	21/12/2017	09/11/2017	715	Preston Rowe Paterson	725	-
1 Wiowera Street, Kanwal, NSW	Assets held pending development	100	30/04/2018	23/01/2017	490	Preston Rowe Paterson	696	-
10 North East Road, Walkerville, SA	Assets held pending development	100	25/01/2013	21/08/2017	675	JLL	675	650
103 Herbert Street, Mornington, VIC	Assets held pending development	100	15/01/2015	21/08/2017	510	JLL	510	510

13 Investment properties (continued)

(a) Property details (continued)

	Type	Ownership %	Acquisition Date	Independent valuation date	Independent valuation amount \$'000	Independent valuer	Carrying value 2018 \$'000	Carrying value 2017 \$'000
105 Herbert Street, Mornington, VIC	Assets held pending development	100	15/01/2015	21/08/2017	510	JLL	510	510
3 Woiwera Street, Kanwal, NSW	Assets held pending development	100	13/09/2017	17/07/20	490	Preston Rowe Paterson	490	-
Calvary Wakefield Private Hospital	Hospital		07/07/1999	NA	NA	NA	-	42,937
Total					1,221,400		1,251,269	1,071,458

The carrying value of an investment property may vary from the independent valuation of the property due to acquisition costs, capital expenditure and the accounting treatment of leasing commissions and lease incentives.

The investment properties valuation policy is included in note 18.

(b) Movements in carrying amount

Reconciliations of the carrying amounts of investment properties are set out below:

	2018 \$'000	2017 \$'000
Opening balance	1,071,458	885,626
Acquisitions	59,638	34,960
Additions	92,441	108,521
Disposal	(50,000)	-
Capitalised borrowing costs	1,850	-
Realised gain on disposal	9,309	-
Lease commissions and incentives amortisation	(337)	(176)
Revaluation movements	66,553	41,577
Straight-lining of rental income	357	950
Closing balance	<u>1,251,269</u>	<u>1,071,458</u>

The Scheme completed the purchase of the following properties during the year:

- On 10 July 2017, the Scheme completed the purchase of Sunshine Private Medical Centre and Western Day Surgery for a purchase price of \$33,000,000 and acquisition costs of \$2,493,602.
- On 13 September 2017, the Scheme completed the purchase of 3 Woiwera Road, Kanwal, NSW for a purchase price of \$470,000 and acquisition costs of \$43,781.
- On 27 November 2017, the Scheme completed the purchase of 4 Ginifer Court, St Albans, VIC for a purchase price of \$1,300,000 and acquisition costs of \$107,304.
- On 21 December 2017, the Scheme completed the purchase of 15 Dwyer Avenue, Woy Woy, NSW for a purchase price of \$725,000 and acquisition costs of \$48,638.
- On 15 March 2018, PHPT completed the purchase of 14 Highfields Circuit, Port Macquarie, NSW for a purchase price of \$1,800,000 and acquisition costs of \$128,807.
- On 27 March 2018, the Scheme completed the purchase of 2 Ginifer Court, St Albans, VIC for a purchase price of \$1,200,000 and acquisition costs of \$103,197.
- On 11 April 2018, the Scheme completed the purchase of 15 Gillon Court, St Albans, VIC for a purchase price of \$1,000,000 and acquisition costs of \$97,449.

13 Investment properties (continued)

(b) Movements in carrying amount (continued)

- On 30 April 2018, the Scheme completed the purchase of 1 Wiowera Road, Kanwal, NSW for a purchase price of \$625,000 and acquisition costs of \$70,560.
- On 9 May 2018, the Scheme completed the purchase of 651 Pacific Highway, Kanwal, NSW for a purchase price of \$1,150,000, inclusive of GST, and acquisition costs of \$89,003.
- On 11 May 2018, PHPT completed the purchase of 1 and 3 Addison Road, Pennington, SA for a purchase price of \$8,000,000 and acquisition costs of \$388,041.

In June 2018, the construction of the Specialist Public Health Facility has commenced at Herston Quarter. This is the first building to commence construction as part of the Herston Quarter development.

On 30 April 2018, the Scheme was granted leasehold rights for the proposed Herston Private Hospital for \$6,562,800 consortium management fees. This is also part of the Herston Quarter development in Brisbane being undertaken by the Australian Unity Group.

On 14 December 2017, the Scheme sold Calvary Wakefield Private Hospital and Medical Clinic, Adelaide, SA for a consideration of \$50,000,000, excluding selling costs of \$473,447. The Scheme recognised a realised gain of \$9,308,976 from the sale of the property.

(c) Contractual obligations

Capital expenditure contracted for at the reporting date but not recognised as liabilities:

	2018	2017
	\$'000	\$'000
Within one year	187,177	97,731
Later than one year but not later than 5 years	132,193	279,735
	319,370	377,466

The Scheme's share of capital commitments will be funded using the Scheme's cash and cash equivalents and debt facility. Refer to notes 10 and 15, respectively.

14 Payables

	2018 \$'000	2017 \$'000
Trade payables	1,536	1,368
Accrued expenses	3,514	4,079
GST payables	717	707
	<u>5,767</u>	<u>6,154</u>

15 Borrowings

	2018 \$'000	2017 \$'000
Bank loan	180,600	195,500
Unamortised borrowing costs	(6,964)	(2,705)
	<u>173,636</u>	<u>192,795</u>

The Scheme had access to:

	2018 \$'000	2017 \$'000
Credit facilities		
Cash advance facilities	740,000	420,000
Drawn balance	(180,600)	(195,500)
Undrawn balance	<u>559,400</u>	<u>224,500</u>

On 22 January 2018, the bank loan facility was refinanced. The new \$740,000,000 facility comprise four tranches:

- Tranche A is a \$220,000,000 (2017: \$270,000,000) facility expiring on 22 January 2023 (2017: 22 July 2021);
- Tranche B is a \$320,000,000 (2017: \$150,000,000) facility expiring on 22 January 2023 (2017: 24 June 2019);
- Tranche C is a \$100,000,000 (2017: \$nil) facility expiring on 22 January 2023; and
- Tranche D is a \$100,000,000 (2017: \$nil) facility expiring on 22 January 2025.

The facility is secured by a first registered mortgage over most of the Scheme's properties, and is non-recourse to unitholders.

15 Borrowings (continued)

Reconciliations of the net debt are set out below:

	2018 \$'000	2017 \$'000
Analysis of changes in consolidated net debt		
Opening balance	88,445	150,466
Repayment of borrowings	(14,900)	(15,000)
Other cash movements	(61,072)	(47,021)
Closing balance	<u>12,473</u>	<u>88,445</u>
Bank Loan	180,600	195,500
Cash and cash equivalents	<u>(168,127)</u>	<u>(107,055)</u>
Consolidated net debt	<u>12,473</u>	<u>88,445</u>

16 Derivative financial instruments

2018	Contract/notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Interest rate swaps			
Maturing on 4 November 2021 at a fixed rate of 2.074%	50,000	187	-
Maturing on 4 November 2021 at a fixed rate of 2.085%	50,000	250	-
Maturing on 4 November 2021 at a fixed rate of 2.085%	50,000	169	-
	<u>150,000</u>	<u>606</u>	<u>-</u>

2017	Contract/notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Interest rate swaps			
Maturing on 4 November 2021 at a fixed rate of 2.074%	50,000	422	-
Maturing on 4 November 2021 at a fixed rate of 2.085%	50,000	502	-
Maturing on 4 November 2021 at a fixed rate of 2.085%	50,000	399	-
	<u>150,000</u>	<u>1,323</u>	<u>-</u>

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The valuation policy is included in note 2.

The Scheme has entered into interest rate swap contracts to hedge future interest payments on the Scheme's borrowings.

16 Derivative financial instruments (continued)

An unrealised gain of \$717,399 (2017: loss of \$1,323,260) relating to the change in the fair value of the Scheme's interest rate swap contracts was recognised in the consolidated statement of comprehensive income during the year ended 30 June 2018.

17 Financial risk management

(a) Objectives, strategies, policies and processes

The Scheme's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's disclosure documents and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed. Financial risk management is carried out by the Investment Manager ("the Investment Manager") under policies approved by the Board of Directors of the Responsible Entity ("the Board").

The Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, other price risks, and ratings analysis for credit risk.

As part of its risk management strategy, the Scheme uses interest rate swaps to manage exposures resulting from changes in interest rates.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: price risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme.

(i) Price risk

Price risk is the risk that the fair value or future cash flows of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk exposure arises from the Scheme's investment in unlisted property securities. The investments are classified on the consolidated statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

The Investment Manager mitigates this price risk through diversification and a careful selection of financial instruments within specified limits set by the Board.

The Scheme has exposures to price risk as shown in the table below. The table also demonstrates the sensitivity to reasonably possible changes in prices, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit and net assets attributable to unitholders, while a positive amount reflects a net potential increase. There is no impact on distributable earnings as they are net fair value movements only.

	2018 \$'000	2017 \$'000
Assets		
Listed property trusts	<u>71,227</u>	66,830
Total exposure	<u>71,227</u>	<u>66,830</u>

17 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk (continued)

Sensitivity	Impact on profit and net assets attributable to unitholders	
	2018 \$'000	2017 \$'000
Securities prices + 10% (2017: +10%)	7,123	6,683
Securities prices - 10% (2017: -10%)	(7,123)	(6,683)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is exposed to interest rate risk predominantly through borrowings. The Scheme may apply hedging across its differing interest rate exposures and utilises interest rate swaps, to exchange floating interest rates to fixed interest rates, to manage its exposure. Compliance with policy is reviewed regularly by management and is reported to the Board each meeting.

The Scheme has exposure to interest rate risk on its monetary assets and liabilities.

	2018 \$'000	2017 \$'000
Floating rate		
Cash and cash equivalents	168,127	107,055
Borrowings*	(180,600)	(195,500)
Net exposure	(12,473)	(88,445)
Derivative financial instruments		
Interest rate swaps - floating to fixed*	150,000	150,000
	150,000	150,000
Net exposure	137,527	61,555

* Represents the notional principal amounts.

The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or net assets attributable to unitholders, while a positive amount reflects a potential net increase.

Sensitivity	Impact on profit and net assets attributable to unitholders	
	2018 \$'000	2017 \$'000
Interest rate + 0.50% (2017: +0.50%)	688	308
Interest rate - 0.50% (2017: -0.50%)	(688)	(308)

The above calculation ignores the impact of any changes to the valuation of the interest rate swaps.

17 Financial risk management (continued)

(c) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Scheme to make a financial loss. The Scheme has exposure to credit risk on all of its financial assets included in the Scheme's consolidated statement of financial position.

The Scheme manages this risk by performing credit reviews of prospective tenants, obtaining tenant collateral where appropriate and performing detailed reviews on tenant arrears. The Scheme reviews the aggregate exposures of tenant debtors and tenancies across its portfolio.

The Scheme is exposed to credit risk on financial instruments and derivatives. There is only a credit risk where the contracting entity is liable to pay the Scheme in the event of a close out.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme is exposed to the applicable withdrawal offer put in place by the Responsible Entity.

The Scheme's investments may include listed securities that are considered readily realisable, as they are listed on recognised stock exchanges.

The Scheme may invest in investments in unlisted unit trusts that expose the Scheme to the risk that the Investment Manager of those trusts may be unwilling or unable to fulfil the redemption requests within the timeframe requested by the Scheme.

Under the terms of its Constitution, the Scheme has the ability to manage liquidity risk by delaying withdrawals to unitholders, if necessary, until the funds are available to pay them.

Units are redeemed on demand at the unitholders option via withdrawal facility offers by the Responsible Entity. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term and withdrawal offers are subject to limits set by the Responsible Entity.

The Scheme's policy is to hold a proportion of their investments in liquid assets.

Maturities analysis of financial liabilities

The table below analyses the Scheme's financial liabilities into relevant maturity groupings based on the remaining period at the end of the year to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Financial liabilities such as trade payables, where there are no specific contractual settlement dates, have been grouped into the 'less than 1 year' maturity grouping as such liabilities are typically settled within 30 days.

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
2018				
Distributions payable	16,142	-	-	-
Payables	5,734	-	-	-
Borrowings	-	-	-	180,600
Net assets attributable to unitholders	1,309,504	-	-	-
Total financial liabilities	<u>1,331,380</u>	<u>-</u>	<u>-</u>	<u>180,600</u>

17 Financial risk management (continued)

(d) Liquidity risk (continued)

Maturities analysis of financial liabilities (continued)

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
2017				
Distributions payable	22,103	-	-	-
Payables	6,154	-	-	-
Borrowings	-	150,000	-	45,500
Net assets attributable to unitholders	1,033,475	-	-	-
Total financial liabilities	<u>1,061,732</u>	<u>150,000</u>	<u>-</u>	<u>45,500</u>

As disclosed above, the Scheme manages its liquidity risk by investing in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents and listed property trusts. As at 30 June 2018, these assets amounted to \$239,353,973 (2017: \$173,885,510).

Investment in Australian Unity Wholesale Cash Fund and Altius Enhanced Cash Fund are included in the liquid assets of the Scheme above.

(e) Estimation of fair values of financial assets and financial liabilities

The carrying amounts of the Scheme's assets and liabilities at the end of each year approximate their fair values.

The Scheme values its investments in accordance with the accounting policies set out in note 18.

18 Fair value hierarchy

The Scheme measures and recognises the financial assets/(liabilities) held at fair value through profit or loss and investment properties at fair value on a recurring basis.

(a) Fair value hierarchy

The Scheme is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be the market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

All fair value measurements disclosed are recurring fair value measurements.

18 Fair value hierarchy (continued)

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
<i>Financial assets held at fair value through profit or loss</i>				
Derivatives	-	606	-	606
Listed property trusts	71,227	-	-	71,227
Total financial assets	71,227	606	-	71,833

Non-financial assets

Investment properties	-	-	1,251,269	1,251,269
Total non-financial assets	-	-	1,251,269	1,251,269

2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
<i>Financial assets held at fair value through profit or loss</i>				
Derivatives	-	1,323	-	1,323
Listed property trusts	66,830	-	-	66,830
Total financial assets	66,830	1,323	-	68,153

Non-financial assets

Investment properties	-	-	1,071,458	1,071,458
Total non-financial assets	-	-	1,071,458	1,071,458

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year. There are no transfers between levels 1, 2 and 3 for fair value measurements during the year. (2017: \$nil)

(b) Valuation techniques

(i) Financial instruments

The pricing for the majority of the Scheme's investments is generally sourced from independent pricing sources, the relevant Investment Managers or reliable brokers' quotes.

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed property trusts and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted property trusts and over-the-counter derivatives.

The fair value of interest rate swaps is calculated using a discounted cash flow model as the present value of the estimated future cash flows based on observable yield curves. The model incorporate various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, and interest rate curves.

18 Fair value hierarchy (continued)

The stated fair value of each financial instruments at the end of the year represents the Responsible Entity's best estimate at the end of the year.

Specific valuation techniques used daily to value financial instruments include:

- for listed trust, disclosed in level 1, the use of quoted market prices or dealer for similar instruments;
- for unlisted trust, the use of the relevant Investment Managers' quoted unit prices using the net asset value; and
- for derivatives, the fair value of interest rate swaps is calculated using a discounted cash flow model as the present value of the estimated future cash flows based on observable yield curves.

The stated fair value of each financial instruments at the end of the year represents the Responsible Entity's best estimate at the end of the year.

(ii) Investment properties

The investment property valuation policy is to have independent valuations conducted regularly, typically annually, to aid with the determination of the assets fair value. In determining the fair value of an investment property, the primary method of assessment is considered to be via reconciliation between the discounted cash flow and income capitalisation methods. Direct comparison may also be used if appropriate.

- Discounted cash flow method - this methodology involves formulating a projection of net income over a specified time horizon, normally 10 years, and discounting this cash flow including the projected terminal value at the end of the projection period at an appropriate market-derived discount rate. The present value of this discounted cash flow provides a guide to the fair value of the property;
- Income capitalisation method - this methodology involves the assessment of a net market income for the various components of the subject property. The net market income is capitalised at a rate derived from the analysis of comparable sales evidence to derive a capital value. Appropriate capital adjustments are then made where necessary to reflect the adopted cash flow profile and the general risk characteristic of the property; and
- Direct comparison method - this methodology analyses comparable sales on a range of metrics and compares those metrics against those of the subject property to establish the property's market value.

At each reporting date the appropriateness of those valuations is assessed by the Responsible Entity.

The stated fair value of each investment property at the end of the year represents the Responsible Entity's best estimate as at the end of the year. However, if an investment property is sold in the future the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the consolidated financial statements if that differs from the valuation.

The fair value estimates for investment properties are included in level 3 as explained in section (c) below.

(c) Fair value measurements using significant unobservable input (level 3)

The changes in fair value of investment properties for the year are set out in note 13(b).

(i) Valuation inputs and relationship to fair value

The table below illustrates the key valuation assumptions used in the determination of the investment properties fair value:

Valuation inputs	2018	2017	Relationship of inputs to fair value
Weighted average capitalisation rate (%)	6.54%	6.99%	The higher the capitalisation rate, the lower the fair value.
Occupancy rate by income (2017: by area) (%)	98.73%	98.40%	The higher the occupancy rate, the higher the fair value.
Weighted average lease expiry (years)	11.90 years	10.69 years	The higher the lease expiry, the higher the fair value.

18 Fair value hierarchy (continued)

(ii) Valuation processes

Independent valuations of investment properties are obtained from suitably qualified valuers generally at least once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. Such valuations are reflected in note 13. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

(d) Fair value of other financial instruments

Due to their short-term nature, the carrying amounts of the receivables and payables are assumed to approximate their fair values.

Borrowings are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. The fair value of borrowings approximates the carrying amount.

19 Related party transactions

Responsible entity

The Responsible Entity of Australian Unity Healthcare Property Trust is Australian Unity Funds Management Limited (ABN 60 071 497 115).

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Australian Unity Funds Management Limited at any time during the year as follows:

Rohan Mead, Chairman and Group Managing Director
David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer
Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)
Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the year.

Other transactions within the Scheme

From time to time directors of Australian Unity Funds Management Limited, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme unitholders and are trivial in nature.

Responsible Entity's fees and other transactions

The Responsible Entity is entitled to receive fees monthly calculated daily by reference to the gross assets of the Scheme.

Administration expenses incurred in the day to day running of the Scheme are reimbursed in accordance with the Scheme's Constitution.

The transactions during the year and amounts payable at 30 June 2018 between the Scheme and the Responsible Entity were as follows:

19 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

	2018	2017
	\$	\$
Management fees for the year paid/payable by the Scheme to the Responsible Entity	9,454,084	8,204,699
Administration expenses incurred by the Responsible Entity which are reimbursed in accordance with the Scheme's Constitution	3,608,634	3,407,768
Fees rebated by the Responsible Entity for the Scheme's investments in other schemes managed by the Responsible Entity	407,121	171,423
Aggregate amounts payable to the Responsible Entity at the end of the year	695,907	984,885

(a) Other related party transactions

Australian Unity Property Management Pty Ltd

Australian Unity Property Management Pty Ltd ("AUPML") has been appointed to provide a number of property related services to the Scheme. These services include:

- Leasing and agency services;
- Market rent reviews;
- Property management services;
- Project management services;
- Development management services; and
- Debt arrangement services

The total fees paid/payable to AUPML for the year ended 30 June 2018 was \$1,415,532 (2017: \$2,814,284). Total accrued fees payable to AUPML as at 30 June 2018 was \$nil (2017: \$nil).

Herston Quarter Redevelopment

On 23 February 2017, the Scheme through its sub-trust Herston SRACC Trust, entered into an agreement to develop a specialist public health facility located in Herston, Queensland. This development is part of the Herston Quarter redevelopment in Brisbane undertaken by Herston Development Company Pty Ltd ("the Developer"). In order to participate in the Herston Quarter redevelopment, the Scheme incurred Developer consortium management fees of \$nil (2017: \$8,267,000) during the year, of which \$nil (2017: \$388,000) remains payable as at 30 June 2018.

On 30 April 2018, the Scheme was granted leasehold for the proposed Herston Private Hospital. The Scheme paid the Developer consortium management fees of \$6,565,800 for this project, which is also part of the Herston Quarter development.

The Scheme provides loans to Herston Car Park Company Ltd ("HCPC") to provide funding for the development of the car park and a portion of the common area associated with the Herston Quarter redevelopment. The total loan receivable from HCPC as at 30 June 2018 was \$6,854,414 (2017: \$527,390), which includes total interest income capitalised during the year of \$181,530 (2017: \$3,977). The Scheme expects repayment of the loan following the completion of development works on specialist public health facility.

The Responsible Entity, AUPML, the Developer and HCPC are wholly owned subsidiaries of Australian Unity Limited (ABN 23 087 648 888) and members of the Australian Unity Group. All related party transactions are under normal commercial terms and conditions and at market rates.

19 Related party transactions (continued)

Related party unitholdings

Parties related to the Scheme (including Australian Unity Funds Management Limited, its related parties and other schemes managed by Australian Unity Funds Management Limited), held units in the Scheme as follows:

2018

Unitholders	No. of units held opening '000	No. of units held closing '000	Fair value of investment* \$'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme \$'000
Australian Unity Property Income Fund	3,888	6,197	9,175	0.70	2,309	-	440
AUFM Managed Fund No 2 (AUFMF2)	1,457	2,076	3,191	0.25	619	-	160
AUFM Managed Fund No 3 (AUFMF3)	1,234	2,031	2,977	0.23	797	-	141
AUFM Managed Fund No 1 (AUFMF1)	293	515	739	0.06	222	-	34
Federation Managed Fund	-	34	58	-	34	-	2
Federation Managed Accounts	14	5	8	-	-	(9)	1
Total	6,886	10,858	16,148	1.24	3,981	(9)	778

2017

Unitholders	No. of units held opening '000	No. of units held closing '000	Fair value of investment* \$'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme \$'000
Australian Unity Property Income Fund	2,100	3,888	6,395	0.61	1,873	-	292
AUFM Managed Fund No 2 (AUFMF2)	383	1,457	2,397	0.23	1,074	-	79
AUFM Managed Fund No 3 (AUFMF3)	454	1,234	2,030	0.19	780	-	77
AUFM Managed Fund No 1 (AUFMF1)	134	293	481	0.05	159	-	20
Federation Managed Accounts	14	14	23	-	-	-	2
Total	3,085	6,886	11,326	1.08	3,886	-	470

*Fair value of investment includes accrued distribution at the end of the year.

Investments

The Scheme held investments in the following schemes which are also managed by Australian Unity Funds Management Limited or its related parties:

19 Related party transactions (continued)

Investments (continued)

	No. of units held opening '000	No. of units held closing '000	Fair value of investment \$'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions received/receivable \$'000
2018							
Australian Unity Wholesale Cash Fund	56,620	123,474	123,474	16.44	537,165	(470,311)	2,514
Altius Enhanced Cash Fund	40,000	41,813	41,893	11.45	20,785	(18,971)	939
	96,620	165,287	165,367		557,950	(489,282)	3,454
2017							
Australian Unity Wholesale Cash Fund	58,183	56,620	56,620	8.66	328,880	(330,329)	1,526
Altius Enhanced Cash Fund	-	40,000	40,040	40.00	40,000	-	2
	58,183	96,620	96,660		368,880	(330,329)	1,527

Distributions received/receivable includes an amount of \$399,383 (2017: \$271,549) which remains unpaid at the end of the year.

20 Reconciliation of profit to net cash inflows from operating activities

	2018	2017
	\$'000	\$'000
Profit/(loss) for the year attributable to unitholders	-	-
Increase in net assets attributable to unitholders	64,342	41,858
Distribution to unitholders	64,522	60,493
Add back interest expenses and debt establishment costs	11,792	11,844
Change in fair value of the investment properties - revaluation increment	(66,553)	(41,577)
Realised gain on sale of investment property	(9,309)	-
Net losses/(gains) on financial instruments	3,267	(12,018)
(Increase)/decrease in receivables	(3,154)	2,154
Increase in accounts payable/liabilities	60	1,038
Decrease/(increase) in other assets	3,525	(2,591)
Adjustment to net lease incentives and straight line rental	(1,449)	(774)
Capitalised interest income	(181)	-
Effect of valuation changes on cash equivalent	10	40
Reinvestment of financial assets	-	(3,727)
Net cash inflows from operating activities	66,872	56,740

21 Parent entity financial information

	2018	2017
	\$'000	\$'000
Statement of financial position		
Cash and cash equivalents	167,124	97,170
Receivables	4,694	1,786
Financial assets held at fair value through profit or loss	71,833	68,153
Investment in subsidiaries	180,516	98,253
Investment properties	1,079,435	983,753
Other Assets	567	4,394
Total assets	1,504,169	1,253,509
Distributions payable	16,142	22,103
Payables	4,887	5,136
Borrowings	173,636	192,795
Total liabilities (excluding net assets attributable to unitholders)	194,665	220,034
Net assets attributable to unitholders	1,309,504	1,033,475
	2018	2017
	\$'000	\$'000
Statement of comprehensive income		
Profit before finance costs attributable to unitholders	128,864	102,351
Finance costs attributable to unitholders		
Distributions to unitholders	(64,522)	(60,493)
Increase in net assets attributable to unitholders	(64,342)	(41,858)
Total comprehensive income for the year	-	-

22 Events occurring after end of the financial year

On 2 July 2018, the Scheme completed the sale of 17-19 Fullarton Rd, Kent Town, SA for a consideration of \$11,000,000, excluding selling cost of \$128,136. The Scheme recognised realised loss on sale of \$128,136.

On 10 July 2018, the Scheme completed the purchase of 13 Gillon Court, St Albans, VIC for purchase price of \$1,400,000, excluding acquisition costs of \$113,229.

The directors of the Responsible Entity are not aware of any other matter or circumstances arising since 30 June 2018 which significantly affected or may significantly affect the financial position of the Scheme disclosed in the consolidated statement of financial position as at 30 June 2018 or on the results and cash flows of the Scheme for the year ended on that date.

23 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities as at 30 June 2018 and 30 June 2017.

Commitments arising from contracts principally relating to capital expenditure on investment properties which are contracted for at reporting date but not recognised on the consolidated statement of financial position are \$319,369,778 (2017: \$377,425,560).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The consolidated financial statements and notes set out on pages 8 to 45 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations and cash flows for the year ended on that date.
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable,
- (c) The consolidated financial statements are in accordance with the Scheme's Constitution, and
- (d) Note 2(a) confirms that the consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Director



Director

20 September 2018



Independent auditor's report

To the unitholders of Australian Unity Healthcare Property Trust

Our opinion

In our opinion:

The accompanying financial report of Australian Unity Healthcare Property Trust (the "Scheme") and its controlled entities (together the "Group") is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in net assets attributable to unitholders – liability for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors of the Responsible Entity's declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



Other information

The Directors of Australian Unity Funds Management Limited (the “Responsible Entity”) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the directors' report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of the Responsible Entity of the Scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity 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 preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report. This description forms part of our auditor's report.



Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Australian Unity Healthcare Property Trust for the year ending 30 June 2018 included on Australian Unity's web site. The directors of the Responsible Entity of the Scheme are responsible for the integrity of Australian Unity's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'George Sagonas', with a horizontal line extending from the end of the signature.

George Sagonas
Partner

Melbourne
20 September 2018