

**Sydney Healthcare Trust**

**Annual report  
for the year ended 30 June 2011**

# **Sydney Healthcare Trust** ARSN 101 067 878

## **Annual report - 30 June 2011**

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The Directors of the Responsible Entity present their report on Sydney Healthcare Trust (the 'Trust') for the year ended 30 June 2011.

## Directors

The names of Directors of the Responsible Entity in office at any time during the year or up to the date of this report:

Curtis Roberts (Chairman – appointed 7 April 2011)  
Henricus Sprangers (appointed 7 April 2011)  
David Minear (appointed 7 April 2011)  
Andrew Meakin  
Bryce Mitchelson

Chris Thiris (resigned 7 April 2011)  
David Spruell (resigned 7 April 2011)  
Charles Macek (resigned 7 April 2011)  
Helen Argiris (resigned 7 April 2011)  
David Hinde (resigned 16 July 2010)

The Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## Principal activities

The Trust is a closed unlisted property trust with direct holdings in medical centres in and around Sydney which are leased to Primary Healthcare Limited.

The Trust currently holds a portfolio of six private medical centres located throughout Sydney.

The Trust did not have any employees during the year.

There were no significant changes in the nature of the Trust's activities during the year.

## Review of operations

### 1. Results

The performance of the Trust as represented by the results of its operations was as follows

|                                                       | 30 June 2011 | 30 June 2010 |
|-------------------------------------------------------|--------------|--------------|
|                                                       | \$           | \$           |
| Profit attributable to unitholders for the year ended | 1,703,718    | 3,963,092    |

The main factors contributing to the decrease in profit for the current year are:

- the fair value adjustment of investment properties resulted in a devaluation of \$0.5M for the year whilst in 2010 the fair value adjustment generated a revaluation of \$2.7M;
- the fair value adjustment of interest rate swaps (which in 2010 gave rise to gain of \$1M) has declined to a gain of \$0.3M in 2011, as a consequence of the rises in market rates.

|                                                       |                     |                     |
|-------------------------------------------------------|---------------------|---------------------|
| Distribution paid during the year ended               | 1,133,886           | 2,286,664           |
| Distributions declared and payable for the year ended | 648,471             | 364,765             |
|                                                       | <b>30 June 2011</b> | <b>30 June 2010</b> |
| Distribution for the year ended (cents per unit)      | 6.60                | 9.81                |

## 2. Value of Trust's Assets

|                                        | 30 June 2011 | 30 June 2010 |
|----------------------------------------|--------------|--------------|
|                                        | \$           | \$           |
| Net assets attributable to unitholders | 25,232,742   | 25,311,381   |
| Net tangible assets ('NTA') per unit   | \$0.9339     | \$0.9368     |

The value of the Trust's assets and liabilities is derived using the basis disclosed in Note 1 of the financial statements.

## 3. Asset disposals

There were no disposals of assets during the year (2010: two assets totalling \$15.6 million).

### Significant changes in state of affairs

During the year, in the opinion of the Directors, there have been no significant changes in the state of the affairs of the Trust that occurred during the financial year.

### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- the operations of the Trust in future financial years, or
- the results of those operations in future financial years, or
- the state of affairs of the Trust in future financial years.

### Likely developments and expected results of operations

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

The results of the Trust's operations will be affected by a number of factors, including the performance of investment markets in which the Trust invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Trust 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 Trust.

### Indemnification and insurance of officers and auditors

During the year, the Responsible Entity has paid insurance premiums to insure each of the aforementioned Directors, as well as officers of the Responsible Entity and members of the external Compliance Committee of the Trust against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Responsible Entity other than conduct involving a wilful breach of duty in relation to the Responsible Entity. The Responsible Entity has also indemnified each external member of the Compliance Committee against any liability incurred in carrying out the member's duties (other than a liability to the members of the schemes or the Responsible Entity) unless the liability arises out of conduct involving lack of good faith on the part of the committee member.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Responsible Entity has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the Responsible Entity or of any related body corporate against a liability incurred as such an officer or auditor.

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

Fees paid to the Responsible Entity and its associates out of the Trust's property during the year are disclosed in Note 19 of the financial statements.

No fees were paid out of the Trust's property to the Directors of the Responsible Entity during the year.

The number of interests in the Trust held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 19 of the financial statements.

**Interests in the Trust**

The movement in units on issue in the Trust during the year is disclosed in Note 14 of the financial statements.

**Environmental regulation**

The operations of the Trust are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

**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 4.

**Auditor**

PricewaterhouseCoopers continue in office in accordance with section 327 of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Board of Directors.



Bryce Mitchell  
Director

Melbourne  
29 September 2011



### **Auditor's Independence Declaration**

As lead auditor for the audit of Sydney Healthcare Trust for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporation 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 Sydney Healthcare Trust during the period.

A handwritten signature in black ink, appearing to read 'Charles Christie'.

Charles Christie  
Partner  
PricewaterhouseCoopers

Melbourne  
29 September 2011

# Sydney Healthcare Trust ARSN 101 067 878

## Annual financial report - 30 June 2011

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This financial report covers Sydney Healthcare Trust ("the Trust"). The financial report is presented in Australian currency.

Sydney Healthcare Trust is a trust, incorporated and domiciled in Australia. The registered office and principal place of business is:

Sydney Healthcare Trust  
Level 20  
600 Bourke Street  
Melbourne VIC 3000

A description of the nature of the entity's operations and its principal activities are included in the Responsible Entity report on page 1, which does not form part of this financial report.

The financial report was authorised for issue by the Directors of the Responsible Entity on 29 September 2011

The Responsible Entity has the power to amend and reissue the financial report.

**Sydney Healthcare Trust**  
**Income statement**  
**For the year ended 30 June 2011**

|                                                           | Notes | 2011<br>\$         | 2010<br>\$         |
|-----------------------------------------------------------|-------|--------------------|--------------------|
| <b>Revenue</b>                                            |       |                    |                    |
| Property rental                                           | 4(a)  | 5,346,441          | 5,057,330          |
| Interest                                                  | 4(b)  | 28,846             | 23,221             |
| Fair value adjustment to investment property              | 10(b) | -                  | 2,715,483          |
| Fair value adjustment to derivative financial instruments |       | <u>292,691</u>     | <u>962,096</u>     |
| <b>Total revenue</b>                                      |       | <u>5,667,978</u>   | <u>8,758,130</u>   |
| <b>Expenses</b>                                           |       |                    |                    |
| Fair value adjustment to investment property              | 10(b) | (484,852)          | -                  |
| Direct property expenses                                  |       | (141,813)          | (189,332)          |
| Management fees                                           | 19    | (524,664)          | (1,002,536)        |
| Exit fees/deferred management fees                        | 19    | (510,883)          | (330,066)          |
| Custodian fees                                            |       | (30,243)           | (25,248)           |
| Other administration expenses                             |       | (154,738)          | (60,509)           |
| Loss on settlement of derivative financial instruments    |       | -                  | (534,000)          |
| Loss on sale of investment properties                     |       | -                  | (175,479)          |
| Finance costs                                             | 5     | <u>(2,117,067)</u> | <u>(2,477,868)</u> |
| <b>Total expenses</b>                                     |       | <u>(3,964,260)</u> | <u>(4,795,038)</u> |
| <b>Net profit attributable to unitholders</b>             |       | <u>1,703,718</u>   | <u>3,963,092</u>   |

*The above income statement should be read in conjunction with the accompanying notes.*

**Sydney Healthcare Trust**  
**Statement of comprehensive income**  
**For the year ended 30 June 2011**

|                                                             | 2011                       | 2010             |
|-------------------------------------------------------------|----------------------------|------------------|
| Notes                                                       | \$                         | \$               |
| <b>Net profit for the year</b>                              | <b>1,703,718</b>           | 3,963,092        |
| <b>Other comprehensive income for the year</b>              | <u>-</u>                   | <u>-</u>         |
| <b>Total comprehensive income for the year</b>              | 15 <u><b>1,703,718</b></u> | <u>3,963,092</u> |
| Total comprehensive income for the year is attributable to: |                            |                  |
| Unitholders of Sydney Healthcare Trust                      | <u><b>1,703,718</b></u>    | <u>3,963,092</u> |

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

**Sydney Healthcare Trust**  
**Statement of financial position**  
**As at 30 June 2011**

|                                  | Notes | 2011<br>\$        | 2010<br>\$        |
|----------------------------------|-------|-------------------|-------------------|
| <b>ASSETS</b>                    |       |                   |                   |
| <b>Current assets</b>            |       |                   |                   |
| Cash and cash equivalents        | 6     | 952,320           | 611,031           |
| Trade and other receivables      | 7     | 393,290           | 391,165           |
| Total current assets             |       | <u>1,345,610</u>  | <u>1,002,196</u>  |
| <b>Non-current assets</b>        |       |                   |                   |
| Trade and other receivables      | 9     | 974,855           | 340,003           |
| Investment properties            | 10    | 50,375,145        | 50,859,997        |
| Total non-current assets         |       | <u>51,350,000</u> | <u>51,200,000</u> |
| <b>Total assets</b>              |       | <u>52,695,610</u> | <u>52,202,196</u> |
| <b>LIABILITIES</b>               |       |                   |                   |
| <b>Current liabilities</b>       |       |                   |                   |
| Trade and other payables         | 11    | 1,043,090         | 688,655           |
| Derivative financial instruments | 8     | 291,539           | 474,069           |
| Total current liabilities        |       | <u>1,334,629</u>  | <u>1,162,724</u>  |
| <b>Non-current liabilities</b>   |       |                   |                   |
| Interest-bearing liabilities     | 12    | 23,668,162        | 23,668,735        |
| Provisions                       | 13    | 2,367,358         | 1,856,475         |
| Derivative financial instruments | 8     | 92,719            | 202,881           |
| Total non-current liabilities    |       | <u>26,128,239</u> | <u>25,728,091</u> |
| <b>Total liabilities</b>         |       | <u>27,462,868</u> | <u>26,890,815</u> |
| <b>Net assets</b>                |       | <u>25,232,742</u> | <u>25,311,381</u> |
| <b>EQUITY</b>                    |       |                   |                   |
| Contributed equity               | 14    | 24,196,788        | 24,196,788        |
| Retained profits                 | 15    | 1,035,954         | 1,114,593         |
| <b>Total equity</b>              |       | <u>25,232,742</u> | <u>25,311,381</u> |

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

**Sydney Healthcare Trust**  
**Statement of changes in equity**  
**For the year ended 30 June 2011**

|                                                              | Notes | Contributed<br>equity<br>\$ | Retained<br>profits/<br>(Accumulated<br>losses)<br>\$ | Total<br>equity<br>\$ |
|--------------------------------------------------------------|-------|-----------------------------|-------------------------------------------------------|-----------------------|
| <b>Balance at 1 July 2009</b>                                |       | 24,196,788                  | (197,070)                                             | 23,999,718            |
| Profit for the year                                          |       | -                           | 3,963,092                                             | 3,963,092             |
| <b>Total comprehensive income for the year</b>               |       | -                           | 3,766,022                                             | 27,962,810            |
| <b>Transactions with owners in their capacity as owners:</b> |       |                             |                                                       |                       |
| Distributions to unitholders                                 |       | -                           | (2,651,429)                                           | (2,651,429)           |
| <b>Balance at 30 June 2010</b>                               |       | 24,196,788                  | 1,114,593                                             | 25,311,381            |
| <b>Balance at 1 July 2010</b>                                |       | 24,196,788                  | 1,114,593                                             | 25,311,381            |
| Total comprehensive income for the year                      |       | -                           | 1,703,718                                             | 1,703,718             |
| <b>Total comprehensive income for the year</b>               |       | -                           | 2,818,311                                             | 27,015,099            |
| <b>Transactions with owners in their capacity as owners:</b> |       |                             |                                                       |                       |
| Distributions to unitholders                                 | 15    | -                           | (1,782,357)                                           | (1,782,357)           |
| <b>Balance at 30 June 2011</b>                               |       | 24,196,788                  | 1,035,954                                             | 25,232,742            |

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

**Sydney Healthcare Trust**  
**Statement of cash flows**  
**For the year ended 30 June 2011**

|                                                                   | 2011                | 2010                |
|-------------------------------------------------------------------|---------------------|---------------------|
| Notes                                                             | \$                  | \$                  |
| <b>Cash flows from operating activities</b>                       |                     |                     |
| Property rental receipts                                          | 5,114,991           | 5,359,332           |
| Payments to suppliers                                             | <u>(926,944)</u>    | <u>(1,780,266)</u>  |
|                                                                   | 4,188,047           | 3,579,066           |
| Interest received                                                 | 28,846              | 23,221              |
| Finance costs paid                                                | <u>(1,913,378)</u>  | <u>(1,921,038)</u>  |
| <b>Net cash inflow from operating activities</b>                  | 21 <u>2,303,515</u> | <u>1,681,249</u>    |
| <b>Cash flows from investing activities</b>                       |                     |                     |
| Payments for investment properties                                | (5,760)             | -                   |
| Proceeds from sale of investment properties                       | <u>-</u>            | <u>14,724,205</u>   |
| <b>Net cash (outflow)/inflow from investing activities</b>        | <u>(5,760)</u>      | <u>14,724,205</u>   |
| <b>Cash flows from financing activities</b>                       |                     |                     |
| Distributions paid to unitholders                                 | (1,498,651)         | (2,691,959)         |
| Repayments of borrowings                                          | -                   | (13,669,014)        |
| Settlement of derivatives                                         | -                   | (534,000)           |
| Finance costs paid                                                | <u>(457,815)</u>    | <u>(536,536)</u>    |
| <b>Net cash (outflow) from financing activities</b>               | <u>(1,956,466)</u>  | <u>(17,431,509)</u> |
| <b>Net increase/(decrease) in cash and cash equivalents</b>       | 341,289             | (1,026,055)         |
| Cash and cash equivalents at the beginning of the financial year  | <u>611,031</u>      | <u>1,637,086</u>    |
| <b>Cash and cash equivalents at the end of the financial year</b> | 6 <u>952,320</u>    | <u>611,031</u>      |

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

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## 1 Summary of significant accounting policies

### Reporting Entity

The financial report is for the entity Sydney Healthcare Trust ('the Trust') as an individual entity. The Trust is an unlisted registered scheme established and domiciled in Australia. The Responsible Entity ('RE') of the Trust is Orchard Capital Investments Limited.

#### (a) Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretation and the *Corporations Act 2001*.

The financial report has been prepared on an accruals basis and on the historical cost basis except for investment property, non-current assets classified as held for sale, and derivative financial instruments which are measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The functional and presentation currency of the Trust is Australian dollars.

#### *Compliance with IFRS*

The financial statements of the Sydney Healthcare Trust also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### (b) Investment properties

Investment property is property which is held to earn long-term rental income, or for capital appreciation, or for both.

Investment properties are carried at fair value determined either by the Directors or independent valuers. Changes to fair value are recorded in the income statement. Investment properties are not depreciated.

The fair value of investment properties excludes any accrued operating lease income or lease incentives recognised as a receivable in accordance with AASB 117 *Leases* and Interpretation 115 as detailed in Note 1(d).

#### (c) Non-current assets classified as held for sale

Non-current assets are classified as held-for-sale through continued use and a sale is considered highly probable if their carrying amount will be recovered principally through a sale transaction rather than through continued use. Non-current assets classified as held-for-sale are presented separately from the other assets in the statement of financial position.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for investment properties which are carried at fair value. Changes to fair value are recorded in the income statement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal Group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal Group classified as held for sale continue to be recognised.

#### (d) Revenue

Rental income from operating leases is recognised as income on a straight-line basis over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease term. This results in more income being recognised early in the lease term and less late in the lease term compared to the lease conditions. The difference between the lease income recognised and actual lease payments received is included in receivables.

Lease incentives provided by the Trust to lessees are excluded from the measurement of fair value of investment property and are offset against receivables. The amounts are recognised over the lease periods as rental income.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, including CPI linked rental increases and turnover rents, are only recognised when contractually due.

## 1 Summary of significant accounting policies (continued)

### (d) Revenue (continued)

Interest income is recognised in the income statement using the effective interest rate method.

Other income is recognised when the right to receive the revenue has been established.

All income is stated net of the amount of goods and services tax (GST).

### (e) Financial instruments

Financial assets and financial liabilities are recognised on the Trust's statement of financial position when the Trust becomes a party to the contractual provisions of the instrument. Financial assets are recognised on trade-date - the date on which the Trust commits to sell or purchase the asset. Financial assets are derecognised when the right to receive cash flows from the financial asset have expired or have been transferred and the Trust has transferred substantially the risks and rewards of ownership. Financial instruments are designated on initial recognition, and investments at fair value through profit or loss are re-evaluated at the end of each reporting period for designation into this category.

#### (i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### (ii) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost. They are classified as current assets except where the maturity is greater than 12 months after the end of the reporting period, in which case they are classified as non-current.

Amounts not recoverable are assessed at the end of each reporting period. Indicators that an amount is not recoverable include where there is objective evidence of significant financial difficulties, debtor bankruptcy, financial reorganisation or default in payment (generally over 30 days). Any allowances for non-recoverable receivables are recognised in a separate allowance account. Any bad debts which have previously been provided for are eliminated against the allowance account. In all other cases bad debts are written off directly to the income statement.

#### (iii) Trade and other payables

These represent liabilities for goods and services provided to the Trust prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value and subsequently at amortised cost.

#### (iv) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Trust are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### Issued units

The Trust classifies issued units as equity under AASB 132 *Financial Instruments: Presentation*.

#### Borrowings

Interest-bearing loans and overdrafts are initially measured at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Trust has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

#### Derivative financial instruments

The Trust uses derivative financial instruments to hedge its risks associated with interest rate fluctuations. The significant interest rate risk arises from commercial bills. The Trust's policy is to convert a proportion of its floating rate debt to fixed rates by entering into interest rate swaps. The Trust does not use derivative financial instruments for speculative purposes.

Derivatives are initially measured at fair value on the date a derivative contract is entered into and are subsequently measured at fair value at the end of each reporting period. The net fair value of all derivative financial instruments outstanding at the end of the reporting period is recognised in the statement of financial position as either a financial asset or liability.

## **1 Summary of significant accounting policies (continued)**

### **(e) Financial instruments (continued)**

The Directors of the Responsible Entity have decided not to use the option in AASB 139 *Financial Instruments: Recognition and Measurement* to classify the interest rate swaps as cash flow hedges (refer Note 3(i)) and accordingly these are classified as at fair value through profit or loss (classified as held for trading), and the changes in the fair value of the derivative financial instruments are recognised in the income statement.

The fair value of interest rate swaps is the estimated amount that the Trust would receive or pay to terminate the swap at the end of the reporting period, taking into account current and future interest rates and the current credit worthiness of the swap counterparties.

Derivatives embedded in other financial instruments, or other non-financial host contracts, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, and the host contract is not carried at fair value with unrealised gains or losses reported in the income statement.

### **(f) Finance costs**

Finance costs are recognised using the effective interest rate applicable to the financial liability.

### **(g) Goods and Services Tax (GST)**

Revenues, expenses and assets of Australian entities are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### **(h) Provisions**

A provision is recognised when the Trust has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the Responsible Entity's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability (refer Note 13).

Provisions include exit fees and deferred management fees payable to the Responsible Entity upon the sale of the investment property.

### **(i) Income tax**

Under current legislation the Trust is not liable for income tax provided its taxable income is fully distributed to unitholders.

### **(j) Impairment of assets**

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 1 Summary of significant accounting policies (continued)

### (k) Accounting standards applicable but not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Trust's assessment of the impact of these new standards and interpretations is set out below.

**(i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*.**

In December 2009, the AASB issued AASB 9 *Financial Instruments* which addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Trust does not expect that any adjustments will be necessary as a result of applying the revised rules.

**(ii) AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual periods beginning on or after 1 January 2011).**

In June 2010, the AASB made a number of amendments to existing Australian Accounting Standards as a result of the IASB's annual improvements project. The Trust will apply the amendments from 1 July 2011. The Trust does not expect that any adjustments will be necessary as a result of applying the revised rules.

**(iii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)**

In December 2009, the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Trust will apply the amended standard from 1 July 2011. The Trust does not expect that any adjustments will be necessary as a result of applying the revised rules.

### (l) Segment reporting

The Trust operates exclusively in the unlisted property funds market. Therefore AASB 8 *Operating Segments* is not applicable to the Trust.

## 2 Financial risk management

The Trust's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risks to which the Trust is exposed to are market risk, credit risk and liquidity risk. The exposure to each of these risks, as well as the Trust's policies and processes for managing these risks are described below.

### (a) Market risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and other price risk. The Trust's strategy on the management of investment risk is driven by the Trust's investment objective. The Trust's market risk is managed closely by the Responsible Entity in accordance with the investment guidelines as outlined in the Trust's product disclosure statement.

#### (i) Currency risk

The Trust is not exposed to currency risk arising from investments in financial assets and financial liabilities as all transactions are denominated in Australian dollars.

#### (ii) Interest rate risk

The Trust's cash and cash equivalents, floating rate borrowings and interest rate swaps expose it, to a risk of change in their fair value or future cash flows due to changes in interest rates. The specific interest rate exposures are disclosed in the relevant notes to the financial statements.

The Trust hedges a portion of its exposure to changes in interest rates on variable rate borrowings by using floating-to-fixed interest rate swaps. By hedging against changes in interest rates, the Trust has limited its exposure to changes in interest rates on its cash flows. The portion that is hedged is set by the Responsible Entity on a monthly basis based on their assessment of changes in future interest rates. The Responsible Entity ensures the maturity of individual swaps matches the expected life of individual borrowings. There have been no changes in procedures from previous periods. An analysis of the maturities of the borrowings and related interest rate swaps is provided in (c) below.

The Trust's exposure to interest rate risk at the end of the reporting period, including its sensitivity to changes in market interest rates that were reasonably possible, is as follows:

|                                          | 2011<br>\$        | 2010<br>\$        |
|------------------------------------------|-------------------|-------------------|
| <i>Instruments with fair value risk:</i> |                   |                   |
| Derivative financial instruments         | <u>23,800,000</u> | <u>23,800,000</u> |

Sensitivity of profit or loss to movements in market interest rates for instruments with fair value risk:

|                                                                    |                  |                  |
|--------------------------------------------------------------------|------------------|------------------|
| - Market interest rate increased by 100 basis points (2010: 100bp) | 224,628          | 442,531          |
| - Market interest rate decreased by 100 basis points (2010: 100bp) | <u>(216,846)</u> | <u>(429,236)</u> |

#### *Instruments with cash flow risk:*

|                                                      |                 |                 |
|------------------------------------------------------|-----------------|-----------------|
| Cash and cash equivalents                            | 952,320         | 611,031         |
| Variable borrowings net of fixed interest rate swaps | <u>(79,014)</u> | <u>(79,014)</u> |
|                                                      | <u>873,306</u>  | <u>532,017</u>  |

Sensitivity of profit or loss to movements in market interest rates for instruments with cash flow risk:

|                                                                              |                              |                               |
|------------------------------------------------------------------------------|------------------------------|-------------------------------|
| - Market interest rate changed by $\pm$ 100 basis points (2010: $\pm$ 100bp) | <u><math>\pm</math>8,733</u> | <u><math>\pm</math> 5,320</u> |
|------------------------------------------------------------------------------|------------------------------|-------------------------------|

The interest rate range for sensitivity purposes has been determined using the assumption that interest rates changed by  $\pm$  100 basis points from year end rates with all other variables held constant. In determining the impact of an increase/decrease in equity to unit holders arising from market risk the Responsible Entity has considered prior period and expected future movements of the portfolio information in order to determine a reasonable possible shift in assumptions.

#### (iii) Price risk

The Trust is exposed to price risk on its equity investments and deferred management and exit fees.

## 2 Financial risk management (continued)

Price risk arises primarily from investments in properties held by the Trust and classified on the statement of financial position as at fair value through profit or loss. As these investments are carried at fair value with changes in fair value recognised in the income statement, all changes in market conditions will directly affect net income. These market conditions include the price of the underlying properties.

The Trust is exposed to price risk on its deferred management and exit fees. The deferred management and exit fees are calculated and recognised based on the underlying changes in the price of the investment properties. Changes in the value of the investment property will directly affect the amounts recognised. Investment property and the associated price risk is actively managed and monitored by the Responsible Entity, using methodical asset planning and fund budgeting processes.

The Trust's exposure to other price risk at the end of the reporting period, including its sensitivity to changes in the fair value of different classes of equity securities that were reasonably possible, is shown below:

|                                                                | 2011<br>\$       | 2010<br>\$       |
|----------------------------------------------------------------|------------------|------------------|
| <i>Financial Liabilities</i>                                   |                  |                  |
| Deferred management and exit fees                              | <u>2,367,358</u> | <u>1,856,475</u> |
| Total exposure to price risk                                   | <u>2,367,358</u> | <u>1,856,475</u> |
| Reasonably possible changes in prices or fair values:          |                  |                  |
| Changes in property values (deferred management and exit fees) | <u>± 5%</u>      | <u>± 5%</u>      |
| Sensitivity to profit or loss to changes in fair values:       |                  |                  |
| Deferred management and exit fees (+5%)                        | (304,861)        | (320,962)        |
| Deferred management and exit fees (-5%)                        | <u>571,359</u>   | <u>328,562</u>   |

The sensitivities above have been estimated based on an analysis of changes in property prices over the last twelve months, and using the average to predict future movements. In the previous period, sensitivities were derived based on analysis over a three year period, but due to recent volatility in global financial markets, the Directors have determined that a twelve month analysis period will provide a sensitivity range indicative of current trends.

### (b) Credit risk

Credit risk is the risk that a party to the financial instrument will cause a financial loss to the Trust by failing to discharge an obligation. The Trust is exposed to credit risk through the financial assets listed below. The table also details the maximum exposure to credit risk for each class of financial instrument.

|                                 | 2011<br>\$       | 2010<br>\$     |
|---------------------------------|------------------|----------------|
| Cash at bank                    | 952,320          | 611,031        |
| Other receivables               | 32,140           | 1,211          |
| Lease income receivable         | <u>974,855</u>   | <u>340,003</u> |
| Maximum exposure to credit risk | <u>1,959,315</u> | <u>952,245</u> |

The Trust manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. Financial assets such as cash at bank are held with high credit quality financial institutions (rated equivalent A or higher by the major rating agencies). Tenants for each of the properties held by the Trust are assessed for creditworthiness before commencing a lease, and if necessary rental guarantees are sought before tenancy is approved. The Responsible Entity also performs detailed review of both related and other parties before approving investments / advancement of funds. This is performed to ensure that they will be able to meet quoted distributions, as well as interest and principal repayments. There have been no changes from previous periods.

All receivables are monitored by the Responsible Entity. If any amounts owing are overdue, these are followed up and if necessary, allowances are made for debts that are doubtful.

## 2 Financial risk management (continued)

At the end of the reporting period, there are no issues with the credit quality of financial assets that are neither past due or impaired, and all amounts are expected to be received in full.

### (c) Liquidity risk

The Trust monitors its exposure to liquidity risk by ensuring that on a daily basis there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due. The Responsible Entity sets budgets to monitor cash flows. There have been no changes from previous periods.

The maturity of financial liabilities at the end of the reporting period are shown below, based on the contractual terms of each liability in place at the end of the reporting period. The amounts disclosed are based on undiscounted cash flows.

| 2011                              | Less than<br>6 months         | 6 - 12<br>months         | 1 - 5 years        | More than<br>5 years         | Total<br>contractual<br>cash flows          | Carrying<br>Amount         |
|-----------------------------------|-------------------------------|--------------------------|--------------------|------------------------------|---------------------------------------------|----------------------------|
|                                   | \$                            | \$                       | \$                 | \$                           | \$                                          | \$                         |
| <b>Liabilities</b>                |                               |                          |                    |                              |                                             |                            |
| Non-interest bearing              | 1,043,090                     | -                        | -                  | -                            | 1,043,090                                   | 1,043,090                  |
| Variable interest rate            | 600,141                       | 600,141                  | 24,026,811         | -                            | 25,227,093                                  | 23,720,986                 |
| Deferred management and exit fees | -                             | -                        | 3,046,593          | -                            | 3,046,593                                   | 2,367,358                  |
| Derivative financial instruments  | 146,171                       | 145,368                  | 53,810             | -                            | 345,349                                     | 384,258                    |
| <b>Total</b>                      | <u>1,789,402</u>              | <u>745,509</u>           | <u>27,127,214</u>  | <u>-</u>                     | <u>29,662,125</u>                           | <u>27,515,692</u>          |
| <b>2010</b>                       | <b>Less than<br/>6 months</b> | <b>6 - 12<br/>months</b> | <b>1 - 5 years</b> | <b>More than<br/>5 years</b> | <b>Total<br/>contractual<br/>cash flows</b> | <b>Carrying<br/>Amount</b> |
|                                   | \$                            | \$                       | \$                 | \$                           | \$                                          | \$                         |
| <b>Liabilities</b>                |                               |                          |                    |                              |                                             |                            |
| Non-interest bearing              | 688,655                       | -                        | -                  | -                            | 688,655                                     | 688,655                    |
| Variable interest rate            | 577,600                       | 577,600                  | 25,164,986         | -                            | 26,320,186                                  | 23,720,986                 |
| Deferred management and exit fees | -                             | -                        | 2,893,328          | -                            | 2,893,328                                   | 1,856,475                  |
| Derivative financial instruments  | 236,845                       | 237,224                  | 564,882            | -                            | 1,038,951                                   | 676,950                    |
| <b>Total</b>                      | <u>1,503,100</u>              | <u>814,824</u>           | <u>28,623,196</u>  | <u>-</u>                     | <u>30,941,120</u>                           | <u>26,943,066</u>          |

The following table presents the Trust's assets and liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010.

| As at 30 June 2011        | Level 1<br>\$         | Level 2<br>\$         | Level 3<br>\$         | Total<br>\$         |
|---------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| <b>Liabilities</b>        |                       |                       |                       |                     |
| Derivatives               | -                     | 384,258               | -                     | 384,258             |
| <b>Total liabilities</b>  | <u>-</u>              | <u>384,258</u>        | <u>-</u>              | <u>384,258</u>      |
| <b>As at 30 June 2010</b> | <b>Level 1<br/>\$</b> | <b>Level 2<br/>\$</b> | <b>Level 3<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Liabilities</b>        |                       |                       |                       |                     |
| Derivatives               | -                     | 676,950               | -                     | 676,950             |
| <b>Total liabilities</b>  | <u>-</u>              | <u>676,950</u>        | <u>-</u>              | <u>676,950</u>      |

### 3 Critical judgements and significant accounting estimates

The preparation of financial statements requires the Directors of the Responsible Entity to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

*(i) Critical judgements in applying the accounting policies - Interest rate swaps*

The Trust follows the guidance in AASB 139 *Financial Instruments: Recognition and Measurement* in accounting for interest rate swaps as financial assets or financial liabilities at fair value through profit or loss (classified as held for trading). All the interest rate swaps are entered into to hedge interest rate risks by converting floating rate debt to fixed interest rates.

The Directors of the Responsible Entity have decided not to follow the documentation and other requirements of AASB 139 that are necessary in order to classify the interest rate swaps as cash flow hedges. This has had the effect of recognising movements of the interest rate swaps in the income statement rather than equity.

*(ii) Fair value of investment properties*

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. Investment property valuations are revalued at the end of each reporting period to reflect their fair value according to the Trust's accounting policy on valuing assets and applying generally accepted valuation criteria, methodology and assumptions. Assumptions used in determining fair value have been disclosed in Note 10.

#### 4 Revenue

|                                                      | 2011<br>\$       | 2010<br>\$       |
|------------------------------------------------------|------------------|------------------|
| Revenue includes:                                    |                  |                  |
| (a) Property rental from:                            |                  |                  |
| Base rent                                            | 4,711,589        | 5,122,813        |
| Other rental income (recognised on a straight line)* | <u>634,852</u>   | <u>(65,483)</u>  |
| Total rental income                                  | <u>5,346,441</u> | <u>5,057,330</u> |

\*During the year ended 30 June 2011, the methodology for calculating straight-lining of rent has been reassessed for lease extensions and renegotiated leases. The closing straight line rent receivable balance represents the change in methodology, the straight-line rent receivable balance is the difference in actual lease payments received and lease income recognised on a straight-line basis. There has been no change in accounting policy.

(b) Interest income arises from:

|                           |               |               |
|---------------------------|---------------|---------------|
| Cash and cash equivalents | <u>28,846</u> | <u>23,221</u> |
|---------------------------|---------------|---------------|

#### 5 Finance costs

|                                           | 2011<br>\$       | 2010<br>\$       |
|-------------------------------------------|------------------|------------------|
| Finance costs:                            |                  |                  |
| Interest paid or payable to other persons | 1,659,826        | 1,946,126        |
| Other finance costs                       | <u>457,241</u>   | <u>531,742</u>   |
| Total finance costs                       | <u>2,117,067</u> | <u>2,477,868</u> |

#### 6 Current assets - Cash and cash equivalents

|              | 2011<br>\$     | 2010<br>\$     |
|--------------|----------------|----------------|
| Cash at bank | <u>952,320</u> | <u>611,031</u> |

##### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flow as follows:

|                                      | 2011<br>\$     | 2010<br>\$     |
|--------------------------------------|----------------|----------------|
| Balances as above                    | <u>952,320</u> | <u>611,031</u> |
| Balances per statement of cash flows | <u>952,320</u> | <u>611,031</u> |

Cash carries a weighted average effective interest rate of 5.12% (2010: 2.25%).

#### 7 Current assets - Trade and other receivables

|                   | 2011<br>\$     | 2010<br>\$     |
|-------------------|----------------|----------------|
| Trade receivables | 32,140         | 1,211          |
| Prepayments       | <u>361,150</u> | <u>389,954</u> |
|                   | <u>393,290</u> | <u>391,165</u> |

## 7 Current assets - Trade and other receivables (continued)

### (a) Impairment and ageing

No class of financial asset is past due.

The Trust reviews all receivables for impairment. Any receivables which are doubtful have been provided for. Based on past experience all receivables where no impairment has been recognised are not considered to be impaired.

The nature of the receivables is in respect of rent which past history has shown the majority are settled within 30 days of the debt arising.

The movement in the allowance for impairment of trade receivables during the year is as follows:

|                                                 | 2011<br>\$      | 2010<br>\$ |
|-------------------------------------------------|-----------------|------------|
| Opening balance at 1 July                       | -               | -          |
| Impairment provision recognised during the year | <u>(52,826)</u> | <u>-</u>   |
| Closing balance at 30 June                      | <u>(52,826)</u> | <u>-</u>   |

### (b) Fair value

There is no material difference between the fair value and the carrying value of receivables.

## 8 Derivative financial instruments

|                                | 2011<br>\$         | 2010<br>\$ |
|--------------------------------|--------------------|------------|
| <b>Current liabilities</b>     |                    |            |
| Interest rate swaps            | (a) <u>291,539</u> | 474,069    |
| <b>Non-current liabilities</b> |                    |            |
| Interest rate swaps            | (a) <u>92,719</u>  | 202,881    |

### (a) Interest rate swap contracts

The Trust utilises derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates.

Interest-bearing liabilities of the Trust currently carry a weighted average effective interest rate of 7.55% (2010: 6.48%). It is policy to protect part of the loans and bills from exposure to increasing interest rates. Accordingly, the Trust has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover approximately 100% (2010: 100%) of the loan and bill principal outstanding and are timed to expire as each loan and bill repayment falls due. The fixed interest rate was 6.29%. (2010: between 6.39% and 7.10%).

The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

|                            | 2011<br>\$        | 2010<br>\$       |
|----------------------------|-------------------|------------------|
| <b>Interest rate swaps</b> |                   |                  |
| 1 - 2 years                | <u>23,800,000</u> | 3,800,000        |
|                            | <u>23,800,000</u> | <u>3,800,000</u> |

## 8 Derivative financial instruments (continued)

The contracts require settlement of net interest receivable or payable each quarter. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

As explained in Note 1(e), the interest rate swaps have not been designated as hedges for accounting purposes and hence all changes in fair value are recognised immediately in the income statement.

## 9 Non-current assets - Trade and other receivables

|                                                               | Notes | 2011<br>\$     | 2010<br>\$     |
|---------------------------------------------------------------|-------|----------------|----------------|
| Lease income receivable (recognised on a straight line basis) | 10    | <u>974,855</u> | <u>340,003</u> |

## 10 Non-current assets - Investment properties

|                                                                                            |   | 2011<br>\$        | 2010<br>\$        |
|--------------------------------------------------------------------------------------------|---|-------------------|-------------------|
| (a) Investment properties are represented by:                                              |   |                   |                   |
| Valuation *                                                                                |   | 51,350,000        | 51,200,000        |
| Less amounts classified as receivables (rental income recognised on a straight line basis) | 9 | <u>(974,855)</u>  | <u>(340,003)</u>  |
|                                                                                            |   | <u>50,375,145</u> | <u>50,859,997</u> |

\* Independent valuations have been adopted as at 30 June 2011.

### (b) Movements during the financial year:

|                                               |                   |                   |
|-----------------------------------------------|-------------------|-------------------|
| Opening balance at 1 July                     | 50,859,997        | 54,344,514        |
| Change in fair value of investment properties | (484,852)         | 2,715,483         |
| Sale of investment property                   | -                 | (6,200,000)       |
| Closing balance at 30 June                    | <u>50,375,145</u> | <u>50,859,997</u> |

Wyoming Medical Centre was sold in December 2009 for \$6.2 million.

### (c) Amounts recognised in profit and loss for investment properties

|                                                                        | 2011<br>\$       | 2010<br>\$       |
|------------------------------------------------------------------------|------------------|------------------|
| Rental income                                                          | 5,346,441        | 5,057,330        |
| Direct operating expenses from properties that generated rental income | <u>(141,813)</u> | <u>(189,332)</u> |
|                                                                        | <u>5,204,628</u> | <u>4,867,998</u> |

All direct property operating expenses related to those that generated rental income during the period.

### (d) Valuation basis

The basis of the valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The determination of fair value was mainly based on the present value of net future cash flows and the capitalisation of net rental income, although regard was also had to recent market transactions for similar properties in similar locations as the Trust's investment properties. The 2011 and 2010 valuations were based on assessments made by Directors of the Responsible Entity based on independent valuations, as indicated in (a) above.

## 10 Non-current assets - Investment properties (continued)

Colliers International have independently valued all properties in the Trust as at 30 June 2011.

The Responsible Entity may determine the requirement for a valuation at any time but has adopted a valuation program that provides for each property being independently valued by suitably qualified valuers at least once every two years with larger and multi-tenanted property typically being valued annually. Changes in market conditions may necessitate more frequent independent revaluations of properties.

At the end of each reporting period the Responsible Entity determines the appropriate carrying value of the properties representing its best estimate at the end of the reporting period. Any gains or losses arising from changes in fair value of the properties are recognised in the income statement in the period in which they arise.

The present value of net future cash flow projections are based on reliable estimates of future cash flows, derived from existing lease contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

The capitalisation of net rental income projections are based on properties' estimated net market income, which is assumed to be a level annuity in perpetuity, and a capitalisation rate derived from analysis of market evidence. Reversions associated with short-term leasing risks/costs, incentives and capital expenditure may be deducted from the capitalised net income amount.

The principal assumptions underlying Directors' and independent valuers' estimation of fair value include those related to the amount of contractual rentals, void periods, maintenance and capital expenditure requirements, and appropriate discount rates. The expected future market rentals are based on current market rentals for similar properties in the same location and condition.

|                         | 2011     | 2010     |
|-------------------------|----------|----------|
| Discount rate           | 9.72%    | 9.65%    |
| Terminal yield          | 8.83%    | 8.87%    |
| Capitalisation rate     | 8.32%    | 8.36%    |
| Expected vacancy period | 4 months | 4 months |
| Rental growth rate      | 3.51%    | 3.28%    |

### (e) Assets pledged as security

Refer to Note 12 for information on investment properties and other assets pledged as security by the Trust.

### (f) Concentration of risk

The tenant of all of the assets that the Trust owns is Primary Healthcare Limited ('PHL'). PHL is a listed company and a major operator of medical clinics throughout Australia. PHL continue to perform their obligations under each lease. Their rent payments are up to date and other associated aspects of the administration of leases are being attended to on an ongoing basis. The relationship that management has with key representatives from PHL continues to be co-operative.

## 11 Current liabilities - Trade and other payables

|                               | 2011<br>\$       | 2010<br>\$     |
|-------------------------------|------------------|----------------|
| Unsecured liabilities:        |                  |                |
| Sundry creditors and accruals | 236,506          | 171,413        |
| Distributions payable         | 648,471          | 364,765        |
| Unearned income               | 158,113          | 152,477        |
|                               | <u>1,043,090</u> | <u>688,655</u> |

Trade and other payables are non-interest bearing.

## 12 Interest-bearing liabilities

|                                      | 2011<br>\$        | 2010<br>\$        |
|--------------------------------------|-------------------|-------------------|
| <b>Non-current</b>                   |                   |                   |
| Secured liabilities:                 |                   |                   |
| Commercial bills                     | 23,720,986        | 23,720,986        |
| Unamortised transaction costs        | <u>(52,824)</u>   | <u>(52,251)</u>   |
| Total secured non-current Borrowings | <u>23,668,162</u> | <u>23,668,735</u> |

The commercial bills have a weighted average effective interest rate of 7.55% at the end of the reporting period (2010: 6.48%) with maturity dates ranging from 1 to 3 months that are expected to be renewed or rolled over at current market interest rates. The Trust has the right to renew or roll over these under a facility agreement that expires on 30 September 2012.

### (a) Fair value

There are no interest-bearing liabilities where the fair value would be materially different from the carrying value.

### (b) Assets pledged as security

The commercial bills and loans are secured by a registered first mortgage over the investment properties.

The carrying amounts of assets pledged as security are:

|                                  | 2011<br>\$        | 2010<br>\$        |
|----------------------------------|-------------------|-------------------|
| <i>Registered first mortgage</i> |                   |                   |
| Investment properties            | <u>51,350,000</u> | <u>51,200,000</u> |
|                                  | <u>51,350,000</u> | <u>51,200,000</u> |

### (c) Financing arrangements

|                                                         | 2011<br>\$        | 2010<br>\$        |
|---------------------------------------------------------|-------------------|-------------------|
| <i>Loan facilities</i>                                  |                   |                   |
| Total facilities:                                       |                   |                   |
| Commercial bills                                        | <u>23,720,986</u> | <u>23,720,986</u> |
| Facilities utilised at the end of the reporting period: |                   |                   |
| Commercial bills                                        | <u>23,720,986</u> | <u>23,720,986</u> |

The covenants over the bank borrowings require an interest cover ratio of greater than 1.60 and a loan value ratio less than 60%.

### (d) Breaches of loan covenants

There have been no breaches of covenants during the year.

### 13 Non-current liabilities - Provisions

|                                    | 2011<br>\$       | 2010<br>\$       |
|------------------------------------|------------------|------------------|
| Exit fees/deferred management fees | <u>2,367,358</u> | <u>1,856,475</u> |

The provision for exit fees or deferred management fees relates to amounts payable to the Responsible Entity upon the sale of investment properties. The amount payable is based on a percentage of the property sale price. The provision is being recognised using the present value of future cash flows once the investment has been acquired to reflect the service provided by the Responsible Entity. There is a significant amount of uncertainty as to when the property will be sold and the sale price. The estimated sale date for the properties range from 30 August 2012 to 29 August 2013. The provision has been calculated using a discount rate of 10% (2010: 8.58%).

Movements during the financial year:

|                                    | 2011<br>\$       | 2010<br>\$       |
|------------------------------------|------------------|------------------|
| Opening balance 1 July             | 1,856,475        | 1,526,409        |
| Charged to the income statement    |                  |                  |
| - Provision made during the period | <u>510,883</u>   | <u>330,066</u>   |
| Closing balance 30 June            | <u>2,367,358</u> | <u>1,856,475</u> |

### 14 Contributed equity

|                | 2011<br>Units     | 2010<br>Units     | 2011<br>\$        | 2010<br>\$        |
|----------------|-------------------|-------------------|-------------------|-------------------|
| (a) Units      |                   |                   |                   |                   |
| Ordinary units |                   |                   |                   |                   |
| Fully paid     | <u>27,019,634</u> | <u>27,019,634</u> | <u>24,196,788</u> | <u>24,196,788</u> |

#### (b) Movements in ordinary units:

| Date         | Details         | Number of<br>units | \$                |
|--------------|-----------------|--------------------|-------------------|
| 1 July 2009  | Opening balance | <u>27,019,634</u>  | <u>24,196,788</u> |
| 30 June 2010 | Balance         | 27,019,634         | 24,196,788        |
| 1 July 2010  | Opening balance | <u>27,019,634</u>  | <u>24,196,788</u> |
| 30 June 2011 | Balance         | 27,019,634         | 24,196,788        |

As stipulated in the Trust's Constitution, each unit represents a right to an individual unit in the Trust and does not extend to a right to the underlying assets of the Trust. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Trust.

#### (c) Capital management

The objective of the Trust is to provide unitholders with regular partly tax-advantaged income distributions over the life of the Trust and moderate capital growth over the longer term. The Trust aims to achieve this objective mainly through investing in medium to high quality Australian commercial property.

## 14 Contributed equity (continued)

The Trust invests directly in commercial healthcare properties. The Trust aims to invest to meet the Trust's investment objectives while maintaining sufficient liquidity to meet its commitments. The Directors of the Responsible Entity conduct regular reviews of the performance of the Trust, including asset allocation strategies, investment and operational management strategies, performance review, and risk management.

## 15 Retained profits

Movements in retained profits were as follows:

|                                               | 2011<br>\$         | 2010<br>\$         |
|-----------------------------------------------|--------------------|--------------------|
| Opening retained profits/(accumulated losses) | 1,114,593          | (197,070)          |
| Net profit for the period                     | 1,703,718          | 3,963,092          |
| Distributions                                 | <u>(1,782,357)</u> | <u>(2,651,429)</u> |
| Closing retained profits                      | <u>1,035,954</u>   | <u>1,114,593</u>   |

## 16 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the entity, its related practices and non-related audit firms:

|                                        | 2011<br>\$    | 2010<br>\$    |
|----------------------------------------|---------------|---------------|
| <b>(a) Audit services</b>              |               |               |
| PricewaterhouseCoopers Australian firm |               |               |
| Audit and review of financial reports  | <u>32,125</u> | 12,345        |
| Total remuneration for audit services  | <u>32,125</u> | <u>12,345</u> |
| <b>(b) Other services</b>              |               |               |
| PricewaterhouseCoopers Australian firm |               |               |
| Audit of compliance plan               | 3,000         | 1,764         |
| Non-audit services                     | <u>9,179</u>  | <u>3,527</u>  |
| Total remuneration for other services  | <u>12,179</u> | <u>5,291</u>  |

## 17 Contingent liabilities

There are no contingent liabilities at the end of the year (2010: Nil).

## 18 Operating lease arrangements

Investment properties are leased to tenants under long-term operating leases with rentals generally payable monthly. Future minimum lease payments receivable on leases of investment properties are as follows:

|                               | 2011<br>\$        | 2010<br>\$        |
|-------------------------------|-------------------|-------------------|
| Not later than 12 months      | 5,293,506         | 4,603,256         |
| Between 12 months and 5 years | 22,397,261        | 19,297,783        |
| Greater than 5 years          | <u>38,632,532</u> | <u>38,323,557</u> |
|                               | <u>66,323,299</u> | <u>62,224,596</u> |

## 19 Related party transactions

### (a) Responsible Entity

The Responsible Entity of Sydney Healthcare Trust is Orchard Capital Investments Limited, a wholly owned subsidiary of Orchard Funds Limited.

### (b) Directors

The Trust does not employ personnel in its own right. However, it has an incorporated Responsible Entity, Orchard Capital Investments Limited, to manage the activities of the Trust. The Directors of the Responsible Entity are key management personnel of that entity and their names are:

Curtis Roberts (Chairman) (appointed 7 April 2011)  
Henricus Spranger (appointed 7 April 2011)  
David Minear (appointed 7 April 2011)  
Andrew Meakin  
Bryce Mitchelson  
Chris Thiris (resigned 7 April 2011)  
David Spruell (resigned 7 April 2011)  
Charles Macek (resigned 7 April 2011)  
Helen Argiris (resigned 7 April 2011)  
David Hinde (resigned 16 July 2010)

No compensation is paid directly by the Trust to Directors or to any of the key management personnel of the Responsible Entity. Payments made by the Trust to the Responsible Entity do not specifically include any amounts attributable to the compensation of key management personnel.

### (c) Unit holdings

There were no units held by Directors or other key management personnel in the 2011 financial year (2010: nil units).

### (d) Responsible Entity's fees and other transactions

Under the terms of the Constitution, the Responsible Entity is entitled to receive fees in accordance with the Product Disclosure Statement.

|                                                                                        | 2011<br>\$       | 2010<br>\$       |
|----------------------------------------------------------------------------------------|------------------|------------------|
| Fees for the year paid/payable by the Trust:                                           |                  |                  |
| Management of the Trust                                                                | 524,664          | 1,002,536        |
| Exit fee/deferred management fee                                                       | <u>510,883</u>   | <u>330,066</u>   |
| Amounts payable:                                                                       |                  |                  |
| Aggregate amounts payable to the Responsible Entity at the end of the reporting period | <u>2,367,358</u> | <u>1,856,475</u> |

### (e) Unitholdings

Other schemes managed by the Responsible Entity held units in the Trust as follows:

## 19 Related party transactions (continued)

|                                          | 2011<br>\$     | 2010<br>\$       |
|------------------------------------------|----------------|------------------|
| <i>Orchard Diversified Property Fund</i> |                |                  |
| Number of units held                     | 12,672,684     | 12,672,684       |
| Interest % held                          | 47%            | 47%              |
| Distributions paid/payable by the Trust  | <u>861,743</u> | <u>1,243,567</u> |
| <i>Orchard Hybrid Property Fund</i>      |                |                  |
| Number of units held                     | 500,000        | 500,000          |
| Interest % held                          | 2%             | 2%               |
| Distributions paid/payable by the Trust  | <u>34,000</u>  | <u>49,065</u>    |

## 20 Events subsequent to the end of the reporting period

The Directors are not aware of any matters or circumstances that have arisen since the end of the year that significantly affected or may significantly affect the operations of Sydney Healthcare Trust, the results of those operations, or the state of affairs of Sydney Healthcare Trust in subsequent financial years.

## 21 Reconciliation of profit after income tax to net cash inflow from operating activities

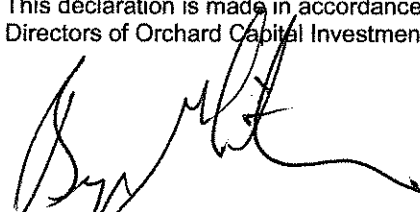
|                                                                         | 2011<br>\$       | 2010<br>\$       |
|-------------------------------------------------------------------------|------------------|------------------|
| Profit before distribution to unitholders                               | 1,703,718        | 3,963,092        |
| Amortisation of borrowing costs                                         | 457,241          | 531,742          |
| Net changes in fair value of investment properties                      | 484,852          | (2,715,483)      |
| Net gain on derivative financial instruments                            | (292,691)        | (962,096)        |
| Loss on sale of investment property                                     | -                | 175,479          |
| Settlement of derivative financial instruments                          | -                | 534,000          |
| Change in assets and liabilities:                                       |                  |                  |
| (Increase)/decrease in receivables                                      | (631,218)        | 289,983          |
| Increase/(decrease) in payables                                         | 70,730           | (465,534)        |
| Increase/(decrease) in provision for exit fees/deferred management fees | 510,883          | 330,066          |
| Net cash inflow from operating activities                               | <u>2,303,515</u> | <u>1,681,249</u> |

The Directors of Orchard Capital Investments Limited, the Responsible Entity, declare that:

- (a) the financial statements and notes of Sydney Healthcare Trust ('the Trust') set out on pages 6 to 28 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards and the *Corporations Regulations 2001*; and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Trust's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
- (b) In the Directors' opinion, there are reasonable grounds to believe that the Trust will be able to pay their debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also 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 Board of Directors and is signed for and on behalf of the Directors of Orchard Capital Investments Limited by:



Bryce Mitchelson  
Director

Melbourne

29 September 2011



## **Independent auditor's report to the unitholders of Sydney Healthcare Trust**

### **Report on the financial report**

We have audited the accompanying financial report of Sydney Healthcare Trust (the Trust), which comprises the statement of financial position as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of Orchard Capital Investments Limited (the responsible entity of the Trust) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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**Independent auditor's report to the unitholders of  
Sydney Healthcare Trust (continued)**

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

- (a) the financial report of Sydney Healthcare Trust is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Trust's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the Trust's financial report and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

A stylized, handwritten signature of PricewaterhouseCoopers.

PricewaterhouseCoopers

A handwritten signature of Charles Christie.

Charles Christie  
Partner

Melbourne  
29 September 2011