

Sydney Healthcare Trust

ARSN 101067878

**Annual report - for the year ended
30 June 2012**

Sydney Healthcare Trust

ARSN 101067878

Annual report - 30 June 2012

Contents	Page
Directors' report	1
Auditor's independence declaration	4
Statement of comprehensive income	5
Balance sheet	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	33
Independent audit report to the unitholders of Sydney Healthcare Trust	34

These financial statements cover Sydney Healthcare Trust (the "Trust"). The financial statements are presented in Australian currency.

The Responsible Entity of Sydney Healthcare Trust is Arena Investment Management Limited (ACN 077235879). The Responsible Entity's registered office is:

Level 20
600 Bourke Street
Melbourne VIC 3000

Directors' report

The directors of Arena Investment Management Limited, the Responsible Entity of Sydney Healthcare Trust, present their report together with the financial statements of Sydney Healthcare Trust (the 'Trust') for the year ended 30 June 2012.

Directors

The following persons held office as directors of Arena Investment Management Limited during the year or since the end of the year and up to the date of this report:

Bryce Mitchelson
 James Goodwin (appointed 30 December 2011)
 Dennis Wildenburg (appointed 30 December 2011)
 Simon Parsons (appointed 5 April 2012)
 Curtis Roberts (appointed 7 April 2011, resigned 30 December 2011)
 Henricus Sprangers (appointed 7 April 2011, resigned 30 December 2011)
 David Minear (appointed 7 April 2011, resigned 30 December 2011)
 Andrew Meakin (resigned 30 December 2011)

Principal activities

The Trust is an unlisted property trust with direct holdings in 6 medical centres in and around Sydney which are leased to Primary Health Care Limited.

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

Review and results of operations

1. Results

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

	30 June 2012	30 June 2011
	\$	\$
Net profit for the year	<u>4,195,340</u>	<u>1,703,718</u>
Distribution paid and payable	<u>1,850,845</u>	<u>1,782,357</u>
Distribution (cents per unit)	<u>6.85</u>	<u>6.60</u>

The main factor contributing to the profit for the year is:

- the fair value of investment properties increased \$2.7 million over the year whilst in 2011 the fair value adjustment was a revaluation of \$0.2 million;

Review and results of operations (continued)

2. Value of Trust's Assets

	30 June 2012	30 June 2011
	\$	\$
Net assets attributable to unitholders	<u>27,577,237</u>	<u>25,232,742</u>
Net tangible asset ('NTA') per unit	<u>\$1.0206</u>	<u>\$0.9339</u>

The value of the Trust's assets and liabilities is derived using the basis disclosed in note 2 of the financial statements.

3. Asset Disposals and Acquisitions

During the year there were no asset disposals or acquisitions for the Trust.

Significant changes in state of affairs

In the opinion of the directors, other than the matters identified in this report, there were no significant changes in the state of affairs of the Trust that occurred during the financial year.

Matters subsequent to the end of the financial year

As at 30 June 2012, the Trust had a net working capital deficiency of \$23.7 million. The deficiency is due to the classification of the \$23.7 million facility with National Australia Bank (NAB) maturing on 30 September 2012 as a current liability. The Trust complied with its financial covenants under the terms of the facility with NAB during the period. At the date of issue of this report the Trust has received approval from NAB to extend the facility to 31 December 2012 to provide further time to assess the future funding requirements of the Trust.

There are no other matters or circumstances that have arisen since 30 June 2012 that have significantly affected, or may significantly affect:

- (i) the operations of the Trust in future years, or
- (ii) the results of those operations in future financial years, or
- (iii) 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 and guidelines 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 paid insurance premiums to insure each of the directors, and officers of the Responsible Entity 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 willful 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 covered 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 or its associates out of Trust property during the year are disclosed in note 16 to the financial statements.

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

The interest in the Trust held by the Responsible Entity or its associates as at the end of the financial year is disclosed in note 16 to the financial statements.

Interests in the Trust

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

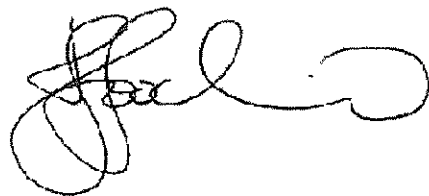
Environmental regulation

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.

This report is made in accordance with a resolution of directors.



James Goodwin
Director

Melbourne
20 September 2012



Auditor's Independence Declaration

As lead auditor for the audit of Sydney Healthcare Trust for the year ended 30 June 2012, 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 Sydney Healthcare Trust during the period.

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

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
20 September 2012

Sydney Healthcare Trust
Statement of comprehensive income
For the year ended 30 June 2012

Statement of comprehensive income

		30 June 2012	30 June 2011
	Notes	\$	\$
Revenue			
Property rental	4	4,581,969	4,630,845
Interest	4	36,826	28,846
Net gain on change in fair value of derivative financial instruments		209,183	292,691
Revaluation of investment property	9	2,738,851	230,744
Total net investment income		<u>7,566,829</u>	<u>5,183,126</u>
Expenses			
Direct property expenses		(174,009)	(141,813)
Management fees		(538,437)	(524,664)
Deferred management and disposal fees		(383,374)	(510,883)
Custodian fees		(26,983)	(30,243)
Other administration expenses		(126,565)	(154,738)
Finance costs	5	(2,122,121)	(2,117,067)
Total expenses		<u>(3,371,489)</u>	<u>(3,479,408)</u>
Net profit for the year		<u>4,195,340</u>	<u>1,703,718</u>
Other comprehensive income		-	-
Total comprehensive income		<u>4,195,340</u>	<u>1,703,718</u>
Total comprehensive income for the year is attributable to:			
Unitholders of Sydney Healthcare Trust		<u>4,195,340</u>	<u>1,703,718</u>

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

Sydney Healthcare Trust
Balance sheet
As at 30 June 2012

Balance sheet

		30 June 2012	30 June 2011
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	7	758,991	952,320
Trade and other receivables	8	344,226	393,290
Total current assets		<u>1,103,217</u>	<u>1,345,610</u>
Non-current assets			
Investment properties	9	54,050,000	51,350,000
Total non-current assets		<u>54,050,000</u>	<u>51,350,000</u>
Total assets		<u>55,153,217</u>	<u>52,695,610</u>
LIABILITIES			
Current liabilities			
Trade and other payables	10	981,438	1,043,090
Derivative financial instruments	11	175,075	291,539
Interest bearing liabilities	13	23,668,735	-
Total current liabilities		<u>24,825,248</u>	<u>1,334,629</u>
Non-current liabilities			
Provisions	12	2,750,732	2,367,358
Derivative financial instruments	11	-	92,719
Interest bearing liabilities	13	-	23,668,162
Total non-current liabilities		<u>2,750,732</u>	<u>26,128,239</u>
Total liabilities		<u>27,575,980</u>	<u>27,462,868</u>
Net assets		<u>27,577,237</u>	<u>25,232,742</u>
EQUITY			
Contributed equity	14	24,196,788	24,196,788
Retained profits	15	3,380,449	1,035,954
Total equity		<u>27,577,237</u>	<u>25,232,742</u>

The above balance sheet should be read in conjunction with the accompanying notes.

Sydney Healthcare Trust
Statement of changes in equity
For the year ended 30 June 2012

Statement of changes in equity

	Contributed equity \$	Retained profits \$	Total equity \$
Balance at 1 July 2010	24,196,788	1,114,593	25,311,381
Profit for the year	-	1,703,718	1,703,718
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1,703,718	1,703,718
Transactions with owners in their capacity as owners:			
Distributions to unitholders	-	(1,782,357)	(1,782,357)
Balance at 30 June 2011	24,196,788	1,035,954	25,232,742

	Contributed equity \$	Retained profits \$	Total equity \$
Balance at 1 July 2011	24,196,788	1,035,954	25,232,742
Profit for the year	-	4,195,340	4,195,340
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	4,195,340	4,195,340
Transactions with owners in their capacity as owners:			
Distributions to unitholders	-	(1,850,845)	(1,850,845)
Balance at 30 June 2012	24,196,788	3,380,449	27,577,237

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 2012

Statement of cash flows

	30 June 2012	30 June 2011
Notes	\$	\$
Cash flows from operating activities		
Property rental receipts	5,166,247	5,114,991
Payments to suppliers	(1,248,835)	(926,944)
Interest received	36,826	28,846
Finance costs paid	(2,013,422)	(2,371,193)
Net cash inflow from operating activities	<u>1,940,816</u>	<u>1,845,700</u>
Cash flows from investing activities		
Capital expenditure on investment property	(121,182)	(5,760)
Net cash (outflow) from investing activities	<u>(121,182)</u>	<u>(5,760)</u>
Cash flows from financing activities		
Distributions paid to unitholders	(2,012,963)	(1,498,651)
Net cash (outflow) from financing activities	<u>(2,012,963)</u>	<u>(1,498,651)</u>
Net (decrease)/increase in cash and cash equivalents	(193,329)	341,289
Cash and cash equivalents at the beginning of the financial year	952,320	611,031
Cash and cash equivalents at the end of the year	<u>758,991</u>	<u>952,320</u>

7

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

Notes to the financial statements

Contents	Page
1 General information	10
2 Summary of significant accounting policies	10
3 Financial risk management	16
4 Revenue	21
5 Finance costs	22
6 Remuneration of auditors	22
7 Cash and cash equivalents	22
8 Trade and other receivables	23
9 Investment properties	24
10 Trade and other payables	25
11 Derivative financial instruments	26
12 Provisions	27
13 Interest bearing liabilities	27
14 Contributed equity	28
15 Retained profits	30
16 Related party disclosures	30
17 Reconciliation of profit to net cash inflow from operating activities	31
18 Contingent assets and liabilities and commitments	32
19 Events occurring after the reporting period	32

1 General information

These financial statements cover Sydney Healthcare Trust (the 'Trust') as an individual entity. The Trust is an unlisted managed investment scheme registered and domiciled in Australia.

The Responsible Entity of the Trust is Arena Investment Management Limited (the 'Responsible Entity').

The financial statements were authorised for issue by the directors of the Responsible Entity on 20 September 2012. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Sydney Healthcare Trust is a for-profit unit trust for the purpose of preparing the financial statements.

The financial report has been prepared on an accruals and historical cost basis except for investment property, financial assets at fair value through profit or loss and derivative financial instruments which are measured at fair value. Cost is based on the fair value of consideration given in exchange for assets.

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

Compliance with International Financial Reporting Standards

The financial statements of the Trust comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Investment property

Investment property is real estate investments held to earn long-term rental income and for capital appreciation.

(i) 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 Responsible Entity may determine the requirement for a valuation at any time but has adopted a valuation program that provides for each property to be independently valued by suitably qualified valuers at least once every two years. Changes in market conditions may necessitate more frequent independent revaluations of properties.

Land and buildings (including integral plant and equipment) that comprise investment property are not depreciated. The carrying amount of investment properties may include the cost of acquisition, additions, refurbishments, redevelopments, improvements, lease incentives, assets relating to fixed increases in operating lease rental in future periods and borrowing costs incurred during the construction period of qualifying assets.

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.

A direct comparison approach involves making positive and negative adjustments between the subject property and a range of comparable sales evidence based on knowledge of comparable sales evidence.

The principal assumptions underlying directors' estimation of fair value include those related to the amount of contractual rentals and capitalisation rates as well as direct comparisons with similar properties in the same location and condition and subject to similar leases.

2 Summary of significant accounting policies (continued)

(c) Impairment of assets

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.

(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 the actual lease payments received is shown within the fair value of the investment property on the balance sheet.

When the Trust provides lease incentives to tenants, the cost of the incentives are recognised over the lease term, on a straight-line basis, as a reduction in rental income.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, are only recognised when contractually due.

Interest income is recognised in the statement of comprehensive income 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 goods and services tax (GST).

(e) Financial instruments

(i) Recognition/derecognition

Financial assets and financial liabilities are recognised 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.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Trust has transferred substantially all risks and rewards of ownership.

(ii) Measurement

Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is 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.

(f) Cash and cash equivalents

For the purpose of presentation in the 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 from the date of acquisition 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 are shown within borrowings in the balance sheet.

(g) Expenses

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

(h) Income tax

Under current legislation, the Trust is not subject to Australian income tax provided its taxable income is fully distributed to unitholders.

(i) Distributions

In accordance with the Trust constitution, the Trust distributes income adjusted for amounts determined by the Responsible Entity. The distributions are recognised within the balance sheet and statement of changes in equity as a reduction in accumulated profit/(losses).

(j) Receivables

Receivables may include amounts for rent, interest and recoverable outgoings. Interest is accrued at the end of each reporting period from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

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 Trust 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 statement of comprehensive income within other expenses. 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 other expenses in the statement of comprehensive income.

(k) 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.

2 Summary of significant accounting policies (continued)

(k) Provisions (continued)

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

The disposal fee component of the provision is an amount payable based on a percentage of the property sale price. The provision is recognised using present value of future cash flows accrued over the period of service provided by the Responsible Entity.

(l) Applications and redemptions

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

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the relevant taxation authority. 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 balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables and payables in the balance sheet.

Cashflows are presented on a net 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.

(n) Use of estimates

The Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

(o) Net working capital deficiency and going concern

As at 30 June 2012, the Trust had a net working capital deficiency of \$23.7 million. The deficiency is due to the classification of the \$23.7 million facility with National Australia Bank (NAB) maturing on 30 September 2012 as a current liability. The Trust complied with its financial covenants under the terms of the facility with NAB during the period. At the date of issue of this report the Trust has received approval from NAB to extend the facility to 31 December 2012 to provide further time to assess the future funding requirements of the Trust.

After taking into account all available information, the Directors have concluded that there are reasonable grounds to believe:

- the Trust will be able to pay their debts as and when they fall due; and
- the basis of preparation of the financial report on a going concern basis is appropriate.

2 Summary of significant accounting policies (continued)

(o) Net working capital deficiency and going concern (continued)

The Directors have formed this view based on a number of factors including:

- the Trust's net asset position attributable to unitholders of \$27.6 million;
- the Trust's cash flow forecasts which support the ability of the Trust to pay its debts as and when they fall due;
- the underlying performance of the Trust's investment properties and the potential to sell these assets;
- the advanced stage of negotiations with lenders in relation to the short term extension of the facility; and
- the gearing level of the Trust is below 50%.

(p) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 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)* (effective from 1 January 2015)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Trust has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Trust's financial statements.

- (ii) *AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013)

On 30 June 2010, the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Trust has public accountability as defined in AASB 1053 and is therefore not eligible to adopt the new Australian Accounting Standards - Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

- (iii) *AASB 2010-9 Amendments to Australian Accounting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (effective from 1 July 2011) and *AASB 2010-10 Further Amendments to Australian Accounting Standards - Removal of Fixed Dates for First-time Adopters* (effective from 1 July 2013)

AASB 1 First-time Adoption of Australian Accounting Standards was amended in December 2010 by eliminating references to fixed dates for one exemption and one exception dealing with financial assets and liabilities. The AASB also introduced a new exemption for entities that resume presenting their financial statements in accordance with Australian Accounting Standards after having been subject to severe hyperinflation. Neither of these amendments will affect the financial statements of the Trust. The Trust will apply the amendments from 1 July 2011.

- (iv) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

2 Summary of significant accounting policies (continued)

(p) New accounting standards and interpretations (continued)

(iv) AASB 10, AASB 11, AASB 12, AASB 127 (continued)

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Trust does not expect the new standard to have a significant impact on its financial statements.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the Trust is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Trust will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Trust's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Trust will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Trust is still assessing the impact of these amendments.

The Trust does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(v) AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheets or the profit or loss in the current period. The Trust intends to adopt the new standard from 1 July 2012.

(vi) AASB 2011-5 *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* and AASB 2011-6 *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation - Reduced Disclosure Requirements* (effective from 1 July 2011 and 1 July 2013 respectively)

AASB 2011-5 and AASB 2011-6 provide relief from consolidation, the equity method and proportionate consolidation to not-for-profit entities and entities reporting under the reduced disclosure regime under certain circumstances. They will not affect the financial statements of the Trust. The amendments apply from 1 July 2011 and 1 July 2013 respectively.

2 Summary of significant accounting policies (continued)

(p) New accounting standards and interpretations (continued)

(vii) *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Trust has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Trust does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

There are no other standards that are not yet effective and that are expected to have a material impact on the Trust in the current or future reporting periods and on foreseeable future transactions.

3 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 risk 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 as required by the Responsible Entity in accordance with the investment guidelines as outlined in the Trust's Product Disclosure Statement.

(i) Price risk

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

Price risk arises primarily from investments in property held by the Trust and classified on the balance sheet as at fair value through profit and loss. As these investments are carried at fair value with changes in fair value recognised in the statement of comprehensive income, all changes in market conditions will directly affect net income. These market conditions include those specific to the individual assets, as well as factors affecting all instruments in the market.

The Trust is exposed to price risk on its deferred management and disposal fees. Disposal fees are calculated 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 payable. Investment property and the associated price risk is actively managed and monitored by the Responsible Entity, using strategic asset planning and trust 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:

3 Financial risk management (continued)

(a) Market risk (continued)

	2012 \$	2011 \$
Financial liabilities:		
Deferred management and disposal fees	2,750,732	2,367,358
Total exposure to price risk	2,750,732	2,367,358
Reasonably possible changes in prices or fair values:		
Changes in property values (deferred management and disposal fees)	+/- 5%	+/- 5%
Sensitivity to profit or loss to changes in fair values:		
Deferred management and disposal fees (+5%)	(284,526)	(304,861)
Deferred management and disposal fees (-5%)	298,999	571,359

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. The directors have determined that a twelve month analysis period will provide a sensitivity range indicative of current trends.

The Trust is not exposed to cash flow currency risk as all transactions are denominated in Australian dollars.

(ii) Cash flow and fair value 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 the 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 and is influenced by the hedging requirements set out in the Group's debt facility documents, and the market outlook. The Responsible Entity ensures the maturity of individual swaps does not exceed the expected life of assets.

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

3 Financial risk management (continued)

(a) Market risk (continued)

	2012 \$	2011 \$
<i>Instruments with fair value risk:</i>		
Derivative financial instruments (notional principal)	23,800,000	23,800,000

Sensitivity of profit/loss to movements in market interest rate for derivative instruments with fair value risk:

Market interest rate increased by 100 basis points (2011: 100 bp)	175,375	224,628
Market interest rate decreased by 100 basis points (2011: 100 bp)	(174,775)	(216,846)

Instruments with cash flow risk:

Cash and cash equivalents	758,991	952,320
Variable rate borrowings net of fixed rate interest rate swaps	(79,014)	(79,014)
	<u>679,977</u>	<u>873,306</u>

Sensitivity of profit/loss to movements in market interest rate for financial instruments with cash flow risk:

Market interest rate changed by +/-100 basis points (2011: 100 bp)	+/- 6,800	+/- 8,733
--	-----------	-----------

The interest rate range for sensitivity purposes has been determined using the assumption that interest rates changed by +/- 100 basis points from year end rates with all other variables held constant. In determining the impact of an increase/decrease in equity to unitholders 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.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

The Trust's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at reporting date.

	2012 \$	2011 \$
Cash at bank	758,991	952,320
Lease income receivable (Investment property)	99,226	259,259
Other receivables	-	32,140
Maximum exposure to credit risk	<u>858,217</u>	<u>1,243,719</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 and interest rate swaps 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. Loans and receivables from third parties are secured against land and corporate and personal guarantees. The Responsible Entity also performs a detailed review of both related and other parties before approving advancement of funds. This is performed to ensure that they will be able to meet 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.

3 Financial risk management (continued)

(b) Credit risk (continued)

At the end of the reporting period there are no issues with the credit quality of financial assets that are either past due or impaired, and all amounts are expected to be received in full.

(c) Liquidity risk

Liquidity risk is the risk that the Trust may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Trust monitors its exposure to liquidity risk by ensuring that as required there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due. The Manager sets budgets to monitor cash flows.

The Trust's long term debt facility is due to expire on 30 September 2012. At the date of issue of this report the Trust has received approval from NAB to extend the facility to 31 December 2012 to provide further time to assess the future funding requirements of the Trust.

The table below analyses the Trust's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

30 June 2012

	Less than 6 months \$	6-12 months \$	1-5 years \$
Trade and other payables	981,438	-	-
Deferred management and exit fees	-	-	3,084,587
Interest rate swaps	74,699	-	-
Interest bearing liabilities	23,919,488	-	-
Contractual cash flows	24,975,625	-	3,084,587

30 June 2011

	Less than 6 months \$	6-12 months \$	1-5 years \$
Trade and other payables	1,043,090	-	-
Deferred management and exit fees	-	-	3,046,593
Interest rate swaps	146,171	145,368	53,810
Interest bearing liabilities	600,141	600,141	24,026,811
Contractual cash flows	1,789,402	745,509	27,127,214

(d) Fair value estimation

The carrying amounts of the Trust's assets and liabilities at the end of each reporting period approximate their fair values.

3 Financial risk management (continued)

(d) Fair value estimation (continued)

Financial assets and 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 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 profit or loss.

(e) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

The Trust classifies 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:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- 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 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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 that 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.

The tables below set out the Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2012 and 30 June 2011.

30 June 2012

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial liabilities				
Derivatives	-	175,075	-	175,075
Total	-	175,075	-	175,075

30 June 2011

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial liabilities				
Derivatives	-	384,258	-	384,258
Total	-	384,258	-	384,258

3 Financial risk management (continued)

(e) Fair value hierarchy (continued)

4 Revenue

Revenue includes:

(a) Property rental from:

	30 June 2012	30 June 2011
	\$	\$
Base rent	4,742,002	4,711,589
Other rental income (recognised on a straight line basis)	<u>(160,033)</u>	<u>(80,744)</u>
Total rental income	<u>4,581,969</u>	<u>4,630,845</u>

(b) Interest income arises from:

	30 June 2012	30 June 2011
	\$	\$
Cash and cash equivalents	<u>36,826</u>	<u>28,846</u>

5 Finance costs

	30 June 2012	30 June 2011
	\$	\$
Finance costs:		
Interest paid or payable to other persons	1,663,732	1,659,826
Other finance costs	458,389	457,241
Total finance costs	<u>2,122,121</u>	<u>2,117,067</u>

6 Remuneration of auditors

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

	30 June 2012	30 June 2011
	\$	\$
PricewaterhouseCoopers firm		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	25,000	32,125
Audit of compliance plan	2,000	3,000
Total remuneration of audit and other assurance services	<u>27,000</u>	<u>35,125</u>
<i>Other services</i>		
Other services	2,000	9,179
Total remuneration of PricewaterhouseCoopers	<u>29,000</u>	<u>44,304</u>

7 Cash and cash equivalents

	30 June 2012	30 June 2011
	\$	\$
Cash at bank	<u>758,991</u>	<u>952,320</u>

7 Cash and cash equivalents (continued)

(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:

	30 June 2012	30 June 2011
	\$	\$
Balances as above	758,991	952,320
Balances per statement of cash flows	758,991	952,320

Cash carries a weighted average effective interest rate of 4.85% (2011: 5.12%).

8 Trade and other receivables

	30 June 2012	30 June 2011
	\$	\$
Trade receivables	-	32,140
Prepayments	344,226	361,150
	344,226	393,290

(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:

	30 June 2012	30 June 2011
	\$	\$
Opening balance 1 July	(52,826)	-
Impairment provision reversed/(recognised) during the year	52,826	(52,826)
Closing balance 30 June	-	(52,826)

The allowance account for receivables is used to record impairment losses unless the Trust is satisfied that there is no recovery of the amount possible, at which point it is written off directly against the amount owing.

(b) Fair value

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

9 Investment properties

(a) Individual valuations and carrying amounts

Property	Date of purchase	Latest external valuation		Carrying amount	
		Date	Valuation \$	2012 \$	2011 \$
Bondi, NSW	Sept 03	June 12	11,200,000	11,200,000	11,000,000
Campbelltown, NSW	Sept 03	June 12	7,600,000	7,600,000	7,300,000
Dapto, NSW	Aug 02	June 12	8,250,000	8,250,000	8,000,000
Leichardt, NSW	Aug 02	June 12	12,300,000	12,300,000	11,250,000
Mount Druitt, NSW	Oct 02	June 12	6,800,000	6,800,000	6,500,000
Wentworthville, NSW	Aug 02	June 12	7,900,000	7,900,000	7,300,000
Total investment properties			54,050,000	54,050,000	51,350,000

The properties were valued by CB Richard Ellis (V) Pty Ltd at 30 June 2012.

The principal assumptions underlying the 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.

	30 June 2012	30 June 2011
Discount rate	9.33%	9.72%
Terminal yield	9.38%	8.83%
Capitalisation rates	8.73%	8.32%
Expected vacancy period	0 months	4 months
Rental growth rate	3.67%	3.51%

(b) Movements during the financial year

	30 June 2012 \$	30 June 2011 \$
At fair value		
Opening balance	51,350,000	51,200,000
Capital expenditure on investment properties	121,182	-
Revaluations/(devaluations)	2,738,851	230,744
Changes in fair value for straight-lining of rent adjustment	(160,033)	(80,744)
Closing balance	54,050,000	51,350,000

9 Investment properties (continued)

(c) Amounts recognised in profit or loss for investment properties

	30 June 2012	30 June 2011
	\$	\$
Rental income	4,742,002	4,711,589
Other rental income (recognised on a straight line basis)	(160,033)	(80,744)
Direct operating expenses from property that generated rental income	(174,009)	(141,813)
	<u>4,407,960</u>	<u>4,489,032</u>

Direct property operating expenses includes expenses related to those properties that generated rental income during the period.

(d) Tenancy Risk

The Trust's investment properties are fully leased to Primary Health Care Limited ('PRY'). PRY is a listed company and a major operator of medical clinics throughout Australia. PRY 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 PRY continues to be co-operative.

(e) Assets pledged as security

Refer to Note 13 for information on investment properties and other assets pledged as security by the Trust.

(f) Contractual obligations

The Trust has no commitments to purchase or redevelop investment property contracted at year end which have not already been recognised as a liability.

10 Trade and other payables

	30 June 2012	30 June 2011
	\$	\$
Unsecured liabilities:		
Sundry creditors and accruals	330,781	236,506
Unearned income	164,304	158,113
Distributions payable	486,353	648,471
	<u>981,438</u>	<u>1,043,090</u>

Trade and other payables are non-interest bearing.

11 Derivative financial instruments

	30 June 2012	30 June 2011
	\$	\$
Current liabilities		
Interest rate swaps	175,075	291,539
Non-current liabilities		
Interest rate swaps	-	92,719

(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 8.97% (2011: 7.55%). It is policy to protect part of the commercial 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 pay interest at fixed rates.

Swaps currently in place cover approximately 100% (2011: 100%) of the commercial bill principal outstanding and are timed to expire as each commercial bill repayment falls due. The fixed interest rate was 6.29% (2011: 6.29%).

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

	30 June 2012	30 June 2011
	\$	\$
Interest rate swaps		
Less than 12 months	23,800,000	-
1 - 2 years	-	23,800,000
	23,800,000	23,800,000

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.

12 Provisions

	30 June 2012 \$	30 June 2011 \$
Provision for deferred management fees and disposal fees	<u>2,750,732</u>	<u>2,367,358</u>

Movements during the financial year:

	30 June 2012 \$	30 June 2011 \$
Movements:		
Opening balance	2,367,358	1,856,475
Charged/(credited) to the statement of comprehensive income	<u>383,374</u>	<u>510,883</u>
Closing balance at 30 June	<u>2,750,732</u>	<u>2,367,358</u>

13 Interest bearing liabilities

	30 June 2012 \$	30 June 2011 \$
Current		
Commercial bills	23,720,986	-
Unamortised transaction costs	<u>(52,251)</u>	<u>-</u>
Total secured current borrowings	<u>23,668,735</u>	<u>-</u>

	30 June 2012 \$	30 June 2011 \$
Non-current		
Commercial bills	-	23,720,986
Unamortised transaction costs	<u>-</u>	<u>(52,824)</u>
Total secured non-current borrowings	<u>-</u>	<u>23,668,162</u>

The commercial bills have a weighted average effective interest rate of 8.97% at the end of the reporting period (2011: 7.55%). The commercial bills have 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 these under a facility agreement that has been extended to 31 December 2012.

13 Interest bearing liabilities (continued)

(a) Assets pledged as security

The commercial bills are secured by a registered first mortgage over investment property and a fixed and floating charge over the assets of the Trust.

The carrying amounts of assets pledged as security are:

	30 June 2012 \$	30 June 2011 \$
Registered first mortgage		
Investment properties	54,050,000	51,350,000
	<u>54,050,000</u>	<u>51,350,000</u>

(b) Financing arrangements

	30 June 2012 \$	30 June 2011 \$
Committed Facilities Available		
Commercial bills	23,720,986	23,720,986
Facilities utilised at the end of the reporting period		
Commercial bills	<u>23,720,986</u>	<u>23,720,986</u>

The commercial bills may be drawn at any time.

(c) Covenants

The covenants over the bank borrowings require an interest cover ratio of greater than 1.6 times, and a loan to market value of investment properties ratio of less than 60%. The Trust was in compliance with its covenants throughout the year and as at 30 June 2012.

14 Contributed equity

(a) Units

	30 June 2012 Units	30 June 2011 Units	30 June 2012 \$	30 June 2011 \$
Ordinary units				
Fully paid	27,019,634	27,019,634	24,196,788	24,196,788

14 Contributed equity (continued)

(b) Movements in ordinary units

Date	Details	Number of units	\$
1 July 2010	Opening balance	27,019,634	24,196,788
	Closing balance	27,019,634	24,196,788
1 July 2011	Opening balance	27,019,634	24,196,788
	Closing 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 tax advantaged income distributions 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 healthcare property.

The Trust aims to invest to meet the Trust's investment objectives while maintaining sufficient liquidity to meet its commitments. The Responsible Entity regularly reviews the performance of the Trust, including asset allocation strategies, investment and operational management strategies, investment opportunities, performance review, and risk management.

Consistently with others in the industry, the Trust monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'interest bearing liabilities,' 'trade and other payables' and 'distributions payable' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at 30 June 2012 and 30 June 2011 are calculated based on the following:

	30 June 2012	30 June 2011
	\$	\$
Total borrowings	24,650,173	24,711,252
Less: Cash and cash equivalents	(758,991)	(952,320)
Net debt	23,891,182	23,758,932
Total equity	27,577,237	25,232,742
Total capital	51,468,419	48,991,674

15 Retained profits

Movements in retained profits were as follows:

	30 June 2012	30 June 2011
	\$	\$
Opening retained profits	1,035,954	1,114,593
Net profit for the year	4,195,340	1,703,718
Distribution paid or payable	<u>(1,850,845)</u>	<u>(1,782,357)</u>
Closing retained profits	<u>3,380,449</u>	<u>1,035,954</u>

16 Related party disclosures

Responsible entity

The Responsible Entity of Sydney Healthcare Trust is Arena Investment Management Limited.

The Responsible Entity or its related parties are entitled to receive fees in accordance with the Trust's constitution.

	30 June 2012	30 June 2011
	\$	\$
Fees for the year paid/payable by the Trust		
Management fees	538,437	524,664
Deferred management fees and disposal fees	383,374	510,883
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	<u>2,750,732</u>	<u>2,367,358</u>

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Arena Investment Management Limited at any time during the financial year as follows:

Bryce Mitchelson
James Goodwin (appointed 30 December 2011)
Dennis Wildenburg (appointed 30 December 2011)
Simon Parsons (appointed 5 April 2012)
Curtis Roberts (appointed 7 April 2011, resigned 30 December 2011)
Henricus Sprangers (appointed 7 April 2011, resigned 30 December 2011)
David Minear (appointed 7 April 2011, resigned 30 December 2011)
Andrew Meakin (resigned 30 December 2011)

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.

(b) Key management personnel loan disclosures

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

16 Related party disclosures (continued)

(c) Other transactions with the trust

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Trust during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

Related party unitholdings

The following related parties held units in the Trust during the financial year:

	Distributions paid/payable by the Trust		Unit holding	
	2012 \$	2011 \$	2012 Units	2011 Units
Arena Property Fund	868,079	861,743	12,672,684	12,672,684
Arena Hybrid Property Fund	34,250	34,000	500,000	500,000

17 Reconciliation of profit to net cash inflow from operating activities

	30 June 2012 \$	30 June 2011 \$
Profit/(loss) for the year	4,195,340	1,703,718
Net changes in fair value of investment properties	(2,578,818)	484,852
Net (gain) on derivative financial instruments	(209,183)	(292,691)
Change in operating assets and liabilities		
Decrease/(increase) in receivables	49,063	(631,218)
Increase in payables	101,040	70,156
Increase in provision for deferred management fees/disposal fees	383,374	510,883
Net cash inflow from operating activities	1,940,816	1,845,700

18 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or liabilities as at 30 June 2012 and 30 June 2011.

(a) Leasing arrangements

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

	30 June 2012 \$	30 June 2011 \$
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	5,139,898	5,293,506
Later than one year but not later than 5 years	22,022,048	22,397,261
Later than 5 years	29,458,777	38,632,532
	<u>56,620,723</u>	<u>66,323,299</u>

19 Events occurring after the reporting period

The bank facility with National Australia Bank (NAB) of \$23,720,986 was due to expire on 30 September 2012. At the date of issue of this report, negotiations with the lender for a short term extension have concluded and the facility has been approved for extension by NAB to 31 December 2012 to allow further time to assess the future funding requirements of the Trust.

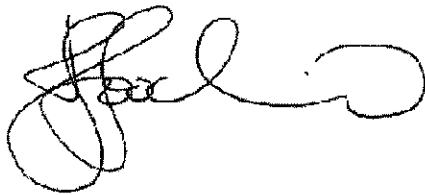
The Directors are not aware of any other matters or circumstances that have arisen since the end of the year that significantly affected or may significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust in subsequent years.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 5 to 32 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, 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 2012 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable, and
- (c) Note 2(a) confirms that the 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.

A handwritten signature in black ink, appearing to read 'James Goodwin', with a large, stylized flourish extending to the right.

James Goodwin
Director

Melbourne
20 September 2012



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 balance sheet as at 30 June 2012, and 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 Arena Investment Management 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 2, 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 opinion.



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

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 2012 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 also complies with International Financial Reporting Standards as disclosed in Note 2.

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

PricewaterhouseCoopers

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

Charles Christie
Partner

Melbourne
20 September 2012

