



Healthcare Property Trust
Annual Report - 30 June 2009



ARSN 092 755 318

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This financial report covers Australian Unity Healthcare Property Trust as an individual entity.
The Responsible Entity of Australian Unity Healthcare Property Trust is Australian Unity Funds Management (ABN 60 071 497 115).
The Responsible Entity's registered office is 114 Albert Road, South Melbourne VIC 3205.

Directors' report

The directors of Australian Unity Funds Management Limited (ABN 60 071 497 115), the Responsible Entity of Australian Unity Healthcare Property Trust, present their report together with the financial report of Australian Unity Healthcare Property Trust ("the Scheme") for the year ended 30 June 2009.

Directors

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

Alan Castleman (Chairman)
David Bryant (Group Executive - Investments and Chief Investment Officer)
Rohan Mead (Group Managing Director)
Ian Ferres (Non-Executive Director)
Stephen Maitland (Non-Executive Director)
Bruce Siney (Non-Executive Director)
Warren Stretton (Non-Executive Director)
Anthony Connon (Chief Financial Officer)

Principal activities

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

The Scheme primarily invests in a diversified portfolio of healthcare property and related assets.

The Scheme may invest in Australian healthcare-related direct property, managed funds or companies that predominantly hold healthcare property and related assets.

The Scheme may also invest in international healthcare-related direct property and managed funds that predominantly hold healthcare property and related assets, in countries with healthcare systems and property markets with attributes similar to Australia.

Review and results of operations

Property Valuations

During the year fourteen properties were revalued at a total of \$311.48m, marginally up from their previous aggregated valuations of \$311.42m in the 2008 financial year. The current financial year revaluations were in total below the revalued properties carrying values resulting in recording a net revaluation fair value decrement of \$3.72m.

Property Acquisitions

On 29 July 2008, the Scheme acquired the Manningham Medical Centre in the eastern Melbourne suburb of Lower Templestowe, VIC for \$35.00m plus acquisition costs. Located within close proximity to Westfield Shoppingtown and directly opposite the Macedon Square Shopping Centre, the Manningham Medical Centre is a 'one-stop-shop' facility with general practitioners, medical and surgical specialists, dental, pharmacy, diagnostic imaging, day procedure centre, pathology, audiology, optometry, ancillary health services and modern gymnasium. The key tenants are Manningham Day Procedure Centre and Manningham Medical Centre General Practice.

The Scheme also purchased a commercial building office on Pacific Highway, St. Leonards, NSW on 21 August 2008 for \$14.61m plus acquisition costs. The four-store building is located in the well-known and established medical precinct, within several hundred metres of the Royal North Shore Hospital, and is fully leased to IVF Australia. The net lettable area of 2,190m² consists of a day surgery with two theatres, consulting suites, laboratories as well as two basement car-parking levels for 50 cars.

The third property purchased by the Scheme during the financial year is an approved Aged Care Facility in Toongabbie NSW for \$15.10m plus acquisition costs which settled on 30 December 2008. This property was purchased from Australian Unity Retirement Living Services, a related party to the Scheme's Responsible Entity. This transaction was made on an arms length basis between the Scheme and Australian Unity Retirement Living Services. The facility which operates under the name of Constitution Hill Aged Care Facility includes a 121 bed aged care facility, day care respite centre and dementia-specific unit. Because it forms part of the larger Constitution Hill Retirement Village Community, residents and patients also have access to a wide range of services such as hairdressers, shops and entertainment.

Directors' report (continued)

Results

For the year ended 30 June 2009 the Scheme's retail units posted a total return of 5.75% (split between a distribution return of 7.24% and a growth return of -1.49%).

For the year ended 30 June 2009 the Scheme's wholesale units posted a total return of 6.51% (split between a distribution return of 8.11% and a growth return of -1.60%).

For the year ended 30 June 2009 the Scheme's class A units posted a 3-month total return of 0.93% (split between a distribution return of 1.88% and a growth return of -0.95%).

Unit prices at 30 June 2009 were as follows:

Retail units \$1.4344 (2008: \$1.4561)

Wholesale units \$1.4064 (2008: \$1.4292)

Class A units \$0.9738 (2008: nil)

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

	For the year ended	
	30 June	30 June
	2009	2008
	\$'000	\$'000
Net profit before financing costs attributable to unitholders	11,484	24,405
<i>Distributions - retail</i>		
Distribution paid and payable	13,452	11,528
<i>Distributions - wholesale</i>		
Distribution paid and payable	3,983	2,187
<i>Distributions - class A</i>		
Distribution paid and payable	8	-

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the financial year under review.

Matters subsequent to the end of the financial year

Except as disclosed in note 23, no other matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- (i) the operations of the Scheme in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Scheme in future financial years.

Likely developments and expected results of operations

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

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

Directors' report (continued)

Indemnification and insurance of officers and auditors

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

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

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in note 20 of the financial report.

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

The number of units in the Scheme held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 20 of the financial report.

Units in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 9 of the financial report.

The value of the Scheme's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in note 2 of the financial report.

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Directors' report (continued)

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



Director



Director

10 September 2009

Auditor's Independence Declaration to the Directors of Australian Unity Funds Management Limited, as Responsible Entity for Australian Unity Healthcare Property Trust

In relation to our audit of the financial report of Australian Unity Healthcare Property Trust for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



AJ (Tony) Johnson
Partner
Melbourne
10 September 2009

Income statement

	Notes	For the year ended	
		30 June 2009 \$'000	30 June 2008 \$'000
Income			
Interest income		568	1,024
Rental income	3	35,342	28,795
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	(1,295)	(136)
Net fair value increment of investment properties		-	11,990
Distribution income	4	450	942
Total income		<u>35,065</u>	<u>42,615</u>
Expenses			
Responsible Entity's fees	20	5,039	4,360
Custody fees	20	48	44
Auditor's remuneration	6	25	23
Borrowing costs		47	-
Other operating expenses	7	524	382
Property related expenses	8	4,894	4,109
Net fair value decrement of investment properties		3,716	-
Interest expense		9,288	9,292
Total expenses		<u>23,581</u>	<u>18,210</u>
Net profit before financing costs attributable to unitholders		<u>11,484</u>	<u>24,405</u>
Financing costs attributable to unitholders			
Distributions to unitholders	10	17,444	13,715
(Decrease)/increase in net assets attributable to unitholders	9	(5,960)	10,690
Net profit/(loss) for the year		<u>-</u>	<u>-</u>

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

Balance sheet

		As at	
	Notes	30 June 2009 \$'000	30 June 2008 \$'000
Assets			
Cash and cash equivalents		5,425	8,630
Trade and other receivables	13	12,527	13,859
Derivative asset		1,007	3,398
Prepaid expenses		260	201
Lease incentives	14	87	135
Financial assets held at fair value through profit or loss	12	10,084	11,380
Acquisition costs on investment properties due to be acquired	15	695	5,330
Investment properties	11	389,563	324,703
Total assets		<u>419,648</u>	<u>367,636</u>
Liabilities			
Distributions payable	10	4,480	3,755
Trade and other payables	16	2,900	2,927
Borrowings	17	167,484	116,422
Total liabilities (excluding net assets attributable to unitholders)		<u>174,864</u>	<u>123,104</u>
Net assets attributable to unitholders	9	<u>244,784</u>	<u>244,532</u>

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

Statement of changes in net assets attributable to unitholders

	For the year ended	
	30 June 2009 \$'000	30 June 2008 \$'000
Net assets attributable to unitholders at the beginning of the year	244,532	184,437
Net profit for the year before financing costs	11,484	24,405
Distributions to unitholders	(17,444)	(13,715)
Application for units	29,873	66,450
Units issued upon re-investment of distributions	4,145	3,584
Redemption of units	(25,415)	(21,581)
Swap hedging reserve	(2,391)	952
Net assets attributable to unitholders at the end of the year	<u>244,784</u>	<u>244,532</u>

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

Cash flow statement

	For the year ended	
	30 June	30 June
	2009	2008
Notes	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Interest received	601	1,025
Distributions received	524	823
Rental income received	36,697	30,792
Payments to suppliers	<u>(11,079)</u>	<u>(8,551)</u>
Net cash inflow from operating activities	26,743	24,089
21(a)		
<i>Cash flows from investing activities</i>		
Capital expenditure on owned investment properties	(63,340)	(10,675)
Acquisition costs on investment properties due to be acquired	(601)	(5,326)
Purchase of investments	-	(2,342)
Net cash (outflow) from investing activities	(63,941)	(18,343)
<i>Cash flows from financing activities</i>		
Proceeds/(repayments) of borrowings	51,063	(30,000)
Interest costs paid	(8,955)	(8,610)
Distributions paid	(16,158)	(9,181)
Proceeds from applications by unitholders	33,458	67,030
Payments for redemptions by unitholders	<u>(25,415)</u>	<u>(21,581)</u>
Net cash inflow/(outflow) from financing activities	33,993	(2,342)
Net (decrease)/increase in cash and cash equivalents	(3,205)	3,404
Cash and cash equivalents at the beginning of the year	8,630	5,226
Cash and cash equivalents at the end of the year	5,425	8,630
21(b)		

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

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1 General information

This financial report covers Australian Unity Healthcare Property Trust ("the Scheme") as an individual entity. The Scheme was constituted on 17 June 1998. The Scheme will terminate on 16 May 2078 unless terminated earlier in accordance with the provisions of the Scheme Constitution.

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

The Responsible Entity of the Scheme is incorporated and domiciled in Australia.

The financial statements were authorised for issue by the directors on 10 September 2009. The directors of the Responsible Entity have the power to amend and reissue the financial report.

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

This general purpose financial report has been prepared in accordance with the Scheme Constitution, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia.

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within twelve months, except for investments in investment properties, financial assets held at fair value through profit or loss and net assets attributable to unitholders.

Statement of compliance

The financial report of the Scheme, comprising the financial statements and notes thereto, complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS").

This financial report is presented in the local reporting currency being Australian dollars.

(b) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. There are no key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the Scheme's assets and liabilities within the next annual reporting year.

(c) Investment Properties

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

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

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use. Any gains or losses on the derecognition of an investment property are recognised in the income statement in the year of derecognition.

2 Summary of significant accounting policies (continued)

(c) Investment Properties (continued)

Independent valuations of investment properties are obtained at intervals of generally one year from suitably qualified valuers. Less frequent valuations are permissible, however the intervals between such valuations are not to exceed three years. Such valuations are reflected in the financial statements of the Scheme. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

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

Expenditure capitalised to properties includes the cost of acquisition, capital and refurbishment additions, and during development, includes financing charges, related professional fees incurred and other directly attributable transaction costs.

(d) Financial instruments (other than derivatives)

(i) Classification

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

Loans and receivables/payables comprise amounts due to or from the Scheme.

(ii) Recognition/derecognition

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

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

(iii) Measurement

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

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 the income statement.

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 each balance sheet date to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in the income statement 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.

(iv) 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.

2 Summary of significant accounting policies (continued)

(e) Derivatives

For the purposes of hedge accounting, hedges are classified as cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

(i) Cash flow hedge

All derivative financial instruments are brought to balance sheet at fair value. Derivative financial instruments are initially recorded at fair value on the date on which the derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as assets when their value is positive and liabilities when their value is negative.

The Scheme uses derivative financial instruments such as interest rate swaps to hedge risk associated with interest rate fluctuations. Interest rate swaps are set up so the floating leg exactly matches the loan payment requirements. Interest rate swaps are measured based on their discounted future cash flows.

The fair values of interest rate swaps are determined by reference to market values for similar instruments.

At the inception of a hedge relationship, the Scheme formally designates and documents the hedge relationship to which the Scheme wishes to apply hedge accounting, the risk management objective, and strategy for undertaking the hedge. The documentation includes identification of the hedge instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes to cash flows and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognised directly in net assets attributable to unitholders, in a hedge/swap revaluation reserve, while the ineffective portion is recognised in profit or loss. Fluctuations are contained in the reserve until the maturity of the underlying loan. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

(f) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Cash and short-term deposits are stated at nominal values.

(g) Trade and other receivables

Receivables may include amounts for rental income arrears, interest and other items where settlement has not yet occurred. They are recognised and carried at the original amount. An allowance for doubtful debt is made when there is objective evidence that the Trust will not be able to recover the debts. Bad debts are written off when identified.

(h) Trade and other payables

Payables include liabilities and accrued expenses owed by the Scheme which are unpaid as at balance date.

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

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

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

2 Summary of significant accounting policies (continued)

(h) Trade and other payables (continued)

The distribution amount payable to unitholders as at the reporting date is recognised separately on the balance sheet as unitholders are presently entitled to the distributable income as at the reporting date under the Scheme's Constitution.

(i) Borrowings and borrowing costs

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

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

There were no gains or losses in relation to loans taken to profit for the current reporting year.

Borrowing costs are recognised as an expense in the period in which they are incurred except for the costs that are directly attributable to the acquisition or construction of qualifying assets. The borrowing costs attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset.

(j) Revenue

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

Rental revenue

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

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

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

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

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

Rent not received at balance date is reflected in the Balance Sheet as a receivable or if paid in advance, as a liability.

Interest revenue

Interest income is recognised in the income statement as it accrues using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset.

(k) Investment income

Interest income is recognised in the income statement for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(d).

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense.

2 Summary of significant accounting policies (continued)

(k) Investment income (continued)

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

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

(l) Leases, Leasing costs and Lease incentives

Leasing costs

Costs that are directly associated with negotiating and arranging an operating lease (including commissions, legal fees and costs of preparing and processing documentation for new leases) are capitalised as part of the Scheme's assets and amortised on a straight-line basis over the lease term on the same basis as the lease income.

Lease incentives

Lease incentives which may take the form of up front payments, contributions to certain lessee's costs, relocation costs and fit outs and improvements are recognised as part of the Scheme's assets. The aggregate cost of incentives is recognised on a straight-line basis over the lease term as part of lease income.

(m) Expenses

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

(n) Income tax

Under current legislation, the Scheme is not subject to income tax provided the taxable income of the Scheme is fully distributed to unitholders (i.e. unitholders are presently entitled to the income of the Scheme).

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

(o) Distributions

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

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

Non-distributable income is transferred directly to net assets attributable to unitholders and may consist of unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

2 Summary of significant accounting policies (continued)

(q) Applications and redemptions

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

Unit redemption prices are determined by reference to the net assets of the Scheme divided by the number of units on issue.

All units are fully paid with proportionate share of distribution and equal voting rights. They are recognised at the fair value of the consideration received by the Scheme.

(r) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Scheme by third parties such as custodial services and investment management fees have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% hence investment management fees, custodial fees and other expenses have been recognised in the income statement net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting year. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009)*

AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Scheme will adopt AASB 8 from 1 July 2009. The Scheme is organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no detailed segment reporting is provided in the Scheme's financial statements.

(ii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)*

The revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Scheme will apply the revised standard from 1 July 2009.

(iii) AASB 132 *Financial Instruments: Presentation* and AASB 2008-2 *Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations Arising on Liquidation* (Revised AASB 132) (effective from 1 January 2009)

Revised AASB 132 is applicable for reporting periods beginning on or after 1 January 2009. The Scheme has not adopted this standard early. Application of this standard will not affect any of the amounts recognised in the financial statements as the Scheme is obligated to distribute all of its taxable income in accordance with the Scheme's Constitution. Accordingly, there will be no change to classification of unitholders' funds as a liability and therefore no impact on profit or loss and equity.

2 Summary of significant accounting policies (continued)

(s) New accounting standards and interpretations (continued)

(iv) Improvements to Australian Accounting Standards: AASB 2008-5 and AASB 2008-6

In July 2008, the AASB issued a number of improvements to existing Australian Accounting Standards. The amendments will generally apply to financial reporting periods commencing on or after 1 January 2009, except for some changes to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* regarding the sale of the controlling interest in a subsidiary which will apply from 1 July 2009.

(v) AASB 2009-2 *Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments (effective from 1 January 2009)*

In April 2009, the AASB published amendments to AASB 7 *Financial Instruments: Disclosures* to improve the information that entities report about their liquidity risk and the fair value of their financial instruments. The amendments require fair value measurement disclosures to be classified into a new three level hierarchy and additional disclosures for items whose fair value is determined by valuation techniques rather than observable market values. The AASB also clarified and enhanced the existing requirements for the disclosure of liquidity risk of derivatives. The Scheme will apply the amendments from 1 July 2009. They will not affect any of the amounts recognised in the financial statements but will impact the current disclosures of the Scheme's financial instruments.

(vi) AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2010)*

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Scheme will apply the revised standards from 1 July 2009.

(vii) AASB 2009-6 *Amendments to Australian Accounting Standards* and AASB 2009-7 *Amendments to Australian Accounting Standards (effective from 1 January 2009 and 1 July 2009, respectively)*

In June 2009, the AASB issued AASB 2009-6 and AASB 2009-7. The Standards make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. AASB 2009-6 is applicable to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. AASB 2009-7 is applicable to annual reporting periods beginning on or after 1 July 2009. There are no changes to any of the accounting policies necessary as a result of these amendments.

The Scheme does not expect that any adjustments will be necessary as the result of applying the revised rules.

(t) Rounding of amounts

The Scheme is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

3 Rental income

	For the year ended	
	30 June 2009 \$'000	30 June 2008 \$'000
Rental income	31,363	25,788
Outgoings income	3,978	3,007
Other income	1	-
	35,342	28,795

4 Distribution income

	For the year ended	
	30 June	30 June
	2009	2008
	\$'000	\$'000
Distribution income - ING Real Estate Healthcare Fund	206	103
Distribution income - Sydney Healthcare Trust	244	839
	<u>450</u>	<u>942</u>

Refer to the note 11 regarding the above investments

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

	For the year ended	
	30 June	30 June
	2009	2008
	\$'000	\$'000
Net unrealised gains/(losses) on financial instruments designated as at fair value through profit or loss	<u>(1,295)</u>	<u>(136)</u>

6 Auditor's remuneration

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

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

	For the year ended	
	30 June	30 June
	2009	2008
	\$	\$
(a) Audit services		
Audit and review of financial reports	20,972	18,540
Total remuneration for audit services	<u>20,972</u>	<u>18,540</u>
(b) Non-audit services		
Tax compliance services	4,400	4,348
Total remuneration for taxation services	<u>4,400</u>	<u>4,348</u>
	<u>25,372</u>	<u>22,888</u>

7 Other Scheme expenses

	For the year ended	
	30 June 2009 \$'000	30 June 2008 \$'000
Consulting expenses	278	214
Valuation expenses	150	122
Legal expenses	90	16
Advertising expenses	-	27
Sundry expenses	6	3
	<u>524</u>	<u>382</u>

8 Property related expenses

	For the year ended	
	30 June 2009 \$'000	30 June 2008 \$'000
Recoverable outgoings	4,198	3,439
Amortisation of lease incentives	77	37
Non-recoverable outgoings	619	633
	<u>4,894</u>	<u>4,109</u>

9 Net assets attributable to unitholders

All units are fully paid with a proportionate share of distribution and equal voting rights.

As net assets attributable to unitholders are classified as a liability rather than equity, distributions and the movement in the net assets attributable to unitholders are recognised as a finance cost in the Scheme's income statement.

The movements in fair value of the swap are taken directly to a hedge revaluation reserve. Fluctuations would be contained in the reserve until the maturity of the underlying loan.

On 27 February 2009, the Scheme introduced Class A units which combine the benefits of direct property with a moderate exposure to cash or cash like investments and also provide enhanced withdrawal opportunities to investors. This is achieved through a separate reserve of cash or similar investments (typically around 20%) from Class A applications received. Class A Units are open to those investors acquiring units through an IDPS, IDPS-like scheme, Masterfund or Nominee and Custody Service. Class A Units are not available to direct investors.

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

	As at			
	30 June 2009 No. '000	30 June 2008 No. '000	30 June 2009 \$'000	30 June 2008 \$'000
Opening balance	157,470	123,832	178,319	129,866
Applications	22,929	46,145	29,873	66,450
Redemptions	(19,711)	(15,061)	(25,415)	(21,581)
Units issued upon reinvestment of distributions	2,853	2,554	4,145	3,584
Swap hedging reserve	-	-	1,007	3,398
Closing balance	<u>163,541</u>	<u>157,470</u>	<u>187,929</u>	<u>181,717</u>

9 Net assets attributable to unitholders (continued)

	30 June 2009 \$'000	30 June 2008 \$'000
Undistributed income		
Opening balance	62,815	52,125
(Decrease)/increase in net assets attributable to unitholders	<u>(5,960)</u>	<u>10,690</u>
Closing balance	<u>56,855</u>	<u>62,815</u>
	As at	
	30 June 2009 \$'000	30 June 2008 \$'000
Total net assets attributable to unitholders	<u>244,784</u>	<u>244,532</u>

Capital risk management

The Scheme considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders.

The Scheme's strategy was to hold a certain portion of the net assets attributable to unitholders in liquid investments. The ratio of liquid assets to net assets attributable to unitholders at 30 June 2009 and 30 June 2008 were as follow:

	30 June 2009 \$'000	30 June 2008 \$'000
	As at	
Liquid assets of the fund	15,509	20,010
Net assets attributable to unitholders	246,019	244,532
Ratio of liquid assets to net assets attributable to unitholders	<u>6.30%</u>	<u>8.18%</u>

10 Distributions to unitholders

Timing of distributions

The distributions for the year were as follows:

	For the year ended		30 June 2008 \$'000	30 June 2008 CPU
	30 June 2009 \$'000	30 June 2009 CPU		
Retail units - paid during the year	10,079	7.712	8,426	6.382
Retail units - unpaid at end of the year	3,373	2.690	3,102	2.353
Wholesale units - paid during the year	2,883	8.488	1,535	7.089
Wholesale units - unpaid at end of the year	1,101	2.910	652	2.545
Class A units - paid during the year	2	1.893	-	-
Class A units - unpaid at the end of the year	6	1.842	-	-
Total distributions	17,444	25.535	13,715	18.369

As unitholders are presently entitled to the distributable income of the Scheme, no income tax is payable by the Responsible Entity.

11 Investment properties

30 June 2009	Opening balance \$'000	Purchase price \$'000	Acquisition costs \$'000	Capital costs \$'000	Revaluation \$'000	Closing balance \$'000	Latest valuation \$'000
Investment properties							
Royal Prince Alfred Hospital	45,932	-	-	80	125	46,137	46,000
Beleura Private Hospital	35,269	-	-	16	107	35,392	35,380
College Grove Private Hospital	12,851	-	-	2	398	13,251	13,250
The Valley Private Hospital	19,753	-	-	11	(64)	19,700	19,700
Wakefield Clinic	13,947	-	-	14	(426)	13,535	13,500
Wakefield Private Hospital	53,284	-	-	28	(1,298)	52,014	52,000
Illawarra Private Hospital, Figtree	18,140	-	-	(69)	291	18,362	18,250
Berkeley Vale Private Hospital	9,600	-	-	12	650	10,262	10,250
Hunter's Hill Private Hospital	10,400	-	-	8	100	10,508	10,500
Ballarat Medical Centre	4,150	-	-	-	(150)	4,000	4,000
Peninsula Private Hospital	50,421	-	-	60	(1,228)	49,253	49,250
Victoria House Medical Centre	18,793	-	-	62	(1,854)	17,001	17,000
Mackay Medical Centre	9,976	-	-	(4)	(72)	9,900	9,900
Ipswich Medical Centre	12,795	-	-	-	(295)	12,500	12,500
Figtree Development Site	1,631	-	-	17	-	1,648	1,500
Forest Road Development site, Orange	7,761	-	-	6	-	7,767	7,120
Manningham Medical Centre 176 Pacific Highway, St Leonards	-	35,000	1,828	2	-	36,830	35,000
Constitution Hill Aged Care Facility	-	14,610	882	9	-	15,501	14,610
	-	15,100	902	-	-	16,002	15,100
Total	324,703	64,710	3,612	254	(3,716)	389,563	384,810

11 Investment properties (continued)

30 June 2008	Opening balance \$'000	Purchase price \$'000	Acquisition costs \$'000	Capital costs \$'000	Revaluation \$'000	Closing balance \$'000	Latest valuation \$'000
Investment properties							
Royal Prince Alfred Hospital	44,501	-	-	453	978	45,932	45,500
Beleura Private Hospital	33,324	-	-	27	1,918	35,269	35,250
College Grove Private Hospital	11,922	-	-	-	929	12,851	12,850
The Valley Private Hospital	17,634	-	-	3	2,116	19,753	19,750
Wakefield Clinic	12,100	-	-	47	1,800	13,947	13,900
Wakefield Private Hospital	49,375	-	-	87	3,822	53,284	53,250
Illawarra Private Hospital, Figtree	17,700	-	-	260	180	18,140	17,900
Berkeley Vale Private Hospital	9,500	-	-	3	97	9,600	9,600
Hunter's Hill Private Hospital	10,250	-	-	-	150	10,400	10,400
Ballarat Medical Centre	4,150	-	-	-	-	4,150	4,150
Peninsula Private Hospital	50,210	-	-	211	-	50,421	48,600
Victoria House Medical Centre	18,644	-	-	149	-	18,793	18,000
Mackay Medical Centre	9,964	-	-	12	-	9,976	9,900
Ipswich Medical Centre	12,764	-	-	31	-	12,795	12,370
Figtree Development Site	-	1,500	131	-	-	1,631	1,500
Forest Road Development site, Orange	-	7,120	641	-	-	7,761	7,120
Total	<u>302,038</u>	<u>8,620</u>	<u>772</u>	<u>1,283</u>	<u>11,990</u>	<u>324,703</u>	<u>320,040</u>

The investment property valuation policy is to have independent valuations conducted regularly, typically annually to aid with the determination of the fair value of the assets (the latest valuations are noted below). At each reporting date the appropriateness of those valuations is assessed by the Responsible Entity.

The market for many types of real estate is being affected by volatility in financial markets. This has translated into a general weakening of market sentiment towards real estate and the number of real estate transactions has significantly reduced.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction at the date of valuation, in accordance with Australian Valuation Standards.

The current lack of comparable market evidence relating to pricing assumptions and market drivers, particularly for transactions involving willing buyers and willing sellers, means that there is less certainty in regard to valuations and the assumptions applied to valuation inputs. The period of time needed to negotiate a sale in this environment may also be significantly prolonged.

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

Ballarat Medical Centre was revalued in May 2009 by Colliers International at \$4.00m, down from \$4.15m.

Beleura Private Hospital and Medical Clinic was revalued in October 2008 by Colliers International at \$35.38m, up from \$35.25m. Since the latest valuation, capital expenditure of \$0.012m has been incurred which has increased the carrying value of the property.

The Valley Private Hospital was revalued in October 2008 by Colliers International at \$19.70m, down from \$19.75m.

Berkeley Vale Private Hospital was revalued in November 2008 by Colliers International at \$10.25m, up from \$9.6m. Since the latest valuation, capital expenditure of \$0.012m has been incurred which has increased the carrying value of the property.

11 Investment properties (continued)

Hunters Hill Private Hospital was revalued in November 2008 by Colliers International at \$10.50m, up from \$10.40m. Since the latest valuation, capital expenditure of \$0.008m has been incurred which has increased the carrying value of the property.

Figtree Private Hospital was revalued in November 2008 by Colliers International at \$18.25m, up from \$17.9m. Since the latest valuation, capital expenditure of \$0.112m has been incurred which has increased the carrying value of the property.

Royal Prince Alfred Hospital Medical Centre was revalued in November 2008 by Colliers International at \$46.00m, up from \$45.50m. Since the latest valuation, capital expenditure of \$0.137m has been incurred which has increased the carrying value of the property.

The Wakefield Private Hospital was revalued in February 2009 by Colliers International at \$52.00m, down from \$53.25m. Since the latest valuation, capital expenditure of \$0.014m has been incurred which has increased the carrying value of the property.

The Wakefield Clinic was revalued in February 2009 by Colliers International at \$13.50m, down from \$13.90m. Since the latest valuation, capital expenditure of \$0.035m has been incurred which has increased the carrying value of the property.

College Grove Private Hospital was revalued in February 2009 by Colliers International at \$13.25m, up from \$12.85m. Since the latest valuation, capital expenditure of \$0.001m has been incurred which has increased the carrying value of the property.

The Peninsula Private Hospital (including the vacant land portion) was revalued in May 2009 by Colliers International at \$49.25m, up from \$48.60m. Since the latest valuation, capital expenditure of \$0.003m has been incurred which has increased the carrying value of the property.

The Victoria House Medical Centre was revalued in May 2009 by Colliers International at \$17.00m, down from \$18.00m. Since the latest valuation, capital expenditure of \$0.001m has been incurred which has increased the carrying value of the property.

The Mackay Medical Centre was revalued in May 2009 by Colliers International at \$9.90m, unchanged from the previous valuation.

The Ipswich Medical Centre was revalued in May 2009 by Colliers International at \$12.50m, up from the previous valuation of \$12.37m.

Forest Road Development, Orange has not been revalued since acquisition in January 2008. Since the valuation at acquisition and apart from acquisition costs, capital expenditure of \$0.647m has been incurred which has increased the carrying value of the property.

The Figtree Development site in Figtree has not been revalued since acquisition in May 2008. Since the valuation at acquisition and apart from acquisition costs, capital expenditure of \$0.148m has been incurred which has increased the carrying value of the property.

On 29 July 2008, the Scheme acquired the Manningham Medical Centre in the eastern Melbourne suburb of Lower Templestowe, VIC for \$35.00m plus acquisition costs. Located within close proximity to Westfield Shoppingtown and directly opposite the Macedon Square Shopping Centre, the Manningham Medical Centre is a 'one-stop-shop' facility with general practitioners, medical and surgical specialists, dental, pharmacy, diagnostic imaging, day procedure centre, pathology, audiology, optometry, ancillary health services and modern gymnasium. The key tenants are Manningham Day Procedure Centre and Manningham Medical Centre General Practice.

The Scheme also purchased a commercial building office on Pacific Highway, St. Leonards, NSW on 21 August 2008 for \$14.61m plus acquisition costs. The four-store building is located in the well-known and established medical precinct, within several hundred metres of the Royal North Shore Hospital, and is fully leased to IVF Australia. The net lettable area of 2,190m² consists of a day surgery with two theatres, consulting suites, laboratories as well as two basement car-parking levels for 50 cars.

The third property purchased by the Scheme during the financial year is an approved Aged Care Facility in Toongabbie NSW for \$15.10m plus acquisition costs which settled on 30 December 2008. The 9,276m² premises includes a 121 bed aged care facility, day care respite centre and dementia-specific unit. Because it forms part of the larger Constitution Hill Retirement Village Community, residents and patients also have access to a wide range of services such as hairdressers, shops and entertainment.

12 Financial assets held at fair value through profit or loss

	As at	
	30 June 2009 Fair value \$'000	30 June 2008 Fair value \$'000
Unlisted Property Scheme - Sydney Healthcare Trust	8,378	9,603
Listed Property Scheme - ING Real Estate Healthcare Fund	<u>1,706</u>	<u>1,777</u>
Total financial assets held at fair value through profit and loss	<u>10,084</u>	<u>11,380</u>

The Scheme has an investment at 30 June 2009 of 7,000,000 units (2008: 7,000,000 units) in the Sydney Healthcare Trust. The unit price as at 30 June 2009 is \$1.1969 (2008: \$1.3718)

The Scheme has an investment at 30 June 2009 of 2,369,000 units (2008: 2,369,000 units) in the listed ING Real Estate Healthcare Fund. The unit price as at 30 June 2009 is \$0.7200 (2008: \$0.7500).

13 Trade and other receivables

	As at	
	30 June 2009 \$'000	30 June 2008 \$'000
Trade receivables *	12,036	13,274
GST receivable	238	225
Distributions receivable	240	314
Interest receivable	<u>13</u>	<u>46</u>
	<u>12,527</u>	<u>13,859</u>

*Includes receivables arising from recognising lease income on a straight-line basis over the term of individual leases.

14 Lease incentives

	As at	
	30 June 2009 \$'000	30 June 2008 \$'000
Lease incentives	247	241
less accumulated amortisation	<u>(160)</u>	<u>(106)</u>
	<u>87</u>	<u>135</u>

15 Acquisition costs on investment properties due to be acquired

	As at	
	30 June 2009 \$'000	30 June 2008 \$'000
Pre-settlement acquisition costs relating to the Vaucluse Hospital (VIC) (purchased 17 August 2009)	631	-
Pre-settlement acquisition costs relating to the Manningham Medical Centre (VIC) (purchased on 27 July 2008)	-	3,623
Pre-settlement acquisition costs relating to the investment property at 176 Pacific Highway, St Leonards (NSW) (purchased on 21 August 2008)	-	1,541
Other pre-acquisition expenditure on planned investment property acquisitions	64	166
	695	5,330

16 Trade and other payables

	As at	
	30 June 2009 \$'000	30 June 2008 \$'000
Accrued expenses	1,966	2,110
GST payable	934	817
	2,900	2,927

17 Borrowings

	As at	
	30 June 2009 \$'000	30 June 2008 \$'000
Loan	167,484	116,422
	167,484	116,422

As at 30 June 2009, the facility limit was \$200,000,000 with an interest rate of BBSY + 0.45%.

Following the expiration of the current loan facility, the Scheme refinanced a new loan facility on 30 July 2009. The facility limit has increased to \$220,000,000 with an interest rate of BBSY + 3.35% for first \$137,500,000 drawdown and BBSY + 3.55% for the balance drawdown of \$82,500,000.

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

The above loan is 95% hedged as at 30 June 2009. Interest rate swap arrangements as at 30 June 2009 are detailed in note 17.

18 Derivative assets and liabilities

30 June 2009

	Contract/ notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
Interest rate swaps - 3 years contract	46,472	960	-
Interest rate swaps - 3 years 3 months contract	66,166	-	1,744
Interest rate swaps - 5 years contract	46,472	1,791	-
	<u>159,110</u>	<u>2,751</u>	<u>1,744</u>

30 June 2008

	Contract/ notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
Interest rate swaps - 3 years 3 months contract	66,166	3,398	-

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

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

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

A loss of \$2,391,592 (2008: gain of \$950,013) relating to the change in the fair value of the Scheme's interest rate swap contracts was recognised directly in net assets attributable to unitholders during the year ended 30 June 2009.

The Scheme's interest rate swap contracts at 30 June 2009 comprised:

A contract with a notional amount of \$66,165,875 maturing on 29 October 2010 at a fixed rate of 5.675%, with quarterly interest rate resets and settlements.

A contract with a notional amount of \$46,072,088 maturing on 8 May 2012 at a fixed rate of 4.015%, with monthly interest rate resets and settlements.

A contract with a notional amount of \$46,072,088 maturing on 8 May 2014 at a fixed rate of 4.605%, with monthly interest rate resets and settlements.

The Scheme's interest rate swap contracts at 30 June 2008 comprised:

A contract with a notional amount of \$66,165,875 maturing on 29 October 2010 at a fixed rate of 5.675%, with quarterly interest rate resets and settlements.

19 Financial risk management

(a) Objectives, strategies, policies and processes

The Scheme's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Financial instruments of the Scheme comprise borrowings, financial investments, derivatives used to hedge interest rate risk, net assets attributable to unitholders, cash as well as cash equivalents and other financial instruments such as trade receivables and payables, which arise directly from its operations.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

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

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

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including senior management, Risk and Investment Committees and ultimately (on an exception basis) the Board of Directors of the Responsible Entity.

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

(b) Market risk

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

The Scheme's investments are managed on the basis of direct investments and not on a look through basis. Hence, the market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme. The Responsible Entity appoints an investment manager to manage the assets in accordance with the Scheme's Constitution and Product Disclosure Statement.

The sensitivity of the Scheme's net assets attributable to unitholders (and net operating profit) to price risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and historical correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

(i) Price risk

Equity price risk is the risk that the fair value of financial investments will fluctuate because of changes in market prices or unit prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity price risk exposure arises from the Scheme's investment portfolio. These investments are classified on the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

The Scheme's overall investment positions are monitored on a daily basis by the Scheme's Investment Manager.

This investment price risk is measured using sensitivity analysis.

19 Financial risk management (continued)

The following paragraph summarises the sensitivity of the Scheme's operating profit and net assets attributable to unitholders to investment price risk.

At 30 June 2009, if investment prices had decreased by 10% (2008: decreased by 10%), with all other variables held constant, the decrease in net assets attributable to unitholders of the Scheme (and in net operating profit of the Scheme) for the year would amount to approximately \$1,008,398 (2008: \$1,138,000). Alternatively, if investment prices had risen by 10% (2008: increased by 10%), the increase in net assets attributable to unitholders (and in net operating profit) would amount to approximately \$1,008,398 (2008: \$1,138,000). These decreases/increases in net assets attributable to unitholders are calculated on an undiscounted basis. The analysis is performed on the same basis for 2008.

(ii) Interest rate risk

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

The Scheme's interest bearing financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Scheme has established limits on its borrowings, which are monitored on a regular basis. The Scheme uses derivatives to hedge against unexpected increases in interest rates. This reduced interest rate risk, represented by the portion of liabilities that are not covered by interest rate swaps, is measured using sensitivity analysis.

The following paragraph summarises the sensitivity of the Scheme's net profit attributable to unitholders to interest rate risk of unhedged borrowings of the Scheme.

At 30 June 2009, if interest rates had decreased by 50 basis points (2008: decreased by 50 basis points) with all other variables held constant, the increase in net profit attributable to unitholders of the Scheme for the year would amount to approximately \$41,871 (2008: \$251,000). If interest rates had risen by 50 basis points (2008: increased by 50 basis points), the decrease in net profit attributable to unitholders would amount to approximately \$41,871 (2008: \$251,000). These increases/(decreases) in net profit attributable to unitholders are calculated on an undiscounted basis. The analysis is performed on the same basis for 2008.

Further to the above analysis, the following paragraph summarises sensitivity of the Scheme's net assets attributable to unitholders to interest rate risk of derivative assets of the Scheme.

At 30 June 2009, if interest rate had decreased by 50 basis points (2008: 50 basis points) with all other variables held constant, the decrease in net assets attributable to unitholders of the Scheme for the year would amount to approximately \$1,991,615 (2008: \$655,875). If interest rate had risen by 50 basis points (2008: 50 basis points), the increase in net assets attributable to unitholders would amount to approximately \$1,954,409 (2008: \$645,898). These increase/(decreases) in net assets attributable to unitholders are calculated on an undiscounted basis. The analysis is performed on the same basis for 2008.

(c) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

With respect to credit risk, the Scheme's exposure relates to trade receivables, financial assets held at fair value through profit or loss and derivative financial instruments used to hedge interest rate risk.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these investments as disclosed 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 the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

Credit risk is not considered to be significant to the Scheme.

19 Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

Maturity analysis for financial liabilities

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

	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000
At 30 June 2009				
Distributions payable	4,480	-	-	-
Trade and other payables	2,900	-	-	-
Borrowings	167,484	-	-	-
Net assets attributable to unitholders	-	6,119	18,359	97,914
Total financial liabilities	<u>174,864</u>	<u>6,119</u>	<u>18,359</u>	<u>97,914</u>

	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000
At 30 June 2008				
Distributions payable	3,755	-	-	-
Trade and other payables	2,927	-	-	-
Borrowings	-	-	-	116,422
Net assets attributable to unitholders	-	6,113	18,340	97,813
Total financial liabilities	<u>6,682</u>	<u>6,113</u>	<u>18,340</u>	<u>214,235</u>

(e) Fair values of financial assets and financial liabilities

The Scheme's financial assets and liabilities in the balance sheet are carried at amounts that approximate fair value.

(f) Instruments used by the Scheme

The Scheme is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Scheme's financial risk management policies.

The details of the Scheme's hedging activities are detailed in note 16 and note 18.

20 Related party transactions

Responsible Entity

The Responsible Entity of Australian Unity Healthcare Property Trust is Australian Unity Funds Management Limited (ABN 60 071 497 115) whose immediate and ultimate parent entity is Australian Unity Limited (ABN 23 087 648 888).

Key management personnel

(a) Directors

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

Alan Castleman (Chairman)
David Bryant (Group Executive - Investments and Chief Investment Officer)
Rohan Mead (Group Managing Director)
Ian Ferres (Non-Executive Director)
Stephen Maitland (Non-Executive Director)
Bruce Siney (Non-Executive Director)
Warren Stretton (Non-Executive Director)
Anthony Connon (Chief Financial Officer)

(b) Other key management personnel

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

Key management personnel interests

From time to time, Key Management Personnel may purchase or subscribe to the various products offered by its related entities. These transactions are on similar terms and conditions as those entered into by other employees or customers and are trivial or domestic in nature.

Key management personnel compensation

Key management personnel are paid by Australian Unity Funds Management Limited. Payments made from the Scheme to Australian Unity Funds Management Limited do not include any amounts attributable to the compensation of key management personnel.

Key management personnel loan disclosures

The Scheme 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 year.

Other transactions within the Scheme

No director has entered into a material contract with the Scheme since the end of the previous financial year and there were no material contracts involving director's interests subsisting at year end.

Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive fees monthly calculated by reference to the monthly total assets of the Scheme as follows:

- (i) 1.35% (2007: 1.35%) per annum charged on retail class gross assets;
- (ii) 0.95% (2007: 0.95%) per annum charged on wholesale class gross assets; and
- (iii) 0.95% (2008: nil) per annum charged on class A gross assets.

For the year ended 30 June 2009, all expenses in connection with the preparation of accounting records and the maintenance of the unitholder register have been fully borne by the Responsible Entity and its associates.

20 Related party transactions (continued)

	As at	
	30 June 2009 \$'000	30 June 2008 \$'000
Management fees for the year paid/payable by the Scheme to the Responsible Entity	3,582	3,107
Administration expenses (audit fees inclusive) incurred by the Responsible Entity which are reimbursed in accordance with the Scheme's Constitution	1,482	1,276
Custodian fees for the year paid/payable by the Scheme to the Responsible Entity	48	44

The Scheme in accordance with the Scheme's Constitution has reimbursed other administration expenses incurred by the Responsible Entity in full.

Related party unitholdings

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

	Interest held				
Unitholder	Interest held (%)	Number of interests held at opening No. '000	Number of interests acquired No. '000	Number of interests disposed No. '000	Number of interests held at closing No. '000
2009					
Australian Unity Assurance Benefit Fund	0.34	556	-	-	556
Australian Unity Property Income Fund	1.92	2,859	6,315	6,027	3,147
Australian Unity Health Limited	0.05	-	122	-	122
2008					
Unitholder	Number of interests held at opening No. '000	Number of interests acquired No. '000	Number of interests disposed No. '000	Number of interests held at closing No. '000	Interest held (%)
Australian Unity General Insurance Limited	525	-	525	-	-
Australian Unity Assurance Benefit Fund	556	-	-	556	0.35
Australian Unity Property Income Fund	8,313	-	5,454	2,859	1.80
Australian Unity Health Limited	3,540	-	3,540	-	-

21 Reconciliation of net profit/(loss) to net cash inflow/(outflow) from operating activities

	For the year ended	
	30 June 2009 \$'000	30 June 2008 \$'000
(a) Reconciliation of net profit/(loss) to net cash inflow from operating activities		
Net profit/(loss) for the year	-	-
(Decrease)/increase in net assets attributable to unitholders	(5,960)	10,690
Change in fair value of the investment properties - revaluation decrement/(increment)	3,716	(11,990)
Unrealised loss on financial investment assets	1,295	136
Add back interest expenses and borrowing costs	9,336	9,292
Decrease/(increase) in other receivables	1,332	1,809
(Increase)/decrease in other assets	47	(92)
Increase/(decrease) in liabilities	(467)	529
Distribution to unitholders	17,444	13,715
Net cash inflow from operating activities	26,743	24,089

(b) Components of cash and cash equivalents

Cash as at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:

Cash and cash equivalents	504	1,126
Units in Australian Unity Wholesale Cash Fund	4,921	7,504
	5,425	8,630

(c) Non-cash financing activities

There were no non-cash financing and investing activities carried out during the current reporting year.

- -

As described in note 2(p), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable (i.e. taxable).

22 Segment information

The Scheme is organised into one main segment which operates solely in the business of investment management within Australia.

The Scheme operates in Australia and all directly held assets are predominantly Australian.

23 Events occurring after the balance sheet date

Since the reporting date, the Scheme completed the purchase of the Vaucluse Hospital, Brunswick (VIC) at a purchase price of \$11.45m plus acquisition costs on 17 August 2009.

On 30 July 2009, the Scheme refinanced a new loan facility with a limit of \$220,000,000 which replaces the existing \$200,000,000 facility. The term of the loan is up to three years.

No other significant events have occurred since balance date which would impact on the financial position of the Trust disclosed in the balance sheet as at 30 June 2009 or on the results and cash flows of the Trust for the year ended on that date other than as detailed above.

24 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2009 and 30 June 2008.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial report and notes set out on pages 7 to 34 are in accordance with the provisions of 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 Scheme's financial position as at 30 June 2009 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.
- (c) the financial statements are in accordance with the provisions of the Scheme's Constitution.

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



Director



Director
10 September 2009

Independent auditor's report to the unitholders of Australian Unity Healthcare Property Trust

We have audited the accompanying financial report of Australian Unity Healthcare Property Trust, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in net assets attributable to unitholders and cash flow statement 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 the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. 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.

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

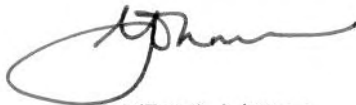
Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of Australian Unity Healthcare Property Trust is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Australian Unity Healthcare Property Trust at 30 June 2009 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*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

A stylized signature of the Ernst & Young firm, with the text 'Ernst & Young' printed below it.A handwritten signature in cursive script, appearing to read 'AJ Johnson'.

AJ (Tony) Johnson
Partner
Melbourne
10 September 2009

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Australia-wide or contact your financial adviser

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Investments


Australian Unity