Centuria Capital No. 2 Fund

ABN 24 858 616 727

Financial Report
for the year ended 30 June 2020

Centuria Capital No. 2 Fund comprises of Centuria Capital No. 2 Fund ARSN 613 856 358 (the 'Fund') and its subsidiaries. The Trustee of the Fund is Centuria Funds Management Limited (the 'Company') ACN 607 153 588, AFSL 479 873.

Centuria Capital No. 2 Fund
Financial Report - 30 June 2020

Contents

These consolidated financial statements are the financial statements of the consolidated entity consisting of Centuria Capital No. 2 Fund and its subsidiaries. A list of subsidiaries is included in note E2. The consolidated financial statements are presented in the Australian currency.

Centuria Capital No. 2 Fund is a trust, registered and domiciled in Australia.

Its registered office is:
Centuria Capital No. 2 Fund
Level 41, Chifley Tower
2 Chifley Square
Sydney NSW 2000

The consolidated financial statements were authorised for issue on 4 March 2021.

Centuria Capital No. 2 Fund

ABN 24 858 616 727

Financial report
30 June 2020

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Consolidated statement of comprehensive income

For the year ended 30 June 2020

	Notes	**2020 $'000**	2019 $'000
Revenue	B1	**46,680**	35,294
Share of net profit of equity accounted investments	E1	**8,110**	25,551
Fair value movements of financial instruments and property		**(38,263)**	(1,776)
Expenses	B2	**(8,639)**	(13,731)
Finance costs	B3	**(15,860)**	(17,475)
Net (loss)/Profit		**(7,972)**	27,863
Profit is attributable to:			
Centuria Capital No. 2 Fund		**(8,954)**	27,717
Non-controlling interests		**982**	146
(Loss)/Profit after tax		**(7,972)**	27,863
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(7,972)**	27,863
Total comprehensive income for the year is attributable to:			
Centuria Capital No. 2 Fund		**(8,954)**	27,717
Non-controlling interests		**982**	146
Total comprehensive income		**(7,972)**	27,863
(Loss)/Profit attributable to Centuria Capital No. 2 Fund unitholders		**(8,954)**	27,717

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

Consolidated balance sheet
As at 30 June 2020

	Notes	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents		**53,036**	67,976
Receivables	C1	**11,157**	72,927
Financial assets at fair value	C2	**527,782**	116,537
Investment properties	C3	**167,110**	177,500
Other assets		**1,295**	-
Equity accounted investments	E1	**31,830**	282,006
Total assets		**792,210**	716,946
Liabilities			
Payables	C4	**35,794**	56,891
Borrowings	C5	**253,211**	296,916
Interest rate swaps at fair value		**636**	731
Total liabilities		**289,641**	354,538
Net assets		**502,569**	362,408
Equity			
Equity attributable to Centuria Capital No. 2 Fund			
Contributed equity	C6	**492,804**	313,069
Retained earnings		**(31,845)**	3,256
Total equity attributable to unitholders of Centuria Capital No. 2 Fund		**460,959**	316,325
Equity attributable to non-controlling interests			
Contributed equity		**14,248**	32,927
Retained earnings		**27,362**	13,156
Total equity attributable to non-controlling interests		**41,610**	46,083
Total equity		**502,569**	362,408

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

Consolidated statement of changes in equity

For the year ended 30 June 2020

	Centuria Capital No. 2 Fund			Non-controlling interests			
	Contributed equity $'000	**Retained earnings $'000**	**Equity attributable to Centuria Capital No. 2 Fund unitholders $'000**	**Contributed equity $'000**	**Retained earnings $'000**	**Total $'000**	**Total equity $'000**
Balance at 1 July 2019	313,069	3,256	316,325	32,927	13,156	46,083	362,408
Profit/(loss) for the year	-	(8,954)	(8,954)	-	982	982	(7,972)
Total comprehensive income for the year	**-**	**(8,954)**	**(8,954)**	**-**	**982**	**982**	**(7,972)**
Distributions paid/accrued	-	(26,147)	(26,147)	-	(3,375)	(3,375)	(29,522)
Units issued during the year	179,735	-	179,735	1,459	-	1,459	181,194
Deconsolidation of controlled property funds	-	-	-	(20,138)	16,599	(3,539)	(3,539)
Balance at 30 June 2020	**492,804**	**(31,845)**	**460,959**	**14,248**	**27,362**	**41,610**	**502,569**

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

	Centuria Capital No. 2 Fund			Non-controlling interests			
	Contributed equity $'000	Retained earnings $'000	Equity attributable to Centuria Capital No. 2 Fund unitholders $'000	Contributed equity $'000	Retained earnings $'000	Total $'000	Total equity $'000
Balance at 1 July 2018	150,491	7,151	157,642	32,927	16,373	49,300	206,942
Profit for the year	-	27,717	27,717	-	146	146	27,863
Total comprehensive income for the year	**-**	**27,717**	**27,717**	**-**	**146**	**146**	**27,863**
Distributions paid/accrued	-	(31,612)	(31,612)	-	(3,363)	(3,363)	(34,975)
Units issued during the year	162,578	-	162,578	-	-	-	162,578
Balance at 30 June 2019	**313,069**	**3,256**	**316,325**	**32,927**	**13,156**	**46,083**	**362,408**

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

Consolidated statement of cash flows

For the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Interest received		**467**	10,521
Rent received		**18,400**	21,451
Distributions received		**22,468**	25,670
Payments to suppliers		**(11,743)**	(18,683)
Interest paid		**(14,448)**	(14,242)
Other income		**66**	778
Net cash provided by operating activities	D1	**15,210**	25,495
Cash flows from investing activities			
Proceeds from sale of related party investments		**53,554**	14,552
Purchase of investments in related parties		**(112,603)**	(104,073)
Loans to related parties for purchase of properties		**-**	(5,128)
Proceeds from sale of investments		**-**	136,899
Repayment of loans by related parties		**180,819**	5,865
Purchase of other investments		**(2,715)**	(26,234)
Purchase of equity accounted investments		**(12,977)**	(23,243)
Loans provided to other parties		**(87,465)**	(46,669)
Sale of investment property		**23,500**	22,600
Payments in relation to investment properties		**(21,097)**	(1,896)
Deconsolidation of controlled property funds cash balance		**(4,231)**	-
Net cash provided/(used) in investing activities		**16,785**	(27,327)
Cash flows from financing activities			
Repayment of borrowings		**(49,938)**	(21,470)
Distributions paid to non-controlling interests		**(3,375)**	(3,363)
Proceeds from issues of units to non-controlling interests		**1,459**	-
Costs paid to issue debt		**(1,628)**	(1,726)
Porceeds from borrowings		**6,547**	80,000
Net cash (used)/provided by financing activities		**(46,935)**	53,441
Net (decrease) increase in cash and cash equivalents		**(14,940)**	51,609
Cash and cash equivalents at the beginning of the financial period		**67,976**	16,367
Cash and cash equivalents at end of year		**53,036**	67,976

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

A About the report

A1 General information

The Fund and its controlled entities (the 'Group') is a for-profit entity and its principal activities are holding direct interest in property funds and other liquid investments.

The financial statements have been prepared for the Directors of the Trustee for the purpose of their due diligence in relation to the listing of debt securities.

Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB). The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements of the Group comprising the Fund (as 'Parent') and its controlled entities for the year ended 30 June 2020 were authorised for issue on 4 March 2021

The Fund was established on 8 July 2016.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for financial assets at fair value through profit and loss, investment properties and derivative financial instruments, and other financial assets, which have been measured at fair value at the end of each reporting period. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, which is the Group's functional currency, unless otherwise noted.

Assets and liabilities have been presented on the face of the Statement of financial position in decreasing order of liquidity and do not distinguish between current and non-current items.

Rounding of amounts

The Group is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars unless otherwise indicated.

A2 Coronavirus (COVID-19) impact

Background
COVID-19 was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global financial markets. Governments across the globe have enforced restrictions to limit the spread of the virus, whilst most governments have implemented economic stimulus packages. Despite these measures, there is still considerable economic uncertainty, especially with the perceived threat of a 'second wave' outbreak, and fears of a sustained recession.

COVID-19 has presented a fast evolving and significant challenge to global and local economies. The real estate sector specifically has been impacted by concerns surrounding security of income and uncertainty around property valuations. In addition, this uncertainty and associated market volatility has resulted in a significant slowdown of transactional activity and investment in most real estate markets.

The Fund has considered the impact of COVID-19 and other market volatility in preparing its financial statements. While the specific areas of judgement as noted in Note A6 did not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the evolving nature of COVID-19 and the limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates and outcomes that have been applied in the measurement of the Fund's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Processes applied
As a consequence of COVID-19 and in preparing these financial statements, Management:
- re-evaluated whether there were any additional areas of judgement or estimation uncertainty;
- assessed the carrying values of its assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19; and
- considered the impact of COVID-19 on the Fund's financial statement disclosures.

Consideration of the statements of financial position and further disclosures
Key statement of financial position items and related disclosures that have been impacted by COVID-19 were as follows:

Financial assets
The Fund carries significant investments in entities that directly own real estate, such as external funds that are managed by subsidiaries of the Fund. These investments are impacted by stock market volatility (for investments in ASX-listed securities) and by property valuations (for investments in unlisted securities). Refer to Note C2.

Investment properties
As a result of COVID-19, there is significant valuation uncertainty due to an inactive property investment market, a lack of relevant transactional evidence as well as uncertainties in relation to the potential impact of the pandemic on future cash flows. Assessing the fair value of investment property involves uncertainties around underlying assumptions given the constantly changing nature of the situation. Refer to note C3 for an outline of the Fund's investment property valuation methodologies, as well as additional sensitivity analysis performed around the fair valuation of properties in response to the onset of the pandemic.

Financial instruments
Given recent market volatility as a result of COVID-19, the Fund reviewed the appropriateness of the inputs to its valuations of financial instruments including receivables, payables and derivative instruments. The impact of changes of inputs to the valuations has also been considered in terms of the classification of exposures in the fair value hierarchy and transfers within the fair value hierarchy. Refer to Note F1.

A3 Significant accounting policies

The accounting policies and methods of computation in the preparation of the consolidated financial statements are consistent with those adopted in the previous financial year ended 30 June 2019 with the exception of the adoption of new accounting standards outlined below or in the relevant notes to the consolidated financial statements.

When the presentation or classification of items in the consolidated interim financial statements has been amended, comparative amounts are also reclassified, unless it is impractical. Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.

During the year, the Fund decreased its equity accounted stakes in Centuria Office REIT ('COF') and Centuria Industrial REIT ('CIP') to below 20% and these investments have since been accounted for as financial assets carried at fair value through profit or loss. Refer Note E1 for further details.

As at 26 February 2020, the Fund increased its ownership stakes in the Centuria Diversified Property Fund to 22.7%. From that date, the Fund has equity accounted its interest in that fund.

New Accounting Standards
The Group has applied new accounting standards and their impact is disclosed in Note A4. These financial statements contain all significant accounting policies that summarise the recognition and measurement basis used and which are relevant to provide an understanding of the financial statements. Accounting policies that are specific to a note to the financial statements are described in the note to which they relate.

A4 Adoption of new accounting standards and interpretations

(a) AASB 16 Leases

(i) *Nature of change*

AASB 16 *Leases* was issued in February 2016. It has resulted in leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

(ii) *Impact*

The standard affects primarily the accounting for the Fund's operating leases. As at the reporting date, the Fund does not have non-cancellable operating lease commitments. Accordingly, the standard has no impact on the Fund's profit and classification of cash flows.

(iii) *Impact as lessor*

The Fund leases out its investment property and has classified these leases as operating leases. The Fund is not required to make any adjustment on transition to AASB 16 for leases in which it acts as lessor.

A5 Other new accounting standards and interpretations

A number of new accounting standards have been published that are not effective for the 30 June 2020 reporting period. The Fund has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Fund's consolidated financial statements.

AASB 2018-6
Clarifies the definition of a business as per AASB 3 Business Combinations and is applied prospectively to future acquisitions.

AASB 2018-7
Clarifies the definition of material as applied across all reporting standards as per AASB 101 Presentation of Financial Statements with intention of increasing a users focus on the material items in a financial report.

AASB 2014-10
Clarifies the requirements for recording the sale or contribution of assets between an investor and its associate or joint venture.

A6 Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note C3 Investment properties
- Note F1 Financial instruments

A7 Going Concern

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The COVID-19 pandemic creates uncertainty on the global and local financial markets. The Fund has completed an extensive assessment on its key investments and receivables and the directors remain confident that the Fund will be able to continue as a going concern. Refer to note C1

B Business performance

B1 Revenue

	2020 $'000	2019 $'000
Rent	**12,691**	14,653
Recoverable outgoings	**3,747**	4,328
Distribution revenue	**18,775**	6,735
Interest revenue	**11,401**	8,800
Other income	**66**	778
	46,680	35,294

(a) Transactions with related parties

	2020 $	2019 $
Distributions from Property Funds managed by Centuria	**15,685,015**	2,121,706
Interest income on loan to Centuria Finance Pty Limited	**10,935,131**	8,451,173
Interest income on loans to Property Funds managed by Centuria	**229,297**	36,958
Distributions and interest from Debt Funds managed by Centuria	**-**	202,062
	26,849,443	10,811,899

Recognition and measurement

Revenue is recognised over time if:

- the customer simultaneously receives and consumes the benefits as the entity performs;
- the customer controls the asset as the entity creates or enhances it; or
- the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

(i) *Interest revenue*

Interest revenue is accrued on a time basis, by reference to the principal outstanding using the effective interest rate method.

(ii) *Rent*

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease.

(iii) *Recoverable outgoings*

The Fund recovers the costs associated with general building and tenancy operation from lessees in accordance with specific clauses within lease agreements. These are invoiced monthly based on an annual estimate. The consideration is due 30 days from invoice date. Should any adjustment be required based on actual costs incurred, this is recognised in the statement of financial performance within the same reporting period and billed annually.

Recoverable outgoings were recognised on an overtime basis under AASB 15.

(iv) *Distribution revenue*

Distribution revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

B2 Expenses

	2020 $'000	2019 $'000
Consulting and professional fees	**218**	155
Property outgoings and fund expenses	**8,379**	10,772
Corporate restructure and transaction costs	**-**	2,782
Other expenses	**42**	22
	8,639	13,731

(a) Transactions with related parties

	2020 $	2019 $
Management and custodian fees paid to Centuria Property Funds No. 2 Limited and Centuria Property Funds Limited and Centuria Healthcare Asset Management Limited	**1,292,948**	1,153,639
Management fees paid to Centuria Funds Management Limited	**200,000**	200,000
	1,492,948	1,353,639

B3 Finance costs

	2020 $'000	2019 $'000
Operating interest charges	**12,769**	12,839
Bank loans in Property Funds interest charges	**3,091**	4,636
	15,860	17,475

Recognition and measurement

The Group's finance costs include interest expense recognised using the effective interest method.

B4 Taxation

Under current tax legislation, Trusts are not liable for income tax, provided their unitholders are presently entitled to the taxable income of the Trust including realised capital gains each financial year.

B5 Distributions

	2020 Cents per unit	2020 Total $'000	2019 Cents per unit	2019 Total $'000
Distributions paid during the year				
Final distribution	**2.42**	**26,147**	**2.51**	**18,721**
Interim distribution	**-**	**-**	**1.73**	**12,891**
Distributions paid/declared distributions paid to Centuria Capital No. 2 Fund unitholders	**2.42**	**26,147**	**4.24**	**31,612**

C Assets and liabilities

C1 Receivables

	2020 $'000	2019 $'000
Receivables from related parties (see Note C1(a))	**10,657**	72,255
Other receivables	**500**	672
	11,157	72,927

The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

(a) Receivables from related parties

The following amounts owed by related parties of the Group at the end of the financial year:

	2020 $	2019 $
Distribution receivable from Centuria Industrial REIT	**2,285,990**	2,076,299
Distribution receivable from Centuria Office REIT	**3,383,335**	2,715,823
Receivable from Centuria Capital No. 5 Fund	**4,623,616**	46,128,614
Distribution receivable from Centuria Scarborough House Fund	**697**	699
Receivable from Centuria Capital Limited	**75,780**	5,144,226
Receivables from Debt Funds managed by Centuria	**-**	78,571
Distribution receivable from Centuria Heathley Aged Care Fund No. 1	**114,544**	-
Distribution receivable from Centuria Heathley Direct Medical Fund No. 2	**18,515**	-
Distribution receivable from Centuria Diversified Property Fund	**154,464**	110,393
Redemption funds receivable from Centuria Diversified Fund	**-**	16,000,000
	10,656,941	72,254,625

Recognition and measurement

Receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less an allowance for impairment. Due to the short-term nature of these financial rights, their carrying amounts are estimated to represent their fair values.

C2 Financial assets at fair value

	Notes	2020 $'000	2019 $'000
Investments in trusts and other financial assets		**2,416**	2,840
Loans receivable from other parties[(i)]		**6,702**	6,066
Investment in related party unit trusts	C2(a)	**324,751**	11,694
Loans receivable from related parties	C2(b)	**193,913**	95,937
		527,782	116,537

[(i)] This is an unsecured loan to a third party which accrues 10% interest per annum

C2 Financial assets at fair value (continued)

(a) Investments in related party unit trusts carried at fair value through profit or loss

The following table details related party investments carried at fair value through profit and loss.

	2020 Fair value $	2020 Units held	2020 Ownership %	2019 Fair value $	2019 Units held	2019 Ownership %
Financial assets held by the Fund						
Centuria Industrial REIT*	**155,007,218**	**48,898,176**	**12.22%**	-	-	0%
Centuria Office REIT*	**153,580,584**	**76,029,992**	**14.78%**	-	-	0%
Centuria Diversified Property Fund**	**-**	**-**	**0%**	11,591,312	8,060,718	14.92%
Centuria Healthcare Aged Care Property Fund No. 1	**5,748,988**	**5,513,559**	**9.21%**	-	-	0%
Centuria Healthcare Direct Medical Fund No. 2	**10,305,433**	**11,025,391**	**7.48%**	-	-	0%
Centuria Life Goals - Various Funds	**11,096**	**-**	**0%**	-	-	0%
Centuria Scarborough House Fund	**97,530**	**102,836**	**0.22%**	102,826	102,826	0.22%
	324,750,849			11,694,138		

* These investments which were previously equity accounted are now held as related party investments for the year ended 30 June 2020. See Note E1 for details. Also, see below for a movement of the related party unit trusts during the year.

** Centuria Diversified Property Fund, previously held as related party investments is equity accounted for the year ended 30 June 2020. See Note E1 for details.

C2 Financial assets at fair value (continued)

(b) Loans receivable from related parties

The following short-term loans were receivable from related parties of the Fund at the end of the financial year:

	2020 $	2019 $
Centuria Finance Pty Limited	**152,537,093**	95,936,587
Centuria New Zealand Holdings Limited	**41,376,387**	-
	193,913,480	95,936,587

The maturity date is the earliest of 23 December 2025 or such other date as the Fund and borrower may agree in writing.

Recognition and measurement

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss ("FVTPL"), which are initially measured at fair value only.

Financial assets are classified as financial assets at FVTPL when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of comprehensive income.

AASB 9 contains three principal classification categories for financial assets:

• measured at amortised cost;
• measured at fair value through other comprehensive income (FVOCI); and
• measured at fair value through profit and loss (FVTPL).

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

C2 Financial assets at fair value (continued)

Recognition and measurement (continued)

(i) Financial assets at amortised cost

Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method less any allowance under the Expected Credit Loss ("ECL") model.

(ii) Recoverability of loans and receivables

At each reporting period, the Fund assesses whether financial assets carried at amortised cost are ‘credit-impaired’. A financial asset is ‘credit-impaired’ when one or more events that has a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Fund recognises loss allowances at an amount equal to lifetime ECL on trade and other receivables. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Lifetime ECLs result from all possible default events over the expected life of the trade receivables and are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive.

The Fund analyses the age of outstanding receivable balances and applies historical default percentages adjusted for other current observable data as a means to estimate lifetime ECL, including forecasts of interest rates and inflation, as well as the financial stress of counterparties and their ability to operate as a going concern. Debts that are known to be uncollectable are written off when identified.

Given that COVID-19 is an ongoing situation, the Fund has continued to analyse the age of outstanding receivable balances post balance sheet date and applied estimated percentages of recoverability to estimate ECL, as well as the financial stress of counterparties and their ability to operate as a going concern. Debts that are known to be uncollectible are written off when identified.

(iii) Financial assets at FVTPL

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. Financial assets recognised at FVTPL include investments in trusts.

C3 Investment properties

	2020 $'000	2019 $'000
Opening Balance	**177,500**	147,100
Acquisition of investment properties	**15,116**	-
Capital improvements and associated costs	**4,660**	1,726
Loss on fair value	**(6,141)**	(10,705)
Change in deferred rent and lease incentives	**(525)**	(621)
Sale of investment property	**(23,500)**	-
Transfer from investment properties held for sale	**-**	40,000
Closing balance	**167,110**	177,500

^ The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to $12,704,534 (30 June 2019: $12,000,000).

Property	**30 June 2020 $'000**	30 June 2019 $'000	**30 June 2020 Capitalisation rate %**	**30 June 2020 Discount rate %**	**30 June 2020 valuer**
111 St George Terrace, Perth WA	**155,000**	150,000	**6.75%**	**7.00%**	**Colliers**
120 and 122 Spencer St, South Bunbury WA	**6,500**	-	**6.50%**	**-%**	**Colliers**
8-10 Warneford St, Sandy Bay TAS	**5,610**	-	**7.00%**	**7.50%**	**Directors**
City Centre Plaza, Rockhampton Qld	**-**	27,500	**-%**	**-%**	
Total fair value	**167,110**	177,500			

Key estimate and judgements

(a) Recognition and measurement

The investment properties recognised by the Fund are properties owned by related party funds that are deemed to be controlled by the Fund under accounting standards.

Investment properties are held by the funds to earn rental income or for capital appreciation or for both. Investment properties are initially recorded at cost which includes stamp duty and other transaction costs. Subsequently, the investment properties are measured at fair value with any change in value recognised in profit or loss. The carrying amount of investment properties includes components relating to deferred rent, lease incentives and leasing fees.

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(b) Valuation techniques and significant unobservable inputs

The fair values of the investment properties were determined by the Directors of the Trustee of the relevant funds or by an external, independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Given the changing economic conditions as a result of the COVID-19 pandemic, there is uncertainty surrounding the potential impact on future cashflows and valuations. Rent relief allowances in accordance with the National Cabinet's Code of Conduct which set out commercial leasing principles for businesses during the pandemic were taken into consideration when determining the cashflows for the properties, however actual future cashflows may differ from this.

The valuations were prepared by considering the following valuation methodologies:

C3 Investment properties (continued)

(b) Valuation techniques and significant unobservable inputs (continued)

- **Capitalisation approach**: the annual net rental income is capitalised at an appropriate market yield to arrive at the property's market value. Appropriate capital adjustments are then made where necessary to reflect the specific cash flow profile and the general characteristics of the property.
- **Discounted cash flow approach:** this approach incorporates the estimation of future annual cash flows over a 10-year period by reference to expected rental growth rates, ongoing capital expenditure, terminal sale value and acquisition and disposal costs. The present value of future cash flows is then determined by the application of an appropriate discount rate to derive a net present value for the property.
- **Direct comparison approach:** this approach identifies comparable sales on a dollar per square metre of lettable area basis and compares the equivalent rates to the property being valued to determine the property's market value.

The valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between the lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

The most significant unobservable input used in the above valuation techniques and its relationship with fair value measurement is the capitalisation rate. The higher/lower the rate, the lower/higher the fair value.

(c) Fair value measurement

The fair value measurement of investment properties has been categorised as a Level 3 fair value as it is derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

Significant unobservable inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input	Range of inputs FY20
Market rent	Increase	Decrease	$428,000 psm to $572,000 psm
Capitalisation rate	Decrease	Increase	6.5% to 7.0%
Discount rate	Decrease	Increase	7.00%% to 7.25%

Capitalisation and discount rates are considered significant Level 3 inputs. Refer to Note F1 for further information.

A further sensitivity analysis was taken to assess the fair value of investment properties given the uncertain impact of the COVID-19 pandemic on property values. The table below illustrates the valuation impact of movements in capitalisation rates and discount rates:

	Fair value at 30 June 2020 $000	Capitalisation rate impact -0.25% $000	+0.25% $000
Investment property	167,110	6,429	(5,970)

C3 Investment properties (continued)

(c) Fair value measurement (continued)

Given the unknown future impact that COVID-19 might have on the commercial real estate market and global market in general, coupled with a lower interest rate environment, a higher degree of judgement and consideration needs to be made in assessing the significant inputs that determine property valuations. Management and external valuers acknowledge current valuations are subject to 'material valuation uncertainty' as a consequence of this. A reduction in transaction volumes have made direct comparison as a method more difficult. It is also challenging to determine the full impact on Net Passing Income to the property for future periods as management continue to negotiate rent relief agreements with tenants that fall within the national code. To date, there has been little evidence to suggest that capitalisation and discount rates have softened since the COVID-19 pandemic hit. As the COVID-19 pandemic progresses, management have continued to re-assess the valuation method to ensure appropriate considerations in relation to inputs used.

C4 Payables

	2020 **$'000**	2019 $'000
Amounts due to related parties (see Note C4 (a))	**28,738**	48,551
Sundry creditors [(i)]	**6,487**	7,993
Accrued expenses	**569**	347
	35,794	56,891

(i) Sundry creditors are non-interest bearing liabilities and are payable on commercial terms of 7 to 60 days.

(a) Amounts due to related parties

The following amounts owed to related parties of the Group at the end of the financial year:

	2020 **$**	2019 $
Payable to Centuria Capital Fund	**25,791,718**	48,551,016
Payable to Centuria Capital No. 5 Fund	**2,912,389**	-
Payable to Centuria Capital Limited	**33,839**	-
	28,737,946	48,551,016

Recognition and measurement

Payables are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services. Due to the short-term nature of these financial obligations, their carrying amounts are estimated to represent their fair values.

C5 Borrowings

	Notes	**2020** **$'000**	2019 $'000
Fixed rate secured notes	C5(a)	**95,000**	130,000
Floating rate secured notes	C5(a)	**75,000**	75,000
Bank loans in Property Funds	C5(b)	**85,920**	94,309
Borrowing costs capitalised		**(2,709)**	(2,393)
		253,211	296,916

The terms and conditions relating to the above facilities are set out below.

(a) Secured notes

The Fund issued fixed and floating corporate notes as per below:

C5 Borrowings (continued)

(a) Secured notes (continued)

	Classification	Coupon Rate	Due Date	2020 $'000	2019 $'000
Fixed					
Tranche 1	Current	7.0%	21 Apr 2021	**30,708**	85,000
Tranche 2	Non-current	6.5%	21 Apr 2023	**45,000**	45,000
Tranche 3	Non-current	5.0%	21 Apr 2024	**19,292**	-
				95,000	130,000

	Classification	Coupon rate	Due date	$'000	$'000
Variable					
Tranche 1	Current	BBSW +4.5%	21 April 2021	**26,040**	40,000
Tranche 2	Non-current	BBSW +4.25%	21 April 2023	**35,000**	35,000
Tranche 3	Non-current	BBSW +4.5%	21 April 2024	**13,960**	-
				75,000	75,000

(b) Bank Loans - Property Funds (secured)

Each controlled property fund has debt facilities secured by first mortgage over each of the fund's investment property and a first ranking fixed and floating charge over all assets of each of the funds. Details of the amounts drawn and the maturity of each facility are as follows:

Fund	Current/non-current classification	Maturity date	Facility limit $'000	Funds available $'000	Draw down $'000	Borrowing costs $'000	Draw down $'000
30 June 2020							
Centuria 111 St Georges Terrace Fund	Non-current	30 June 2022	90,000	6,644	**83,356**	(193)	**83,163**
Nexus Property Unit Trust	Non-current	4 December 2022	2,805	-	**2,805**	(48)	**2,757**
							85,920
30 June 2019							
Centuria 111 St Georges Terrace Fund	Non-current	30 June 2022	90,000	10,521	**79,479**	(107)	**79,372**
Centuria Retail Fund	Current	31 December 2019	14,938	-	**14,938**	(1)	**14,937**
							94,309

Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

C6 Contributed equity

	2020 No. of units	2020 $'000	2019 No. of units	2019 $'000
Balance at beginning of the period	**744,592,647**	**313,069**	390,209,710	150,491
Units issued	**335,595,159**	**179,735**	354,382,937	162,578
Balance at end of the period	**1,080,187,806**	**492,804**	744,592,647	313,069

Fully paid ordinary securities carry one vote per security and carry the right to distributions.

Recognition and measurement

Incremental costs directly attributed to the issue of ordinary units are accounted for as a deduction from equity.

D Cash flows

D1 Reconciliation of profit for the period to net cash flows from operating activities

	2020 $'000	2019 $'000
Profit for the year	**(7,972)**	27,863
Add (deduct) non-cash items:		
Loss/(gain) on investment property	**6,260**	10,694
Equity accounted profit in excess of distribution paid	**124**	(8,444)
Fair value movement of financial instruments	**29,649**	(8,498)
Non-cash interest capitalised on related party loan	**(10,935)**	1,862
Costs paid for debt issuance	**-**	1,727
Distribution in relation to dividend reinvestment plan	**-**	770
Amortisation of borrowing costs	**1,412**	799
Amortisation of lease incentives	**1,665**	1,602
Increase/(Decrease) in other liabilities	**18**	99
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Decrease/(Increase) in Receivables	**(1,511)**	1,243
Increase/(decrease) in liabilities:		
Increase/(Decrease) in Other Payables	**(3,500)**	(4,222)
Net cash flows provided by operating activities	**15,210**	25,495

Recognition and measurement

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition. Bank overdrafts are shown within borrowings in the statement of financial position.

E Group Structure

E1 Interests in associates

During the year, the Fund's investment in Centuria Office REIT (COF) and Centuria Industrial REIT (CIP) reduced below 20% and the Fund no longer had significant influence over COF and CIP. As a result, these investments which were previously accounted for as equity accounted investments using the equity method, are now recognised as financial assets at fair value as at 30 June 2020.

Set out below are the associates of the Fund as at 30 June 2019 which, in the opinion of the directors, were material to the Fund and were accounted for using the equity method. The entities listed below have share capital consisting solely of ordinary units, which are held directly by the Fund. The country of incorporation or registration is Australia which is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

As at 26 February, the Fund increased its ownership stakes in the Centuria Diversified Property Fund to 22.7%. From that date, The Fund equity accounted its interest in that fund.

Name of entity	% of ownership interest	% of ownership interest	Principal activity	Quoted fair value		Carrying amount	
	30 June 2020 %	30 June 2019 %		30 June 2020 $'000	30 June 2019 $'000	30 June 2020 $'000	30 June 2019 $'000
Centuria Office REIT	**0.00**	**17.49**	Property investments	**-**	180,828	**-**	155,355
Centuria Industrial REIT	**0.00**	**16.70**	Property investments	**-**	138,119	**-**	126,651
Centuria Diversified Property Fund	**22.68**	**0.00**	Property Investments	**31,830**	-	**31,830**	-
Total equity accounted investments				**31,830**	318,947	**31,830**	282,006

The below table shows the movement in carrying amounts of equity accounted investments from 1 July 2019 to 30 June 2020.

	Centuria Diversified Property Fund $'000	Centuria Office REIT $'000	Centuria Industrial REIT $'000	Total $'000
Movements in carrying amounts of equity accounted investments				
Opening Balance as at 1 July 2019	**-**	**155,355**	**126,651**	**282,006**
Acquisition of Investments	**-**	**7,500**	**10,545**	**18,045**
Share of net (Loss)/profit after tax	**(502)**	**2,347**	**6,265**	**8,110**
Distributions received/receivable	**502**	**(2,773)**	**(2,905)**	**(5,176)**
Carrying value transferred from/ (to) financial assets	**31,830**	**(162,429)**	**(140,556)**	**(271,155)**
Closing balance as at 30 June 2020	**31,830**	**-**	**-**	**31,830**

E1 Interests in associates (continued)

The below table shows the movement in carrying amounts of equity accounted investments from 1 July 2018 to 30 June 2019.

	Centuria Office REIT $'000	Centuria Industrial REIT $'000	Total $'000
Movement in carrying amount of equity account investments			
Opening balance at 1 July 2018	-	-	-
Carrying value transferred from financial assets	151,433	115,357	266,790
Disposal	-	(5,420)	(5,420)
Investment	-	13,089	13,089
Share of net profit after tax	12,069	13,482	25,551
Distribution received/ receivable	(8,147)	(9,857)	(18,004)
Closing balance as at 30 June 2019	**155,355**	**126,651**	**282,006**

(a) Summarised financial information for associates and joint ventures

The tables below provide summarised financial information for those associates that are material to the Fund. The information disclosed reflects the amounts presented in the consolidated financial statements of the relevant associates and not the Fund's share of those amounts.

	Centuria Diversified Property Fund		Centuria Office REIT		Centuria Industrial REIT	
Summarised balance sheet	**30 June 2020 $'000**	30 June 2019 $'000	**30 June 2020 $'000**	30 June 2019 $'000	**30 June 2020 $'000**	30 June 2019 $'000
Cash and other cash equivalents	18,013	-	-	17,546	-	9,348
Investment properties held for sale	-	-	-	78,500	-	11,400
Other current assets	11,633	-	-	5,544	-	9,144
Total current assets	**29,646**	-	**-**	101,590	**-**	29,892
Non-current assets	166,588	-	-	1,321,475	-	1,209,850
Total tangible non-current assets	**166,588**	-	**-**	1,321,475	**-**	1,209,850
Other current liabilities	3,812	-	-	30,451	-	28,724
Total current liabilities	**3,812**	-	**-**	30,451	**-**	28,724
Borrowings	64,988	-	-	497,222	-	468,431
Other non-current liabilities	351	-	-	7,180	-	3,541
Total non-current liabilities	**65,339**	-	**-**	504,402	**-**	471,972
Net tangible assets	**127,083**	-	-	888,212	-	739,046
Fund share in %	22.68%	-	-	17.49%	-	16.70%
Fund's share	2,822	-	-	155,355	-	123,421
Goodwill	3,008	-	-	-	-	3,230
Carrying amount	**31,830**	**-**	**-**	155,355	**-**	126,651

E1 Interests in associates (continued)

(a) Summarised financial information for associates and joint ventures (continued)

Summarised statement of comprehensive income	Centuria Diversified Property Fund		Centuria Office REIT		Centuria Industrial REIT	
	30 June 2020 $'000	30 June 2019 $'000	**30 June 2020 $'000**	30 June 2019 $'000	**30 June 2020 $'000**	30 June 2019 $'000
Revenue	10,919	-	-	108,859	-	93,863
Interest income	24	-	-	334	-	195
Other income	-	-	-	8	-	602
Net gain on fair value of investment properties	(10,919)	-	-	7,143	-	53,808
Finance costs	(1,233)	-	-	(22,110)	-	(21,496)
Loss on fair value of derivative financial instruments	(351)	-	-	(6,752)	-	(3,581)
Other expenses	(3,699)	-	-	(33,910)	-	(34,563)
(Loss)/Profit for the period	**(5,259)**	-	-	53,572	-	88,828
Other comprehensive income	-	-	-	-	-	-
Total comprehensive (Loss)/income	**(5,259)**	**-**	-	**53,572**	-	**88,828**

E2 Interests in subsidiaries

The Fund's principal subsidiaries at 30 June 2020 are set out below. Unless otherwise stated, they have issued capital consisting solely of ordinary units that are held directly by the Fund, and the proportion of ownership interests held equals the voting rights held by the Fund. The subsidiaries are incorporated in Australia which is also their principal place of business.

	Ownership interest %	
Name of subsidiary	**30 June 2020**	**30 June 2019**
Centuria Capital No. 2 Office Fund	100%	100%
Centuria Capital No. 2 Industrial Fund	100%	100%
Centuria Capital No. 3 Fund	100%	100%
Centuria Capital Health Fund	100%	0%
Centuria Healthcare Property Fund	100%	0%
Centuria Capital No. 7 Fund	100%	100%
Centuria Capital No. 4 Fund	100%	0%
Centuria Lane Cove Debt Fund	100%	0%
Nexus Property Unit Trust	59%	0%
Centuria Capital No. 6 Fund	100%	0%

Recognition and measurement

(i) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund (subsidiaries). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

E3 Parent entity disclosure

As at, and throughout the current financial year, the parent entity of the Group was Centuria Capital No. 2 Fund.

	2020	2019
Result of parent entity	**$'000**	$'000
Profit or loss for the year	**(20,620)**	25,611
Total comprehensive income for the year	**(20,620)**	25,611
Financial position of parent entity at year end		
Total assets	**668,491**	557,989
Total liabilities	**(233,013)**	(255,479)
Net assets	**435,478**	302,510

The parent entity presents its assets and liabilities in order of liquidity. The assets of the parent entity mainly consist of cash, short term receivables and financial assets. The liabilities of the parent entity mainly consist of short term payables.

Total equity of the parent entity comprising of:		
Share capital	**492,804**	313,070
Retained earnings/(loss)	**(57,326)**	(10,560)
Total equity	**435,478**	302,510

(a) Guarantees entered into by the parent entity

The parent entity has, in the normal course of business, entered into guarantees in relation to the debts of its subsidiaries during the financial year

(b) Commitments and contingent liabilities of the parent entity

The directors of the Company are not aware of any other contingent liabilities in relation to the parent entity, other than those disclosed in the financial statements.

F Other

F1 Financial instruments

(a) Management of financial instruments

The Board is ultimately responsible for the Risk Management Framework of the Group.

The Group employs a cascading approach to managing risk, facilitated through delegation to specialist committees and individuals within the Group.

The Group is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Fund's risk management and investment policies, approved by the Board, seek to minimise the potential adverse effects of these risks on the Group's financial performance. These policies may include the use of certain financial derivative instruments.

The Group uses interest rate swaps to manage interest rate risk and not for speculative purposes in any situation. Hedging is put in place where the Group is either seeking to minimise or eliminate cash-flow variability, i.e., converting variable rates to fixed rates, or changes in the fair values of underlying assets or liabilities, i.e., to convert fixed rates to variable rates.

(b) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity capital.

The Group's capital structure consists of net debt (borrowings, offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings).

The Group carries on business throughout Australia, primarily through subsidiary companies that are established in the markets in which the Group operates.

Operating cash flows are used to maintain and, where appropriate, expand the Group's funds under management as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group reviews regularly its anticipated funding requirements and the most appropriate form of funding (capital raising or borrowings) depending on what the funding will be used for.

(c) Fair value of financial instruments

(i) *Valuation techniques and assumptions applied in determining fair value*

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. Discount rates are determined based on market rates applicable to the financial asset or liability.

(ii) *Valuation techniques and assumptions applied in determining fair value of derivatives*

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(iii) *Fair value measurements recognised in the statement of financial position*

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value.

The table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1, 2 and 3 in the period.

F1 Financial instruments (continued)

(c) Fair value of financial instruments (continued)

(iii) *Fair value measurements recognised in the statement of financial position (continued)*

30 June 2020	Measurement basis	Fair value hierarchy	Carrying amount $'000	Fair value $'000
Financial assets				
Cash and cash equivalents	**Amortised cost**	**Not applicable**	**53,036**	**53,036**
Receivables	**Amortised cost**	**Not applicable**	**11,157**	**11,157**
Financial assets	**Fair value**	**Level 1**	**308,588**	**308,588**
Financial assets	**Fair value**	**Level 2**	**219,194**	**219,194**
			591,975	**591,975**
Financial liabilities				
Payables	**Amortised cost**	**Not applicable**	**36,502**	**36,502**
Borrowings (net of borrowing costs)	**Amortised cost**	**Not applicable**	**253,211**	**253,211**
Interest rate swaps at fair value	**Fair value**	**Level 2**	**636**	**636**
			290,349	**290,349**

30 June 2019	Measurement basis	Fair value hierarchy	Carrying amount $'000	Fair value $'000
Financial assets				
Cash and cash equivalents	Amortised cost	Not applicable	67,976	67,976
Receivables	Amortised cost	Not applicable	72,927	72,927
Financial assets	Fair value	Level 1	2,840	2,840
Financial assets	Fair value	Level 2	113,697	113,697
			257,440	257,440
Financial liabilities				
Payables	Amortised cost	Not applicable	56,891	56,891
Borrowings (net of borrowing costs)	Amortised cost	Not applicable	296,916	303,429
Interest rate swaps at fair value	Fair value	Level 2	731	731
Total			354,538	361,051

The Group determines Level 2 fair values for financial assets and liabilities without an active market based on broker quotes. Level 2 fair values for simple over-the-counter derivatives are also based on broker quotes. Those quotes are tested for reasonableness by discounting expected future cash flows using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and counterparty where appropriate.

Recognition and measurement

The Group enters into derivative financial instruments such as interest rate swaps to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating risk of financial loss from default. The credit risk on financial assets of the Group and the parent recognised in the statement of financial position is generally the carrying amount, net of allowance for impairment loss.

Concentration of risk may exist when the volume of transactions limits the number of counterparties.

F1 Financial instruments (continued)

(d) Credit risk (continued)

(i) *Credit risk on other financial assets*

Credit risk on other financial assets such as investments in floating rate notes, standard discount securities and unit trusts is managed through strategic asset allocations with creditworthy counterparties and the on-going monitoring of the credit quality of investments, including the use of credit ratings issued by well-known rating agencies. The exposure of credit risk in respect of financial assets is minimal.

The Group does not have any significant credit risk exposure to any single entity in other financial assets or any group of counterparties having similar characteristics.

(e) Liquidity risk

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities.

The liquidity risk is managed for the Group at a corporate level. Bank account balances across all entities, current and future commitments, and expected cash inflows are reviewed in detail when the monthly cash flow projection is prepared for management purposes and presented to the Board at its regular monthly meetings. By comparing the projected cash flows with the assets and liabilities shown in the individual and consolidated statements of financial position, which are also prepared on a monthly basis for management purposes and presented to the Board, liquidity requirements for the Group can be determined. Based on this review, if it is considered that the expected cash inflows plus liquidity on hand, may not be sufficient in the near term to meet cash outflow requirements, including repayment of borrowings, a decision can be made to carry out one or more of the following:

- renegotiate the repayment terms of the borrowings;
- sell assets that are held on the statement of financial position; and/or
- undertake an equity raising.

This, combined with a profitable business going forward, should ensure that the Group continues to meet its commitments, including repayments of borrowings, as and when required.

F1 Financial instruments (continued)

(e) Liquidity risk (continued)

The following table summarises the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the parent can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

Non-derivative financial liabilities	On Demand $'000	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000	5+ years $'000	Total $'000
Consolidated						
2020						
Borrowings	**-**	**686**	**65,350**	**214,686**	**-**	**280,722**
Payables	**-**	**36,502**	**-**	**-**	**-**	**36,502**
Total	**-**	**37,188**	**65,350**	**214,686**	**-**	**317,224**
2019						
Borrowings	-	1,015	29,368	311,222	-	341,605
Payables	-	56,891	-	-	-	56,891
Total	-	57,906	29,368	311,222	-	398,496

The following table summarises the maturing profile of derivative financial liabilities. The table has been drawn up based on the undiscounted net cash flows on the derivative instruments that settle on a net basis.

Derivative financial liabilities	On Demand $'000	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000	5+ years $'000	Total $'000
Consolidated						
2020						
Interest rate swaps	**-**	**-**	**640**	**(4)**	**-**	**636**
Total	**-**	**-**	**640**	**(4)**	**-**	**636**
2019						
Interest rate swaps	-	-	664	67	-	731
Total	-	-	664	67	-	731

F1 Financial instruments (continued)

(f) 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 interest rate risk and price risk. Due to the nature of assets held by the Group, there is an asset and liability management process which determines the interest rate sensitivity of the statement of financial position and the implementation of risk management practices to hedge the potential effects of interest rate changes.

(i) Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. Management of this risk is evaluated regularly and interest rate swaps are used accordingly.

The tables below detail the Fund's interest bearing financial assets and liabilities.

	Weighted average effective interest rate	Variable rate $'000	Fixed rate $'000	Total $'000
2020				
Financial assets				
Cash and cash equivalents	**0.10%**	**53,036**	**-**	**53,036**
Other interest bearing loans	**8.32%**	**193,913**	**6,702**	**200,615**
Total financial assets		**246,949**	**6,702**	**253,651**
Financial liabilities				
Borrowings	**4.28%**	**(158,211)**	**(95,000)**	**(253,211)**
Total financial liabilities		**(158,211)**	**(95,000)**	**(253,211)**
Net interest bearing financial liabilities		**88,738**	**(88,298)**	**440**

	Weighted average effective interest rate	Variable rate $'000	Fixed rate $'000	Total $'000
2019				
Financial assets				
Cash and cash equivalents	1.23%	67,976	-	67,976
Other interest bearing loans	9.06%	95,937	6,066	102,003
Total financial assets		163,913	6,066	169,979
Financial liabilities				
Borrowings	5.29%	(166,916)	(130,000)	(296,916)
Total financial liabilities		(166,916)	(130,000)	(296,916)
Net interest bearing financial liabilities		(3,003)	(123,934)	(126,937)

F1 Financial instruments (continued)

(f) Market risk (continued)

(ii) *Interest rate swap contracts*

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of fixed rate financial assets held and the cash flow exposures on the issued variable rate debt.

The following table details the notional principal amounts and remaining expiry of the Group's outstanding interest rate swap contracts as at reporting date. These swaps are at fair value through profit and loss.

	Average contracted rate		Notional principal amount		Fair value	
Pay fixed for floating contracts	**2020**	**2019**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Interest rate swaps	**1.11%**	1.36%	**70,000**	84,815	**(636)**	(731)
			70,000	84,815	**(636)**	(731)

(iii) *Interest rate sensitivity*

The sensitivity analysis below has been determined based on the parent and the Group's exposure to interest rates at the balance date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of financial assets and financial liabilities that have variable interest rates. A 100 basis point (1%) increase or decrease represents management's assessment of the reasonably possible change in interest rate.

At reporting date, if variable interest rates had been 100 basis points higher or lower and all other variables were held constant, the impact to the Group would have been as follows:

	Change in variable		Effect on profit	
	2020	**2019**	**2020 $'000**	**2019 $'000**
Consolidated				
Interest rate risk	**+0.25%**	+1%	**389**	2,500
Consolidated				
Interest rate risk	**-0.25%**	-1%	**(389)**	(2,516)

The methods and assumptions used to prepare the sensitivity analysis have not changed in the year. The sensitivity analysis takes into account interest-earning assets and interest-bearing liabilities attributable to the shareholders only, and does not take into account the bank bill facility margin changes.

F2 Remuneration of auditors

Amounts received or due and receivable by KPMG:

	2020 $	2019 $
Audit and review of the financial report	**12,454**	13,438

The Group paid $77,000 (excl. GST) post year ended 30 June 2020 in relation to the audit of the financial statements for the year ended 30 June 2019, 30 June 2020 and for the review of the half year ended 31 December 2020.

F3 Events subsequent to the reporting date

On 23 December 2020, the Fund refinanced $11,261,000 of fixed rate secured notes and $17,690,000 of variable rate notes to mature from 21 April 2021 to 21 April 2024.

During the half-year ended 31 December 2020, the Group deconsolidated Nexus Property Unit Trust and Centuria Healthcare Property Fund as a result of a reduction in the Group's ownership stakes in these investments.

During the half-year ended 31 December 2020, the Fund sold $9,060,000 of related party investments. The Fund purchased $31,130,000 of related party investments during the half-year ended 31 December 2020.

Prior to the signing of this financial report, the Fund settled related party payables of $86,679,174 owing to Centuria Capital Fund by issuing equity for the same amount.

Other than the above, there has not arisen in the interval between 30 June 2020 and the date hereof any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial periods.

Management's assertion statement

In the opinion of the Management of Centuria Funds Management Limited as the Trustee of Centuria Capital No. 2 Fund:

(a) the Fund is not publicly accountable and/or not a reporting entity;

(b) the consolidated financial statements and notes set out on pages 1 to 34:

   (i) present fairly the financial position of the Fund as at 30 June 2020 and its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date in accordance with the statement of compliance and basis of preparation described in Note A1; and

   (ii) comply with Australian Accounting Standards (including Australian Accounting Interpretations) to the extent described in Note A1.

(c) the Fund has kept such accounting records that correctly record and explain its transactions and financial position;

(d) the Fund has kept its accounting records so that the financial statements that are presented fairly can be prepared from time to time; and

(e) the Fund has kept its accounting records in accordance with the Corporations Act 2001 so that the financial report of the Fund can be conveniently and properly audited.

John E. McBain
Joint Chief Executive Officer

Jason C. Huljich
Joint Chief Executive Officer

Simon W. Holt
Chief Financial Officer

Sydney
4 March 2021

KPMG

Independent Auditor's Report

To the Directors of Centuria Funds Management Limited as Trustee of Centuria Capital No. 2 Fund.

Opinion

We have audited the ***Financial Report*** of Centuria Capital No. 2 Fund (the Fund).

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of Centuria Capital No. 2 Fund as at 30 June 2020, and of its financial performance and its cash flows for the year then ended, in accordance with *Australian Accounting Standards*.

The ***Financial Report*** comprises:

- Consolidated balance sheet as at 30 June 2020
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- *Management's Assertion Statement*.

The ***Group*** *consists of the* Centuria Capital No. 2 Fund and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group and Centuria Funds Management Limited (the Trustee) in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the *Financial Report* in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Restriction on use

The Financial Report has been prepared for the Directors of the Trustee for the purpose of their due diligence in relation the listing of debt securities.

As a result, the Financial Report and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for the Directors of the Trustee and should not be used by parties other than the Directors of the Trustee. We disclaim any assumption of responsibility for any reliance on this report, or on the Financial Report to which it relates, to any person other than the Directors of the Trustee or for any other purpose than that for which it was prepared.

Responsibilities of Management for the Financial Report

Management are responsible for:

- the preparation and fair presentation of the Financial Report in accordance with the financial reporting requirements for the listing of debt securities and have determined that the financial reporting framework is appropriate to meet the needs of the Directors of the Trustee for the purpose of their due diligence in relation to the listing of debt securities.
- implementing necessary internal control to enable the preparation of a Financial Report that is free from material misstatement, whether due to fraud or error
- assessing the Fund and Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Paul Thomas

Partner

Sydney

4 March 2021