



**Centuria Capital No. 2 Fund
Interim Financial Report
for the half year ended 31 December 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
Interim Financial Report - 31 December 2020

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These consolidated interim financial statements are the interim financial statements of the consolidated entity consisting of Centuria Capital No. 2 Fund and its subsidiaries. The interim financial statements are presented in the Australian currency.

Centuria Capital No. 2 Fund is a trust, registered and domiciled in Australia. Its registered office and principal place of business is:

Centuria Capital No. 2 Fund
Level 41, Chifley Tower 2 Chifley Square
Sydney NSW 2000

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

Centuria Capital No. 2 Fund

Interim financial report 31 December 2020

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Consolidated interim statement of comprehensive income

For the half year ended 31 December 2020

		31 December 2020 \$'000	31 December 2019 (unaudited) \$'000
	Notes		
Revenue	B1	29,268	17,441
Share of net profit of equity accounted investments	D1	608	8,634
Expenses	B2	(3,386)	(4,484)
Fair value movements of financial instruments and property		8,451	45,860
Finance costs	B3	(6,551)	(8,362)
Profit after tax		28,390	59,089
Profit is attributable to:			
Centuria Capital No. 2 Fund		27,022	58,143
Non-controlling interests		1,368	946
Profit after tax		28,390	59,089
Other comprehensive income		-	-
Total comprehensive income for the period		28,390	59,089
Total comprehensive income for the period is attributable to:			
Centuria Capital No. 2 Fund		27,022	58,143
Non-controlling interests		1,368	946
Total comprehensive income		28,390	59,089
Total comprehensive income for the period is attributable to unitholders of Centuria Capital No. 2 Fund		27,022	58,143

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

Consolidated interim balance sheet

As at 31 December 2020

		31 December 2020 Notes \$'000	30 June 2020 \$'000
Assets			
Cash and cash equivalents		95,980	53,036
Receivables	C1	13,916	11,157
Financial assets at fair value	C2	618,638	527,782
Investment properties	C3	155,750	167,110
Other assets		1,295	1,295
Equity accounted investments	D1	31,634	31,830
Total assets		917,213	792,210
Liabilities			
Payables	C4	93,284	35,794
Borrowings	C5	251,021	253,211
Interest rate swaps at fair value		814	636
Total liabilities		345,119	289,641
Net assets		572,094	502,569
Equity			
Equity attributable to Centuria Capital No. 2 Fund			
Contributed equity	C6	555,620	492,804
Retained earnings		(24,424)	(31,845)
Total equity attributable to Centuria Capital No. 2 Fund		531,196	460,959
Equity attributable to external non-controlling interests			
Contributed equity		12,798	14,248
Retained earnings		28,100	27,362
Total equity attributable to external non-controlling interests		40,898	41,610
Total equity		572,094	502,569

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

Consolidated interim statement of changes in equity

For the half year ended 31 December 2020

	Centuria Capital No. 2 Fund			Non-controlling interests			Total equity \$'000
	Contributed equity \$'000	Retained earnings \$'000	Equity attributable to Centuria Capital No. 2 Fund unitholders \$'000	Contributed equity \$'000	Retained earnings \$'000	Total \$'000	
Balance at 1 July 2020	492,804	(31,845)	460,959	14,248	27,362	41,610	502,569
Profit for the period	-	27,022	27,022	-	1,368	1,368	28,390
Total comprehensive income for the period	-	27,022	27,022	-	1,368	1,368	28,390
Distributions paid/accrued	-	(19,601)	(19,601)	-	(1,423)	(1,423)	(21,024)
Deconsolidation of controlled property funds	-	-	-	(1,450)	793	(657)	(657)
Units issued	62,816	-	62,816	-	-	-	62,816
Balance at 31 December 2020	555,620	(24,424)	531,196	12,798	28,100	40,898	572,094

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

Consolidated interim statement of changes in equity

For the period ended 31 December 2019 (unaudited)

	Centuria Capital No. 2 Fund		Equity attributable to Centuria Capital No. 2 Fund unitholders \$'000	Non-controlling interests			
	Contributed equity \$'000	Retained earnings \$'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 for the period	-	58,143	58,143	-	946	946	59,089
Total comprehensive income for the period	-	58,143	58,143	-	946	946	59,089
Dividends and distributions paid/accrued	-	-	-	-	(1,647)	(1,647)	(1,647)
Stapled securities issued	116,123	-	116,123	-	-	-	116,123
Balance at 31 December 2019	429,192	61,399	490,591	32,927	12,455	45,382	535,973

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

Consolidated interim statement of cash flows

For the half year ended 31 December 2020

	31 December 2020 \$'000	31 December 2019 (unaudited) \$'000
Cash flows from operating activities		
Interest received	67	-
Rent received	6,925	9,537
Distributions received	12,726	10,725
Payments to suppliers	(2,723)	(7,549)
Interest paid	(5,665)	(5,585)
Other income	91	35
Net cash provided by operating activities	11,421	7,163
Cash flows from investing activities		
Proceeds from sale of related party investments	9,060	31,573
Purchase of investments in related parties	(31,130)	(94,639)
Loans to related parties	(9,462)	(37,800)
Repayment of loans by related parties	693	46,988
Purchase of other investments	(3,181)	(124)
Purchase of equity accounted investments	-	(20,477)
Payments in relation to investment properties	(1,250)	(9,981)
Return of investment to external non-controlling interests	(356)	-
Loan from related parties	43,462	79,156
Net cash provided by/(used in) investing activities	7,836	(5,304)
Cash flows from financing activities		
Proceeds from issued units	24,903	-
Repayment of borrowings	-	(35,000)
Distributions paid to non-controlling interests	(1,423)	(1,650)
Costs paid to issue debt	(481)	-
Proceeds from borrowings	688	732
Net cash provided by/(used in) financing activities	23,687	(35,918)
Net increase/(decrease) in cash and cash equivalents	42,944	(34,059)
Cash and cash equivalents at the beginning of the financial period	53,036	67,976
Cash and cash equivalents at end of period	95,980	33,917

The above consolidated interim 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 'Fund') 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 interim 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 interim financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated interim financial statements of the Fund comprising the Fund (as 'Parent') and its controlled entities for the half year ended 31 December 2020 were authorised for issue on 4 March 2021.

The Fund was established on 8 July 2016.

Basis of preparation

The consolidated interim financial statements have been prepared on the basis of historical cost, except for financial assets at fair value through profit and loss, investment properties, 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 Fund'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.

Going concern

The consolidated interim financial statements have been prepared on a going-concern basis, which assumes continuity of normal business activities and the realisation of assets and 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.

Rounding of amounts

The Fund is of a kind referred to in ASIC Legislative Instrument 2016/191, related to the 'rounding off' of amounts in the consolidated interim financial statements. Amounts in the consolidated interim 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, with most governments having implemented economic stimulus packages. Despite these measures, there is still considerable economic uncertainty.

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 continuing impact of COVID-19 and other market volatility in preparing its financial statements. While the specific areas of judgement as noted in Note A5 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 continuing valuation uncertainty in global financial markets and has affected the ability of impacted tenants to meet their rental obligations. The Fund has completed an extensive assessment of trade receivables to determine the recoverability of rental income.

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 E1.

A3 Significant accounting policies

The accounting policies and methods of computation in the preparation of the consolidated interim financial statements are consistent with those adopted in the previous financial year ended 30 June 2020 with the exception of the adoption of new accounting standards outlined below or in the relevant notes to the consolidated interim 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.

A4 Other new accounting standards and interpretations

A number of new accounting standards have been published that are not effective for the 31 December 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 interim 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.

A5 Use of judgements and estimates

In preparing these consolidated interim 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 interim financial statements is included in the following notes:

- Note C3 Investment properties
- Note E1 Financial instruments

B Business performance

B1 Revenue

	31 December 2020 \$'000	31 December 2019 (unaudited) \$'000
Rent	5,233	6,924
Recoverable outgoings	1,677	2,115
Distribution revenue	12,280	3,041
Interest revenue	9,464	5,326
Other income	614	35
	29,268	17,441

(a) Transactions with related parties

	31 December 2020 \$	31 December 2019 (unaudited) \$
Distributions from Property Funds managed by Centuria	11,935,424	2,498,931
Interest income on loan to Centuria Finance Pty Limited	7,042,255	5,048,087
Interest income on loan to Centuria New Zealand Holdings Pty Ltd	2,292,522	-
Interest income on loans to Property Funds managed by Centuria	345,065	229,297
	21,615,266	7,776,315

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 Fund and the amount of revenue can be measured reliably).

Business performance

B2 Expenses

	31 December 2020 \$'000	31 December 2019 (unaudited) \$'000
Consulting and professional fees	106	77
Property outgoings and fund expenses	3,279	4,388
Other expenses	1	19
	3,386	4,484

(a) Transactions with related parties

	31 December 2020 \$	31 December 2019 (unaudited) \$
Management and custodian fees paid to Centuria Property Funds No. 2 Limited	10,826	92,254
Management and custodian fees paid to Centuria Property Funds Limited	439,710	424,819
Management fees paid to Centuria Funds Management Limited	200,000	100,000
	650,536	617,073

B3 Finance costs

	31 December 2020 \$'000	31 December 2019 (unaudited) \$'000
Operating interest charges	5,459	6,885
Bank loans in Property Funds interest charges	1,092	1,477
	6,551	8,362

Recognition and measurement

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

B4 Distributions

	31 December 2020		31 December 2019	
	Cents per unit	Total \$'000	Cents per unit	Total \$'000
Distributions declared				
Interim distribution	1.38	19,601	-	-
Total distributions paid/declared to Centuria Capital No. 2 Fund unitholders	1.38	19,601	-	-

In addition to the dividends and distributions paid to Centuria Capital No. 2 Fund unitholders, the Group paid distributions of \$1,423,000 to external non-controlling Interests.

C Assets and liabilities

C1 Receivables

	31 December 2020 \$'000	30 June 2020 \$'000
Receivables from related parties (refer to note C1(a))	10,283	10,658
Other receivables	3,633	499
	13,916	11,157

The Fund 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 Fund to the counterparty.

(a) Receivables from related parties

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.

	31 December 2020 \$	30 June 2020 \$
Distribution receivable from Centuria Industrial REIT	2,476,312	2,285,990
Distribution receivable from Centuria Office REIT	3,136,237	3,383,335
Intercompany receivable from Corporate entities within Centuria Capital Group	-	75,870
Distribution receivable from Centuria Scarborough House Fund	729	697
Receivable from Centuria Capital No. 5 Fund	-	4,623,616
Distribution receivable from Centuria Healthcare Aged Care Fund No. 1	50,449	114,544
Distribution receivable from Centuria Healthcare Direct Medical Fund No. 2	223,771	18,515
Distribution receivable from Centuria Diversified Property Fund	-	154,464
Redemption receivable from Centuria Healthcare Property Fund units	4,395,588	-
	10,283,086	10,657,031

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	31 December 2020 \$'000	30 June 2020 \$'000
Investments in trusts and other financial assets		2,648	2,416
Loans receivable from other parties		7,047	6,702
Investment in related party unit trusts	C2(a)	359,635	324,751
Loans receivable from related parties	C2(b)	249,308	193,913
		618,638	527,782

Assets and liabilities

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.

	31 December 2020			30 June 2020		
	Fair value	Units held	Ownership %	Fair value	Units held	Ownership %
Financial assets held by the Group						
Centuria Industrial REIT	180,180,236	58,310,756	10.59%	155,007,218	48,898,176	12.21%
Centuria Office REIT	162,704,183	76,029,992	14.78%	153,580,584	76,029,992	14.78%
Centuria Heathley Aged Care Property Fund No. 1	2,945,343	5,513,559	9.21%	5,748,988	5,513,559	9.21%
Centuria Heathley Direct Medical Fund No. 2	13,337,301	12,472,928	8.38%	10,305,433	11,025,391	7.48%
Centuria Life Goals - Various Funds	14,096	10,499	0%	11,096	10,499	0%
Nexus Property Unit Trust	347,863	347,169	2.60%	-	-	0%
Centuria Scarborough House Fund	105,921	102,836	0.22%	97,530	102,836	0.22%
	<u>359,634,943</u>			<u>324,750,849</u>		

Assets and liabilities

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 period:

	31 December 2020 \$	30 June 2020 \$
Centuria Finance Pty Limited	249,307,602	152,537,093
Centuria New Zealand Holdings Limited	-	41,376,387
	249,307,602	193,913,480

The maturity date is the earliest of 23 December 2025 or as 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.

(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 uncollectable are written off when identified.

C2 Financial assets at fair value (continued)

(b) Loans receivable from related parties (continued)

(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.

Assets and liabilities

C3 Investment properties

	31 December 2020 \$'000	30 June 2020 \$'000
Opening Balance	167,110	177,500
Acquisition of investment properties	-	15,116
Capital improvements and associated costs	1,376	4,660
Gain/(loss) on fair value	362	(6,141)
Deconsolidation of controlled property funds	(12,110)	-
Sale of investment property	-	(23,500)
Change in deferred rent and lease incentives	(988)	(525)
	155,750	167,110

The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$12,943,314 (30 June 2020: \$12,704,534).

Property	31 December 2020 \$'000	30 June 2020 \$'000	31 December 2020 Cap rate %	31 December 2020 Discount rate %	31 December 2020 Director valuation*
111 St George Terrace, Perth WA	155,750	155,000	6.8	7.0	
120 and 122 Spencer St, South Bunbury WA	-	6,500	-	-	
8-10 Warneford St, Sandy Bay TAS	-	5,610	-	-	
	155,750	167,110			

*111 St Georges Terrace, Perth WA was last externally valued by Colliers as at 30 June 2020.

Key estimates 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 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).

(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	Inputs HY21
Market rent	Increase	Decrease	\$552 psm
Capitalisation rate	Decrease	Increase	6.75%
Discount rate	Decrease	Increase	7.0%

Capitalisation and discount rates are considered significant Level 3 inputs. Refer to Note E1 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 31 December 2020 '\$000	Capitalisation rate impact -0.25% '\$000	+0.25% '\$000
Investment property	155,750	5,990	(5,563)

Management acknowledges the current valuation is subject to ongoing valuation uncertainty as a consequence of this. To date, there has been little evidence to suggest that capitalisation and discount rates have softened since the onset of COVID-19. As the COVID-19 pandemic progresses, the Fund has continued to re-assess the valuation method to ensure appropriate consideration is given to inputs used.

Assets and liabilities

C4 Payables

	31 December 2020 \$'000	30 June 2020 \$'000
Amounts due to related parties (See Note C4 (a))	86,713	28,739
Sundry creditors ⁽ⁱ⁾	6,080	6,486
Accrued expenses	491	569
	93,284	35,794

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

(a) Payables to related parties

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

	31 December 2020 \$	30 June 2020 \$
Payable to Centuria Capital Fund	86,679,174	25,791,718
Payable to Centuria Capital No. 5 Fund	-	2,912,839
Payable to Centuria Capital Limited	33,839	33,839
	86,713,013	28,738,396

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	31 December 2020 \$'000	30 June 2020 \$'000
Fixed rate secured notes	C5(a)	95,000	95,000
Floating rate secured notes	C5(a)	75,000	75,000
Bank loans in Property Funds	C5(b)	83,873	85,920
Borrowing costs capitalised		(2,852)	(2,709)
		251,021	253,211

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:

	Classification	Coupon Rate	Due Date	31 December 2021 \$'000	30 June 2020 \$'000
Fixed					
Tranche 1	Current	7.0%	21 April 2021	19,447	30,708
Tranche 2	Non-current	6.5%	21 April 2023	45,000	45,000
Tranche 3	Non-current	5.0%	21 April 2024	30,553	19,292
				95,000	95,000
	Classification	Coupon Rate	Due Date	31 December 2021 \$'000	30 June 2020 \$'000
Variable					
Tranche 1	Current	BBSW +4.5%	21 April 2021	8,350	26,040
Tranche 2	Non-current	BBSW +4.25%	21 April 2023	35,000	35,000
Tranche 3	Non-current	BBSW +4.5%	21 April 2024	31,650	13,960
				75,000	75,000

Assets and liabilities

C5 Borrowings (continued)

(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	Total \$'000
31 December 2020							
Centuria 111 St Georges Terrace Fund	Non-current	30 June 2022	90,000	5,956	84,044	(171)	<u>83,873</u>
							<u>83,873</u>
30 June 2020							
Centuria 111 St Georges Terrace Fund	Non-current	30 June 2022	90,000	6,644	83,356	(193)	83,163
		4 December					
Nexus Property Unit Trust	Non-current	2022	2,805	-	2,805	(48)	<u>2,757</u>
							<u>85,920</u>

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

	31 December 2020		30 June 2020	
	No. of securities	\$'000	No. of securities	\$'000
Opening balance	1,080,187,806	492,804	744,592,647	313,069
Units issued	142,762,706	62,816	335,595,159	179,735
	<u>1,222,950,512</u>	<u>555,620</u>	<u>1,080,187,806</u>	<u>492,804</u>

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

Recognition and measurement

Incremental costs directly attributed to the issue of ordinary shares are accounted for as a deduction from equity, net of any tax effects.

D Group Structure

D1 Interests in associates

Set out below are the associates of the Fund as at 31 December 2020 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.

	% of ownership interest		Principal activity	Quoted fair value		Carrying amount	
	31 December 2020	30 June 2020		31 December 2020	30 June 2020	31 December 2020	30 June 2020
	%	%		\$'000	\$	\$'000	\$
Centuria Diversified Property Fund	24.27	22.68	Property Investments	31,634	31,830	31,634	31,830
Total equity accounted investments				31,634	31,830	31,634	31,830

The below table shows the movement in carrying amounts of equity accounted investments from 1 July 2019 to 31 December 2020.

	Centuria Diversified Property Fund
Movement in carrying amount of equity accounted investments	
Opening balance	31,830
Investment	-
Carrying value transferred from/ (to) financial assets	-
Distributions received/receivable	(804)
Share of net profit after tax	608
Closing balance	31,634

The below table shows the movement in carrying amounts of equity accounted investments for the year ended 30 June 2020.

	Centuria Diversified Property Fund	Centuria Office REIT \$'000	Centuria Industrial REIT \$'000	Total
Movement in carrying amount of equity accounted investments				
Opening balance	-	155,355	126,651	282,006
Investment	-	7,500	10,545	18,045
Carrying value transferred from/ (to) financial assets	31,830	(162,429)	(140,556)	(271,155)
Distributions received/receivable	502	(2,773)	(2,905)	(5,176)
Share of net profit after tax	(502)	2,347	6,265	8,110
Closing balance	31,830	-	-	31,830

Group Structure

D1 Interests in associates (continued)

(a) Summarised financial information for associates

The tables below provide summarised financial information for those associates that were material to the Fund for the year ended 31 December 2020. The information disclosed reflects the amounts presented in the consolidated interim financial statements of the relevant associates and not the Fund's share of those amounts.

	Centuria Diversified Property Fund	
	31 December	30 June 2020
	2020	2020
Summarised balance sheet		
Cash and other cash equivalents	7,561	18,013
Other current assets	501	11,633
Total current assets	8,062	29,646
Non-current assets	178,795	166,588
Total tangible non-current assets	178,795	166,588
Other current liabilities	2,849	3,812
Total current liabilities	2,849	3,812
Borrowings	65,150	64,988
Other non-current liabilities	-	351
Total non-current liabilities	65,150	65,339
Net tangible assets	118,858	127,083
Fund's share in %	24.27%	22.68%
Fund's share	28,847	28,822
Goodwill	2,787	3,008
Carrying amount	31,634	31,830
	Centuria Diversified Property Fund	
	31 December	
	2020	
Summarised statement of comprehensive income		
Revenue	6,715	
Interest income	2	
Other income	3	
Net gain on fair value of investment properties	1,154	
Finance costs	(699)	
Other expense	(5,961)	
Profit for the period	1,214	
Other comprehensive income	-	
Total comprehensive income	1,214	

E Other

E1 Fair value of financial instruments

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.

31 December 2020	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash and cash equivalents	Amortised cost	Not applicable	95,980	95,980
Receivables	Amortised cost	Not applicable	13,916	13,916
Financial assets	Fair value	Level 1	342,884	342,884
Financial assets	Fair value	Level 2	275,734	275,734
			728,514	728,514

Financial liabilities				
Payables	Amortised cost	Not applicable	93,284	93,284
Borrowings (net of borrowing costs)	Amortised cost	Not applicable	251,021	251,021
Interest rate swaps at fair value	Fair value	Level 2	814	814
			345,119	345,119

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	35,794	35,794
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
Total			289,641	289,641

E1 Fair value of financial instruments (continued)

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

E2 Events subsequent to the reporting date

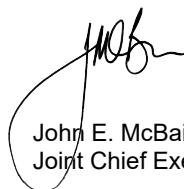
Prior to the signing of this financial report, the Fund converted related party payables of \$86,679,174 to Centuria Capital Fund by issuing equity for the same amount.

Other than the above, there has not arisen in the interval between 31 December 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 years.

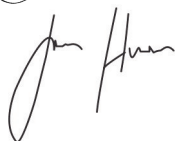
Management's assertion statement

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 interim financial statements and notes set out on pages 1 to 23:
 - (i) present fairly the financial position of the Fund as at 31 December 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 Holt
Chief Financial Officer

Sydney
4 March 2021



Independent Auditor's Review Report

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

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Centuria Capital No. 2 Fund (the Fund).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Centuria Capital No. 2 Fund does not:

- present fairly the **Group's** financial position as at 31 December 2020 and of its performance for the **Interim Period** ended on that date
- comply with *Australian Accounting Standard AASB 134 Interim Financial Reporting*.

The **Interim Financial Report** comprises:

- Consolidated balance sheet as at 31 December 2020
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date
- Notes including a summary of significant accounting policies
- Management's Assertion Statement.

The **Group** comprises Centuria Capital No. 2 Fund and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The **Interim Period** is the six months ended on 31 December 2020.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other matter

For the interim period ended 31 December 2019 the Group was not required to prepare an interim financial report and therefore was unreviewed and unaudited.

Emphasis of matter – basis of preparation and restriction on use

We draw attention to Note A1 to the Interim Financial Report, which describes the basis of preparation.

The Interim Financial Report has been prepared for the Directors of the Trustee for the purpose of their due diligence in relation to the listing of debt securities. As a result, the Interim Financial Report and this Auditor's Report for the review of the Interim Financial Report may not be suitable for another purpose. Our conclusion 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 Interim 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 the Management for the Interim Financial Report

Management are responsible for:

- the preparation and fair presentation of the Financial Report that presents fairly in accordance with Australian Accounting Standards and 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 the Interim Financial Report that presents fairly and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not present fairly, the Fund's financial position as at 31 December 2020 and its performance for the Interim Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



KPMG



Paul Thomas

Partner

Sydney

4 March 2021