

ASX Announcement – Australian Unity Office Fund

24 August 2020

Appendix 4E

Australian Unity Office Fund ('AOF') Preliminary Final Report For the Year Ended 30 June 2020

Results for announcement to the market

1.0	Reporting period				
	Current reporting period	12 months to 30 June 2020			
	Prior reporting period	12 months to 30 June 2019			
2.0	Results for announcement to the market	30 June 2020	30 June 2019	Movement	Movement
		\$'000	\$'000	\$'000	%
2.1	Total revenues and other income (Note 1)	57,563	58,924	(1,361)	(2.3)%
2.2	Profit from ordinary activities after tax attributable to unitholders	13,245	44,828	(31,583)	(70.5)%
2.3	Net profit for the period attributable to unitholders	13,245	44,828	(31,583)	(70.5)%
2.3A	Directors assessment of Funds From Operations (Note 2)	27,632	28,464	(832)	(2.9)%
2.4	Distributions	Amount per unit	Record date		
	Distribution for 1 July 2019 to 30 November 2019	4.00 cents	29 Nov 19		
	Distribution for 1 December 2019 to 31 December 2019	4.00 cents	31 Dec 19		
	Distribution for 1 January 2020 to 31 March 2020	4.00 cents	31 Mar 20		
	Distribution for 1 April 2020 to 30 June 2020	3.00 cents	30 June 20		
2.5	Record date for determining entitlement to the distributions	Refer section 2.4			
2.6	Brief explanation of any figures in 2.1 to 2.4 necessary to enable the figures to be understood.	Refer to the annual financial report for the year ended 30 June 2020 attached to this Appendix 4E for further information.			

Issuer:

Australian Unity Investment Real Estate Limited
271 Spring Street
Melbourne VIC 3000
ABN 86 606 414 368
AFSL 477434

Registry Enquiries:

Australian Unity Office Fund Investor Services
1300 721 637 or
+61 2 8016 2890
(outside Australia)

ASX Announcement – Australian Unity Office Fund

3-6	A statement of comprehensive income, statement of financial position, a statement of changes in equity and a statement of cash flows.	Refer to the annual financial report for the year ended 30 June 2020 attached to this Appendix 4E for further information.		
7	Details of individual and total distributions and distribution payments. Distribution for 1 July 2019 to 30 November 2019 Distribution for 1 December 2019 to 31 December 2019 Distribution for 1 January 2020 to 31 March 2020 Distribution for 1 April 2020 to 30 June 2020	Date Paid	Amount Per Unit	Foreign Sourced Income
		13 Dec 2019	4.00 cents	n/a
		17 Jan 2020	4.00 cents	n/a
		16 Apr 2020	4.00 cents	n/a
		23 July 2020	3.00 cents	n/a
8	Details of any distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any distribution reinvestment plan.	The AOF Distribution Reinvestment Plan is active for the 30 September 2020 quarter distribution. The last date for the receipt of an election notice is 1 October 2020.		
9	Net tangible assets per security	30 June 2020	30 June 2019	
		\$2.72	\$2.79	
10	Details of entities over which control has been gained or lost during the period, including the following.	Not applicable		
11	Details of associates and joint venture entities including the following.	On 28 February 2020, Australian Unity Limited transferred all of the issued shares in Australian Unity Investment Real Estate Limited, the Responsible Entity of AOF, to a joint venture company owned equally by wholly owned subsidiaries of Australian Unity Limited and Keppel Capital Holdings Pte Ltd, the asset management arm of Singapore-based Keppel Corporation Limited. The directors formed the view that while the ownership of the Responsible Entity changed, it will not impact the strategy or operations of AOF and note the investment and property manager will remain as per the existing arrangements.		
12	Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.	None		
13	For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Financial Reporting Standards).	Not applicable		

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14	A commentary on the results for the period.	Refer to the annual financial report for the year ended 30 June 2020 attached to this Appendix 4E for commentary on the results for the period.
15	A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed	The annual financial report for the year ended 30 June 2020 has been audited and contains an unqualified audit opinion.
16	If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph	Not applicable
17	If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.	No modified opinion, emphasis of matter or other matter.

Note (1): Total revenues and other income comprises rental income and interest income

Note (2): Directors use Property Council of Australia's definition of Funds From Operations (FFO) as a key determinant of the level of distributions to pay and aims to distribute between 80% and 100% of its FFO each year. FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards net profit for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives and leasing costs, rental straight-line adjustments and other unrealised or one-off items.

About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra.

This announcement is issued by Australian Unity Investment Real Estate Limited ABN 86 606 414 368 AFSL 477434 (AUIREL). AUIREL is owned equally by subsidiaries of Australian Unity Limited ABN 23 087 648 888 and Keppel Capital Holdings Pte Ltd CRN 201302079N, the asset management arm of Singapore-based Keppel Corporation Limited CRN 196800351N.

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Australian Unity Office Fund

ARSN 113 369 627

Annual financial report and directors' report for the year ended 30 June 2020

Australian Unity Office Fund

ARSN 113 369 627

Annual financial report and directors' report for the year ended 30 June 2020

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Directors' report

The directors of Australian Unity Investment Real Estate Limited (ABN 86 606 414 368), the Responsible Entity of Australian Unity Office Fund ("the Scheme"), present their report together with the consolidated financial statements of the Scheme for the year ended 30 June 2020.

Directors

The following persons were directors of the Responsible Entity of the Scheme during the year and up to the date of this report:

Peter Day	Independent Non-Executive Director and Chairman
Don Marples	Independent Non-Executive Director and Chairman of the Audit & Risk Committee
Eve Crestani	Independent Non-Executive Director
Erle Spratt	Non-Executive Director (appointed 26 June 2020)
Greg Willcock	Non-Executive Director
Kirsty Dullahide	Executive Director (resigned 26 June 2020)

Company secretary

The company secretaries of the Responsible Entity during the year and up to the date of this report were Emma Rodgers and Liesl Petterd.

Operating and financial review

Principal activities

The Scheme is an ASX-listed Real Estate Investment Trust that wholly owns a diversified portfolio of nine office properties located across Australian metropolitan and CBD office markets.

Investment objective and strategy

The Scheme's objective is to provide unitholders with sustainable income returns via quarterly distributions and the potential for capital growth over the long-term by investing in a diversified portfolio of Australian office properties.

The Scheme's strategy is to:

- Focus predominantly on owning Australian office properties in metropolitan and CBD markets
- Grow net property income and enhance capital values through active asset management
- Deliver investors sustainable and growing income returns via quarterly distributions
- Maintain a capital structure which has target gearing below 40%
- Construct a portfolio that maintains diversification of geography, tenants and lease expiry profile through:
 - (i) investments in existing properties (which may include undertaking refurbishment and alterations to meet changing tenant requirements and where income risk can be substantially mitigated, undertaking redevelopment of a property); and
 - (ii) potential future acquisitions.

The Responsible Entity will review this strategy from time to time when it considers it in the best interests of unitholders to do so.

The appointed Investment Manager of the Scheme's assets is Australian Unity Funds Management Limited (ABN 60 071 497 115).

Australian Unity Property Management Pty Ltd (ABN 76 073 590 600) has been appointed to provide a number of property related services to the Scheme.

Review of operations

The COVID-19 pandemic was declared a worldwide pandemic by the World Health Organisation in March 2020. The pandemic, and the measures to slow the spread of the virus, has significantly impacted the global and local economies.

The Scheme has also been impacted. Demand for vacant space has reduced, a number of existing tenants have requested rent relief and there is increased valuation uncertainty.

The current year profit and Funds from Operations ("FFO") were impacted. On 7 April 2020, the National Cabinet announced a Mandatory Code of Conduct ("the Code"). The Code was subsequently legislated by all states and territories and stipulates how landlords and tenants should cooperate during this period. Under the Code, small and medium sized commercial tenants that are suffering financial stress or hardship are eligible for rent relief in the form of a rent waiver and rent deferral.

A number of the Scheme's tenants, representing approximately 11% of the Scheme's monthly gross income as at 30 June 2020 (15% as at 31 July 2020), have requested proportionate rent relief under the Code. The Scheme has held "good faith" discussions with those tenants and has made a doubtful debts provision against recognised rental income in the consolidated statement of comprehensive income to reflect the expected outcome of rent waivers to be granted. The additional doubtful debts provision recognised as a result of the COVID-19 pandemic reduced the profit for the year and FFO by \$1,104,000 or 0.7 cents per unit.

The Responsible Entity elected to externally revalue all of its investment properties at 30 June 2020 to ensure valuations reflect current market conditions.

Financial result

The following table summarises the statutory profit for the year ended 30 June 2020 and provides a comparison to the statutory profit for the year ended 30 June 2019.

\$'000	FY20	FY19
Rental income *	57,844	55,909
Property expenses **	(17,400)	(14,993)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(5,049)	(1,562)
Net property income	35,395	39,354
Interest income	3	28
Net losses on financial instruments held at fair value	(3,077)	(5,847)
Net fair value (decrement)/increment of investment properties	(2,900)	24,282
Responsible Entity's fees	(4,164)	(3,907)
Borrowing costs	(7,781)	(7,850)
Other expenses***	(4,231)	(1,232)
Profit for the year	13,245	44,828

* Rental income does not include the impact of straight lining of rental income

** Property expenses includes the provision for doubtful debts but does not include the amortisation of leasing commissions and tenant incentives

***Other expenses includes \$2,922,000 of costs the Scheme incurred in FY20 in relation to the CHAB transaction, Starwood transaction and a potential acquisition which did not proceed due to the impact of the COVID-19 pandemic. FY19 includes costs of \$218,000 in relation to a separate Starwood transaction that did not proceed.

As at 30 June 2020, the Scheme's net assets attributable to unitholders per unit was \$2.72 (2019: \$2.79).

Funds From Operations

The Scheme uses the Property Council of Australia's definition of FFO as a key determinant of the level of distributions to pay and aims to distribute between 80% and 100% of the Scheme's FFO each year.

FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards profit for the year for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives and leasing costs, rental straight-line adjustments and other unrealised or one-off items.

A reconciliation of the statutory profit to FFO and distributions is set out below for the year ended 30 June 2020 and 30 June 2019.

\$'000	FY20	FY19
Profit for the year	13,245	44,828
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	5,049	1,562
Net losses on financial instruments held at fair value	3,077	5,847
Net fair value decrement/(increment) of investment properties	2,900	(24,282)
Amortisation of borrowing costs	439	291
Once off adjustment [^]	2,922	218
Funds From Operations	27,632	28,464
Add back: Rental abatement incentives ^{^^}	1,953	1,649
FFO plus rental abatement incentives	29,585	30,113
Distributions declared	24,424	25,728

[^]During FY20, the Scheme incurred costs in relation to the CHAB transaction, Starwood transaction and a potential acquisition which did not proceed due to the impact of the COVID-19 pandemic. FY19 costs relate to a separate Starwood transaction that did not proceed. As these costs are one off in nature, and not part of the underlying and recurring expenses of the Scheme, the directors have excluded them from the FFO calculation.

^{^^}Incentives paid to tenants generally take three forms; rental abatement incentives, rent free incentives and fitout incentives. Funds from Operations has been assessed by adding back amortisation of rent free and fitout incentives; but not rental abatement incentives as these are generally expensed. As a result, different incentives provided to a tenant may result in a different FFO outcome. To ensure consistency of disclosure, the impact of adding back rental abatement incentives has also been shown.

Cents per unit	FY20	FY19
FFO plus rental abatement incentives	18.2	18.5
Less: rental abatement incentives	(1.2)	(1.0)
Funds From Operations	17.0	17.5
Distributions declared	15.0	15.8
Payout ratio (Distributions declared/Funds From Operations)	88.4%	90.4%

In future reporting periods, the add back of rental abatement incentives will be included in Directors' assessment of FFO.

Property portfolio

At 30 June 2020, the Scheme wholly owned a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets. The portfolio is valued at \$669,650,000 (2019: \$668,400,000) and has a total net lettable area of 107,614 sqm (2019: 107,667 sqm).

a) Leasing and occupancy

Since 1 July 2019, the Scheme has completed approximately 7,100 sqm of leasing across 22 separate transactions. This represents approximately 6.6% of the portfolio by area. Approximately 4,500 sqm of the completed leasing relates to new tenants.

At 30 June 2020, the Scheme's investment properties weighted average lease expiry was 2.9 years (2019: 3.5 years) and occupancy rate was 93.7% (2019: 95.3%).

b) Valuations

All properties were independently revalued at 30 June 2020 ensuring valuations reflect current market conditions.

The weighted average capitalisation rate for the portfolio firmed by approximately 10 basis points to 6.1% as at 30 June 2020 (2019: 6.2%).

Capital management

On 17 March 2020, the Scheme refinanced an existing \$70,000,000 tranche of its debt facility, while also adding a further \$30,000,000 to its overall facility, for a term of five years. In aggregate, the Scheme's debt facility has increased from \$220,000,000 to \$250,000,000. The refinancing and extension of the debt facility extends the Scheme's weighted average debt maturity term from 3.1 years as at 30 June 2019 to 3.5 years as at 30 June 2020.

As at 30 June 2020, drawn borrowings totalled \$215,800,000 with an all-in interest cost of 3.1% and 78.8% of debt hedged. The Scheme's gearing (calculated as interest bearing liabilities, excluding unamortised establishment costs, less cash, divided by total tangible assets less cash) was 31.2% (2019: 29.5%).

During the year the Scheme extended the following interest rate swaps at \$nil cost:

- interest rate swap with nominal value of \$30,000,000 expiring on 23 April 2021 to expiring on 23 April 2025;
- interest rate swap with nominal value of \$30,000,000 expiring on 8 February 2022 to expiring on 8 February 2025; and
- interest rate swap with nominal value of \$20,000,000 expiring on 20 October 2022 to expiring on 20 January 2025.

The interest rate was reduced following the extension.

Outlook and guidance

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

The Responsible Entity is focused on mitigating the impact of the COVID-19 pandemic on the Scheme, leasing current vacancy, reducing short-to-medium term lease expiry risk, developing 2 Valentine Avenue and growing FFO.

Given the present uncertainties in relation to the duration and impact of the COVID-19 pandemic, the Scheme will not be providing 2021 financial year FFO guidance at this stage.

The 2021 financial year distribution guidance is 15.0 cents per unit.

The Responsible Entity will continue to review the Scheme's financial position, including its income profile, balance sheet position, debt facilities and associated covenants and will update the market should circumstances materially change.

Other significant events during the year

The Responsible Entity as responsible entity of the Scheme entered into a Scheme Implementation Agreement (SIA) dated 2 September 2019 with CHAB Office Pty Limited as trustee for the CHAB Office Trust (CHAB), an entity associated with Abacus Property Group (ASX: ABP) and Charter Hall Group (ASX: CHC), whereby CHAB proposed to acquire all the units in the Scheme that it did not already own for \$3.04 cash per unit (Proposal). The Proposal was conditional upon a number of matters set out in the SIA, including being approved by the requisite majority of the Scheme's unitholders. At the Scheme meeting held on 18 November 2019, the resolution to amend the Scheme's Constitution was not passed by the requisite majority of unitholders and therefore the Proposal did not proceed.

On 29 January 2020, SOF-XI Legs Holdings Limited (Starwood), a member of the Starwood Capital Group, announced its intention to make, itself or through an affiliate, an all-cash, off-market takeover offer for all outstanding units in the Scheme at \$2.98 per unit less any distributions paid after 29 January 2020. The offer was subject to a number of conditions, including a condition of no new financing. After the Scheme announced the refinancing and extension of the Scheme's debt facility on 20 March 2020, Starwood confirmed that it would not declare its offer free from this condition, and so the takeover offer lapsed.

Matters subsequent to the end of the financial year

Since balance date, the impact of the COVID-19 pandemic has continued to evolve and may have affected specific areas of judgement required for preparing these financial statements.

The Victorian Government announced Stage 4 lockdown for Melbourne from 2 August 2020 and the Federal Government announced an extension to the JobKeeper Payment for a further six months until the end of March 2021.

The Scheme will be required to provide rent waivers and rent deferrals for those tenants that qualify under the relevant Code legislation.

Property transactions remain subdued with valuation uncertainty remaining.

The Scheme has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenants' arrears on a regular basis. Based on these evaluations, the Scheme has determined that as at the date of the report there have been no further material events which would give rise to an adjustment.

Other than the matters above, no other matters or circumstance has arisen since 30 June 2020 that have significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years.

Significant changes in the state of affairs

On 28 February 2020, Australian Unity Limited (ABN 23 087 648 888) (Australian Unity) transferred all of the issued shares in the Responsible Entity to a joint venture company owned equally by wholly owned subsidiaries of Australian Unity and Keppel Capital Holdings Pte Ltd (CRN 201302079N) (Keppel Capital), the asset management arm of Singapore-based Keppel Corporation Limited (CRN 196800351N). The directors formed the view that while the ownership of the Responsible Entity changed, it did not impact the strategy or operations of the Scheme and note the investment and property manager will remain as per the existing arrangements. The composition of the Responsible Entity Board will continue to comprise a majority of independent directors. The directors of the Responsible Entity changed effective 26 June 2020 with the resignation of Kirsty Dullahide, an Australian Unity appointed executive director, and the appointment of Erle Spratt, as a non-executive director nominated by Keppel Capital.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Scheme that occurred during the year, except those mentioned elsewhere in the report.

Environmental regulation

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

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

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

No Directors' fees were paid out of the assets of the Scheme to the directors of the Responsible Entity, except for independent directors who receive their fees from the Scheme. Directors' fees paid during the year were \$335,000 (2019: \$227,900).

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the year are disclosed in note 20 to the consolidated financial statements.

The number of units held by directors in the Scheme are:

Director	Units at 30 June 2020
Peter Day	58,000

At the date of this report, none of the other current directors of the Responsible Entity hold any units in the Scheme.

The following table sets out the directorships of Australian listed companies held by the directors of the Responsible Entity during the three years immediately before the end of the financial year:

Director	Listed Entity	Appointed	Resigned
Peter Day	Alumina Limited	January 2014 *	Not applicable
	Ansell Limited	August 2007	Not applicable

* Peter Day was subsequently appointed Chairman of the Board on 1 April 2018.

Units in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 8 to the consolidated financial statements.

The value of the Scheme's assets and liabilities is disclosed in the consolidated statement of financial position and derived using the basis set out in note 2 to the consolidated financial statements.

Indemnification and insurance of officers and auditors

While insurance cover is in place, no insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Investment Real Estate Limited or the auditors of the Scheme. So long as the officers of Australian Unity Investment Real Estate Limited act in accordance with the Scheme's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Provision of non-audit services by auditor

The Scheme may decide to employ the auditor (PricewaterhouseCoopers) on assignments in addition to their statutory audit duties. Details of the amounts paid to the auditor, which includes amounts paid for non-audit services and other assurance services, are set out in note 6 to the financial statements.

The Directors have considered the non-audit services and other assurance services provided by the auditor during the financial year. In accordance with advice received from the Audit and Risk Committee, the Directors are satisfied that the provision of non-audit services is compatible with, and did not compromise, the general standard of auditor independence imposed by the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of a kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

Signed in accordance with a resolution of the directors of Australian Unity Investment Real Estate Limited.



Don Marples
Independent Non-Executive Director and Chairman of the Audit & Risk Committee



Peter Day
Independent Non-Executive Director and Chairman

21 August 2020



Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Office Fund for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Unity Office Fund and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'G. Sagonas'.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
21 August 2020

Australian Unity Office Fund
Consolidated statement of comprehensive income
For the year ended 30 June 2020

Consolidated statement of comprehensive income

	Notes	2020 \$'000	2019 \$'000
Income			
Rental income	3	57,560	58,896
Property expenses	4	(22,165)	(19,542)
Net property income		35,395	39,354
Interest income		3	28
Net losses on financial instruments held at fair value through profit or loss	5	(3,077)	(5,847)
Net fair value (decrement)/increment of investment properties	14(b)	(2,900)	24,282
Total income net of property expenses		29,421	57,817
Expenses			
Responsible Entity's fees	20	4,164	3,907
Borrowing costs		7,781	7,850
Other expenses	7	4,231	1,232
Total expenses, excluding property expenses		16,176	12,989
Profit for the year		13,245	44,828
Other comprehensive income		-	-
Total comprehensive income attributable to unitholders		13,245	44,828
Basic and diluted earnings per unit attributable to unitholders (cents per unit)	10	8.13	27.53

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

Australian Unity Office Fund
Consolidated statement of financial position
As at 30 June 2020

Consolidated statement of financial position

	Notes	2020 \$'000	2019 \$'000
Assets			
Cash and cash equivalents	11	5,798	7,481
Receivables	12	1,818	1,117
Other assets		784	458
Investment properties	14	669,650	668,400
Total assets		678,050	677,456
Liabilities			
Distributions payable	9	4,885	6,432
Payables	15	6,225	6,932
Financial liabilities held at fair value through profit or loss	13	9,221	6,143
Borrowings	16	214,889	203,940
Total liabilities		235,220	223,447
Net assets attributable to unitholders	8	442,830	454,009

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

Australian Unity Office Fund
Consolidated statement of changes in equity
For the year ended 30 June 2020

Consolidated statement of changes in equity

	2020	2019
	\$'000	\$'000
Balance at the beginning of the year	454,009	434,909
Comprehensive income for the year		
Profit for the year	13,245	44,828
Other comprehensive income	-	-
Total comprehensive income attributable to unitholders	13,245	44,828
Transactions with unitholders		
Distributions paid and payable	(24,424)	(25,728)
Total transactions with unitholders	(24,424)	(25,728)
Balance at the end of the year	442,830	454,009

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

Australian Unity Office Fund
Consolidated statement of cash flows
For the year ended 30 June 2020

Consolidated statement of cash flows

	Notes	2020 \$'000	2019 \$'000
<i>Cash flows from operating activities</i>			
Interest received		3	28
Rental income received		54,883	55,447
Payments to suppliers		<u>(25,269)</u>	<u>(18,984)</u>
Net cash inflow from operating activities	21	<u>29,617</u>	<u>36,491</u>
<i>Cash flows from investing activities</i>			
Payments for additions to owned investment properties		<u>(8,316)</u>	<u>(10,130)</u>
Net cash outflow from investing activities		<u>(8,316)</u>	<u>(10,130)</u>
<i>Cash flows from financing activities</i>			
Proceeds from borrowings		11,000	6,500
Borrowing costs paid		(8,013)	(7,586)
Distributions paid		<u>(25,971)</u>	<u>(25,645)</u>
Net cash outflow from financing activities		<u>(22,984)</u>	<u>(26,731)</u>
Net decrease in cash and cash equivalents		(1,683)	(370)
Cash and cash equivalents at the beginning of the year		<u>7,481</u>	<u>7,851</u>
Cash and cash equivalents at the end of the year	11	<u>5,798</u>	<u>7,481</u>

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

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1 General information

These consolidated financial statements cover Australian Unity Office Fund ("the Scheme") and its subsidiaries. The Scheme was constituted on 23 March 2005 and will terminate on the 80th anniversary unless terminated earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Investment Real Estate Limited (ABN 86 606 414 368) (the "Responsible Entity"), a wholly owned subsidiary of Australian Unity Keppel Capital Pty Ltd (ABN 67 637 410 505), a joint venture company owned equally by subsidiaries of Australian Unity Limited (ABN 23 087 648 888) and Keppel Capital Holdings Pte Ltd (CRN 201302079N) ("Keppel Capital"), the asset management arm of Singapore-based Keppel Corporation Limited (CRN 196800351N). The Responsible Entity's registered office is Level 15, 271 Spring Street, Melbourne, VIC 3000.

The Responsible Entity is incorporated and domiciled in Australia.

The consolidated financial statements are for the year 1 July 2019 to 30 June 2020.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 21 August 2020. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

The Scheme's assets are managed by Australian Unity Funds Management Limited (ABN 60 071 497 115) ("the Investment Manager"), a related party of the Responsible Entity.

The controlled entities of the Scheme comprise:

- Australian Unity Holding Trust which was constituted on 31 May 2005;
- Australian Unity Second Industrial Trust which was constituted on 28 September 2001;
- Australian Unity Fourth Commercial Trust which was constituted on 27 September 2002;
- Australian Unity Fifth Commercial Trust which was constituted on 31 July 2002;
- Australian Unity Sixth Commercial Trust which was constituted on 2 October 2003; and
- Pirie Street Trust which was established by Trust Deed dated 31 July 2002.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures.

(a) Basis of preparation

These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The Scheme is a for-profit entity for the purposes of preparing the consolidated financial statements.

The consolidated financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The consolidated statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within 12 months, except for investment properties, financial assets/(liabilities) held at fair value through profit or loss and borrowings, where the amount expected to be recovered or settled within 12 months after the end of the year cannot be reliably determined.

(i) Compliance with Australian Accounting Standards and International Financial Reporting Standards

The consolidated financial statements of the Scheme comply with Australian Accounting Standards as issued by AASB and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated financial statements of the Scheme have been prepared on a consolidated basis to provide the end users of the financial information with the most appropriate information in making financial decisions.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New accounting standards and amendments adopted by the Scheme

The Scheme applied the following accounting standard amendment that became mandatory for the first time during the year:

AASB 16 *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 and require enhanced disclosures to be provided by the lessor that will improve information disclosed about the lessor's risk exposure, particularly to residual value risk. The application of AASB 16 does not have a material impact on the Scheme's consolidated financial statements.

(iii) New accounting standards, amendments and interpretations not yet adopted

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for the 30 June 2020 reporting period and have not been early adopted by the Scheme. None of these are expected to have a material effect on the financial statements of the Scheme.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by the Scheme as at 30 June 2020 and their results for the year then ended. The Scheme and its subsidiaries together are referred to in these consolidated financial statements as the consolidated entity.

Subsidiaries are all entities over which the Scheme is exposed, or has rights, to variable returns from its involvement with the subsidiary and the ability to affect those returns through its powers over the subsidiaries.

Consolidation of subsidiaries begins from the date the Scheme obtains control of the subsidiary and ceases when the Scheme loses control of the subsidiary.

The acquisition method of accounting is used to account for business combinations by the Scheme.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Scheme.

Investments in subsidiaries are accounted for at fair value through profit or loss in the individual financial statements of the parent entity.

(c) Investment properties

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

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

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the consolidated statement of comprehensive income in the year of derecognition.

2 Summary of significant accounting policies (continued)

(c) Investment properties (continued)

In accordance with the investment property valuations policy approved by the Board of Directors of the Responsible Entity ("the Board"), independent valuations of investment properties are obtained from suitably qualified valuers generally at least once in every 18 months if the property is in a construction phase; otherwise once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. Such valuations are reflected in note 14. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

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

Expenditure capitalised to properties includes the cost of acquisition, capital and refurbishment additions, lease commissions and incentives (excluding abatements which are expensed), related professional fees incurred and other directly attributable transaction costs.

(d) Financial instruments

(i) Classification

The classification depends on the Scheme's business model for managing the financial instruments and the contractual terms of the relevant cash flows. The Scheme classifies its financial instruments into the following measurement categories:

- *Financial instruments designated at fair value through profit or loss*

The consolidated entity's and the Scheme's investments are classified as held at fair value through profit or loss. These may include investments in listed property trust(s), unlisted property trust(s) and other unlisted trust(s).

Financial assets and liabilities designated at fair value through profit or loss are those that are managed and their performance evaluated on a fair value basis in accordance with the consolidated entity's and the Scheme's documented investment strategy. The consolidated entity's and the Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Amortised cost*

A financial asset is measured at amortised cost only if both of the following conditions are met:

- (a) it is held within a business model with the objective of holding assets in order to collect contractual cash flows, and
- (b) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Recognition/derecognition

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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset; or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement

Financial assets and financial liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the consolidated statement of comprehensive income.

For further details on how the fair values of financial instruments are determined please see Note 19 to the consolidated financial statements.

Borrowings and receivables/payables are measured initially at fair value plus transaction costs and are carried at amortised cost using the effective interest method.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when, and only when, there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(e) Derivatives

In order to minimise exposure to fluctuations in interest rates, the Scheme may use a combination of interest rate swaps and options to ensure that the rate of interest on debt is predominantly fixed. Derivative financial instruments are not held for speculative purposes and are carried on the consolidated statement of financial position at fair value. Changes in fair value are recognised in the consolidated statement of comprehensive income.

Interest payments and receipts under interest rate swap contracts are recognised on an accrual basis in the consolidated statement of comprehensive income, as an adjustment to interest expense when the hedge transaction occurs.

(f) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts, if any, are shown within borrowings in the consolidated statement of financial position.

2 Summary of significant accounting policies (continued)

(g) Investment income

Interest income is recognised in the consolidated statement of comprehensive income for all financial instruments using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(d).

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

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

(h) Expenses

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

(i) Income tax

Under current legislation, the Scheme is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

(j) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. Distributions are recognised in the consolidated statement of changes in equity as transaction with unitholders.

(k) Receivables

Receivables may include amounts for interest, rental income arrears, trust distributions and securities sold where settlement has not yet occurred. Trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(g) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

The Scheme applies the simplified expected credit loss approach in replacement of the incurred credit loss approach. Under the expected credit loss approach, the Scheme estimates the expected lifetime losses to be recognised from initial recognition of the receivables.

The amount of the doubtful debts provision is recognised in the consolidated statement of comprehensive income within other expenses or property expenses, if related to rental income. When a trade receivable for which a doubtful debts provision had been recognised becomes uncollectible in a subsequent period, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against property expenses in the consolidated statement of comprehensive income.

(l) Payables

Payables include liabilities and accrued expenses owed by the Scheme which are unpaid as at the end of the reporting period. These payables, which are generally settled on 30-90 day terms, are unsecured and are carried at amortised cost.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the consolidated statement of financial position when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

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

Payables to related parties are recognised and carried at the nominal amount due. They are carried at the nominal amount due to the short term nature of the payable.

2 Summary of significant accounting policies (continued)

(l) Payables (continued)

Interest is taken up as an expense on an accrual basis.

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

(m) Applications

Units issued through ASX are recognised at the fair value of the consideration received. Transaction costs arising from the issue of units are recognised directly as a reduction of the proceeds received.

(n) Borrowings and borrowing costs

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

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

(o) Goods and Services Tax (GST)

The consolidated statement of comprehensive income is shown exclusive of GST, unless the GST incurred (or part thereof) on expenses that are not recoverable. Expenses of various services provided to the Scheme by third parties, such as custodial services and investment management fees, may have non-recoverable GST components, as applicable. In these cases, the non-recoverable GST component is recognised as part of the particular expense in the consolidated statement of comprehensive income.

Accounts payable and receivable are stated inclusive of the GST receivable and payable, respectively. The net amount of GST recoverable, or payable, is included in receivables or payables in the consolidated statement of financial position.

Cash flows relating to GST are included in the consolidated statement of cash flows on a gross basis.

(p) Revenue

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

Rental income

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

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

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

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

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

Rent not received at the end of the reporting period is reflected in the consolidated statement of financial position as a receivable or if paid in advance, as a liability.

Interest revenue

Interest income is recognised in the consolidated statement of comprehensive income as it accrues.

2 Summary of significant accounting policies (continued)

(q) Leases

Leasing costs

Lease costs are costs that are directly associated with negotiating and arranging an operating lease (including commissions, legal fees and costs of preparing and processing documentation for new leases). These costs, if material, are capitalised and are amortised on a straight-line basis over the term of the lease as property expenses. The carrying amount of the leasing cost is reflected in the carrying value of investment properties.

Lease incentives

Incentives such as cash, rent-free periods, lessee or lessor owned fitouts may be provided to lessees to enter into an operating lease. These incentives are capitalised and are amortised on a straight-line basis over the term of the lease as a reduction of rental income or as property expenses. The carrying amount of the lease incentives is reflected in the carrying value of investment properties.

(r) Use of judgements and estimates

The preparation of the Scheme's consolidated financial statements requires it to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. However, estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements are made by the Scheme in respect of the fair values of investment properties. These investments are reviewed regularly by reference to external independent property valuations and market conditions, using generally accepted market practices.

The key weighted average assumptions used by the external independent property valuers in the latest valuations have been used by the Scheme for the investment properties and the weighted average total for all properties, including the weighted average lease expiry ("WALE"), have been disclosed in note 19.

The Scheme's financial instruments are valued primarily based on the prices provided by independent pricing services.

When the fair values of the reported financial instruments cannot be derived from active markets, they are determined using prices obtained from inactive or unquoted markets and/or other valuation techniques. The inputs to these valuation techniques (if applicable) are taken from observable markets to the extent practicable. Where observable inputs are not available, the inputs may be estimated based on a degree of judgements and assumptions in establishing fair values.

Where appropriate, the outcomes of the valuation techniques that are used in establishing fair values are validated using prices from observable current market transactions for similar instruments (without modification or repackaging) or based on relevant available observable market data.

The determination of what constitutes 'observable' requires significant judgement by the Scheme. The Scheme considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

In addition, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates and judgements. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

2 Summary of significant accounting policies (continued)

(s) Rounding of amounts

The consolidated entity and the Scheme is an entity of the kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the consolidated financial statements. Amounts in the consolidated financial statements have been rounded off to the nearest thousand dollars.

(t) Functional and presentation currency

Items included in the financial statements of each of the Scheme's operations are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Scheme's functional and presentation currency.

(u) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board for the achievement of the business strategic and operational plans.

3 Rental income

	2020 \$'000	2019 \$'000
Rental income	46,154	48,583
Outgoings revenue	11,406	10,313
	<u>57,560</u>	<u>58,896</u>

Rental income includes an adjustment for the straight lining of rental income of \$(284,000) (2019: \$2,987,000).

On 7 April 2020, the National Cabinet announced a Mandatory Code of Conduct ('the Code'). The Code was subsequently legislated by all states and territories and stipulates how landlords and tenants should cooperate during this period. Under the Code, small and medium sized commercial tenants that are suffering financial stress or hardship are eligible for rent relief in the form of a rent waiver and rent deferral.

A number of the Scheme's tenants have requested rent relief under the Code. The Scheme has held "good faith" discussions with those tenants and has made a doubtful debt provision (see note 4 and 12) on recognised rental income to reflect the expected outcome of rent waivers to be granted.

4 Property expenses

	2020 \$'000	2019 \$'000
Recoverable outgoings	14,915	13,818
Non recoverable outgoings	1,287	1,012
Doubtful debts provision and bad debts expense	1,198	163
Amortisation of lease commissions & lease incentives	4,765	4,549
	<u>22,165</u>	<u>19,542</u>

The doubtful debts provision and bad debts expense of \$1,198,000 comprises an additional doubtful debts provision of \$1,104,000 in relation to expected rent waivers to be granted to tenants under the Code and \$94,000 (2019: \$163,000) in relation to other items.

5 Net losses on financial instruments held at fair value through profit or loss

	2020	2019
	\$'000	\$'000
Net unrealised losses on derivatives	3,077	5,847
Total net losses on financial instruments held at fair value through profit or loss	3,077	5,847

6 Auditors' remuneration

During the year, the following fees were paid or payable for services provided by the auditors of the consolidated entity and the Scheme:

	2020	2019
	\$	\$
<i>PricewaterhouseCoopers</i>		
Audit and review of financial statements	87,000	78,090
Audit of compliance plan	3,500	2,790
	90,500	80,880

7 Other expenses

	2020	2019
	\$'000	\$'000
Directors fees	335	228
Administration	597	564
Sundry*	3,299	440
	4,231	1,232

*During the year, the Scheme incurred \$2,922,000 of costs in relation to the CHAB transaction, Starwood transaction and a potential acquisition which did not proceed due to the impact of the COVID-19 pandemic. In the prior year, the Scheme incurred \$218,000 of costs in relation to a separate Starwood transaction that did not proceed.

8 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual unit in the Scheme and does not extend to a right to the underlying assets of the Scheme.

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

	Movements in no. of units		Movements in net assets	
	2020 '000	2019 '000	2020 \$'000	2019 \$'000
Contributed equity				
Opening balances	162,832	162,832	370,757	370,757
Closing balance	162,832	162,832	370,757	370,757
Undistributed income				
Opening balance			83,252	64,152
Increase in net assets attributable to unitholders			(11,179)	19,100
Closing balance			72,073	83,252
Total net assets attributable to unitholders			442,830	454,009

Capital risk management

The Responsible Entity considers net assets attributable to unitholders of the Scheme to be equity.

The Scheme utilises a mixture of debt and equity to finance its activities, with target gearing of below 40%. Gearing ratio at 30 June 2020 was 31.2% (2019: 29.5%).

9 Distributions to unitholders

The distributions for the year were as follows:

	2020 \$'000	2020 CPU	2019 \$'000	2019 CPU
30 September	-	-	6,432	3.95
30 November	6,513	4.00	-	0.00
31 December	6,513	4.00	6,432	3.95
31 March	6,513	4.00	6,432	3.95
30 June (payable)	4,885	3.00	6,432	3.95
	24,424	15.00	25,728	15.80

10 Earnings per unit

The earnings and weighted average number of units used in the calculation of basic and diluted earnings per unit are as follows:

	2020	2019
Profit attributable to unitholders (\$'000)	13,245	44,828
Weighted average number of units used as the denominator in calculating basic and diluted earnings per unit ('000)	162,832	162,832
Basic and diluted earnings per unit attributable to unitholders (cents per unit)	8.13	27.53

11 Cash and cash equivalents

	2020	2019
	\$'000	\$'000
Cash at bank	5,798	7,481
	5,798	7,481

12 Receivables

	2020	2019
	\$'000	\$'000
Trade receivables	2,786	1,063
GST receivables	230	217
Doubtful debts provision	(1,198)	(163)
	1,818	1,117

The Scheme has followed the Code as implemented by each state and territory. A number of the Scheme's tenants have requested rent relief under the Code. Whilst the Scheme has held "good faith" discussions with those tenants, as at 30 June 2020, no rent relief had been granted. The Scheme made an additional doubtful debts provision of \$1,104,000 on recognised rental income receivables to reflect the expected outcome of rent waivers to be granted (see notes 3 and 4).

13 Financial assets/(liabilities) held at fair value through profit or loss

	2020	2019
	\$'000	\$'000
Derivative liabilities	(9,221)	(6,143)
Total financial liabilities held at fair value through profit or loss	(9,221)	(6,143)

An overview of the risk exposures and fair value measurements relating to financial assets and liabilities at fair value through profit or loss is included in note 18.

Refer to note 17 for details of the derivative financial instruments.

14 Investment properties

(a) Property details

	Type	Ownership (%)	Acquisition date	Valuation date	Valuation amount \$'000	Valuer	Carrying value	
							2020 \$'000	2019 \$'000
10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	30/06/2020	134,500	Savills	134,500	120,000
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/02/2014	30/06/2020	112,000	Savills	112,000	124,500
150 Charlotte Street, Brisbane, QLD	Office/ Freehold	100%	20/10/2017	30/06/2020	100,000	CBRE	100,000	102,000
468 St Kilda Rd, Melbourne, VIC	Office/ Freehold	100%	03/07/2007	30/06/2020	79,000	Savills	79,000	80,500
5 Eden Park Drive, Macquarie Park, NSW	Commercial/ Freehold	100%	11/02/2014	30/06/2020	66,000	CBRE	66,000	66,000
32 Phillip Street, Parramatta, NSW	Office/ Freehold	100%	01/06/2007	30/06/2020	65,500	Savills	65,500	65,000
2 Eden Park Drive, Macquarie Park, NSW	Commercial/ Freehold	100%	20/06/2013	30/06/2020	50,000	Cushman & Wakefield	50,000	47,400
241 Adelaide Street, Brisbane, QLD	Office/ Leasehold	100%	01/06/2007	30/06/2020	36,750	Savills	36,750	39,000
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	30/06/2020	25,900	Knight Frank	25,900	24,000
Total					669,650		669,650	668,400

The carrying value of an investment property may vary from the independent valuation of the property due to capital expenditure and the accounting treatment of leasing commissions and lease incentives.

The investment properties valuation policy is included in note 19.

(b) Movements in carrying amount

Reconciliations of the carrying amounts of investment properties are set out below:

	2020 \$'000	2019 \$'000
Opening balance	668,400	635,550
Capitalised borrowing cost	178	124
Additions	9,021	10,006
Lease commissions and incentives amortisation	(4,765)	(4,549)
Straight-lining of rental income	(284)	2,987
Revaluation movements	(2,900)	24,282
Closing balance	669,650	668,400

14 Investment properties (continued)

(c) Contractual obligations

Capital expenditure contracted for at the reporting date but not recognised as liabilities:

	2020 \$'000	2019 \$'000
Within one year	2,519	3,874
	<u>2,519</u>	<u>3,874</u>

The Scheme's share of capital commitments will be funded using the Scheme's cash and cash equivalents and debt facility. Refer to notes 11 and 16, respectively.

(d) Leasing arrangements

The Scheme leases out its investment properties to tenants under operating leases with rentals payable monthly. The future minimum lease payments receivable under non-cancellable lease are as follows:

	2020 \$'000	2019 \$'000
Within one year	44,965	43,303
Later than one year but not later than 5 years	92,862	122,966
Later than 5 years	3,067	5,638
	<u>140,894</u>	<u>171,907</u>

15 Payables

	2020 \$'000	2019 \$'000
Trade payables	2,421	1,963
Accrued expenses	1,347	2,091
Rent received in advance	2,016	2,375
GST payables	441	503
	<u>6,225</u>	<u>6,932</u>

16 Borrowings

	2020 \$'000	2019 \$'000
Bank loan	215,800	204,800
Unamortised borrowing costs	(911)	(860)
	<u>214,889</u>	<u>203,940</u>

The bank loan comprises of three tranches:

- \$70,000,000 facility expiring on 19 October 2022,
- \$80,000,000 facility expiring on 29 June 2023, and
- \$100,000,000 facility expiring on 31 March 2025.

The facility is secured against the assets of the Scheme and is non-recourse to unitholders.

The Scheme had access to:

	2020 \$'000	2019 \$'000
Credit facilities		
Cash advance facilities	250,000	220,000
Drawn balance	(215,800)	(204,800)
Undrawn balance	<u>34,200</u>	<u>15,200</u>

Reconciliations of the net debt are set out below:

	2020 \$'000	2019 \$'000
Analysis of changes in consolidated net debt		
Opening balance	197,319	190,449
Proceeds from borrowings	11,000	6,500
Other cash movements	1,683	370
Closing balance	<u>210,002</u>	<u>197,319</u>
 Bank loan	 215,800	 204,800
Cash and cash equivalents	(5,798)	(7,481)
Consolidated net debt	<u>210,002</u>	<u>197,319</u>

17 Derivative financial instruments

2020	Contract/notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Interest rate swaps			
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	437
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	437
Maturing on 23 April 2024 at a fixed rate of 1.7085%	30,000	-	1,617
Maturing on 23 April 2024 at a fixed rate of 2.0400%	20,000	-	1,328
Maturing on 20 January 2025 at a fixed rate of 2.4800% (reducing to a fixed rate of 1.6900% from 20 July 2020)	20,000	-	1,219
Maturing on 8 February 2025 at a fixed rate of 1.4300%	30,000	-	1,473
Maturing on 23 April 2025 at a fixed rate of 0.8950%	30,000	-	746
	170,000	-	7,257
Forward dated interest swap contracts			
Commencing 23 August 2021 maturing on 22 August 2023 at a fixed rate of 2.7700%	40,000	-	1,964
2019			
	Contract/notional \$'000	Assets \$'000	Liabilities \$'000
Interest rate swaps			
Maturing on 23 April 2024 at a fixed rate of 1.7085%	30,000	-	800
Maturing on 23 April 2024 at a fixed rate of 2.0400%	20,000	-	838
Maturing on 20 October 2022 at a fixed rate of 2.4800%	20,000	-	913
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	455
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	455
Maturing on 23 April 2021 at a fixed rate of 1.5700%	30,000	-	295
Maturing on 21 October 2019 at a fixed rate of 2.0500%	20,000	-	46
Maturing on 7 August 2019 at a fixed rate of 1.8700%	20,000	-	13
Maturing on 7 August 2019 at a fixed rate of 1.8700%	20,000	-	13
	200,000	-	3,828
Forward dated interest swap contracts			
Commencing 23 August 2021 maturing on 22 August 2023 at a fixed rate of 2.7700%	40,000	-	1,214
Commencing 8 August 2019 maturing on 8 February 2022 at a fixed rate of 2.5200%	30,000	-	1,101
	70,000	-	2,315

17 Derivative financial instruments (continued)

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

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The valuation policy is included in note 19.

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

An unrealised loss of \$3,077,000 (2019: \$5,847,000) relating to the change in the fair value of the Scheme's interest rate swap contracts was recognised in the consolidated statement of comprehensive income during the year ended 30 June 2020.

18 Financial risk management

(a) Objectives, strategies, policies and processes

The Scheme's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's disclosure documents and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed. Financial risk management is carried out by the Investment Manager under policies approved by the Board.

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

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

(b) Market risk

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

The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme.

(i) Price risk

Price risk is the risk that the fair value or future cash flows of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has no exposures to price risk.

(ii) Interest rate risk

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

The Scheme is exposed to interest rate risk predominantly through borrowings. The Scheme applies hedging across its differing interest rate exposures and utilises interest rate swaps, to exchange floating interest rates to fixed interest rates, to manage its exposure. Compliance with policy is reviewed regularly by management and is reported to the Audit and Risk Committee meetings.

18 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

The Scheme has exposure to interest rate risk on its monetary assets and liabilities, mitigated by the use of interest rate swaps, as shown in the table below:

	2020 \$'000	2019 \$'000
Floating rate		
Cash and cash equivalents	5,798	7,481
Borrowings*	<u>(215,800)</u>	<u>(204,800)</u>
	<u>(210,002)</u>	<u>(197,319)</u>
Derivative financial instruments		
Interest rate swaps - floating to fixed*	<u>170,000</u>	<u>200,000</u>
	<u>170,000</u>	<u>200,000</u>
Net exposure	<u>(40,002)</u>	<u>2,681</u>

* Represents the notional principal amounts.

The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit and net assets attributable to unitholders, while a positive amount reflects a potential net increase.

Drawn borrowings were 78.8% hedged as at 30 June 2020 (2019: 97.7%).

	Impact on profit and net assets attributable to unitholders
	2020 \$'000
Sensitivity	
Interest rate +0.50% (2019: +0.50%)	(200)
Interest rate -0.50% (2019: -0.50%)	200

The above calculation ignores the impact of any changes to the valuation of interest rate swaps.

18 Financial risk management (continued)

(c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme. The Scheme has exposure to credit risk on its financial assets included in the Scheme's consolidated statement of financial position. This includes cash and cash equivalents, derivatives, as well as receivables due from tenants and managing agents.

The Scheme manages tenant credit risk by performing credit reviews of prospective tenants, obtaining tenant collateral where appropriate and performing detailed reviews on tenant arrears. The Scheme also reviews the aggregate exposures of tenant debtors and tenancies across its portfolio.

For cash and cash equivalents and derivatives, the Scheme manages this risk by only transacting with investment grade counterparties approved by the Board.

The Scheme applies the simplified expected credit loss (ECL) approach to estimate the amount of impairment loss. Under the simplified ECL approach, the Scheme estimates the expected lifetime losses to be recognised from initial recognition of the receivables. In estimating the lifetime ECL, the Scheme conducts an internal credit review that takes into account the historical loss experience, current observable data and reasonable forward-looking information as available, which include the significant changes in the performance and payment status of the debtors and anticipated significant adverse changes in business, financial or economic conditions that may impact the debtors' ability to meet its obligations.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's maintaining an adequate amount of committed credit facilities. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

Maturities analysis of financial liabilities

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

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
2020				
Distributions payable	4,885	-	-	-
Payables	6,225	-	-	-
Financial liabilities held at fair value through profit or loss	2,611	2,846	2,892	2,437
Borrowings	-	44,800	80,000	91,000
Total financial liabilities	13,721	47,646	82,892	93,437

18 Financial risk management (continued)

(d) Liquidity risk (continued)

Maturities analysis of financial liabilities (continued)

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
2019				
Distributions payable	6,432	-	-	-
Payables	6,932	-	-	-
Financial liabilities held at fair value through profit or loss	1,451	1,414	1,505	1,246
Borrowings	-	68,000	-	136,800
Total financial liabilities	14,815	69,414	1,505	138,046

As disclosed above, the Scheme manages its liquidity risk by investing predominantly in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents. As at 30 June 2020, these assets amounted to \$5,798,000 (2019: \$7,481,000).

(e) Estimation of fair values of financial assets and financial liabilities

The carrying amounts of the consolidated entity's and the Scheme's assets and liabilities at the end of the year approximate their fair values.

The Scheme values its investments in accordance with the accounting policies set out in note 19.

(f) Instruments used by the Scheme

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

The details of the Scheme's interest rate management activities are detailed in note 17.

19 Fair value hierarchy

The Scheme measures and recognises the financial assets/(liabilities) held at fair value through profit or loss and investment properties at fair value on a recurring basis.

(a) Fair value hierarchy

The Scheme is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

19 Fair value hierarchy (continued)

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2020				
Non-financial assets				
Investment properties	-	-	669,650	669,650
Total non-financial assets	-	-	669,650	669,650

Financial liabilities

Financial liabilities held at fair value through profit or loss

Derivatives	-	9,221	-	9,221
Total financial liabilities	-	9,221	-	9,221

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2019				
Non-financial assets				
Investment properties	-	-	668,400	668,400
Total non-financial assets	-	-	668,400	668,400

Financial liabilities

Financial liabilities held at fair value through profit or loss

Derivatives	-	6,143	-	6,143
Total financial liabilities	-	6,143	-	6,143

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year. There are no transfers between levels 1, 2 and 3 for fair value measurements during the year (2019: \$nil).

(b) Valuation techniques

(i) Financial instruments

The pricing for the majority of the Scheme's investments is generally sourced from independent pricing sources, the relevant Investment Managers or reliable brokers' quotes.

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed property trusts and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted property trusts and over-the-counter derivatives.

19 Fair value hierarchy (continued)

The fair value of interest rate swaps is calculated using a discounted cash flow model as the present value of the estimated future cash flows based on observable yield curves. The model incorporates various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, and interest rate curves.

The stated fair value of each financial instruments at the end of the year represents the Responsible Entity's best estimate at the end of the year.

(ii) *Investment properties*

The investment property valuation policy is to have independent valuations conducted regularly, typically annually, to aid with the determination of the assets fair value. In determining the fair value of an investment property, the primary appropriate method of assessment is considered to be via reconciliation between the discounted cash flow and income capitalisation methods. Direct comparison may also be used as a secondary assessment method.

- Discounted cash flow method - this methodology involves formulating a projection of net income over a specified time horizon, normally 10 years, and discounting this cash flow including the projected terminal value at the end of the projection period at an appropriate market-derived discount rate. The present value of this discounted cash flow provides a guide to the fair value of the property;
- Income capitalisation method - this methodology involves the assessment of a net market income for the various components of the subject property. The net market income is capitalised at a rate derived from the analysis of comparable sales evidence to derive a capital value. Appropriate capital adjustments are then made where necessary to reflect the adopted cash flow profile and the general risk characteristic of the property; and
- Direct comparison method - this methodology identifies comparable sales on a dollar per square metre of lettable area and compares the equivalent rates to the subject property to establish the property's market value. This approach is somewhat subjective given the fact that specific items of income and expenditure are difficult to directly reflect and compare when adopting a rate per metre.

At each reporting date the appropriateness of those valuations is assessed by the Responsible Entity.

The Responsible Entity elected to independently revalue all properties at 30 June 2020 due to increased valuation uncertainty following the COVID-19 pandemic.

Independent valuers use a number of assumptions when valuing a property. Whilst valuers have considered the impact of the COVID-19 pandemic on their assumptions in arriving at a valuation, less weight can be attached to previous market evidence for comparison purposes when forming an opinion of value. The independent valuations were therefore stated on the basis of "material valuation uncertainty" as per VPS3 and VPGA10 of the Royal Institution of Chartered Surveyors Valuation - Global Standards (Red Book Global) and "Valuation Protocol - Significant Valuation Uncertainty" as per the Australian Property Institute.

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

The fair value estimates for investment properties are included in level 3 as explained in section (c) below.

19 Fair value hierarchy (continued)

(c) Fair value measurements using significant unobservable input (level 3)

The changes in fair value of investment properties for the year are set out in note 14(b).

(i) Valuation inputs and relationship to fair value

The following are the key valuation assumptions used in the determination of the investment properties fair value using the discounted cash flows and income capitalisation valuation methodologies:

- Current net market rental - the estimated amount for which a property or space within a property should be leased between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In the calculation of net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable);
- Adopted capitalisation rate - the rate at which net market income is capitalised to determine the value of the property. This rate is determined with regards to market evidence;
- Adopted terminal yield - the capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of a holding period when carrying out a discounted cash flow calculation. This rate is determined with regards to market evidence; and
- Adopted discount rate - the rate of return to convert a monetary sum, payable or receivable in the future, into present value. Theoretically, it should reflect the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. This rate is determined with regards to market evidence.

The ranges of the key valuation inputs to measure the fair value of the Scheme's investment properties are shown in the table below:

Valuation inputs	30 June 2020	30 June 2019
Current net market rental (\$ per sqm)	306 - 593	296 - 575
Adopted capitalisation rate (%)	5.25% - 7.25%	5.25% - 7.50%
Adopted terminal yield (%)	5.50% - 7.75%	5.50% - 7.75%
Adopted discount rate (%)	6.50% - 7.50%	6.50% - 7.75%
Occupancy rate by area (%)	77.3% - 100.0%	86.4% - 100.0%
Weighted average lease expiry (years)	1.9 - 4.6	1.9 - 5.0

At 30 June 2020, the Scheme's investment properties weighted average lease expiry was 2.9 years (2019: 3.5 years) and occupancy rate was 93.7% (2019: 95.3%).

(ii) Valuation processes

Independent valuations of investment properties are obtained from suitably qualified valuers generally at least once in every 18 months if the property is in a construction phase; otherwise once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. Such valuations are reflected in note 14. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value. See also note 19(b)(ii) for further details on valuation techniques and impact of the COVID-19 pandemic on valuations.

19 Fair value hierarchy (continued)

(iii) Sensitivity information

The table below details the movement in the fair value when each of the significant inputs either increase or decrease, with all other inputs remaining constant:

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Current net market rental	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase
Adopted discount rate	Decrease	Increase
Occupancy rate by area	Increase	Decrease
Weighted average lease expiry	Increase	Decrease

It is often the case that multiple significant inputs change simultaneously, on these occasions the impact of the changes in the individual inputs can be reduced or vice versa can magnify the movement in the fair value.

When assessing the discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship because the discount rate will determine the rate at which the terminal value is discounted to the present value. In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact on fair value, and vice versa. The impact on fair value may be magnified if both the discount rate and terminal yield move in the same direction.

When calculating the income capitalisation, the net market rent has a strong interrelationship with the adopted capitalisation rate. This is because the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. The impact on fair value may be magnified if the net market rent is increasing while the capitalisation rate is decreasing (or vice versa).

(d) Fair value of other financial instruments

Due to their short-term nature, the carrying amounts of the receivables and payables are assumed to approximate their fair values.

Borrowings are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. The fair value of borrowings approximates the carrying amount.

20 Related party transactions

Responsible entity

The Responsible Entity of Australian Unity Office Fund is Australian Unity Investment Real Estate Limited (ABN 86 606 414 368).

On 28 February 2020, Australian Unity Limited transferred all of the issued shares in the Responsible Entity to a joint venture company owned equally by wholly owned subsidiaries of Australian Unity Limited and Keppel Capital, the asset management arm of Singapore-based Keppel Corporation Limited. The directors formed the view that while the ownership of the Responsible Entity changed, it will not impact the strategy or operations of the Scheme and note the investment and property manager will remain as per the existing arrangements. The composition of the Responsible Entity Board will continue to comprise a majority of independent directors. The directors of the Responsible Entity changed effective 26 June 2020 with the resignation of Kirsty Dullahide, an Australian Unity appointed executive director, and the appointment of Erle Spratt, as a non-executive director nominated by Keppel Capital.

Key management personnel

(a) Directors

Key management personnel include persons who were directors of the Australian Unity Investment Real Estate Limited at any time during the year as follows:

Peter Day	Independent Non-Executive Director and Chairman
Don Marples	Independent Non-Executive Director and Chairman of the Audit & Risk Committee
Eve Crestani	Independent Non-Executive Director
Erle Spratt	Non-Executive Director (appointed 26 June 2020)
Greg Willcock	Non-Executive Director
Kirsty Dullahide	Executive Director (resigned 26 June 2020)

Company secretary

The company secretaries of the Responsible Entity during the year were Emma Rodgers and Liesl Petterd.

No Directors' fees were paid out of the Scheme property to the directors of the Responsible Entity, except for independent directors who receive their fees from the Scheme. Directors' fees paid during the year was \$335,000 (2019: \$227,900).

As at 30 June 2020, Peter Day held 58,000 units (2019: Peter Day held 58,000 units). None of the other current directors of the Responsible Entity held any units in the Scheme.

(b) Other key management personnel

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

Other transactions within the Scheme

From time to time directors of the Responsible Entity, or their director related entities, may buy or sell units of the Scheme. These transactions are on the same terms and conditions as those entered into by other Scheme unitholders.

Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive fees monthly calculated:

- 0.60% per annum of the gross asset value of the Scheme up to and including \$750,000,000; plus
- 0.55% per annum of the gross asset value of the Scheme that exceeds \$750,000,000.

20 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

Australian Unity Funds Management Limited (ABN 60 071 497 115) ("AUFML") is the appointed provider of investment management services to the Scheme effective 17 June 2016. Under the Investment Management Agreement, the Investment Manager is engaged to provide a number of services including:

- Investment management services;
- Fund analyst services; and
- Transactional services.

The fees for providing these services are included in the Responsible Entity's fees.

Additionally AUFML is entitled to fees for providing accounting services of \$140,000 per annum, adjusted upwards by CPI each year from 17 June 2016.

Australian Unity Property Management Pty Ltd (ABN 76 073 590 600) ("AUPMPL") has been appointed to provide a number of property related services to the Scheme. These services include:

- Property management services;
- Financial management services;
- Leasing services;
- Rent review services; and
- Project supervision services (in relation to capital works).

AUFML and AUPMPL are wholly owned subsidiaries of Australian Unity Limited (ABN 23 087 648 888). All related party transactions are under normal commercial terms and conditions and at market rates. The fees payable to AUFML and AUPMPL were approved by unitholders of the Scheme on 17 June 2016.

The AUPMPL fees were subsequently reviewed in July 2019 in line with the terms of the Property Management Services Agreement with new fees applicable from 1 July 2019. Further information on the Property Management Services Agreement is available in the Corporate Governance section of the Australian Unity Office Fund website at www.australianunityofficefund.com

The transactions during the year between the Scheme and the Responsible Entity and its related parties were as follows:

	2020	2019
	\$	\$
Responsible Entity's fees	4,164,299	3,906,738
Property management, other property related services fees and accounting fees	740,549	654,825

During the year the Scheme paid \$742,817 (2019: \$750,894) to the Responsible Entity for administration expenses which the Responsible Entity incurred on behalf of the Scheme. These expenses, which are reimbursed in accordance with the Scheme's Constitution, include custodian fees, directors' fees, auditors' fees, accounting fees, registry fees and other expenses incurred in the day to day running of the Scheme.

As at 30 June 2020, an amount of \$459,602 (2019: \$816,384) owing to the Responsible Entity and its related parties was included in payables.

The Scheme charged Australian Unity Group Services Pty Ltd (ABN 29 006 803 069) ("AUGSPL"), a wholly owned subsidiary of Australian Unity Limited, total rent of \$641,752 (2019: \$626,010) during the year, of which \$nil (2019: \$116,460) remains receivable as at 30 June 2020. The leases were entered into under normal commercial terms and conditions and at market rates.

20 Related party transactions (continued)

Related party unitholdings

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

2020	No. of units held opening '000	No. of units held closing '000	Fair value of investment \$'000	Interest held (%)*	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme \$'000
Unitholders							
Australian Unity Diversified Property Fund	9,534	9,534	19,927	5.86	-	-	1,430
Lifeplan Australia Friendly Society Limited	3,800	3,800	7,941	2.33	-	-	570
Australian Unity Property Income Fund	2,632	3,747	7,830	2.30	1,115	-	473
Australian Unity Health Limited	3,258	3,258	6,810	2.00	-	-	489
Australian Unity Funds Management Limited	1,483	1,483	3,099	0.91	-	-	222
Australian Unity A-REIT Fund	642	916	1,914	0.56	274	-	113
Australian Unity Property Securities Fund	500	500	1,045	0.31	-	-	75
Australian Unity Real Estate Securities Fund	171	177	369	0.11	68	(62)	28
Total	22,020	23,415	48,935	14.38	1,457	(62)	3,400

* AUFML and its related parties are the appointed investment manager for a number of third-party entities. As at 30 June 2020, these entities hold 823,600 units (0.51% of total units on issue in the Scheme).

20 Related party transactions (continued)

Related party unitholdings (continued)

2019	No. of units held opening '000	No. of units held closing '000	Fair value of investment \$'000	Interest held (%)*	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme \$'000
Unitholders							
Australian Unity Diversified Property Fund	9,534	9,534	28,031	5.86	-	-	1,506
Lifeplan Australia Friendly Society Limited	3,800	3,800	11,171	2.33	-	-	600
Australian Unity Property Income Fund	2,632	2,632	7,737	1.62	-	-	416
Australian Unity Health Limited	3,258	3,258	9,580	2.00	-	-	515
Australian Unity Funds Management Limited	1,483	1,483	4,359	0.91	-	-	234
Australian Unity A-REIT Fund	216	642	1,887	0.39	770	(344)	56
Australian Unity Property Securities Fund	870	500	1,470	0.31	-	(370)	123
Australian Unity Real Estate Securities Fund	111	171	502	0.10	60	-	20
Total	21,904	22,020	64,737	13.52	830	(714)	3,470

* AUFML and its related parties are the appointed investment manager for a number of third-party entities. As at 30 June 2019, these entities hold 823,600 units (0.51% of total units on issue in the Scheme).

21 Reconciliation of profit to net cash inflow from operating activities

	2020 \$'000	2019 \$'000
Profit for the year	13,245	44,828
Add back interest expenses and debt establishment costs	7,781	7,850
Increase in receivables	(701)	(477)
(Decrease)/increase in payables/liabilities	(706)	1,035
Change in fair value of the investment properties - revaluation decrement/(increment)	2,900	(24,282)
Adjustments to net lease incentives and straight line rental	4,348	1,562
Unrealised losses on financial instruments held at fair value through profit or loss	3,077	5,847
(Increase)/decrease in other assets/prepayments	(327)	128
Net cash inflow from operating activities	29,617	36,491

22 Parent entity financial information

	2020	2019
	\$'000	\$'000
Statement of financial position		
Cash and cash equivalents	2,231	4,312
Receivables	58	253
Other assets	80	68
Investment properties	125,900	126,000
Investment in subsidiaries	552,045	558,558
Total assets	680,314	689,191
Distributions payable	4,885	6,432
Financial liabilities held at fair value through profit or loss	9,221	6,143
Payables	8,489	18,667
Borrowings	214,889	203,940
Total liabilities	237,484	235,182
Net assets attributable to unitholders	442,830	454,009

Statement of comprehensive income

Profit for the year	13,245	44,828
Other comprehensive income	-	-
Total comprehensive income for the year	13,245	44,828

23 Events occurring after the end of the financial year

Since balance date, the impact of the COVID-19 pandemic has continued to evolve and may have affected specific areas of judgement required for preparing these financial statements.

The Victorian Government announced Stage 4 lockdown for Melbourne from 2 August 2020 and the Federal Government announced an extension to the JobKeeper Payment for a further six months until the end of March 2021.

The Scheme will be required to provide rent waivers and rent deferrals for those tenants that qualify under the relevant Code legislation.

Property transactions remain subdued with valuation uncertainty remaining.

The Scheme has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenants' arrears on a regular basis. Based on these evaluations, the Scheme has determined that as at the date of the report there have been no further material events which would give rise to an adjustment.

Other than the matters above, no other matters or circumstance has arisen since 30 June 2020 that have significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years.

24 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2020 (2019: \$nil).

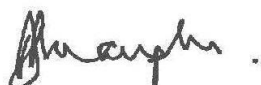
Commitments arising from contracts principally relating to capital expenditure on investment properties which are contracted for at reporting date but not recognised on the consolidated statement of financial position are \$2,519,000 (2019: \$3,874,000).

Directors' declaration

In the opinion of the directors of Australian Unity Investment Real Estate Limited, as the Responsible Entity of the Scheme:

- (a) the consolidated financial statements and notes set out on pages 10 to 43 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated Scheme's financial position as at 30 June 2020 and of its performance, as represented by the results of its operations and cash flows for the year on that date,
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable,
- (c) the consolidated financial statements are in accordance with the Scheme's Constitution, and
- (d) Note 2(a) confirms that the consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Don Marples
Director and Chairman of the Audit & Risk Committee



Peter Day
Chairman

21 August 2020



Independent auditor's report

To the unitholders of Australian Unity Office Fund

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Unity Office Fund (the "Scheme") and its controlled entities (together the "Group") is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and 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 also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$1.38 million, which represents approximately 5% of the Group's adjusted profit (Funds from Operations). We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose adjusted Group profit because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We adjusted Group profit for fair value movements in investment properties and derivatives, straight lining of rental income and amortisation of leasing commissions and tenant incentives, amortisation of borrowings costs and one-off costs incurred in relation to the CHAB and Starwood transactions and a potential acquisition that did not proceed. We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The Group's investment property portfolio comprises Australian metropolitan and CBD office properties. The investment manager for the Group is Australian Unity Funds Management Limited. The Group's accounting processes and controls are performed by Australian Unity Funds Management Limited at its Melbourne head office.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matter was addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matter to the Audit and Risk Committee.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties (Refer to notes 2(c), 2(r), 14 and 19) \$670m</p> <p>The Group's investment property portfolio comprises nine office properties across Australia. At 30 June 2020 the carrying value of the Group's investment property portfolio was \$670m.</p> <p>The Group's investment properties are carried at fair value, which is determined with reference to external valuers' reports for each property and by applying the valuation methodology described in note 19 of the financial report.</p> <p>The valuation of investment properties is dependent on the valuation methodology adopted and the inputs used. Certain assumptions made in the valuation of investment properties are key in establishing fair value, particularly the capitalisation rate and discount rate.</p> <p>We considered this a key audit matter because:</p> <ul style="list-style-type: none"> The external valuers engaged by the Group have stated that their reports are prepared on the basis of "material valuation uncertainty" (refer to note 19(b)(ii)). This highlights that less certainty, and consequently a higher degree of caution, should be attached to the valuation as a result of the COVID-19 pandemic. This represents a significant estimation uncertainty in relation to the valuation of investment properties. Investment property valuation is highly judgemental as minor changes in the underlying assumptions can significantly impact the valuation results. At 30 June 2020 these underlying assumptions are subject to increased uncertainty as a result of the COVID-19 pandemic. 	<p>We performed the following audit procedures amongst others:</p> <ul style="list-style-type: none"> We obtained a selection of publicly available property market reports to develop an understanding of the prevailing conditions and trends in the office property market, including the impact of COVID-19, and compared these factors against the current year valuations. We developed an understanding of the Group's process for valuing investment properties, including meeting with portfolio and asset managers to discuss key drivers affecting the value of the investment property portfolio. We also enquired about the impact of COVID-19 on investment property valuations and how this has been considered by the Group in determining fair value at 30 June 2020. We checked that the Group's valuation policy for investment properties (refer to note 2(c)) is in accordance with Australian Accounting Standards and that the policy was complied with. For each external valuation report obtained by the Group we: <ul style="list-style-type: none"> Assessed the competency and capabilities of the external valuer. Read the valuer's terms of engagement – we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation. Considered the impact of the external valuers' material valuation uncertainty clauses on the valuations recorded and disclosures in the financial report. Inspected the final valuation reports and agreed the fair value to the Group's accounting records.



<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<ul style="list-style-type: none"> Investor returns and the net assets of the Group are significantly affected by changes in the valuation of investment properties. Investment properties comprised approximately 99% of total assets of the Group at 30 June 2020. The valuation uncertainty is important to users' understanding of the financial report. 	<ul style="list-style-type: none"> For a sample of investment properties, we compared the rental income and lease terms used in the external valuations to the tenancy schedule and lease agreements. We compared key valuation assumptions (capitalisation rate and discount rate) to a range we determined to be reasonable based on industry data, and obtained evidence to support key assumptions where they fell outside our anticipated range. This evidence included property-specific tenancy schedules and, where possible, comparable transactions in the market. We considered the adequacy of the disclosures in the financial report in light of the requirements of Australian Accounting Standards. In particular, we considered the adequacy of the disclosures made in note 19 which explains that there is significant estimation uncertainty in relation to the valuation of investment properties.

Other information

The directors of Australian Unity Investment Real Estate Limited (the "Responsible Entity") are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the directors' report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Responsible Entity (directors) and use our professional judgement to determine the appropriate action to take.



Responsibilities of the directors for the financial report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

The PricewaterhouseCoopers logo, written in a stylized, cursive script.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'George Sagonas'.

George Sagonas
Partner

Melbourne
21 August 2020