

# ASX Announcement – Australian Unity Office Fund ('AOF')

11 August 2016

## Appendix 4E

### Australian Unity Office Fund ('AOF')

### Preliminary Final Report

### For the Year Ended 30 June 2016

#### Results for announcement to the market

1.0	<b>Reporting period</b>				
	Current reporting period	12 months to 30 June 2016			
	Prior reporting period	12 months to 30 June 2015			
2.0	<b>Results for announcement to the market</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Movement</b>	<b>Movement</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
2.1	Total revenues and other income (Note 1)	42,787	41,575	1,212	2.92%
2.2	Profit from ordinary activities after tax attributable to members	18,637	23,666	-5,029	-21.25%
2.3	Net profit for the period attributable to members	18,637	23,666	-5,029	-21.25%
2.3A	Directors assessment of Funds From Operations (Note 2)	15,618	n/a	n/a	n/a
2.4	<b>Distributions</b> (Notes 3,4)	<b>Amount per unit</b>	<b>Record date</b>		
	Distribution for the quarter to 30 September 2015	1.750 cents	30 Sept 15		
	Distribution for the quarter to 31 December 2015	1.750 cents	31 Dec 15		
	Distribution for the quarter to 31 March 2016	1.750 cents	31 Mar 16		
	Distribution for the period 1 April 2016 to 21 June 2016	3.782 cents	21 June 16		
	Distribution declared for the period 22 June 2016 to 30 June 2016	0.360 cents	30 June 16		
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 2016 attached to this Appendix 4E for further information.			
3-6	A statement of comprehensive income, statement of financial position, a statement of change in equity and a statement of cash flow.	Refer to the annual financial report for the year ended 30 June 2016 attached to this Appendix 4E for further information.			
7	Details of individual and total distributions and distribution payments. (Notes 3,4)	<b>Date Paid</b>	<b>Amount Per Unit</b>	<b>Foreign Sourced Income</b>	
	Distribution for the quarter to 30 September 2015	13 Oct 2015	1.750 cents	n/a	
	Distribution for the quarter to 31 December 2015	18 Jan 2016	1.750 cents	n/a	
	Distribution for the quarter to 31 March 2016	12 Apr 2016	1.750 cents	n/a	
	Distribution for the period 1 April 2016 to 21 June 2016	23 Jun 2016	3.782 cents	n/a	
	Distribution declared for the period 22 June 2016 to 30 June 2016	28 Jul 2016	0.360 cents	n/a	

#### ASX code:

AOF

#### Responsible Entity

Australian Unity Investment  
Real Estate Limited

ABN 86 606 414 368

AFSL 477434

#### Enquiries:

Australian Unity Office Fund  
Investor Services

1300 721 637 or

+61 8016 2890

(outside Australia)

#### Contact details:

Australian Unity Limited

114 Albert Road

South Melbourne VIC 3205

Tel: 13 29 39

## ASX Announcement – Australian Unity Office Fund ('AOF')

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 not yet active.				
9	Net tangible assets per security (Note 3)	<table><tr><td><b>30 June 2016</b></td><td><b>30 June 2015</b></td></tr><tr><td>\$1.95</td><td>\$0.81</td></tr></table>	<b>30 June 2016</b>	<b>30 June 2015</b>	\$1.95	\$0.81
<b>30 June 2016</b>	<b>30 June 2015</b>					
\$1.95	\$0.81					
10	Details of entities over which control has been gained or lost during the period.	Not applicable				
11	Details of associates and joint venture entities.	Not applicable				
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				
14	A commentary on the results for the period.	Refer to the annual financial report for the year ended 30 June 2016 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 2016 Annual financial report 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.	Not applicable.				

### ASX code:

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

Note (2): Directors use Property Council of Australia Funds From Operations (FFO) as a key determination 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, rental straight-line adjustments and other unrealised or one-off items.

Note (3): The units of AOF were consolidated on 20 June 2016 on the basis of 0.4165 unit for every 1 unit held as at the date of consolidation.

Note (4): On 21 June 2016, a distribution was declared to unitholders of the Scheme relating to funds from operations from the period 1 April 2016 to 21 June 2016, prior to the allotment of units from the Initial Public Offering.

**Australian Unity Office Fund  
(formerly known as Australian Unity Office  
Property Fund)**

ARSN 113 369 627

**Annual financial report  
for the year ended 30 June 2016**

# **Australian Unity Office Fund (formerly known as Australian Unity Office Property Fund)**

ARSN 113 369 627

## **Annual financial report for the year ended 30 June 2016**

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## Directors' report

The directors of Australian Unity Investment Real Estate Limited ("AUIREL") (ABN 86 606 414 368), the Responsible Entity of Australian Unity Office Fund (the "Scheme", or "AOF"), formerly known as Australian Unity Office Property Fund, present their report together with the consolidated financial statements of the Scheme for the year ended 30 June 2016.

### Change of Responsible Entity

On 17 June 2016, AUIREL replaced Australian Unity Funds Management Limited ("AUFML") (ABN 60 071 497 115) as the Scheme's Responsible Entity.

At the same time, AUFML was appointed as the Investment Manager of the Scheme under an Investment Management Agreement. The transaction was approved by unitholders and was made on commercial terms and conditions and on an arm's length basis.

### Directors

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

#### *Directors of AUIREL following the appointment of AUIREL as the Scheme's Responsible Entity on 17 June 2016*

Peter Day	Independent Non-Executive Director and Chairman
Don Marples	Independent Non-Executive Director
Eve Crestani	Non-Executive Director
Greg Willcock	Non-Executive Director
Kirsty Dullahide	Executive Director

The company secretary of AUIREL, following its appointment as the Scheme's Responsible Entity on 17 June 2016 was Emma Rodgers.

#### *Directors of AUFML prior to 17 June 2016 when AUFML was the Scheme's Responsible Entity*

Peter Promnitz	Non-Executive Director and appointed Chairman from 30 March 2016
David Bryant	Chief Executive Officer and Chief Investment Officer
Melinda Cilento	Non-Executive Director
Su McCluskey	Non-Executive Director (appointed 27 January 2016)
Kevin McCoy	Chief Financial Officer
Stephen Maitland	Non-Executive Director
Rohan Mead	Group Managing Director
Greg Willcock	Non-Executive Director
Glenn Barnes	Chairman (ceased 30 March 2016)

The company secretaries of AUFML whilst it was the Responsible Entity of the Scheme were:  
Melinda Honig (appointed 16 February 2016)  
Verran Fehlberg (ceased 16 February 2016)

## Operating and financial review

### Principal activities

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of eight office properties located across Australian metropolitan and CBD office markets. AOF was admitted to the official list of the ASX on 20 June 2016.

### Investment objective and strategy

AOF'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.

AOF'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.

### Property portfolio

At 30 June 2016, the Scheme wholly owned a diversified portfolio of eight office properties located across Australian metropolitan and CBD markets. The portfolio was independently valued at \$391,050,000 as at 30 April 2016 and has a total net lettable area of 97,645 sqm.

### Capital management

During the year AUIREL conducted an Initial Public Offering of units which raised \$152,094,628. The Initial Public Offer concluded on 16 June 2016.

On 20 June 2016, unit consolidation occurred in preparation for the Initial Public Offering at \$2.00 per unit.

On 22 June 2016, following allotment of 76,047,314 units resulting from the Initial Public Offering, 27,257,890 units were redeemed at \$1.9552 per unit for a total cost of \$53,294,627. The level of redemptions were lower than the \$56,200,000 available under the withdrawal facility.

Proceeds of the Initial Public Offer was used to pay the total redemption amount and reduce borrowings by \$83,500,000. Consequently, the gearing ratio reduced to 29.37% as at 30 June 2016.

On 23 June 2016, AUIREL, on behalf of the Scheme, entered into new debt facility agreements with its existing financiers, the Commonwealth Bank of Australia and the National Australia Bank. The facility is split into two \$70,000,000 tranches for a 3 year and 5 year term.

### Summary and outlook

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 leasing current vacancy and reducing short-medium term lease expiry risk.

The Responsible Entity confirms the 2017 financial year Funds From Operations guidance of 16.4 cents per unit and the 2017 financial year distribution guidance of 14.8 cents per unit. Distributions will be paid quarterly.

### Operating result

The following table summarises the statutory profit before finance costs attributable to unitholders for the year ended 30 June 2016 and provides a comparison to the Product Disclosure Statement issued on 23 May 2016 ("PDS") as part of the Initial Public Offering.

\$'000	PDS Forecast	Actual
Rental Income *	43,200	42,886
Property Expenses **	(11,300)	(10,761)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(4,600)	(4,294)
<b>Net property income</b>	<b>27,200</b>	<b>27,831</b>
Interest income	-	18
Net losses on financial instruments held at fair value	(2,000)	(3,408)
Net fair value increment of investment properties	15,000	14,413
Responsible Entity fees (excluding performance fees)	(2,700)	(2,681)
Performance fee	(5,000)	(4,632)
Borrowing costs	(10,100)	(10,026)
Other expenses (excluding costs relating to the Initial Public Offering of units)	(800)	(754)
Costs relating to the Initial Public Offering of units	(2,100)	(2,124)
<b>Profit before finance costs attributable to unitholders</b>	<b>19,600</b>	<b>18,637</b>

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

\*\* Property Expenses does not include the amortisation of leasing commissions and tenant incentives

As at 30 June 2016, the Scheme's net assets attributable to unitholders per unit was \$1.95.

### Funds From Operations

AOF uses Property Council of Australia 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, 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 2016.

\$'000	Actual
Net profit	18,637
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	4,294
Net losses/(gains) on financial instruments held at fair value	3,408
Net fair value (increment)/decrement of investment properties	(14,413)
Performance fee	4,632
Costs relating to the Initial Public Offering of units	2,124
<b>Funds From Operations</b>	<b>18,682</b>
<b>Distributions declared</b>	<b>15,618</b>

#### **Matters subsequent to the end of the financial year**

No matter or circumstance has arisen since 30 June 2016 that has 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, other than as detailed below.

On 1 July 2016, as foreshadowed in the PDS, the Scheme terminated two interest rate swaps and as a result incurred \$7,987,242 in swap break costs. As disclosed in note 13 and 17 to the consolidated financial statements, a financial liability in relation to these swaps of \$7,846,870 was recognised in the net assets attributable to unitholders as at 30 June 2016.

#### **Significant changes in state of affairs**

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

On 17 June 2016, unitholders approved the following resolutions at the meeting of Scheme unitholders:

- Appointment of AUIREL as replacement Responsible Entity
- Appointment of AUFML as Investment Manager and Australian Property Management Pty Ltd as Property Manager, and provision of a financial benefit to a related party
- Approval of the proposal for listing
- Amendments to the Constitution and provision of a financial benefit to a related party

As all resolutions were passed by unitholders, AOF listed on the ASX at \$2.00 per unit and commenced trading on a conditional and deferred settlement basis on 20 June 2016 and on a normal settlement basis on 23 June 2016. As at 30 June 2016, AOF's closing price on the ASX was \$2.13 per unit.

#### **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 Scheme property to the directors of the Responsible Entity, except for independent directors who are entitled to receive their fees following the appointment of AUIREL as the Responsible Entity on 17 June 2016. Directors' fees paid during the year was \$8,117.

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 AOF are:

<b>Director</b>	<b>Units at 30 June 2016</b>
Peter Day	50,000

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

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:

<b>Director</b>	<b>Listed Entity</b>	<b>Appointed</b>	<b>Resigned</b>
Peter Day	Alumina Limited	January 2014	Not applicable
	Ansell Limited	August 2007	Not applicable
	Boart Longyear Limited	February 2014	Not applicable
	SAI Global Limited	August 2008	Not applicable
	Federation Centres Limited	October 2009	February 2014
	Orbital Corporation Limited	August 2007	February 2014



### 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

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, Australian Unity Funds Management Limited as the former Responsible Entity, 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

AOF may decide to employ the auditor (Ernst & Young) 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 Class Order 2016/191 (as amended) issued by Australian Securities and Investments Commissions relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, where indicated.

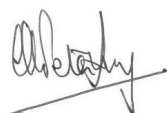
### Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

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



Don Marples  
Director



Peter Day  
Chairman

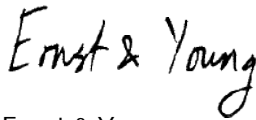
11 August 2016

## Auditor's Independence Declaration to the Directors of Australian Unity Investment Real Estate Limited as responsible entity for Australian Unity Office Fund

As lead auditor for the audit of Australian Unity Office Fund for the financial year ended 30 June 2016, I declare 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 financial year.



Ernst & Young



Luke Slater  
Partner  
11 August 2016

**Australian Unity Office Fund**  
**Consolidated statement of comprehensive income**  
**For the year ended 30 June 2016**

**Consolidated statement of comprehensive income**

	Notes	2016 \$'000	2015 \$'000
<b>Income</b>			
Rental income	3	42,769	41,556
Property expenses	4	(14,938)	(14,998)
<b>Net property income</b>		<b>27,831</b>	26,558
Interest income		18	19
Net losses on financial instruments held at fair value through profit or loss	5	(3,408)	(3,243)
Net fair value increment of investment properties	14(b)	14,413	13,612
<b>Total income net of property expenses</b>		<b>38,854</b>	36,946
<b>Expenses</b>			
Responsible Entity's fees	20	7,313	2,574
Borrowing costs		10,026	10,152
Other expenses	7	2,878	554
<b>Total expenses</b>		<b>20,217</b>	13,280
<b>Profit before finance costs attributable to unitholders</b>		<b>18,637</b>	23,666
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders of the parent entity	9	(15,618)	(15,666)
Increase in net assets attributable to unitholders	8	(3,019)	(8,000)
<b>Total comprehensive income for the year attributable to unitholders</b>		<b>-</b>	-
<b>Basic and diluted earnings per unit attributable to unitholders pre consolidation of units</b>	10	<b>8.60</b>	10.59
<b>Basic and diluted earnings per unit attributable to unitholders post consolidation of units *</b>	10	<b>0.29</b>	0.00

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

*\* On 20 June 2016, the units of the Scheme were consolidated on the basis of 0.4165 units for every 1 unit held as at the date of consolidation.*

**Australian Unity Office Fund**  
**Consolidated statement of financial position**  
**As at 30 June 2016**

**Consolidated statement of financial position**

	Notes	2016 \$'000	2015 \$'000
<b>Assets</b>			
Cash and cash equivalents	11	10,589	3,144
Receivables	12	1,553	449
Prepaid expenses		314	324
Investment properties	14	392,772	374,750
<b>Total assets</b>		<b>405,228</b>	<b>378,667</b>
<b>Liabilities</b>			
Distributions payable	9	505	3,985
Payables	15	3,555	2,046
Financial liabilities held at fair value through profit or loss	13	8,931	5,523
Borrowings	16	118,091	182,342
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>131,082</b>	<b>193,896</b>
<b>Net assets attributable to unitholders</b>	8	<b>274,146</b>	<b>184,771</b>

*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 net assets attributable to unitholders  
For the year ended 30 June 2016

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**Consolidated statement of changes in net assets attributable to unitholders**

	2016 \$'000	2015 \$'000
<b>Net assets attributable to unitholders at the beginning of the year</b>	<b>184,771</b>	171,452
Profit before finance costs attributable to unitholders	<b>18,637</b>	23,666
Distributions to unitholders	<b>(15,618)</b>	(15,666)
Equity raising costs	<b>(6,155)</b>	-
Applications for units	<b>152,130</b>	6,522
Redemptions of units	<b>(62,299)</b>	(4,256)
Units issued upon re-investment of distributions	<b>2,680</b>	3,053
<b>Net assets attributable to unitholders at the end of the year</b>	<b>274,146</b>	184,771

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

**Australian Unity Office Fund**  
**Consolidated statement of cash flows**  
**For the year ended 30 June 2016**

**Consolidated statement of cash flows**

	Notes	2016 \$'000	2015 \$'000
<b><i>Cash flows from operating activities</i></b>			
Interest received		18	19
Rental income received		41,548	41,889
Payment to suppliers		(17,845)	(17,013)
<b>Net cash inflow from operating activities</b>	21(a)	<b>23,721</b>	<b>24,895</b>
<b><i>Cash flows from investing activities</i></b>			
Capital expenditure on owned investment properties		(3,839)	(1,111)
Lease commission and incentives paid		(3,830)	(1,116)
Return of capital from associates		-	20
<b>Net cash outflow from investing activities</b>		<b>(7,669)</b>	<b>(2,207)</b>
<b><i>Cash flows from financing activities</i></b>			
(Repayment of)/proceeds from borrowings		(64,418)	10,942
Borrowing costs paid		(9,859)	(9,742)
Payment of swap break costs		-	(5,000)
Proceeds from applications by unitholders		152,130	6,522
Payments for redemptions by unitholders		(62,299)	(4,256)
Distributions paid		(16,418)	(19,630)
Equity raising costs paid		(7,743)	-
<b>Net cash outflow from financing activities</b>		<b>(8,607)</b>	<b>(21,164)</b>
<b>Net increase in cash and cash equivalents</b>		<b>7,445</b>	<b>1,524</b>
Cash and cash equivalents at the beginning of the year		<b>3,144</b>	1,620
<b>Cash and cash equivalents at the end of the year</b>	11	<b>10,589</b>	3,144

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

## Notes to the financial statements

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## **1 General information**

These consolidated financial statements cover Australian Unity Office Fund and its subsidiaries ("the Scheme"). The Scheme was constituted on 23 March 2005. The Scheme 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 ("AUIREL") (ABN 86 606 414 368) (the "Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

On 17 June 2016, AUIREL replaced Australian Unity Funds Management Limited ("AUFML") (ABN 60 071 497 115) as the Scheme's Responsible Entity. At the same time, AUFML was appointed as the Investment Manager of the Scheme under an Investment Management Agreement. The transaction was approved by unitholders and was made on commercial terms and conditions and on an arm's length basis.

Throughout these consolidated financial statements, the "Responsible Entity" refers to AUFML prior to 17 June 2016 and AUIREL on and from 17 June 2016.

The Responsible Entity is incorporated and domiciled in Australia.

The consolidated financial statements are for the period from 1 July 2015 to 30 June 2016.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 11 August 2016. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

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.
- 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 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 held at fair value through profit or loss and net assets attributable to unitholders, where the amount expected to be recovered or settled within 12 months after the end of the year cannot be reliably determined.



## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

#### *(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 the Australian Accounting Standards Board ("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.

The consolidated financial statements are presented in the local reporting currency being Australian dollars.

#### *(ii) Amended standards adopted by the Scheme*

There are no new standards or amendments to standards that became mandatory for the first time during the year.

### (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 2016 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 consolidated 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.

Independent valuations of investment properties are obtained at least once in any 12 month period from the date of the last valuation 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 the consolidated financial statements of the Scheme. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

## 2 Summary of significant accounting policies (continued)

### (c) Investment properties (continued)

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, related professional fees incurred and other directly attributable transaction costs.

### (d) Financial instruments

#### (i) Classification

- *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. They comprise:

- *Financial instruments designated at fair value through profit or loss upon initial recognition*  
These include financial assets and liabilities that are not held for trading purposes and which may be sold. These may include investments in listed property trust, unlisted property trust and other unlisted trust.

Financial assets and liabilities designated at fair value through profit or loss at inception 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.

- *Borrowings and receivables/payables*

Borrowings and receivables/payables are non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. This category includes short term receivables/payables.

#### (ii) Recognition/derecognition

The consolidated entity's 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.

## 2 Summary of significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (iii) Measurement

- *Financial assets and financial liabilities held at fair value through profit or loss*  
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.
- *Fair value in an active market*  
The fair value of financial assets and financial liabilities traded in active markets is based on their quoted market prices at the end of the year without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts.

- *Borrowings and receivables/payables*  
Borrowings and receivables/payables are measured initially at fair value plus transaction costs.

Subsequently, borrowings are carried at amortised cost using the effective interest method. Short term receivables/payables are carried at their initial fair values.

#### (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) Net assets attributable to unitholders

Prior to the Scheme listing on the ASX, units were redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Scheme for cash via withdrawal facility offers by the Responsible Entity equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the year if unitholders exercised their right to put the units back to the Scheme.

Post listing on the ASX, the units are no longer redeemable at the unitholders' option and are therefore not classified as financial liabilities.

## 2 Summary of significant accounting policies (continued)

### (g) 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, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the consolidated statement of financial position.

### (h) 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.

### (i) Expenses

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

### (j) Income tax

Under current legislation, the Scheme is not subject to income tax as unitholders are presently entitled to the income of the Scheme.

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

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

The benefit of imputation credits and foreign tax paid, if any, are passed on to unitholders.

### (k) Distributions

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

### (l) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the consolidated statement of comprehensive income as finance costs.

### (m) 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(h) 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.

## 2 Summary of significant accounting policies (continued)

### (m) Receivables (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the consolidated statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against property expenses in the consolidated statement of comprehensive income.

### (n) Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the reporting period.

Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at the end of each year are included in payables.

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. 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.

### (o) Applications and redemptions

Prior to the Scheme listing on the ASX, applications received for units in the Scheme were recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme were recorded gross of any exit fees payable after the cancellation of units redeemed. The unit redemption prices were determined in accordance with the Scheme's Constitution by reference to the net assets of the Scheme divided by the number of units on issue.

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.

### (p) 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.

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

## 2 Summary of significant accounting policies (continued)

### **(q) 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.

### **(r) 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 revenue***

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

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

### **(s) 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 are capitalised and are amortised on a straight-line basis over the term of the lease as a reduction of rental income or an increase in property outgoings. The carrying amount of the leasing cost is reflected in the fair 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 an increase in property outgoings. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

## 2 Summary of significant accounting policies (continued)

### (t) 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.

### (u) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

#### (i) AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has now also introduced revised rules for hedge accounting and impairment. The Standard is not applicable until 1 January 2018 but is available for early adoption. The Scheme does not expect this to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Scheme does not apply hedge accounting. AASB 9 introduces a new impairment model. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the reporting period commencing from 1 July 2018. The Scheme does not expect a material impact from the application of this standard.

## 2 Summary of significant accounting policies (continued)

### (u) New accounting standards and interpretations not yet adopted (continued)

#### (ii) AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

AASB 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. AASB 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised only when the control of a good or service transfers to a customer. The standard requires enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively. AASB 15 applies to an annual reporting period beginning on or after 1 January 2018 with early adoption permitted. At this stage, the Scheme is determining the effect on the financial statements and will finalise its assessments of the effect over the next twelve months.

#### (iii) AASB 16 *Leases* (effective from 1 January 2019)

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. AASB 16 substantially carries forward the lessor accounting requirements in AASB 17 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 standard will be effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided AASB 15 has been applied, or is applied at the same date as AASB 16. The Scheme intends to apply this standard on its operative date. Based on the existing recognition of leases, the Scheme does not expect a material impact from the application of this standard. The Scheme is currently assessing the effects of applying AASB 16 on the financial statement disclosures.

#### (v) Rounding of amounts

The consolidated entity and the Scheme is an entity of the kind referred to in Class Order 2016/191 (as amended), issued by Australian Securities and Investment 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 in accordance with that Class Order, where indicated.

## 3 Rental income

	2016 \$'000	2015 \$'000
Rental Income	34,227	34,025
Outgoings income	8,542	7,531
	<u>42,769</u>	<u>41,556</u>

Rental income includes an adjustment for the straight lining of rental income of \$116,711 (2015: \$247,843).



#### 4 Property expenses

	2016 \$'000	2015 \$'000
Recoverable outgoings	9,949	10,255
Non recoverable outgoings	750	982
Bad debts expense	62	3
Amortisation of lease commissions & lease incentives	4,177	3,758
	<u>14,938</u>	<u>14,998</u>

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

	2016 \$'000	2015 \$'000
Net unrealised (loss)/gain on derivatives	(3,408)	1,757
Net realised loss on derivatives - swap break costs	-	(5,000)
Total net loss on financial instruments held at fair value through profit or loss	<u>(3,408)</u>	<u>(3,243)</u>

#### 6 Auditors' remuneration

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

	2016 \$	2015 \$
<i>Audit services</i>		
Audit and review of financial statements	72,338	50,000
Total remuneration for audit services	<u>72,338</u>	<u>50,000</u>
<i>Taxation services</i>		
Tax compliance services	19,560	19,560
Total remuneration for taxation services	<u>19,560</u>	<u>19,560</u>
<i>Other services</i>		
Initial public offering due diligence services	309,458	-
Total remuneration for other services	<u>309,458</u>	<u>-</u>

#### 7 Other expenses

	2016 \$'000	2015 \$'000
Sundry	213	76
Administration	541	478
Equity raising costs	2,124	-
	<u>2,878</u>	<u>554</u>

## 8 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share 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:

	2016	2015	2016	2015
	'000	'000	\$'000	\$'000
<b>Contributed equity</b>				
Opening balances	227,691	220,918	235,987	230,668
Consolidation of units	(128,303)	-	-	-
Equity raising costs	-	-	(6,155)	-
Applications	76,088	8,371	152,130	6,522
Redemptions	(38,424)	(5,556)	(62,299)	(4,256)
Units issued upon reinvestment of distributions	3,320	3,958	2,680	3,053
Closing balance	140,372	227,691	322,343	235,987
<b>Undistributed income</b>				
Opening balance			(51,216)	(59,216)
Increase in net assets attributable to unitholders			3,019	8,000
Closing balance			(48,197)	(51,216)
<b>Total net assets attributable to unitholders</b>			<b>274,146</b>	<b>184,771</b>

During the year the Responsible Entity conducted Initial Public Offering of units which raised \$152,094,628. The Initial Public Offer concluded on 16 June 2016.

On 20 June 2016, unit consolidation occurred in preparation for the Initial Public Offering at \$2.00 per unit.

On 22 June 2016, following allotment of 76,047,314 units resulting from the Initial Public Offering, 27,257,890 units were redeemed at \$1.9552 per unit.

### Capital risk management

The Scheme utilises a mixture of debt and equity to finance its activities, with target gearing of below 40%.

## 9 Distributions to unitholders

### Timing of distributions

The distributions for the year were as follows:

	2016 \$'000	2016 CPU	2015 \$'000	2015 CPU
30 September	3,902	1.750	3,901	1.750
31 December	3,917	1.750	3,817	1.750
31 March	3,834	1.750	3,963	1.750
21 June*	3,460	3.782	-	-
30 June (payable)	505	0.360	3,985	1.750
	<b>15,618</b>		<b>15,666</b>	

\*The Scheme generally declares distributions quarterly. The units of the Scheme were consolidated on 20 June 2016 on the basis on 0.4165 unit for every 1 unit held as at the date of consolidation. On 21 June 2016, a distribution was declared to unitholders of the Scheme relating to funds from operations for the period 1 April 2016 to 21 June 2016, prior to the allotment of units from the Initial Public Offering.

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

## 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:

	2016	2015
<b>Pre Consolidation of units</b>		
Profit before finance costs attributable to unitholders (\$'000)	18,230	23,666
Weighted average number of units used as the denominator in calculating basic and diluted earnings per unit ('000)	211,918	223,550
Basic and diluted earnings per unit attributable to unitholders (cents per unit)	<b>8.60</b>	10.59
<b>Post Consolidation of units</b>		
Profit before finance costs attributable to unitholders (\$'000)	407	-
Weighted average number of units used as the denominator in calculating basic and diluted earnings per unit ('000)	140,372	-
Basic and diluted earnings per unit attributable to unitholders (cents per unit)	<b>0.29</b>	-

On 20 June 2016, the units of the Scheme were consolidated on the basis of 0.4165 units for every 1 unit held as at the date of consolidation.

## 11 Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank	<u>10,589</u>	<u>3,144</u>
	<b>10,589</b>	<b>3,144</b>

## 12 Receivables

	2016 \$'000	2015 \$'000
Trade receivables	738	343
GST receivables	<u>815</u>	<u>106</u>
	<b>1,553</b>	<b>449</b>

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

	2016 \$'000	2015 \$'000
Derivative liabilities	<u>8,931</u>	<u>5,523</u>
Total financial liabilities held at fair value through profit or loss	<b>8,931</b>	<b>5,523</b>

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	Book value 2016 \$'000	Book value 2015 \$'000
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/2/2014	30/04/2016	117,000	Savills	117,187	114,500
10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	30/04/2016	69,500	Knight Frank	69,523	61,000
5 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	11/2/2014	30/04/2016	40,800	Savills	40,840	40,500
468 St Kilda Rd, Melbourne, VIC	Office/ Freehold	100%	03/07/2007	30/04/2016	43,500	Urbis	44,330	38,400
241 Adelaide Street, Brisbane, QLD	Office/ Leasehold	100%	01/06/2007	30/04/2016	35,500	Knight Frank	35,766	37,100
32 Phillip Street, Parramatta, NSW	Office/ Freehold	100%	01/06/2007	30/04/2016	37,750	CBRE	37,750	37,000
2 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	20/06/2013	30/04/2016	28,700	Knight Frank	28,856	28,000
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	30/04/2016	18,300	Savills	18,520	18,250
Total					391,050		392,772	374,750

The book value of an investment property may vary from the independent valuation of the property due to acquisition costs, 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:

	2016 \$'000	2015 \$'000
Opening balance	374,750	362,421
Additions including capital expenditure	3,839	1,111
Lease commissions and incentives	4,064	1,116
Lease commissions and incentives amortisation	(4,177)	(3,758)
Straight-lining of rental income	(117)	248
Revaluation movements	14,413	13,612
Closing balance	392,772	374,750

### (c) Contractual obligations

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

	2016 \$'000	2015 \$'000
Within one year	519	816
	519	816

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

## 15 Payables

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Trade payables	<b>1,703</b>	1,175
Accrued expenses	<b>1,500</b>	530
GST payables	<b>352</b>	341
	<b>3,555</b>	2,046

## 16 Borrowings

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Bank loan	<b>119,000</b>	183,418
Unamortised borrowing costs	<b>(909)</b>	(1,076)
	<b>118,091</b>	182,342

On 22 June 2016, the Responsible Entity on behalf of the Scheme entered into new debt facility agreements with its existing financiers. Under the new debt facility agreement, there are two tranches as follows:

- Tranche A is a \$70,000,000 facility expiring on 21 June 2019, and,
- Tranche B is a \$70,000,000 facility expiring on 21 June 2021.

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

On 31 May 2016, the Scheme repaid in full the Environmental Upgrade Agreement ("EUA") facility in respect of environmental upgrade works completed at 10 Valentine Avenue, Parramatta, NSW. The EUA facility had an initial funding limit of \$790,000 repayable according to a defined payment schedule over 5 years from settlement. The balance of the EUA loan as at 30 June 2015 was \$418,299. No security was held over the facility.

The Scheme had access to:

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>Credit facilities</b>		
Cash advance facilities	<b>140,000</b>	210,418
Drawn balance	<b>(119,000)</b>	(183,418)
Undrawn balance	<b>21,000</b>	27,000

## 17 Derivative financial instruments

2016	Contract/notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Interest rate swaps			
Maturing on 7 August 2019 at a fixed rate of 1.8700%	20,000	-	168
Maturing on 7 August 2019 at a fixed rate of 1.8700%	20,000	-	168
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	374
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	374
Maturing on 21 August 2020 at a fixed rate of 6.4900% *	20,000	-	3,874
Maturing on 21 August 2020 at a fixed rate of 6.6150% *	20,000	-	3,973
	120,000	-	8,931

\* These interest rate swaps were terminated on 1 July 2016 for swap break costs of \$7,987,242 which is disclosed as a subsequent event within note 23 of the financial statements.

2015	Contract/notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
<b>Interest rate swaps</b>			
Maturing on 28 September 2015 at a fixed rate of 5.8450%	10,000	-	94
Maturing on 7 May 2019 at a fixed rate of 3.3750%	15,000	-	570
Maturing on 21 May 2018 at a fixed rate of 3.3900%	25,000	-	845
Maturing on 7 May 2019 at a fixed rate of 3.3800%	15,000	-	572
Maturing on 21 May 2018 at a fixed rate of 3.3870%	10,000	-	337
Maturing on 30 June 2020 at a fixed rate of 3.2860%	13,000	-	451
Maturing on 30 June 2020 at a fixed rate of 3.4740%	15,000	-	654
Maturing on 30 June 2020 at a fixed rate of 3.4300%	15,000	-	623
Maturing on 30 June 2020 at a fixed rate of 3.7360%	12,500	-	699
Maturing on 30 June 2020 at a fixed rate of 3.7000%	12,500	-	678
	143,000	-	5,523

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.

A realised loss on derivative instruments held at fair value through profit and loss (swap break costs) of \$nil (2015 \$5,000,000) and an unrealised loss/gain of \$3,408,342 (2015: \$1,756,911) 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 2016.

## 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 ("the Investment Manager") under policies approved by the Board of Directors of the Responsible Entity ("the Board").

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

Price risk exposure arises from the Scheme's investment in listed and unlisted property securities. The investments are classified on the consolidated statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

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:

	2016 \$'000	2015 \$'000
<b>Floating rate</b>		
Cash and cash equivalents	10,589	3,144
Borrowings*	<u>(119,000)</u>	<u>(183,418)</u>
	<u>(108,411)</u>	<u>(180,274)</u>
 <b>Derivative financial instruments</b>		
Interest rate swaps - floating to fixed*	<u>120,000</u>	<u>143,000</u>
	<u>120,000</u>	<u>143,000</u>
 <b>Net exposure</b>	 <u>11,589</u>	 <u>(37,274)</u>

\* Represents the notional principal amounts.

On 1 July 2016, the Scheme terminated interest rate swaps with total notional amount of \$40,000,000.

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 or net assets attributable to unitholders, while a positive amount reflects a potential net increase.

<b>Sensitivity</b>	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>Impact on profit</b>		
Interest rate + 0.50% (2015: +0.25%)	58	(93)
Interest rate - 0.50% (2015: -0.25%)	(58)	93
 <b>Impact on equity</b>		
Interest rate + 0.50% (2015: +0.25%)	58	(93)
Interest rate - 0.50% (2015: -0.25%)	(58)	93

The above calculation ignores the impact of the termination of the interest rate swaps on 1 July 2016.

### (c) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Scheme to make a financial loss. The Scheme has exposure to credit risk on all of its financial assets included in the Scheme's consolidated statement of financial position.

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

The Scheme is exposed to credit risk on financial instruments and derivatives. There is only a credit risk where the contracting entity is liable to pay the Scheme in the event of a close out.

## 18 Financial risk management (continued)

### (d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities 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
<b>2016</b>				
Distributions payables	505	-	-	-
Payables	3,555	-	-	-
Financial liabilities held at fair value through profit or loss	1,979	1,979	1,979	2,342
Borrowings	-	-	70,000	49,000
Total financial liabilities	6,039	1,979	71,979	51,342
	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
<b>2015</b>				
Distributions payables	3,985	-	-	-
Payables	2,046	-	-	-
Financial liabilities held at fair value through profit or loss	1,972	1,879	1,827	2,359
Borrowings	160	104,170	88	79,000
Net assets attributable to unitholders	184,771	-	-	-
Total financial liabilities	192,934	106,049	1,915	81,359

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 2016, these assets amounted to \$10,588,662 (2015: \$3,143,546).

### (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.

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
<b>2016</b>				
<b>Non-financial assets</b>				
Investment properties	-	-	392,772	392,772
<b>Total non-financial assets</b>	-	-	392,772	392,772
<b>Financial liabilities</b>				
Financial liabilities held at fair value through profit or loss				
Derivatives	-	8,931	-	8,931
<b>Total financial liabilities</b>	-	8,931	-	8,931
<b>2015</b>				
<b>Non-financial assets</b>				
Investment properties	-	-	374,750	374,750
<b>Total non-financial assets</b>	-	-	374,750	374,750
<b>Financial liabilities</b>				
Financial liabilities held at fair value through profit or loss				
Derivatives	-	5,523	-	5,523
<b>Total financial liabilities</b>	-	5,523	-	5,523

## 19 Fair value hierarchy (continued)

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.

### (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 assets are priced at bid prices, while financial liabilities are priced at asking prices.

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.

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 incorporate 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 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:

- Net passing rent - the contracted net amount for which a property or space within a property is leased. In the calculation of net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable);
- Net market rent - 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);
- 10 year average market rental growth - average of a 10 year period of forecast annual percentage growth rates;
- 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 2016	30 June 2015
Net passing rent (\$'000 p.a.)	1,328 - 9,742	974 - 9,413
Net market rent (\$'000 p.a.)	2,065 - 8,613	2,022 - 8,860
10-year average market rental growth (%)	2.80% - 3.65%	1.70% - 3.70%
Adopted capitalisation rate (%)	7.50% - 9.25%	7.50% - 9.75%
Adopted terminal yield (%)	7.75% - 9.75%	7.75% - 10.25%
Adopted discount rate (%)	8.25% - 11.00%	8.50% - 9.50%
Occupancy rate by area (%)	82.24% - 100.00%	63.73% - 100.00%
Weighted average lease expiry (years)	1.94 - 7.00	1.16 - 8.00

At 30 June 2016, the Scheme's investment properties weighted average lease expiry was 4.77 years (2015: 4.04 years) and occupancy rate was 94.73% (2015: 91.77%).

## 19 Fair value hierarchy (continued)

### (ii) Valuation processes

Independent valuations of investment properties are obtained at least once in any 12 month period from the date of the last valuation 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.

### (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
Net passing rent	Increase	Decrease
Net market rent	Increase	Decrease
10-year average market rental growth	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) whose immediate and ultimate parent entity is Australian Unity Limited (ABN 23 087 648 888).

On 17 June 2016, Australian Unity Investment Real Estate Limited ("AUIREL") replaced Australian Unity Funds Management Limited ("AUFML") (ABN 60 071 497 115) as the Scheme's Responsible Entity. At the same time, AUFML was appointed as the Investment Manager of the Scheme under an Investment Management Agreement. The transaction was approved by unitholders and was made on commercial terms and conditions and on an arm's length basis.

### **Key management personnel**

#### *(a) Directors*

Key management personnel include persons who were directors of the Responsible Entity at any time during the year as follows:

*Directors of AUIREL following the appointment of AUIREL as the Scheme's Responsible Entity on 17 June 2016*

Peter Day	Independent Non-Executive Director and Chairman
Don Marples	Independent Non-Executive Director
Eve Crestani	Non-Executive Director
Greg Willcock	Non-Executive Director
Kirsty Dullahide	Executive Director

The company secretary of AUIREL, following its appointment as the Scheme's Responsible Entity on 17 June 2016 was Emma Rodgers.

*Directors of AUFML prior to 17 June 2016 when AUFML was the Scheme's Responsible Entity*

Peter Promnitz	Non-Executive Director and appointed Chairman from 30 March 2016
David Bryant	Chief Executive Officer and Chief Investment Officer
Melinda Cilento	Non-Executive Director
Su McCluskey	Non-Executive Director (appointed 27 January 2016)
Kevin McCoy	Chief Financial Officer
Stephen Maitland	Non-Executive Director
Rohan Mead	Group Managing Director
Greg Willcock	Non-Executive Director
Glenn Barnes	Chairman (ceased 30 March 2016)

The company secretaries of AUFML whilst it was the Responsible Entity of the Scheme were:

Melinda Honig (appointed 16 February 2016)  
Verran Fehlberg (ceased 16 February 2016)

No Directors' fees were paid out of the Scheme property to the directors of the Responsible Entity, except for independent directors who are entitled to receive their fees following the appointment of AUIREL as the Responsible Entity on 17 June 2016. Directors' fees paid during the year was \$8,117.

As at 30 June 2016, Peter Day held 50,000 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.

## 20 Related party transactions (continued)

### Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, AUIREL 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.

Administration expenses incurred in the day to day running of the Scheme are reimbursed in accordance with the Scheme's Constitution.

The transactions during the year and amount payable at the year end between the Scheme and the Responsible Entity were as follows:

	2016 \$	2015 \$
Management fees for the year paid by the Scheme to the Responsible Entity	<b>7,313,100</b>	2,574,437
Administration expenses incurred by the Responsible Entity which are reimbursed in accordance with the Scheme's Constitution	<b>268,000</b>	268,458
Aggregate amounts payable to the Responsible Entity at the end of the year	<b>246,924</b>	217,984

AUFML was entitled to a one-off performance fee of \$4,632,000 under the Constitution (included in the management fees), which was paid immediately prior to the change of Responsible Entity.

#### (a) Other related party transactions

##### *Investment management agreement*

Following the appointment of AUIREL as Responsible Entity on 17 June 2016, unitholders approved the appointment of AUFML as the provider of investment management services to Scheme. Under the Investment Management Agreement, AUFML is engaged to provide a number of services including:

- Investment Management Services;
- Fund Analyst Services;
- Transactional Services; and
- Fund accounting Services.

In consideration for the provisions of the management services to the Scheme, AUFML is entitled to an annual fee equivalent to 95% of the Responsible Entity fee. This equates to 0.57% per annum of the gross assets of the Scheme. To the extent the investment management fee is paid to AUFML, the Responsible Entity will reduce the base fee it takes out of the Scheme. Additionally, AUFML is entitled to a fee for accounting services of \$140,000 per annum, adjusted upwards by CPI each year.

The total fees to AUFML under the Investment Management Agreement for the year ended 30 June 2016 was \$82,042. Total accrued fees payable to AUFML as at 30 June 2016 was \$82,042.

##### *Property management agreement*

Australian Unity Property Management Pty Ltd ("AUPMPL"), a related party of the Responsible Entity, 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).

The appointment of AUPMPL was approved by unitholders on 17 June 2016.

The total fees paid/payable to AUPMPL for the year ended 30 June 2016 was \$754,894 (2015: \$280,971). Total accrued fees payable to AUPMPL as at 30 June 2016 was \$13,735 (2015: \$12,720).

All related party transactions are 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:

#### 2016

Unitholders	No. of units held opening '000	No. of units held closing '000	Fair value of investment \$'000	Interest held (%)	No. of units acquired '000	Impact of unit consolidation and no. of units disposed * '000	Distributions paid/payable by the Scheme \$'000
Australian Unity Diversified Property Fund	20,738	8,637	18,398	6.15	-	(12,101)	1,446
Australian Unity Property Income Fund	8,476	4,269	9,092	3.04	1,000	(5,207)	551
Australian Unity Health Limited	-	3,284	6,995	2.34	3,284	-	12
Australian Unity Funds Management Limited	-	2,316	4,933	1.65	2,316	-	8
Australian Unity Grand United Corporate Health	-	900	1,917	0.64	900	-	3
Australian Unity A-REIT Fund	-	98	208	0.07	98	-	-
<b>Total</b>	<b>29,214</b>	<b>19,504</b>	<b>41,543</b>	<b>13.89</b>	<b>7,598</b>	<b>(17,308)</b>	<b>2,020</b>

\* On 20 June 2016, the units of the Scheme were consolidated on the basis of 0.4165 units for every 1 unit held as at the date of consolidation. Australian Unity Property Income Fund redeemed 627,871 units prior to consolidation of units.

#### 2015

Unitholders	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
Australian Unity Diversified Property Fund	20,738	20,738	17,107	9.06	-	-	1,452
Australian Unity Property Income Fund	9,520	8,476	6,992	3.70	-	(1,044)	612
<b>Total</b>	<b>30,258</b>	<b>29,214</b>	<b>24,099</b>	<b>12.76</b>	<b>-</b>	<b>(1,044)</b>	<b>2,064</b>

\*Fair value of investment includes accrued distribution at the end of the year.

## 21 Reconciliation of profit to net cash inflow from operating activities

### (a) Reconciliation of profit to net cash inflow from operating activities

	2016 \$'000	2015 \$'000
Profit for the reporting period attributable to unitholders	-	-
Increase in net assets attributable to unitholders	3,019	8,000
Add back interest expenses and debt establishment costs	10,026	10,152
Add back swap break costs paid	-	5,000
(Increase)/decrease in receivables	(1,104)	581
Increase/(decrease) in payables/liabilities	973	(2,626)
Change in fair value of the investment properties - revaluation increment	(14,413)	(13,612)
Adjustments to net lease incentives and straight line rental	4,060	3,510
Unrealised losses/(gains) on financial instruments held at fair value through profit or loss	3,408	(1,757)
Decrease/(increase) in other assets/prepayments	10	(19)
Distributions to unitholders	15,618	15,666
Equity raising costs	2,124	-
<b>Net cash inflow from operating activities</b>	<b>23,721</b>	<b>24,895</b>

### (b) Components of cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash as at the end of the year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash and cash equivalents	10,589	3,144

## 22 Parent entity financial information

	2016	2015
	\$'000	\$'000
<b>Statement of financial position</b>		
Cash and cash equivalents	10,166	2,733
Receivables	704	57
Prepayments	15	27
Investment properties	18,520	18,250
Investment in subsidiaries	422,463	412,343
<b>Total assets</b>	<b>451,868</b>	<b>433,410</b>
Distributions payable	505	3,985
Financial liabilities held at fair value through profit or loss	8,931	5,523
Payables	50,195	57,207
Borrowings	118,091	181,924
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>177,722</b>	<b>248,639</b>
<b>Net assets attributable to unitholders</b>	<b>274,146</b>	<b>184,771</b>

	2016	2015
	\$'000	\$'000
<b>Statement of comprehensive income</b>		
Profit before finance costs attributable to unitholders	18,637	23,666
<b>Finance costs attributable to unitholders</b>		
Distributions to unitholders	15,618	15,666
Increase in net assets attributable to unitholders	3,019	8,000
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>

## 23 Events occurring after the end of the financial year

On 1 July 2016, the Responsible Entity on behalf of the Scheme, terminated two of its interest rate swaps which resulted in break costs of \$7,987,242.

No other significant events have occurred since the end of the year which would impact on the financial position of the Scheme disclosed in the consolidated statement of financial position as at 30 June 2016 or on the results and cash flows of the Scheme for the year.

## 24 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2016 and 30 June 2015.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the consolidated financial statements and notes set out on pages 8 to 40 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 2016 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,
- (d) the consolidated financial statements are in accordance with the Scheme's Constitution, and
- (e) 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



Peter Day  
Chairman

11 August 2016

# Independent auditor's report to the members of Australian Unity Office Fund

## Report on the financial report

We have audited the accompanying financial report of Australian Unity Office Fund, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising Australian Unity Office Fund and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the Australian Unity Investment Real Estate Limited 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Australian Unity Office Fund a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the

Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

### *Opinion*

In our opinion:

- a. The financial report of Australian Unity Office Fund is in accordance with the *Corporations Act 2001*, including:
  - i Giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii Complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. The financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

*Ernst & Young*  
Ernst & Young

*Luke Slater*  
Luke Slater  
Partner  
Melbourne  
11 August 2016