180 YEARS | Australian Unity Real Wellbeing

ASX Announcement – Australian Unity Office Fund

25 August 2021

Appendix 4E

Australian Unity Office Fund ('AOF')
Preliminary Final Report
For the Year Ended 30 June 2021

Results for announcement to the market

1.0	**Reporting period**				
	Current reporting period	12 months to 30 June 2021			
	Prior reporting period	12 months to 30 June 2020			
2.0	**Results for announcement to the market**	**30 June 2021 $'000**	**30 June 2020 $'000**	**Movement $'000**	**Movement %**
2.1	Total revenues and other income (Note 1)	55,236	57,563	(2,327)	(4.0)%
2.2	Profit from ordinary activities after tax attributable to unitholders	23,257	13,245	10,012	75.6%
2.3	Net profit for the period attributable to unitholders	23,257	13,245	10,012	75.6%
2.3A	Directors assessment of Funds From Operations (Note 2)	30,605	29,585	1,020	3.4%
2.4	**Distributions**	**Amount per unit**	**Record date**		
	Distribution for 1 July 2020 to 30 September 2020	3.75 cents	30 Sep 20		
	Distribution for 1 October 2020 to 31 December 2020	3.75 cents	31 Dec 20		
	Distribution for 1 January 2021 to 31 March 2021	3.75 cents	31 Mar 21		
	Distribution for 1 April 2021 to 30 June 2021	3.75 cents	30 June 21		
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 and directors' report for the year ended 30 June 2021 attached to this Appendix 4E for further information.			

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

Registry Enquiries:
Australian Unity Office Fund Investor Services
1300 737 760 or
+61 2 9290 9600
(outside Australia)

ASX Announcement – Australian Unity Office Fund

3-6	A statement of comprehensive income, statement of financial position, a statement of changes in equity and a statement of cash flows.	Refer to the Annual financial report for the year ended 30 June 2021 attached to this Appendix 4E for further information.

		Date Paid	Amount Per Unit	Foreign Sourced Income
7	Details of individual and total distributions and distribution payments.			
	Distribution for 1 July 2020 to 30 September 2020	27 Oct 2020	3.75 cents	n/a
	Distribution for 1 October 2020 to 31 December 2020	29 Jan 2021	3.75 cents	n/a
	Distribution for 1 January 2021 to 31 March 2021	21 Apr 2021	3.75 cents	n/a
	Distribution for 1 April 2021 to 30 June 2021	29 July 2021	3.75 cents	n/a

8	Details of any distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any distribution reinvestment plan.	The AOF Distribution Reinvestment Plan (DRP) was activated for the distribution for the quarters ending 30 September 2020 and 31 December 2020. The DRP was suspended from the quarter ending 31 March 2021.
9	Net tangible assets per security	**30 June 2021**: $2.71; **30 June 2020**: $2.72
10	Details of entities over which control has been gained or lost during the period, including the following.	Not applicable
11	Details of associates and joint venture entities including the following.	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.	Any other significant information needed to make an informed assessment of the entity's financial performance and financial position is contained in the Annual financial report and directors' report for the year ended 30 June 2021 attached to this Appendix 4E.
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 and directors' report for the year ended 30 June 2021 attached to this Appendix 4E for commentary on the results for the period.
15	A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed	The Annual financial report for the year ended 30 June 2021 has been audited and contains an unqualified audit opinion.

ASX Announcement – Australian Unity Office Fund

16	If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph	Not applicable
17	If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.	No modified opinion, emphasis of matter or other matter.

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

Note (2): The Scheme uses the Property Council of Australia' definition of Funds From Operations (FFO) as a key determinant of the level of distributions to pay. FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards profit for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives and leasing costs, rental straight-line adjustments and other unrealised or one-off items. When assessing FFO, Directors also add back rental abatement incentives to ensure consistency with the treatment of rent-free incentives and fitout incentives. The Scheme aims to distribute between 80% and 100% of Directors' assessment of FFO each year.

About AOF

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

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

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

Registry Enquiries:
Australian Unity Office Fund Investor Services
1300 737 760 or
+61 2 9290 9600
(outside Australia)

Australian Unity Office Fund

ARSN 113 369 627

Annual financial report and directors' report for the year ended 30 June 2021

Australian Unity Office Fund

ARSN 113 369 627

Annual financial report and directors' report for the year ended 30 June 2021

Contents **Page**

Directors' report

The directors of Australian Unity Investment Real Estate Limited (ABN 86 606 414 368), the Responsible Entity of Australian Unity Office Fund ("the Scheme"), present their report together with the consolidated financial statements of the Scheme for the year ended 30 June 2021.

Directors
The following persons were directors of the Responsible Entity of the Scheme (the "Board") during the year and up to the date of this report:

W Peter Day*	Independent Non-Executive Director and Chairman
Don Marples*	Independent Non-Executive Director and Chairman of the Audit & Risk Committee
Eve Crestani*	Independent Non-Executive Director
Erle Spratt	Non-Executive Director
Greg Willcock	Non-Executive Director

* Member of the Audit & Risk Committee

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

Operating and financial review

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

Investment objective and strategy
The Scheme undertook a strategic assessment during the year, with the outcome refining the existing strategy, with an expanded asset ownership mandate allowing the Scheme to own commercial properties that aligns with the key asset attributes of affordability, accessibility and amenity.

The Scheme's refined objectives and strategy are detailed below:

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

The Scheme's strategy is to:
- Focus on owning Australian office properties in metropolitan and CBD markets, complemented by a targeted and diversified portfolio of Australian real estate assets
- Deliver unitholders sustainable and growing income returns via quarterly distributions
- Maximise returns to unitholders through value-add initiatives including developments, asset repositioning strategies, divestments and acquisitions
- Target index inclusion
- Maintain a capital structure which has target gearing below 40%

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

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

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

The Scheme has also been impacted with large tenants delaying leasing decisions and eligible tenants requesting rent relief. Valuation uncertainty increased.

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

As at 30 June 2021, approximately 16% of the Scheme's tenants, by average monthly gross income, have requested proportionate rent relief under the Code.

The Scheme has held "good faith" discussions with those tenants and provided rent waivers totalling $558,000 during the year ended 30 June 2021. The Scheme also agreed to defer $298,000 of tenants' rental payments.

The Responsible Entity elected to externally revalue all of its investment properties at 30 June 2021 to ensure valuations reflect current market conditions.

On 24 June 2021, the Scheme settled the sale of 241 Adelaide Street, Brisbane, QLD for a consideration of $31,500,000. After selling costs a loss of $500,633 was realised.

The Scheme has completed the removal of all combustible cladding, in the forms of aluminium composite panels and expandable polystyrene panels, which have been assessed as being high or medium risk. Specialist consultants have confirmed that, based on current regulations, no further removal works are required.

Financial result
The following table summarises the statutory profit for the year ended 30 June 2021 and provides a comparison to the statutory profit for the year ended 30 June 2020.

$'000	**2021**	**2020**
Rental income *	56,822	57,844
Property expenses **	(16,379)	(17,400)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(5,944)	(5,049)
Net property income	**34,499**	**35,395**
Interest income	1	3
Net gains/(losses) on financial instruments held at fair value	3,136	(3,077)
Net losses on disposal of investment property	(501)	-
Net fair value increment/(decrement) of investment properties	(1,657)	(2,900)
Responsible Entity's fees	(4,110)	(4,164)
Borrowing costs	(6,643)	(7,781)
Other expenses***	(1,468)	(4,231)
Profit for the year	**23,257**	**13,245**

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

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

*** Other expenses for the year ended 30 June 2020 includes $2,922,000 of costs the Scheme incurred in relation to offers from CHAB Office Trust and SOF-XI Legs Holdings Limited (Starwood) to purchase all the outstanding units of the Scheme, and a potential asset acquisition. These proposals did not proceed.

As at 30 June 2021, the Scheme’s net assets attributable to unitholders per unit was $2.71 (2020: $2.72).

Funds From Operations
The Scheme uses the Property Council of Australia's definition of Funds From Operations (FFO) as a key determinant of the level of distributions to pay.

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

When assessing FFO, Directors also add back rental abatement incentives to ensure consistency with the treatment of rent free incentives and fitout incentives.

The Scheme aims to distribute between 80% and 100% of Directors' assessment of FFO each year.

A reconciliation of the statutory profit to FFO and distributions is set out below for the year ended 30 June 2021 and 30 June 2020.

$'000	**2021**	**2020**
Net profit	23,257	13,245
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	5,944	5,049
Net (gains)/losses on financial instruments held at fair value	(3,136)	3,077
Net losses on disposal of investment property	501	-
Net fair value (increment)/decrement of investment properties	1,657	2,900
Amortisation of borrowing costs	267	439
One off adjustment*	-	2,922
Add back: Rental abatement incentives	2,115	1,953
Directors' assessment of Funds from Operations	**30,605**	**29,585**
Distributions declared	**24,565**	**24,424**

*During the year ended 30 June 2020, the Scheme incurred costs in relation to the CHAB proposal, Starwood proposal and a potential asset acquisition which did not proceed due to the impact of the COVID-19 pandemic. As these costs are one off in nature, and not part of the underlying and recurring earnings of the Scheme, the directors have excluded them from the FFO calculation.

Cents per unit	**2021**	**2020**
Directors' assessment of Funds from Operations	**18.7**	18.2
Distributions declared	**15.0**	15.0
Payout ratio (Distributions declared/Funds From Operations)	**80.3%**	82.4%

Property portfolio
At 30 June 2021, the Scheme wholly owned a diversified portfolio of eight office properties located across Australian metropolitan and CBD markets. The portfolio is valued at $638,850,000 (2020: $669,650,000) and has a total net lettable area of 98,067 sqm (2020: 107,614 sqm).

a) Leasing and occupancy
During the year ended 30 June 2021, the Scheme completed approximately 16,449 sqm of leasing across 30 separate transactions. This represented approximately 15.3% of the portfolio by area, prior to the sale of 241 Adelaide Street, Brisbane, QLD. Approximately 2,136 sqm of the completed leasing relates to space that was vacant on 30 June 2020.

At 30 June 2021, the Scheme's investment properties weighted average lease expiry was 2.4 years (2020: 2.9 years) and occupancy rate was 95.7% (2020: 93.7%).

b) Valuations
All properties were independently revalued at 30 June 2021 ensuring valuations reflect current market conditions.

The weighted average capitalisation rate for the portfolio firmed by approximately 30 basis points to 5.8% as at 30 June 2021 (2020: 6.1%).

Capital management
As at 30 June 2021, drawn borrowings totalled $190,800,000 (30 June 2020: $215,800,000) with a weighted average all-in interest cost of 3.4% and 89.1% of debt hedged. The Scheme's gearing (calculated as interest bearing liabilities, excluding unamortised establishment costs, less cash, divided by total tangible assets less cash) was 28.4% (30 June 2020: 31.2%).

The reduction in borrowings was primarily due the sale of 241 Adelaide Street, Brisbane, QLD, with the proceeds being used to repay debt and restructure interest rate swaps.

During the year the Scheme amended the following interest rate swaps at a cost of $5,093,767:
- interest rate swap with nominal value of $40,000,000 expiring on 22 August 2023 was amended to expiring on 23 May 2022;
- interest rate swap with nominal value of $30,000,000 expiring on 8 February 2025 with fixed rate of 1.4300% was amended to a fixed rate of 0.6020% from 8 August 2021;
- interest rate swap with nominal value of $20,000,000 expiring on 20 January 2025 with fixed rate of 1.6900% was amended to a fixed rate of 0.5790% from 20 July 2021;
- interest rate swap with nominal value of $30,000,000 expiring on 23 April 2024 with fixed rate of 1.7085% was amended to a fixed rate of 0.4610% from 23 July 2021;
- interest rate swap with nominal value of $20,000,000 expiring on 23 April 2024 with fixed rate of 2.0400% was amended to a fixed rate of 0.4100% from 23 July 2021; and,
- interest rate swap with nominal value of $30,000,000 expiring on 23 April 2025 with fixed rate of 0.8950% was amended to a fixed rate of 0.6300% from 25 July 2021.

The Distribution Reinvestment Plan (DRP) was activated for the distribution for the quarter ending 30 September 2020 and 31 December 2020. The units issued under the DRP were at a 1% discount to the market price calculated for the purposes of the DRP. The participation rate by number of units, expressed as a percentage, for the DRP was 22% for the 30 September 2020 distribution and 32% for the 31 December 2020 distribution. The DRP was suspended from the quarter ending 31 March 2021.

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

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

The Responsible Entity provides Funds From Operations guidance for the 2022 financial year of 18.0 cents per unit to 18.5 cents per unit and distribution guidance for the 2022 financial year of 15.2 cents per unit. This guidance is subject to no material change in current market conditions and no unforeseen events. Distributions will continue to be paid quarterly.

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

The Responsible Entity will continue to assess options to maximise returns and unlock value for unitholders.

Matters subsequent to the end of the financial year
Uncertainty remains regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic and impact on the Scheme's operations and financial performance. The economic and operating environment is subject to rapid change and will continue to be closely monitored by the Scheme.

On 7 July 2021 the Scheme announced that it was investigating a potential merger with the Australian Unity Diversified Property Fund, with investigations ongoing.

The Scheme announced on 21 July 2021 the acquisition of 96 York Street, Beenleigh, QLD for $33,520,000, excluding acquisition costs. The building has a net lettable area of 4,661 sqm, with 4,009 sqm of office space leased to Logan City Council for 10 years with two 5-year options and annual rent increases of the greater of 3.0% or CPI. The acquisition will be funded from undrawn debt facilities which increased following the sale of 241 Adelaide Street, Brisbane QLD. Settlement is expected to be in December 2021.

Other than the above matters, no other matters or circumstance has arisen since 30 June 2021 that have significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years.

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

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

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

No Directors' fees were paid out of the assets of the Scheme to the directors of the Responsible Entity, except for independent directors who receive their fees from the Scheme. Directors' fees paid during the year were $335,000 (2020: $335,000).

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

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

Director	Units at 30 June 2021
W Peter Day	58,000

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

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

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

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

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

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

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

Provision of non-audit services by auditor
The Scheme may decide to employ the auditor (PwC) 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 & 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 & Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

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

Auditor's independence declaration
A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

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

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

W Peter Day
Independent Non-Executive Director and Chairman

24 August 2021

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Office Fund for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
24 August 2021

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Consolidated statement of comprehensive income

	Notes	**2021 $'000**	2020 $'000
Income			
Rental income	3	**55,235**	57,560
Property expenses	4	**(20,736)**	(22,165)
Net property income		**34,499**	35,395
Interest income		**1**	3
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	**3,136**	(3,077)
Net fair value decrement of investment properties	14(b)	**(1,657)**	(2,900)
Realised loss on disposal of investment property		**(501)**	-
Total income net of property expenses		**35,478**	29,421
Expenses			
Responsible Entity's fees	20	**4,110**	4,164
Borrowing costs		**6,643**	7,781
Other expenses	7	**1,468**	4,231
Total expenses, excluding property expenses		**12,221**	16,176
Profit for the year		**23,257**	13,245
Other comprehensive income		**-**	-
Total comprehensive income attributable to unitholders		**23,257**	13,245
Basic and diluted earnings per unit attributable to unitholders (cents per unit)	10	**14.20**	8.13

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

Consolidated statement of financial position

	Notes	**2021** **$'000**	2020 $'000
Assets			
Cash and cash equivalents	11	**8,935**	5,798
Receivables	12	**592**	1,818
Other assets		**999**	784
Investment properties	14	**638,850**	669,650
Total assets		**649,376**	678,050
Liabilities			
Distributions payable	9	**6,164**	4,885
Payables	15	**7,232**	6,225
Financial liabilities held at fair value through profit or loss	13	**991**	9,221
Borrowings	16	**190,157**	214,889
Total liabilities		**204,544**	235,220
Net assets attributable to unitholders	8	**444,832**	442,830

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

Consolidated statement of changes in equity

	2021 $'000	2020 $'000
Balance at the beginning of the year	**442,830**	454,009
Comprehensive income for the year		
Profit for the year	**23,257**	13,245
Other comprehensive income	**-**	-
Total comprehensive income attributable to unitholders	**23,257**	13,245
Transactions with unitholders		
Distributions paid and payable	**(24,565)**	(24,424)
Units issued upon reinvestment of distributions	**3,310**	-
Total transactions with unitholders	**(21,255)**	(24,424)
Balance at the end of the year	**444,832**	442,830

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

Consolidated statement of cash flows

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Interest received		**1**	3
Payments to suppliers		**(20,283)**	(25,269)
Rental income received		**56,934**	54,883
Net cash inflow from operating activities	21	**36,652**	29,617
Cash flows from investing activities			
Payments for additions to owned investment properties		**(8,923)**	(8,316)
Proceeds from sale of investment property		**31,500**	-
Disposal costs paid from sale of investment property		**(280)**	-
Net cash inflow/(outflow) from investing activities		**22,297**	(8,316)
Cash flows from financing activities			
Proceeds from borrowings		**6,000**	97,200
Repayment of borrowings		**(31,000)**	(86,200)
Borrowing costs paid		**(5,743)**	(8,013)
Distributions paid (net of DRP)		**(19,975)**	(25,971)
Swap break costs paid		**(5,094)**	-
Net cash outflow from financing activities		**(55,812)**	(22,984)
Net increase/(decrease) in cash and cash equivalents		**3,137**	(1,683)
Cash and cash equivalents at the beginning of the year		**5,798**	7,481
Cash and cash equivalents at the end of the year	11	**8,935**	5,798

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

Notes to the consolidated financial statements

1 General information

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

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

The Responsible Entity is incorporated and domiciled in Australia.

The consolidated financial statements are for the year 1 July 2020 to 30 June 2021.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 24 August 2021. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

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

The Scheme controlled the following entities during the year:
• Australian Unity Holding Trust which was constituted on 31 May 2005;
• Australian Unity Second Industrial Trust which was constituted on 28 September 2001;
• Australian Unity Fourth Commercial Trust which was constituted on 27 September 2002;
• Australian Unity Fifth Commercial Trust which was constituted on 31 July 2002;
• Australian Unity Sixth Commercial Trust which was constituted on 2 October 2003; and
• Pirie Street Trust which was established by Trust Deed dated 31 July 2002.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New accounting standards and amendments adopted by the Scheme
There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

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

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for 30 June 2021 reporting period and have not yet been applied in the financial statements. None of these are expected to have a material effect on the financial statements of the Scheme.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by the Scheme as at 30 June 2021 and their results for the year then ended. The Scheme and its subsidiaries together are referred to in these consolidated financial statements as the consolidated entity.

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

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

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

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

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

(c) Investment properties

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

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

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

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

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 (excluding abatements which are expensed), related professional fees incurred and other directly attributable transaction costs.

(d) Financial instruments

(i) Classification

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

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

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

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

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

- *Amortised cost*

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

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

(ii) Recognition/derecognition

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

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

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

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

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

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

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

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

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

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

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

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

Dividend income is recognised on the ex-dividend date.

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

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

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

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

2 Summary of significant accounting policies (continued)

(j) Distributions

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

(k) Receivables

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

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

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

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

(l) Payables

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

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

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

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

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

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

(m) Applications

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

(n) Borrowings and borrowing costs

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

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

2 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

Outgoings income
Outgoing income is recognised in the consolidated statement of comprehensive income on an accruals basis.

(q) Leases

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

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

2 Summary of significant accounting policies (continued)

(r) Use of judgements and estimates

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

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

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

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

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

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

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

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

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

(s) Rounding of amounts

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

(t) Functional and presentation currency

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

(u) Segment reporting

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

3 Rental income

	2021 **$'000**	2020 $'000
Rental income	**45,506**	46,154
Outgoings income	**9,729**	11,406
Total rental income	**55,235**	57,560

Rental income was reduced by an adjustment for the straight lining of rental income of $1,586,000 (2020: $284,000).

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

A number of the Scheme’s tenants requested rent relief under the Code. The Scheme held “good faith” discussions with those tenants and provided rent waivers totalling $558,000, of which $347,000 relate to the year ended 30 June 2021, reducing the rental income accordingly. As at 30 June 2020 there were $nil rent waivers as the agreements were not finalised at that time, hence the Scheme recorded a provision for doubtful debts.

4 Property expenses

	2021 **$'000**	2020 $'000
Recoverable outgoings	**14,118**	14,915
Non recoverable outgoings	**1,527**	1,287
Doubtful debts provision and bad debts expense	**733**	1,198
Amortisation of lease commissions & lease incentives	**4,358**	4,765
Total property expenses	**20,736**	22,165

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

	2021	2020
	$'000	$'000
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	**3,136**	(3,077)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	**3,136**	(3,077)

6 Auditor's remuneration

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

	2021	2020
	$	$
Audit services - PwC		
Audit and review of financial statements	**87,000**	82,000
Audit of compliance plan	**3,500**	3,500
Total auditor's remuneration	**90,500**	85,500

7 Other expenses

	2021	2020
	$'000	$'000
Directors fees	**335**	335
Administration	**599**	597
Sundry*	**534**	3,299
	1,468	4,231

*In the prior year, the Scheme incurred $2,922,000 of costs in relation to offers from CHAB Office Trust and Starwood to purchase all the outstanding units of the Scheme, and a potential asset acquisition. These proposals did not proceed.

8 Net assets attributable to unitholders

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

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

	Movements in no. of units		**Movements in net assets**	
Contributed equity	**2021**	2020	**2021**	2020
	'000	'000	**$'000**	$'000
Opening balances	**162,832**	162,832	**370,757**	370,757
Units issued through the DRP	**1,551**	-	**3,310**	-
Closing balance	**164,383**	162,832	**374,067**	370,757

8 Net assets attributable to unitholders (continued)

Undistributed income

Opening balance	**72,073**	83,252
Increase in net assets attributable to unitholders	**(1,308)**	(11,179)
Closing balance	**70,765**	72,073
Total net assets attributable to unitholders	**444,832**	442,830

Capital risk management

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

The Scheme utilises a mixture of debt and equity to finance its activities, with target gearing of below 40%. The gearing ratio at 30 June 2021 was 28.4% (2020: 31.2%).

9 Distributions to unitholders

The distributions for the year were as follows:

	2021 $'000	**2021 CPU**	2020 $'000	2020 CPU
30 September	**6,106**	**3.75**	-	0.00
30 November	**-**	**-**	6,513	4.00
31 December	**6,131**	**3.75**	6,513	4.00
31 March	**6,164**	**3.75**	6,513	4.00
30 June (payable)	**6,164**	**3.75**	4,885	3.00
	24,565	**15.00**	24,424	15.00

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:

	2021	2020
Profit attributable to unitholders ($'000)	**23,257**	13,245
Weighted average number of units used as the denominator in calculating basic and diluted earnings per unit ('000)	**163,760**	162,832
Basic and diluted earnings per unit attributable to unitholders (cents per unit)	**14.20**	8.13

11 Cash and cash equivalents

	2021 $'000	2020 $'000
Cash at bank	**8,935**	5,798
	8,935	5,798

12 Receivables

	2021 $'000	2020 $'000
Trade receivables	**1,285**	2,786
GST receivables	**240**	230
Doubtful debts provision	**(933)**	(1,198)
	592	1,818

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

	2021 $'000	2020 $'000
Derivative liabilities*	**(991)**	(9,221)
Total financial liabilities held at fair value through profit or loss	**(991)**	(9,221)

* In the current year, the Scheme restructured its interest rate swaps and incurred break costs of $5,093,767.

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	Valuer	Carrying value 2021	Carrying value 2020
		(%)			$'000		$'000	$'000
2-10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	30/06/2021	147,800	JLL	**147,800**	134,500
150 Charlotte Street, Brisbane, QLD	Office/ Freehold	100%	20/10/2017	30/06/2021	97,000	CBRE	**97,000**	100,000
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/02/2014	30/06/2021	90,000	Savills	**90,000**	112,000
468 St Kilda Rd, Melbourne, VIC	Office/ Freehold	100%	03/07/2007	30/06/2021	79,000	CBRE	**79,000**	79,000
5 Eden Park Drive, Macquarie Park, NSW	Commercial/ Freehold	100%	11/02/2014	30/06/2021	73,500	CBRE	**73,500**	66,000
32 Phillip Street, Parramatta, NSW	Office/ Freehold	100%	01/06/2007	30/06/2021	62,750	Savills	**62,750**	65,500
2 Eden Park Drive, Macquarie Park, NSW	Commercial/ Freehold	100%	20/06/2013	30/06/2021	62,500	Cushman & Wakefield	**62,500**	50,000
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	30/06/2021	26,300	Knight Frank	**26,300**	25,900
241 Adelaide Street, Brisbane, QLD	Office/ Leasehold	100%	01/06/2007	SOLD	-	-	**-**	36,750
Total					638,850		**638,850**	669,650

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

The investment properties valuation policy is included in note 19.

(b) Movements in carrying amount

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

	2021 $'000	2020 $'000
Opening balance	**669,650**	668,400
Capitalised borrowing cost	**633**	178
Additions	**7,882**	9,021
Disposal	**(31,714)**	-
Lease commissions and incentives amortisation	**(4,358)**	(4,765)
Straight-lining of rental income	**(1,586)**	(284)
Revaluation movements	**(1,657)**	(2,900)
Closing balance	**638,850**	669,650

On 24 June 2021, the Scheme settled the sale of 241 Adelaide Street, Brisbane, QLD for a consideration of $31,500,000. After selling costs a loss of $500,633 was realised.

14 Investment properties (continued)

(c) Contractual obligations

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

	2021 $'000	2020 $'000
Within one year	**1,677**	2,519
	1,677	2,519

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

(d) Leasing arrangements

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

	2021 $'000	2020 $'000
Within one year	**43,128**	44,965
Later than one year but not later than 5 years	**51,550**	92,862
Later than 5 years	**3,682**	3,067
	98,360	140,894

15 Payables

	2021 $'000	2020 $'000
Trade payables	**2,551**	2,421
Accrued expenses	**1,647**	581
Rent received in advance	**1,868**	2,016
Accrued borrowing costs	**694**	766
GST payables	**472**	441
	7,232	6,225

16 Borrowings

	2021 $'000	2020 $'000
Bank loan	**190,800**	215,800
Unamortised borrowing costs	**(643)**	(911)
	190,157	214,889

The bank loan comprises of three tranches:

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

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

The Scheme had access to:

	2021 $'000	2020 $'000
Credit facilities		
Cash advance facilities	**250,000**	250,000
Drawn balance	**(190,800)**	(215,800)
Undrawn balance	**59,200**	34,200

Reconciliations of the net debt are set out below:

	2021 $'000	2020 $'000
Analysis of changes in consolidated net debt		
Opening balance	**210,002**	197,319
(Repayment)/proceeds from borrowings	**(25,000)**	11,000
Other cash movements	**(3,137)**	1,683
Closing balance	**181,865**	210,002
Bank loan	**190,800**	215,800
Cash and cash equivalents	**(8,935)**	(5,798)
Consolidated net debt	**181,865**	210,002

17 Derivative financial instruments

2021	**Contract/notional $'000**	**Fair values Assets $'000**	**Fair values Liabilities $'000**
Interest rate swaps			
Maturing on 21 August 2021 at a fixed rate of 2.0600%	**20,000**	**-**	**59**
Maturing on 21 August 2021 at a fixed rate of 2.0600%	**20,000**	**-**	**59**
Maturing on 23 April 2024 at a fixed rate of 2.0400% (reducing to a fixed rate of 0.4100% from 23 July 2021)	**20,000**	**-**	**5**
Maturing on 23 April 2024 at a fixed rate of 1.7085% (reducing to a fixed rate of 0.4610% from 23 July 2021)	**30,000**	**-**	**46**
Maturing on 23 April 2025 at a fixed rate of 0.8950% (reducing to a fixed rate of 0.6300% from 23 July 2021)	**30,000**	**12**	**-**
Maturing on 8 February 2025 at a fixed rate of 1.4300% (reducing to a fixed rate of 0.6020% from 8 August 2021)	**30,000**	**-**	**25**
Maturing on 20 January 2025 at a fixed rate of 1.6900% (reducing to a fixed rate of 0.5790% from 20 July 2021)	**20,000**	**-**	**3**
	170,000	**12**	**197**
Forward dated interest swap contracts			
Commencing 23 August 2021 maturing on 23 May 2022 at a fixed rate of 2.7700%	**40,000**	**-**	**806**
	40,000	**-**	**806**

2020	Contract/notional $'000	Fair values Assets $'000	Fair values Liabilities $'000
Interest rate swaps			
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	437
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	437
Maturing on 20 January 2025 at a fixed rate of 1.6900%	20,000	-	1,219
Maturing on 8 February 2025 at a fixed rate of 1.4300%	30,000	-	1,473
Maturing on 23 April 2025 at a fixed rate of 0.8950%	30,000	-	746
Maturing on 23 April 2024 at a fixed rate of 1.7085%	30,000	-	1,617
Maturing on 23 April 2024 at a fixed rate of 2.0400%	20,000	-	1,328
	170,000	-	7,257
Forward dated interest swap contracts			
Commencing 23 August 2021 maturing on 22 August 2023 at a fixed rate of 2.7700%	40,000	-	1,964
	40,000	-	1,964

17 Derivative financial instruments (continued)

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

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

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

An unrealised gain of $8,230,334 (2020: $3,077,000) relating to the change in the fair value of the Scheme's interest rate swap contracts was recognised in the consolidated statement of comprehensive income during the year ended 30 June 2021.

18 Financial risk management

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

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

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

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

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

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

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

The Scheme has no exposures to price risk.

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

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

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:

18 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

	2021 $'000	2020 $'000
Floating rate		
Cash and cash equivalents	**8,935**	5,798
Borrowings*	**(190,800)**	(215,800)
	(181,865)	(210,002)
Derivative financial instruments		
Interest rate swaps - floating to fixed*	**170,000**	170,000
	170,000	170,000
Net exposure	**(11,865)**	(40,002)

* Represents the notional principal amounts.

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

Drawn borrowings were 89.1% hedged as at 30 June 2021 (2020: 78.8%).

	Impact on profit and net assets attributable to unitholders	
	2021 $'000	2020 $'000
Sensitivity		
Interest rate +0.60% (2020: +0.50%)	**(71)**	(200)
Interest rate -0.60% (2020: -0.50%)	**71**	200

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

18 Financial risk management (continued)

(c) Credit risk

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

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

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

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

(d) Liquidity risk

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

Maturities analysis of financial liabilities

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

2021	**Less than 1 year $'000**	**1-2 years $'000**	**2-3 years $'000**	**3+ years $'000**
Distributions payable	**6,164**	**-**	**-**	**-**
Payables	**6,888**	**-**	**-**	**-**
Financial liabilities held at fair value through profit or loss *	**1,603**	**666**	**629**	**314**
Borrowings	**-**	**93,800**	**-**	**97,000**
Total financial liabilities	**14,655**	**94,466**	**629**	**97,314**

** Undiscounted interest payment obligations using BBSW1M and BBSW3M as at 30 June 2021*

18 Financial risk management (continued)

(d) Liquidity risk (continued)

Maturities analysis of financial liabilities (continued)

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

** Undiscounted interest payment obligations using BBSW1M and BBSW3M as at 30 June 2020*

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 2021, these assets amounted to $8,934,677 (2020: $5,798,000).

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

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

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

(f) Instruments used by the Scheme

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

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

19 Fair value hierarchy

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

(a) Fair value hierarchy

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

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

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

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

19 Fair value hierarchy (continued)

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

All fair value measurements disclosed are recurring fair value measurements.

2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Non-financial assets				
Investment properties	**-**	**-**	**638,850**	**638,850**
Total non-financial assets	**-**	**-**	**638,850**	**638,850**
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Derivatives	**-**	**991**	**-**	**991**
Total financial liabilities	**-**	**991**	**-**	**991**

2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Non-financial assets				
Investment properties	-	-	669,650	669,650
Total non-financial assets	-	-	669,650	669,650
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Derivatives	-	9,221	-	9,221
Total financial liabilities	-	9,221	-	9,221

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 (2020: $nil).

(b) Valuation techniques

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

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

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

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

19 Fair value hierarchy (continued)

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 in line with the Scheme's valuation policy (see Note 2 (c)), 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 square metre.

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

The Responsible Entity elected to externally revalue all of its investment properties at 30 June 2021 to ensure valuations reflect current market conditions.

Independent valuers use a number of assumptions when valuing a property. Whilst valuers have considered the impact of the COVID-19 pandemic on their assumptions in arriving at a valuation, less weight can be attached to previous market evidence for comparison purposes when forming an opinion of value.

The 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.

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

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

(i) Valuation inputs and relationship to fair value
The following are the key valuation assumptions used in the determination of the investment properties fair value using the discounted cash flows and income capitalisation valuation methodologies:

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

19 Fair value hierarchy (continued)

- 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	**2021**	2020
Current net market rental ($ per sqm)	**327 - 607**	306 - 593
Adopted capitalisation rate (%)	**5.25% - 7.25%**	5.25% - 7.25%
Adopted terminal yield (%)	**5.50% - 7.50%**	5.50% - 7.75%
Adopted discount rate (%)	**6.00% - 7.50%**	6.50% - 7.50%
Occupancy rate by area (%)	**80.2% - 100.0%**	77.3% - 100.0%
Weighted average lease expiry (years)	**1.0 - 4.0**	1.9 - 4.6

At 30 June 2021, the Scheme's investment properties weighted average lease expiry was 2.4 years (2020: 2.9 years) and occupancy rate was 95.7% (2020: 93.7%).

(ii) Valuation processes

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

19 Fair value hierarchy (continued)

(iii) Sensitivity information

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

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

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

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

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

(d) Fair value of other financial instruments

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

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

20 Related party transactions

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

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

W Peter Day*	Independent Non-Executive Director and Chairman
Don Marples*	Independent Non-Executive Director and Chairman of the Audit & Risk Committee
Eve Crestani*	Independent Non-Executive Director
Erle Spratt	Non-Executive Director
Greg Willcock	Non-Executive Director

* Member of the Audit & Risk Committee

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

No Directors' fees were paid out of the Scheme property to the directors of the Responsible Entity, except for independent directors who receive their fees from the Scheme. Directors' fees paid during the year was $335,000 (2020: $335,000).

As at 30 June 2021, Peter Day held 58,000 units (2020: Peter Day held 58,000 units). None of the other current directors of the Responsible Entity held any units in the Scheme.

(b) Other key management personnel
There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the year.

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

Responsible Entity's fees and other transactions
Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive fees monthly calculated:
- 0.60% per annum of the gross asset value of the Scheme up to and including $750,000,000; plus
- 0.55% per annum of the gross asset value of the Scheme that exceeds $750,000,000.

Australian Unity Funds Management Limited (ABN 60 071 497 115) ("AUFML") is the appointed provider of investment management services to the Scheme effective 17 June 2016. Under the Investment Management Agreement, the Investment Manager is engaged to provide a number of services including:
• Investment management services;
• Fund analyst services; and
• Transactional services.
The fees for providing these services are included in the Responsible Entity's fees.

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

20 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

Australian Unity Property Management Pty Ltd (ABN 76 073 590 600) ("AUPMPL") has been appointed to provide a number of property related services to the Scheme. These services include:
• Property management services;
• Financial management services;
• Leasing services;
• Rent review services; and
• Project supervision services (in relation to capital works).

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

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

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

	2021	2020
	$	$
Responsible Entity's fees	**4,110,411**	4,164,299
Property management, other property related services fees and accounting fees	**1,201,607**	740,549

During the year the Scheme paid $426,966 (2020: $742,817) to the Responsible Entity for administration expenses which the Responsible Entity incurred on behalf of the Scheme. These expenses, which are reimbursed in accordance with the Scheme’s Constitution, may include custodian fees, directors’ fees, auditors’ fees, accounting fees, registry fees and other expenses incurred in the day to day running of the Scheme.

As at 30 June 2021, an amount of $865,652 (2020: $459,602) owing to the Responsible Entity and its related parties was included in payables.

The Scheme charged Australian Unity Group Services Pty Ltd (ABN 29 006 803 069) (“AUGSPL”), a wholly owned subsidiary of Australian Unity Limited, total rent of $651,696 (2020: $641,752) during the year, of which $26,529 (2020: $nil) remains receivable as at 30 June 2021. The leases were entered into under normal commercial terms and conditions and at market rates.

20 Related party transactions (continued)

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

2021 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
Lifeplan Australia Friendly Society Limited	3,800	4,555	11,889	2.77	755	-	652
Australian Unity Health Limited	3,258	4,154	10,842	2.52	896	-	587
Australian Unity Property Income Fund	3,747	3,813	9,951	2.32	66	-	567
Australian Unity Funds Management Limited	1,483	1,509	3,938	0.92	26	-	224
Australian Unity Diversified Property Fund	9,534	9,702	25,323	5.90	168	-	1,443
Australian Unity A-REIT Fund	916	932	2,432	0.57	16	-	139
Australian Unity Property Securities Fund	500	-	-	0.00	-	500	19
Australian Unity Real Estate Securities Fund	177	-	-	0.00	-	177	7
Total	23,415	24,665	64,375	15.00	1,927	677	3,638

20 Related party transactions (continued)

Related party unitholdings (continued)

2020 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
Lifeplan Australia Friendly Society Limited	3,800	3,800	7,941	2.33	-	-	570
Australian Unity Health Limited	3,258	3,258	6,810	2.00	-	-	489
Australian Unity Property Income Fund	2,632	3,747	7,830	2.30	1,115	-	473
Australian Unity Funds Management Limited	1,483	1,483	3,099	0.91	-	-	222
Australian Unity Diversified Property Fund	9,534	9,534	19,927	5.86	-	-	1,430
Australian Unity A-REIT Fund	642	916	1,914	0.56	274	-	113
Australian Unity Property Securities Fund	500	500	1,045	0.31	-	-	75
Australian Unity Real Estate Securities Fund	171	177	369	0.11	68	(62)	28
Total	22,020	23,415	48,935	14.38	1,457	(62)	3,400

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

21 Reconciliation of profit to net cash inflow from operating activities

	2021 $'000	2020 $'000
Profit for the year	**23,257**	13,245
Add back interest expenses and debt establishment costs	**6,643**	7,781
Add back swap break costs paid	**5,094**	-
Unrealised (gains)/losses on financial instruments held at fair value through profit or loss	**(8,230)**	3,077
Change in fair value of the investment properties - revaluation (increment)/decrement	**1,657**	2,900
Realised loss on sale of investment property	**501**	-
Adjustments to net lease incentives and straight line rental	**5,713**	4,348
Decrease/(increase) in receivables	**1,226**	(701)
Increase/(decrease) in payables	**1,005**	(706)
Increase in other assets	**(214)**	(327)
Net cash inflow from operating activities	**36,652**	29,617

22 Parent entity financial information*

Statement of financial position	2021 $'000	2020 $'000
Cash and cash equivalents	**5,981**	2,231
Receivables	**250**	58
Other assets	**70**	80
Investment properties	**123,300**	125,900
Investment in subsidiaries	**545,455**	552,045
Total assets	**675,056**	680,314
Distributions payable	**6,164**	4,885
Financial liabilities held at fair value through profit or loss	**991**	9,221
Payables	**32,912**	8,489
Borrowings	**190,157**	214,889
Total liabilities	**230,224**	237,484
Net assets attributable to unitholders	**444,832**	442,830

Statement of comprehensive income		
Profit for the year	**23,257**	13,245
Other comprehensive income	**-**	-
Total comprehensive income for the year	**23,257**	13,245

22 Parent entity financial information (continued)

* The Scheme is the parent entity and controlled the following entities during the year:
• Australian Unity Holding Trust;
• Australian Unity Second Industrial Trust;
• Australian Unity Fourth Commercial Trust;
• Australian Unity Fifth Commercial Trust;
• Australian Unity Sixth Commercial Trust; and
• Pirie Street Trust.

23 Events occurring after the end of the financial year

Uncertainty remains regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic and impact on the Scheme's operations and financial performance. The economic and operating environment is subject to rapid change and will continue to be closely monitored by the Scheme.

On 7 July 2021 the Scheme announced that it was investigating a potential merger with the Australian Unity Diversified Property Fund, with investigations ongoing.

The Scheme announced on 21 July 2021 the acquisition of 96 York Street, Beenleigh, QLD for $33,520,000, excluding acquisition costs. The building has a net lettable area of 4,661 sqm, with 4,009 sqm of office space leased to Logan City Council for 10 years with two 5-year options and annual rent increases of the greater of 3.0% or CPI. The acquisition will be funded from undrawn debt facilities which increased following the sale of 241 Adelaide Street, Brisbane QLD. Settlement is expected to be in December 2021.

Other than the matters above, no other matters or circumstance has arisen since 30 June 2021 that have significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years.

24 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2021 (2020: $nil).

Commitments arising from contracts principally relating to capital expenditure on investment properties which are contracted for at reporting date but not recognised on the consolidated statement of financial position are $1,677,000 (2020: $2,519,000).

Directors' declaration

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

(a) the consolidated financial statements and notes set out on pages 9 to 42 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 2021 and of its performance, as represented by the results of its operations and cash flows for the year on that date,

(b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable,

(c) the consolidated financial statements are in accordance with the Scheme's Constitution, and

(d) Note 2(a) confirms that the consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

W Peter Day
Independent Non-Executive Director and Chairman

24 August 2021

Independent auditor's report

To the unitholders of Australian Unity Office Fund

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2021
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

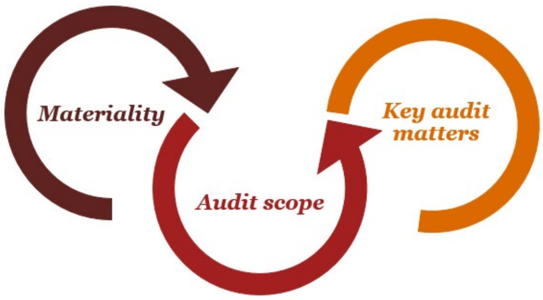
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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



Materiality	*Audit scope*
• For the purpose of our audit we used overall Group materiality of $1.5 million, which represents approximately 5% of the Group's adjusted profit (Funds from Operations). We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose adjusted Group profit because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We adjusted Group profit for fair value movements in investment properties and derivatives, straight lining of rental income and amortisation of leasing commissions and tenant incentives, amortisation of borrowings costs and rental abatement incentives. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter

Valuation of investment properties

(Refer to notes 2(c), 14 and 19) $639m

The Group's investment property portfolio comprises 8 properties across Australia. At 30 June 2021 the carrying value of the Group's investment property portfolio was $639m.

The Group's investment properties are carried at fair value, which is determined with reference to external valuers' reports for each property and by applying the valuation methodology described in Note 19 of the financial report.

The valuation of investment properties is dependent on the valuation methodology adopted and the inputs used. Certain assumptions made in the valuation of investment properties are significant in establishing fair value, including the capitalisation rate, discount rate, terminal yield and net market rental.

We considered this a key audit matter because:

- The external valuers engaged by the Group stated that their reports are prepared on the basis of "material valuation uncertainty" (refer to note 19 (b)(ii)). This highlights that less certainty, and consequently a higher degree of caution, should be attached to the valuation as a result of the COVID-19 pandemic. This represents a significant estimation uncertainty in relation to the valuation of investment properties.
- Investment property valuation is highly judgemental as minor changes in the underlying assumptions can significantly impact the valuation results.
- Investor returns and the net assets of the Group are significantly affected by changes in the valuation of investment properties. Investment properties comprised 98.4% of total assets of the Group at 30 June 2021.
- The valuation uncertainty is important to users' understanding of the financial report.

We performed the following audit procedures amongst others:

- We obtained a sample of publicly available property market reports to develop an understanding of the prevailing conditions and trends in the office and industrial property markets, including the impact of COVID-19, and compared these factors against the current year valuations.
- We developed an understanding of the Group's process for valuing investment properties, including meeting with portfolio and asset managers to discuss key drivers affecting the value of the investment property portfolio. We also enquired about the ongoing impact of COVID-19 on investment property valuations and how this has been considered by the Group in determining fair value at 30 June 2021.
- We developed an understanding of the Group's relevant control activities associated with developing the valuation of investment properties.
- We considered the appropriateness of the Group's valuation policy for investment properties (refer note 2(c)) in light of the requirements of Australian Accounting Standards and confirmed that the policy was complied with.
- For each external valuation report obtained by the Group we:
  - Assessed the competency and capabilities of the external valuer.
  - Read the valuer's terms of engagement – we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation.
  - Evaluated the impact of the external valuer's material valuation uncertainty clauses on the valuations recorded and disclosures in the financial report.
  - Inspected the final valuation reports and agreed the fair value to the Group's accounting records.
- For a sample of investment properties, we compared the rental income and lease terms

Key audit matter	How our audit addressed the key audit matter
	used in the external valuations to the tenancy schedule and lease agreements. • We evaluated the appropriateness of significant assumptions used to develop investment property valuations in the context of Australian Accounting Standards. This included comparing the assumptions to available alternative assumptions used in the office and industrial property markets. • We evaluated the reasonableness of the disclosures made in the financial report in light of the requirements of Australian Accounting Standards. In particular, we considered the appropriateness of the disclosures made in note 19 which explains that there is significant estimation uncertainty in relation to the valuation of investment properties.

Other information

The directors of Australian Unity Investment Real Estate Limited (the "Responsible Entity") are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the directors' report. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

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

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

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

Responsibilities of the directors of the Responsible Entity for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

George Sagonas
Partner

Melbourne
24 August 2021