Australian Unity Diversified Property Fund

ARSN 106 724 038

Annual report
for the year ended 30 June 2021

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Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Diversified Property 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 during the whole of the year and up to the date of this report (unless otherwise stated):

Rohan Mead, Chairman and Group Managing Director
Esther Kerr-Smith, Chief Executive Officer, Wealth & Capital Markets
Darren Mann, Group Executive Finance & Strategy and Chief Financial Officer (appointed 17 July 2020)

Principal activities
The Scheme is an unlisted property trust that aims to provide investors with stable income stream and medium to long term capital growth. The Scheme will achieve this by investing in a diversified property portfolio of quality Australian commercial properties including offices, shopping centres and industrial properties.

The Scheme primarily invests in direct property assets, unlisted property trusts and listed Australian REITs, with diversity in geographic location, tenants, lease term and sectors.

Review and results of operations
COVID-19
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 a small proportion of existing tenants requesting rental relief and increased letting up periods on vacancies.

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 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.

A number of the Scheme’s tenants requested rent relief under the Code and the Scheme held “good faith” discussions with those tenants. The Scheme recognised $666,000 rent abatement for rent waivers granted as at 30 June 2021 and made a reversal of prior year doubtful debts provision of $202,000 on recognised rental income in the consolidated statement of comprehensive income to reflect the finalised outcome of rent waiver negotiations.

As part of the active management approach and to ensure that the valuations reflect current market conditions, the Responsible Entity independently valued all of the Scheme’s investment properties from February 2021 to June 2021.

Property valuations
The current year revaluations were in total above the revalued properties carrying values resulting in recording a net revaluation fair value increment of $26,709,000 (2020: $25,735,000).

Property acquisitions
On 27 November 2020, the Scheme completed the purchase of 620 Mersey Street, Osborne, SA for a purchase price of $48,250,000 and acquisition costs of $991,000.

On 31 May 2021, the Scheme completed the purchase of 1 and 2 Technology Place, Williamtown, NSW for a purchase price of $54,885,000 and acquisition costs of $3,677,000.

Property disposals
On 05 March 2021, the Scheme sold 278 Orchard Road, Richlands, QLD for a consideration of $85,000,000, excluding selling costs of $6,086,000. This represented a realised gain on sale of $17,011,000.

Review and results of operations (continued)

Derivatives

In the current year, the Scheme recognised a realised gain on derivative instruments held at fair value through profit or loss of $1,191,000 (2020: unrealised loss of $5,955,000).

Results

For the year ended 30 June 2021, the Scheme's Ordinary units posted a total return of 19.58%, (split between a distribution return of 10.04% and a growth return of 9.54%)*.

Unit price (ex distribution) as at 30 June 2021 (2020) is $1.1711 ($1.0691)*

*The reported performance numbers and reported unit prices (which are not audited) have been derived based on the declared unit prices calculated in accordance with the Responsible Entity's unit pricing policy, and are not based on the net assets of these IFRS compliant consolidated financial statements. Return calculations assume reinvestment of distributions.

The performance of the Scheme, as represented by the results of its operations, was as follows:

	2021 **$'000**	2020 $'000
Profit for the year	**55,610**	31,980
Distributions - Ordinary units		
Distributions paid and payable	**27,740**	22,810

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.

Events occurring after end of the year

On 7 July 2021 the Scheme announced that it was investigating a potential merger with the Australian Unity Office Fund, with the parties currently in discussions.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years.

Likely developments and expected results of operations

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.

Further information on likely developments in the operations of the Scheme and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Scheme.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Property Limited or the auditors of the Scheme. So long as the officers of Australian Unity Property 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.

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 19 to the consolidated financial statements.

No fees were paid out of Scheme property to the directors of the Responsible Entity during the year.

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 19 to the consolidated financial statements.

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.

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.

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 and financial statements. 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 5.

Signed in accordance with a resolution of the directors of Australian Unity Property Limited.

Rohan Mead
Director

Esther Kerr-Smith
Director

24 August 2021

Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Diversified Property 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 Diversified Property Fund and the entities it controlled during the period.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
24 August 2021

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Consolidated statement of comprehensive income

	Notes	**2021 $'000**	2020 $'000
Income			
Rental income	3	**36,714**	36,524
Property expenses	4	**(12,609)**	(13,217)
Net property income		**24,105**	23,307
Interest income		**1**	20
Distribution income	5	**1,443**	1,760
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	**6,212**	(15,023)
Net fair value increment of investment properties	13(b)	**26,709**	25,735
Other operating income		**233**	241
Realised gain on disposal of investment property	13(b)	**17,011**	11,977
Total income net of property expenses		**75,714**	48,017
Expenses			
Responsible Entity's fees	19	**11,212**	7,283
Borrowing costs		**8,825**	7,363
Other expenses		**67**	1,391
Total expenses, excluding property expenses		**20,104**	16,037
Profit for the year		**55,610**	31,980
Other comprehensive income		**-**	-
Total comprehensive income attributable to unitholders		**55,610**	31,980

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	10	**22,539**	19,657
Receivables	11	**4,272**	5,509
Prepaid expenses		**443**	215
Financial assets held at fair value through profit or loss	12	**25,323**	22,597
Investment properties	13	**569,852**	480,077
Total assets		**622,429**	528,055
Liabilities			
Distributions payable	9	**12,951**	10,139
Payables	14	**11,747**	7,894
Financial liabilities held at fair value through profit or loss	12	**-**	14,075
Borrowings	15	**260,681**	208,645
Total liabilities		**285,379**	240,753
Net assets attributable to unitholders - equity	8	**337,050**	287,302

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

Consolidated statement of changes in equity

	2021	2020
	$'000	$'000
Balance at the beginning of the year	**287,302**	208,531
Comprehensive income for the year		
Profit for the year	**55,610**	31,980
Other comprehensive income	**-**	-
Total comprehensive income attributable to unitholders	**55,610**	31,980
Transactions with unitholders		
Applications	**46,779**	113,096
Redemptions	**(28,381)**	(45,609)
Units issued upon reinvestment of distributions	**3,480**	2,114
Distributions paid and payable	**(27,740)**	(22,810)
Total transactions with unitholders	**(5,862)**	46,791
Balance at the end of the year	**337,050**	**287,302**

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**	20
Distributions received		**1,022**	1,918
Rental income received		**38,195**	35,101
Payments to suppliers		**(19,683)**	(20,314)
Net cash inflow from operating activities	20	**19,535**	16,725
Cash flows from investing activities			
Payments for additions to owned investment properties		**(19,067)**	(16,486)
Purchase of investment properties		**(103,135)**	(2,611)
Acquisition costs on purchase of investment properties		**(4,119)**	(293)
Proceeds from sale of investment properties		**85,000**	72,000
Disposal cost paid from sale of investment properties		**(6,070)**	(593)
Net cash acquired from the merger		**-**	3,032
Merger related costs paid		**-**	(1,210)
Proceeds from sale of financial instruments held at fair value through profit or loss		**2,653**	6,545
Net cash (outflow)/inflow from investing activities		**(44,738)**	60,384
Cash flows from financing activities			
Proceeds from borrowings		**114,060**	63,100
Repayment of borrowings		**(62,600)**	(17,000)
Payment of redemption for acquired subsidiaries		**-**	(64,952)
Borrowing costs paid		**(7,441)**	(8,659)
Distributions paid		**(21,448)**	(14,491)
Proceeds from applications by unitholders		**46,779**	26,482
Payments for redemptions by unitholders		**(28,381)**	(45,609)
Interest rate derivative break costs paid		**(12,884)**	-
Net cash inflow/(outflow) from financing activities		**28,085**	(61,129)
Net increase in cash and cash equivalents		**2,882**	15,980
Cash and cash equivalents at the beginning of the year		**19,657**	3,677
Cash and cash equivalents at the end of the year	10	**22,539**	19,657

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 Diversified Property Fund ("the Scheme") and its controlled entities. The Scheme was constituted on 13 October 2003. The Scheme will terminate on the 80th anniversary or earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Property Limited (ABN 58 079 538 499) (the Responsible Entity), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). 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 controlled entities of the Scheme are:
• AUDPF No. 1 Sub-Trust No. 3 (AUDPF-ST3) which was established by Trust Deed dated 21 August 2006;
• AUDPF No. 1 Sub-Trust No. 8 (AUDPF-ST8) which was established by Trust Deed dated 3 October 2007;
• Australian Unity Retail Property Trust (AURPT) which was constituted on 27 January 1999*;
• Australian Unity Property Syndicate - Wyong which was constituted on 23 June 1998*;
• Australian Unity Property Syndicate - East West Retail which was constituted on 8 March 2000*; and
• Australian Unity Gillies Street Trust which was constituted on 27 May 2002*.

*Acquired by the Scheme on 24 October 2019.

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.

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, borrowings and net assets attributable to unitholders, where the amount expected to be recovered or settled within 12 months after the end of the year cannot be reliably determined.

(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.

(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 current or future periods.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New accounting standards, amendments and interpretations
Certain new accounting standards, amendments and interpretations have been published that are not mandatory for the 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 consolidated 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 this financial report 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.

Independent valuations of investment properties are obtained from suitably qualified valuers generally at least once 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 13. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

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

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

2 Summary of significant accounting policies (continued)

(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 consolidated financial statements into the following measurement categories:

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

The Scheme's investments are classified as held at fair value through profit or loss. These may include investments in listed property trusts, unlisted property trusts and other unlisted trusts.

Financial assets and financial 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 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 which objective is to hold 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 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 18 to the consolidated financial statements.

Borrowings and receivables/payables are measured initially at fair value plus transaction costs and subsequently 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) Net assets attributable to unitholders

Units are redeemable at the unitholders' option via withdrawal facility offers by the Responsible Entity. The units can be put back to the Scheme for cash equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the year if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders.

The Scheme classifies the net assets attributable to unitholders as equity as they satisfy the following criteria under AASB 132 *Financial instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Scheme's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial instruments, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Scheme, and it is not a contract settled in the Scheme's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

2 Summary of significant accounting policies (continued)

(g) Cash and cash equivalents

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

(h) Investment income

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

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

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

(i) Expenses

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

(j) Income tax

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

(k) Distributions

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

(l) Receivables

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

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

The Scheme applies the simplified expected credit loss approach in replace 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 impairment loss 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 an impairment allowance 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.

(m) 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 and are unsecured, are carried at amortised cost.

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

2 Summary of significant accounting policies (continued)

(m) Payables (continued)

The distribution amount payable to unitholders as at the end of each year 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.

(n) Applications and redemptions

Applications received for units in the Scheme are recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined in accordance with the Scheme’s Constitution by reference to the net assets of the Scheme divided by the number of units on issue.

(o) 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.

(p) 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.

(q) 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 year is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

2 Summary of significant accounting policies (continued)

(q) Revenue (continued)

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 year 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 year.

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

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

(r) Leases

Leasing costs
Lease costs are costs that are directly associated with negotiating and arranging an operating lease (including commissions, legal fees and costs of preparing and processing documentation for new leases). These costs are capitalised and are amortised on a straight-line basis over the term of the lease as 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.

(s) 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 18.

2 Summary of significant accounting policies (continued)

(s) Use of judgements and estimates (continued)

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.

(t) Rounding of amounts

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 and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars.

(u) 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.

3 Rental income

	2021 $'000	2020 $'000
Rental income	**30,661**	29,152
Outgoings revenue	**6,053**	7,372
	36,714	36,524

Rental income includes an adjustment for the straight lining of rental income of $12,000 (2020: ($355,000)).

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 a small proportion of existing tenants requesting rental relief and increased letting up periods on vacancies.

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 and the Scheme has held "good faith" discussions with those tenants. The Scheme recognised $666,000 rent abatement for rent waivers granted as at 30 June 2021 and made reversal of prior year doubtful debts provision of $202,000 on recognised rental income in the consolidated statement of comprehensive income to reflect the finalised outcome of rent waiver negotiations.

4 Property expenses

	2021 $'000	2020 $'000
Recoverable outgoings	**9,751**	9,694
Non recoverable outgoings	**1,396**	1,713
Bad debt expense	**(199)**	202
Amortisation of lease commissions & lease incentives	**1,661**	1,608
	12,609	13,217

The bad debt expense includes the reversal of prior year doubtful debts provision in relation to rent waivers granted under the code.

5 Distribution income

	2021 $'000	2020 $'000
Related listed property trust	**1,443**	1,430
Non-related listed property trusts	**-**	330
	1,443	1,760

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

	2021	2020
	$'000	$'000
Net unrealised gains/(losses) on financial assets held at fair value through profit or loss	**5,039**	(15,954)
Net realised gains on financial assets held at fair value through profit or loss	**1,173**	931
Total net gains/(losses) on financial instruments held at fair value through profit or loss	**6,212**	(15,023)

7 Auditor's remuneration

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

	2021	2020
	$	$
Audit services - PwC		
Audit and review of financial statements	**60,000**	55,000
Audit of compliance plan	**3,310**	2,011
Total auditor's remuneration	**63,310**	57,011

8 Net assets attributable to unitholders

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

Contributed equity	2021 No. '000	2020 No. '000	2021 $'000	2020 $'000
Opening balance	**268,716**	201,442	**277,112**	207,511
Ordinary units				
Applications	**41,446**	109,349	**46,779**	113,096
Redemptions	**(25,655)**	(44,171)	**(28,381)**	(45,609)
Units issued upon reinvestment of distributions	**3,283**	2,096	**3,480**	2,114
	19,074	67,274	**21,878**	69,601
Closing balance	**287,790**	268,716	**298,990**	277,112

Undistributed income	2021 $'000	2020 $'000
Opening balance	**10,190**	1,020
Increase in net assets attributable to unitholders	**27,870**	9,170
Closing balance	**38,060**	10,190
Total net assets attributable to unitholders	**337,050**	287,302

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

Capital risk management

Applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets by the Responsible Entity. Units are redeemable at the unitholders' option via quarterly capped withdrawal offers by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

9 Distributions to unitholders

The distributions for the year were as follows:

Ordinary units	**2021 $'000**	**2021 CPU**	2020 $'000	2020 CPU
30 September	**3,938**	**1.5000**	3,512	1.7000
23 October	**-**	**0.0000**	901	0.4300
31 October	**1,326**	**0.5000**	-	0.0000
30 November	**1,309**	**0.5000**	-	0.0000
31 December	**1,335**	**0.5000**	3,605	1.2700
31 January	**1,347**	**0.5000**	-	0.0000
28 February	**1,338**	**0.5000**	-	0.0000
31 March	**1,367**	**0.5000**	4,653	1.7000
30 April	**1,412**	**0.5000**	-	0.0000
31 May	**1,417**	**0.5000**	-	0.0000
30 June (payable)	**12,951**	**4.5000**	10,139	3.7731
Total distribution	**27,740**		22,810	

Effective 1 October 2020, the Scheme changed the frequency of distributions from quarterly to monthly, with the last quarterly distribution being 30 September 2020.

10 Cash and cash equivalents

	2021 $'000	2020 $'000
Cash at bank	**22,539**	19,657
	22,539	19,657

11 Receivables

	2021 $'000	2020 $'000
Trade receivables	**3,364**	5,114
Distributions receivable	**364**	301
Other receivables	**544**	296
Doubtful debts provision	**-**	(202)
	4,272	5,509

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

	2021 **$'000**	2020 $'000
Related listed property trust	**25,323**	19,927
Non-related listed property trusts	**-**	2,670
Total financial assets held at fair value through profit or loss	**25,323**	22,597
Derivatives	**-**	(14,075)
Total financial liabilities held at fair value through profit or loss	**-**	(14,075)

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in note 17 and note 18 to the consolidated financial statements.

The details of the derivative financial instruments are shown in note 16.

13 Investment properties

(a) Property details

	Type	Ownership	Acquisition date	Independent valuation date	Independent valuation amount	Independent valuer	Carrying value 2021	Carrying value 2020
		(%)			$'000		$'000	$'000
Wyong Twin Service Centres, Wyong, NSW	Convenience	100%	24/10/2019	21/05/2021	130,000	CBRE	**130,000**	113,000
20 Smith St, Parramatta, NSW	Office	100%	31/08/2006	30/06/2021	83,500	CBRE	**83,500**	83,011
North Blackburn Shopping Centre, North Blackburn,VIC	Retail	100%	24/10/2019	30/06/2021	79,000	JLL	**79,000**	62,224
1 & 2 Technology Place, Williamtown, NSW, 2318	Industrial	100%	31/05/2021	01/04/2021	54,885	Player Property Group	**58,562**	-
Dog Swamp Shopping Centre, WA	Retail	100%	19/12/2003	30/06/2021	52,800	JLL	**52,800**	50,572
620 Mersey Street, Osborne, SA	Industrial	100%	27/11/2020	30/06/2021	49,250	Savills	**49,250**	-
Busselton Central Shopping Centre, WA*	Retail	100%	19/12/2003	21/02/2021	46,555	JLL	**46,957**	45,765
Woodvale Boulevard Shopping Centre, Woodvale, WA	Retail	100%	07/12/2007	20/02/2021	33,500	JLL	**33,508**	32,514
19 Corporate Avenue, Rowville, VIC	Industrial	100%	30/09/2015	30/06/2021	22,000	CBRE	**22,000**	17,500
6-8 Geddes St Balcatta, WA**	Industrial	100%	19/12/2003	30/06/2021	14,275	CBRE	**14,275**	13,865
278 Orchard Rd, Richlands, QLD	Industrial	100%	19/12/2003	Sold			**-**	61,626
Total					**565,765**		**569,852**	**480,077**

** Includes Busselton Central Shopping Centre, Busselton Target, Busselton Ex Rivers and Vacant Land Kent/Prince St, WA*
*** Includes 6-8 Geddes Street, Balcatta and 5 Kenhelm Street Balcatta, WA*

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

The investment properties valuation policy is included in note 18.

13 Investment properties (continued)

(b) Movements in carrying amount

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

	2021 $'000	2020 $'000
Opening balance	**480,077**	341,468
Acquisitions through business combinations	**-**	157,000
Acquisitions	**107,803**	2,904
Additions	**18,815**	14,154
Disposal	**(78,914)**	(71,198)
Realised gains on disposal	**17,011**	11,977
Lease commissions and incentives amortisation	**(1,661)**	(1,608)
Straight-lining of rental income	**12**	(355)
Revaluation movements	**26,709**	25,735
Closing balance	**569,852**	480,077

On 27 November 2020, the Scheme completed the purchase of 620 Mersey Street, Osborne, SA for a purchase price of $48,250,000 and acquisition costs of $991,000.

On 31 May 2021, the Scheme completed the purchase of 1 and 2 Technology Place, Williamtown, NSW for a purchase price of $54,885,000 and acquisition costs of $3,677,000.

On 05 March 2021, the Scheme sold 278 Orchard Road, Richlands, QLD for a consideration of $85,000,000, excluding selling costs of $6,086,000. This represented a realised gain on sale of $17,011,000.

(c) Contractual obligations

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

	2021 $'000	2020 $'000
Within one year	**13,581**	21,966
	13,581	21,966

The Scheme's share of capital commitments will be funded using the Scheme's cash and cash equivalents and debt facility. Refer to notes 10 and 15, respectively.

13 Investment properties (continued)

(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	**28,911**	25,607
Later than one year but not later than 5 years	**91,350**	73,292
Later than 5 years	**72,030**	57,913
	192,291	156,812

14 Payables

	2021 **$'000**	2020 $'000
Trade payables	**582**	699
Accrued expenses	**10,542**	5,866
Rent received in advance	**278**	1,051
GST payable	**345**	278
	11,747	7,894

15 Borrowings

	2021 **$'000**	2020 $'000
Bank loan	**261,890**	210,430
Unamortised borrowing costs	**(1,209)**	(1,785)
	260,681	208,645

The bank loan facility comprises of three tranches:

- Tranche A is a $150,000,000 facility expiring on 24 October 2022; and
- Tranche B is a $100,000,000 facility expiring on 24 October 2024; and
- Tranche C is a $50,000,000 facility expiring on 24 October 2024.

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

The Responsible Entity has commenced discussions with its existing lender with regards to refinancing the Scheme's debt facility and is satisfied that it will complete prior to the maturity of the existing debt facility.

The Scheme had access to:

	2021 **$'000**	2020 $'000
Credit facilities		
Cash advance facilities	**300,000**	300,000
Drawn balance	**(261,890)**	(210,430)
Undrawn balance	**38,110**	89,570

Reconciliations of the net debt are set out below:

	2021 **$'000**	2020 $'000
Analysis of changes in consolidated net debt		
Opening balance	**190,773**	143,653
Proceeds from borrowings	**51,460**	63,100
Other cash movements	**(2,882)**	(15,980)
Closing balance	**239,351**	190,773
Bank loan	**261,890**	210,430
Cash and cash equivalents	**(22,539)**	(19,657)
Consolidated net debt	**239,351**	190,773

16 Derivative financial instruments

The Scheme terminated all of its interest rate swap contracts during the year ended 30 June 2021.

2020	Contract/notional $'000	Fair values Assets $'000	Fair values Liabilities $'000
Interest rate swaps			
Maturing on 26 April 2023 at fixed rate of 1.10% (fixed rate 2.785% from 28 June 2021 and 6.39% from 27 June 2022 onwards)	45,000	-	(3,833)
Maturing on 26 April 2023 at fixed rate of 1.10% (fixed rate 2.785% from 28 June 2021 and 6.39% from 27 June 2022 onwards)	45,000	-	(3,833)
Maturing on 26 June 2024 at fixed rate of 1.10% (fixed rate 2.365% from 28 June 2021 and 3.76% from 27 June 2022 onwards)	25,000	-	(2,435)
Maturing on 26 June 2024 at fixed rate of 1.10% (fixed rate 2.365% from 28 June 2021 and 3.76% from 27 June 2022 onwards)	25,000	-	(2,435)
Maturing on 28 November 2022 at fixed rate of 1.01%	40,000	-	(779)
Maturing on 28 November 2022 at fixed rate of 0.99%	40,000	-	(760)
	220,000	-	(14,075)
Total derivative liabilities	220,000	-	(14,075)

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 18.

Realised gains of $1,191,000 (2020: unrealised loss of $5,955,000) relating to the termination of all of the Scheme's interest rate swap contracts were recognised in the consolidated statement of comprehensive income during the year ended 30 June 2021. As a result of this transaction, interest rate derivative break costs of $12,884,000 (2020: $nil) were paid.

17 Financial risk management

(a) Objectives, strategies, policies and processes

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

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

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

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

17 Financial risk management (continued)

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

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

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

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

The Investment Manager mitigates this price risk through diversification and a careful selection of financial instruments within specified limits set by the Board.

The Scheme has exposures to price risk as shown in the table below. The table also demonstrates the sensitivity to reasonably possible changes in prices, 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 net potential increase. There is no impact on distributable earnings as they are net fair value movements only.

	2021	2020
	$'000	$'000
Assets		
Related listed property trust	**25,323**	19,927
Unrelated listed property trusts	**-**	2,670
Total exposure	**25,323**	22,597

Sensitivity	**Impact on profit and net assets attributable to unitholders**	
	2021	2020
	$'000	$'000
Securities prices +13.6% (2020: +25%)	**3,444**	5,649
Securities prices -13.6% (2020: -25%)	**(3,444)**	(5,649)

17 Financial risk management (continued)

(b) Market risk (continued)

(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 each meeting.

The Scheme has exposure to interest rate risk on its monetary assets and liabilities. The Scheme terminated all of its interest rate swaps contracts in the year ending 30 June 2021. A process is currently underway for the Scheme to source new hedging arrangements at commercial rates in line with the interest rate risk management policy.

	2021 $'000	2020 $'000
Floating rate		
Cash and cash equivalents	**22,539**	19,657
Borrowings*	**(261,890)**	(210,430)
	(239,351)	(190,773)
Derivative financial instruments		
Interest rate swaps contracts*	**-**	220,000
	-	220,000
Net exposure	**(239,351)**	29,227

* 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.

	Impact on profit and net assets attributable to unitholders	
	2021	2020
Sensitivity	**$'000**	$'000
Interest rate +0.60% (2020: +1.00%)	**(1,436)**	292
Interest rate -0.60% (2020: -1.00%)	**1,436**	(292)

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

17 Financial risk management (continued)

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

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

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

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

(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 investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme is exposed to the applicable withdrawal offer put in place by the Responsible Entity.

The Scheme's investments may include listed securities that are considered readily realisable, as they are listed on recognised stock exchanges.

The Scheme may invest in investments in unlisted unit trusts that expose the Scheme to the risk that the Investment Manager of those trusts may be unwilling or unable to fulfil the redemption requests within the timeframe requested by the Scheme.

Under the terms of its Constitution, the Scheme has the ability to manage liquidity risk by delaying withdrawals to unitholders, if necessary, until the funds are available to pay them.

Units are redeemed on demand at the unitholders option via withdrawal facility offers by the Responsible Entity. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term and withdrawal offers are subject to limits set by the Responsible Entity.

The Scheme's policy is to hold a proportion of their investments in liquid assets.

17 Financial risk management (continued)

(d) Liquidity risk (continued)

Maturity analysis of financial liabilities
The table below analyses 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	**12,951**	**-**	**-**	**-**
Payables	**11,747**	**-**	**-**	**-**
Borrowings	**-**	**150,000**	**-**	**111,890**
Total financial liabilities	**24,698**	**150,000**	**-**	**111,890**

2020	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3+ years $'000
Distributions payable	10,139	-	-	-
Payables	7,894	-	-	-
Financial liabilities held at fair value through profit or loss	3,234	5,383	7,203	1,775
Borrowings	-	-	105,200	105,230
Total financial liabilities	21,267	5,383	112,403	107,005

As disclosed above, the Scheme manages its liquidity risk by investing in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents and listed property trusts. As at 30 June 2021, these assets amounted to $47,862,000 (2020: $42,254,000).

(e) Estimation of fair values of financial assets and financial liabilities
The carrying amounts of the Scheme's assets and liabilities at the end of each year approximate their fair values.

The Scheme values its investments in accordance with the accounting policies set out in note 18.

(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 16.

18 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.

All fair value measurements disclosed are recurring fair value measurements.

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.

2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Financial assets held at fair value through profit or loss				
Related listed property trust	**25,323**	**-**	**-**	**25,323**
Total financial assets	**25,323**	**-**	**-**	**25,323**
Non-financial assets				
Investment properties	**-**	**-**	**569,852**	**569,852**
Total non-financial assets	**-**	**-**	**569,852**	**569,852**
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Total financial liabilities	**-**	**-**	**-**	**-**

18 Fair value hierarchy (continued)

2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets held at fair value through profit or loss				
Related listed property trust	19,927	-	-	19,927
Non-related listed property trusts	2,670	-	-	2,670
Total financial assets	22,597	-	-	22,597
Non-financial assets				
Investment properties	-	-	480,077	480,077
Total non-financial assets	-	-	480,077	480,077
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Derivatives	-	14,075	-	14,075
Total financial liabilities	-	14,075	-	14,075

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 incorporate various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, and interest rate curves.

Specific valuation techniques used daily to value financial instruments include:

- for listed trust, disclosed in level 1, the use of quoted market prices or dealer for similar instruments;
- for unlisted trust, the use of the relevant Investment Managers’ quoted unit prices using the net asset value; and
- for 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 stated fair value of each financial instrument at the end of the year represents the Responsible Entity's best estimate at the end of the year.

18 Fair value hierarchy (continued)

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

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

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

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

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

(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 13(b).

(i) Valuation inputs and relationship to fair value
The table below illustrates the key valuation assumptions used in the determination of the investment properties fair value:

Valuation inputs	**2021**	2020	**Relationship of inputs to fair value**
Weighted average capitalisation rate (%)	**5.59%**	6.17%	The higher the capitalisation rate, the lower the fair value.
Occupancy rate by income (%)	**96.30%**	92.00%	The higher the occupancy rate, the higher the fair value.
Weighted average lease expiry (years)	**7.71 years**	7.5 years	The higher the lease expiry, the higher the fair value.

18 Fair value hierarchy (continued)

(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 13. 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.

(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.

19 Related party transactions

Responsible entity
The Responsible Entity of Australian Unity Diversified Property Fund is Australian Unity Property Limited (ABN 58 079 538 499) whose immediate and ultimate parent entity is Australian Unity Limited (ABN 23 087 648 888).

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

Rohan Mead, Chairman and Group Managing Director
Esther Kerr-Smith, Chief Executive Officer, Wealth & Capital Markets
Darren Mann, Group Executive Finance & Strategy and Chief Financial Officer (appointed 17 July 2020)

(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 Australian Unity Property Limited, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme unitholders and are trivial in nature.

Responsible Entity's fees and other transactions
Effective on and from 24 October 2019, the Scheme's base management fee and performance fee calculations were simplified. Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive fees monthly calculated by 0.65% to the gross asset value of the Scheme.

The Responsible Entity is also entitled to charge an annual performance fee in the form of cash or by issue of the Scheme's units. The Scheme's benchmark is an internal rate of return (IRR) of 10% on the Scheme's net asset value. Performance fee is calculated at 20% of the portion of the outperformance of the Scheme over the benchmark.

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

19 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

The transactions during the year and amount payable at 30 June 2021 between the Scheme and the Responsible Entity were as follows:

	2021 **$**	2020 $
Management fees for the year paid and payable by the Scheme to the Responsible Entity	**3,592,646**	2,829,088
Administration expenses incurred by the Responsible Entity which are reimbursed in accordance with the Scheme's Constitution	**761,273**	747,638
Performance fees for the year paid and payable by the Scheme to the Responsible Entity	**6,858,125**	3,706,542
Fees rebated by the Responsible Entity for the Scheme's investment in other schemes managed by the Responsible Entity's related parties	**242,248**	239,967
Aggregate amounts payable to the Responsible Entity at the end of the year	**7,241,618**	2,506,529

(a) Other related party transactions
Australian Unity Property Management Pty Ltd (a related party of the Responsible Entity) has been appointed to provide a number of property related services to the Scheme. These services include:

- Leasing and agency services;
- Market rent reviews;
- Property management services;
- Project management services;
- Development management services; and
- Debt arrangement services

The total fees paid/payable to Australian Unity Property Management Pty Ltd for the year ended 30 June 2021 was $2,669,712 (2020: $2,890,772). Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2021 was $1,144,330 (2020: $1,172,765).

All related party transactions are under normal commercial terms and conditions and at market rates.

19 Related party transactions (continued)

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

2021

Unitholder	**No. of units held opening '000**	**No. of units held closing '000**	**Fair value of investment* $'000**	**Interest held (%)**	**No. of units acquired '000**	**No. of units disposed '000**	**Distributions paid/payable by the Scheme $'000**
Australian Unity Property Income Fund	**8,121**	**6,739**	**8,154**	**2.34**	**728**	**(2,110)**	**766**
Lifeplan Australia Friendly Society Limited	**7,301**	**6,489**	**7,852**	**2.25**	**516**	**(1,328)**	**685**
Total	**15,422**	**13,228**	**16,006**	**4.59**	**1,244**	**(3,438)**	**1,451**

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

2020

Unitholder	No. of units held opening '000	No. of units held closing '000	Fair value of investment* $'000	Interest held (%)	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme $'000
Australian Unity Property Income Fund	11,075	8,121	8,944	3.02	3,152	(6,106)	878
Lifeplan Australia Friendly Society Limited	7,804	7,301	8,041	2.72	6,577	(7,080)	620
Australian Unity Health Limited	2,039	-	-	0.00	453	(2,492)	44
AU Balanced Growth	-	-	-	0.00	16	(16)	-
AU Property Security Fund	-	-	-	0.00	208	(208)	3
Total	20,918	15,422	16,985	5.74	10,406	(15,902)	1,545

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

19 Related party transactions (continued)

Investments
The Scheme held investments in the following schemes which are also managed by Australian Unity Property Limited or its related parties:

2021	**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 received/ receivable $'000**
Australian Unity Office Fund	**9,534**	**9,702**	**25,323**	**5.90**	**168**	**-**	**1,443**
	9,534	**9,702**	**25,323**		**168**	**-**	**1,443**

2020	No. of units held opening '000	No. of units held closing '000	Fair value of investment $'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions received/ receivable $'000
Australian Unity Office Fund	9,534	9,534	19,927	5.86	-	-	1,430
	9,534	9,534	19,927		-	-	1,430

Distributions received/receivable includes an amount of $364,000 (2020: $286,000) which remains unpaid at the end of the year.

20 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	2021 $'000	2020 $'000
Profit for the year	**55,610**	31,980
Unrealised (gains)/losses on financial instruments	**(6,212)**	15,023
Decrease/(increase) in receivables	**1,237**	(3,406)
Increase in accounts payable/liabilities	**2,732**	1,444
Change in fair value of the investment properties - revaluation increment	**(26,709)**	(25,735)
Add back interest expenses and debt establishment costs	**8,825**	7,363
Increase in other assets/prepayments	**(228)**	(4)
Adjustments to net lease incentives and straight line rental	**1,649**	1,963
Realised gain on sale of investment properties	**(17,011)**	(11,977)
Opening subsidiary receivables and payables	**-**	(1,136)
Merger cost	**-**	1,210
Reinvestment of distribution from related listed property trust	**(358)**	-
Net cash inflow from operating activities	**19,535**	16,725

21 Parent entity financial information

Statement of financial position	**2021 $'000**	2020 $'000
Cash and cash equivalents	**20,456**	17,203
Receivables	**109,368**	96,024
Prepaid expenses	**17**	37
Investment in subsidiaries	**222,850**	202,947
Financial assets held at fair value through profit or loss	**25,323**	19,927
Investment properties	**243,844**	189,328
Total assets	**621,858**	525,466
Distributions payable	**12,951**	10,139
Payables	**11,176**	5,305
Financial liabilities held at fair value through profit or loss	**-**	14,075
Borrowings	**260,681**	208,645
Total liabilities	**284,808**	238,164
Net assets attributable to unitholders	**337,050**	287,302

Statement of comprehensive income	**2021 $'000**	2020 $'000
Profit for the year	**55,610**	31,980
Other comprehensive income	**-**	-
Total comprehensive income attributable to unitholders	**55,610**	31,980

22 Events occurring after end of the financial year

On 7 July 2021 the Scheme announced that it was investigating a potential merger with the Australian Unity Office Fund, with the parties currently in discussions.

The directors of the Responsible Entity are not aware of any other matter or circumstance arising since 30 June 2021 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the consolidated statement of financial position as at 30 June 2021 or on the results and cash flows of the Scheme for the year ended on that date.

23 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2021 and 30 June 2020.

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 $13,581,000 (30 June 2020: $21,966,000).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) The consolidated financial statements and notes set out on pages 6 to 41 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
- (ii) giving a true and fair view of the 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 ended 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.

Rohan Mead
Director

Esther Kerr-Smith
Director

24 August 2021

Independent auditor's report

To the unitholders of Australian Unity Diversified Property Fund

Our opinion

In our opinion:

The accompanying financial report of Australian Unity Diversified Property 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.

Other information

The directors of the Australian Unity Property 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.

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Our opinion on the financial report does not cover the other information and accordingly we do not express 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.

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

The directors of the Responsible Entity of the Scheme 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 intends 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: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

George Sagonas
Partner

Melbourne
24 August 2021