

# **Australian Unity Healthcare Property Trust**

ARSN 092 755 318

## **Annual report for the year ended 30 June 2021**

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## **Directors' report**

The directors of Australian Unity Funds Management Limited (ABN 60 071 497 115), the Responsible Entity of Australian Unity Healthcare Property Trust ("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 financial 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 aims to provide unitholders with regular income and the opportunity for long term capital growth.

The Scheme primarily invests in a diversified portfolio of healthcare property and related assets including direct property, unlisted managed funds and listed REITs.

The Scheme may also invest in property syndicates or companies that mainly hold healthcare property and similar international healthcare related assets in countries with healthcare systems and property markets with key attributes similar to Australia.

### **Review and results of operations**

#### ***Capital management***

In line with continued active capital management of the Scheme, the temporary suspension of applications for the Scheme's Wholesale units was lifted on 9 June 2021 and a \$180 million placement to Dexus Wholesale Management Limited, an Australian domiciled real estate group and a \$20 million placement to Australian Unity Strategic Holdings Pty Ltd, a wholly-owned subsidiary of Australian Unity Limited were both made at \$2.60 per wholesale unit, a then ~16% premium to the prevailing net asset value per wholesale unit.

Additionally, a \$120 million entitlement offer (Entitlement Offer) for wholesale units was made to existing unitholders, with the offer open to existing unitholders until 12 July 2021. Any shortfall arising from the Entitlement Offer was then able to be offered to new investors. Proceeds from the capital raising will be used to strengthen the Scheme's balance sheet for growth, providing funding to accelerate the execution of its significant development pipeline and near-term acquisition opportunities. After the capital raising, applications for the Scheme's Wholesale units were again suspended until further notice.

#### ***Establishment of new trust***

The Scheme established Australian Unity Aged Care Property Trust ("ACPT"), an unregistered wholesale fund currently wholly owned by the Scheme to manage the Scheme's investments in the aged care sector.

#### ***Property acquisitions***

On 19 August 2020, the Scheme completed the purchase of 38 & 40 Orth St, 26 Somerset St and 1, 3 & 5 Hargrave St, Kingswood, NSW for a combined purchase price of \$9,225,000 and acquisition costs of \$831,000.

On 17 September 2020, the Scheme completed the purchase of Victoria House Medical Centre, East Victoria Park, WA for a purchase price of \$12,530,000 and acquisition costs of \$909,000.

On 29 September 2020, the Scheme completed the purchase of 1 A & B President Road, Kellyville, NSW for a purchase price of \$3,800,000 and acquisition costs of \$608,000.

On 22 October 2020, the Scheme completed the purchase of 39, 41 and 43 Orth Street, Kingswood, NSW for a purchase price of \$4,865,000 and acquisition costs of \$2,770,000.

On 3 December 2020, the Scheme completed the purchase of 205 St Albans Road, St Albans, VIC for a purchase price of \$1,250,000 and acquisition costs of \$115,000.

**Review and results of operations (continued)**

**Property acquisitions (continued)**

On 21 January 2021, the Scheme completed the purchase of 7 Wiowera Road, Kanwal, NSW for a purchase price of \$1,200,000 and acquisition costs of \$156,000.

On 27 January 2021, the Scheme completed the purchase of 9 Gillon Court, St Albans, VIC for a purchase price of \$1,200,000 and acquisition costs of \$110,000.

On 5 March 2021, the Scheme completed the purchase of 22 Gillon Court, St Albans, VIC for a purchase price of \$1,250,000 and acquisition costs of \$117,000.

On 22 March 2021, the Scheme completed the purchase of 11 Gillon Court, St Albans, VIC for a purchase price of \$1,250,000 and acquisition costs of \$113,000.

On 6 April 2021, the Scheme completed the purchase of 7 Westwood Avenue, Belmore, NSW for a purchase price of \$1,100,000 and acquisition costs of \$63,000.

**Property disposals**

On 22 February 2021, the Scheme sold 1560 Stumpy Gully Road, Moorooduc, VIC (Beleura Clinic) for a consideration of \$1,511,000. After selling costs a loss of \$79,000 was realised.

On 28 June 2021, the Scheme exchanged contracts to sell all four lots of Mackay Medical Centre and Day Surgery, Mackay, QLD. On 5 July 2021, the Scheme received \$16,100,000 excluding selling costs for three of the four lots. The contract of sale for the remaining lot of vacant land was subject to conditions precedent that were met on 4 August 2021. Settlement occurred on 11 August 2021 for \$600,000 excluding selling costs.

**COVID-19**

The COVID-19 pandemic was declared a worldwide pandemic by the World Health Organisation in March 2020. The pandemic as well as measures to slow the spread of the virus, significantly impacted the global and local economies. Healthcare real estate was more resilient than traditional real estate sectors, however has also not been immune to the impacts of the pandemic.

On 7 April 2020, the National Cabinet announced a Mandatory Code of Conduct ("the Code"). The Code was subsequently legislated by all states and territories and stipulates how landlords and tenants should cooperate during this 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.

In line with federal and state government guidelines and codes of conduct, the Scheme agreed to rent assistance packages with those tenants to facilitate business viability during this period. Whilst approximately 80% of the tenants within the portfolio were not eligible under the national code, the Scheme has taken a proactive approach to assist tenants during this period. Broadly, agreements have been reached that reflect each tenant's individual circumstances and take the form of a rental waiver and/or deferral or an extension of lease tenure in return for a capital incentive. As at 30 June 2021, the Scheme granted \$260,000 of rental waivers (30 June 2020: \$35,000).

**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 \$277,897,000 (2020: \$75,160,000).

**Derivatives**

In the current year, the Scheme recognised net gains on derivative instruments held at fair value through profit or loss of \$3,564,000 (2020: loss of \$8,347,000).

**Review and results of operations (continued)**

**Results**

For the year ended 30 June 2021, the Scheme's:

- Retail units posted a total return of 27.88% (split between a distribution return of 5.59% and a growth return of 22.29%)\*
- Wholesale units posted a total return of 28.11% (split between a distribution return of 5.81% and a growth return of 22.30%)\*
- Class A units posted a total return of 22.46% (split between a distribution return of 4.72% and a growth return of 17.74%)\*

Unit prices (ex distribution) as at 30 June 2021 (2020) are as follows:

Retail units \$2.3069 (\$1.8863)\*

Wholesale units \$2.2508 (\$1.8404)\*

Class A units \$1.4064 (\$1.1933)\*

\*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:

	<b>2021</b>	2020
	<b>\$'000</b>	\$'000
Profit before finance costs attributable to unitholders	<b>401,573</b>	96,017
 <i>Distributions - Retail units</i>		
Distributions paid and payable	<b>8,113</b>	6,722
 <i>Distributions - Wholesale units</i>		
Distributions paid and payable	<b>64,692</b>	51,857
 <i>Distributions - Class A units</i>		
Distributions paid and payable	<b>9,141</b>	8,521

**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.

**Other significant events during the year**

Effective 1 January 2021, the Scheme restructured the fees on its Retail unit class which reduced the base management fees paid by the unitholders to 0.65% per annum of the gross asset value ("GAV") of the Retail unit's share of the Scheme's GAV under \$2 billion (previously 0.95% per annum) and 0.50% per annum of the GAV of the Retail unit's share of the Scheme's GAV over \$2 billion (previously 0.80% per annum).

Effective 9 June 2021, the Scheme changed the buy spread for all unit classes. The buy spread for Class A units changed to 1.20% (previously 2.40%), Retail units to 1.50% (previously 3.00%) and Wholesale units to 1.50% (previously 3.00%). Additionally, the Scheme's discount applied to the Scheme's distribution re-investment price changed to 1.50% (previously 2.50%).

**External proposal to acquire all of the units in the Scheme and related matters**

In February 2021, a consortium comprising NorthWest Healthcare Properties Real Estate Investment Trust (NorthWest) and a Singaporean sovereign wealth fund GIC Private Limited (GIC) commenced a process to seek to acquire all the units in the Scheme, resulting in four unsolicited offers being made between February to June 2021 and ultimately, NorthWest convening a unitholder meeting to consider and vote on resolutions proposed by NorthWest which, if approved by the Scheme's unitholders, would have resulted in NorthWest's acquisition of 100% of the units on issue in the Scheme.

The Responsible Entity recommended that each offer be rejected on the basis they materially undervalued the Scheme. In mid-July 2021, following a hearing in the Supreme Court of New South Wales to determine certain matters arising out of the Responsible Entity's application to the Court seeking judicial advice, NorthWest formed the view there was insufficient unitholder support for the proposal to be successful and withdrew its proposal and cancelled the meeting of the Scheme's unitholders'.

During this time, the Responsible Entity, along with Australian Unity Limited and other parties, was named as a defendant in a separate legal proceeding brought by NorthWest. The proceeding concerns NorthWest's claim that certain aspects of the equity raising activities undertaken by the Responsible Entity during the second half of the 2021 financial year and aspects of its response (in that capacity) to NorthWest's proposal to Scheme members to acquire 100% of the units in the Scheme, were in breach of its duties or breached provisions of the *Corporations Act 2001*. NorthWest is seeking declarations by the Court to this effect, as well as court orders invalidating certain transactions entered into by the Responsible Entity and the other defendants as part of the 2021 equity raising activities.

This litigation is ongoing and remains before the New South Wales Supreme Court. The Responsible Entity is vigorously defending these claims. The Court's current timetable for the proceeding indicates that if the matter continues to a trial, it is likely to be heard during the second half of the 2022 financial year. Unitholders are encouraged to refer to the Scheme's website for any updates from the Responsible Entity on the progress and status of the proceeding.

**Events occurring after end of the year**

On 23 July 2021, the Scheme restructured all of its interest rate swaps at a cost of \$4,368,000.

On 4 August 2021, the Scheme completed the purchase of Park Lot 77, Bunjil Way, Knoxfield, VIC for a purchase price of \$10,750,000 excluding acquisition costs.

As part of the Scheme's active management, thirty-nine properties were independently revalued in August 2021 which resulted in recording a net revaluation fair value increment of \$212,436,000. Market transactional evidence emerged during July 2021, of which the most significant increases in value were predominantly attributable to the longer weighted average lease expiry of the Scheme's assets, mainly Hospitals.

On 23 September 2021, the Scheme completed the purchase of 151-153 Furlong Road, St Albans, VIC for a purchase price of \$6,000,000 excluding acquisition costs.

On 5 October 2021, the Scheme completed the purchase of 9 Westwood Avenue, Belmore, NSW for a purchase price of \$1,900,000 excluding acquisition costs.

On 22 October 2021, the Scheme exchanged unconditional contracts to purchase 74 University Drive, Varsity Lakes, QLD, 260 Old Cleveland Road East, Capalaba, QLD, and 15-29 Bonton Avenue Deception Bay, QLD for a combined purchase price of \$93,649,000 excluding acquisition costs. Settlement is expected to occur within 30 days from the contract date.

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.

**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.

The Scheme is in exclusive due diligence and negotiations on several acquisition and development opportunities and will continue to actively execute on its investment objectives and guidelines

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 Funds Management Limited or the auditors of the Scheme. So long as the officers of Australian Unity Funds Management 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 21 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 21 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 9 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 consolidated financial statements. Amounts in the directors' report and consolidated 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 Funds Management Limited.



Rohan Mead  
Director



Esther Kerr-Smith  
Director

28 October 2021



## *Auditor's Independence Declaration*

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

A handwritten signature in blue ink, appearing to read 'G. Sagonas', is written over a light blue horizontal line.

George Sagonas  
Partner  
PricewaterhouseCoopers

Melbourne  
28 October 2021

**Australian Unity Healthcare Property Trust**  
**Consolidated statement of comprehensive income**  
**For the year ended 30 June 2021**

**Consolidated statement of comprehensive income**

	Notes	2021 \$'000	2020 \$'000
<b>Income</b>			
Rental income	4	123,900	90,924
Property expenses	5	<u>(23,343)</u>	<u>(14,909)</u>
<b>Net property income</b>		<b>100,557</b>	76,015
Interest income	3	5,740	4,514
Distribution income	6	4,009	4,151
Net gains/(losses) on financial instruments held at fair value through profit or loss	7	51,677	(34,519)
Realised loss on disposal of investment property		(80)	-
Net fair value increment of investment properties	15(b)	277,897	74,978
Other income		<u>88</u>	<u>138</u>
<b>Total income net of property expenses</b>		<b>439,888</b>	125,277
<b>Expenses</b>			
Responsible Entity's fees	21	18,868	16,908
Borrowing costs		16,508	11,777
Other expenses		<u>2,939</u>	<u>575</u>
<b>Total expenses, excluding property expenses</b>		<b>38,315</b>	29,260
<b>Profit before finance costs attributable to unitholders</b>		<b>401,573</b>	96,017
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	10	(81,946)	(67,100)
Increase in net assets attributable to unitholders	9	<u>(319,627)</u>	<u>(28,917)</u>
<b>Total comprehensive income attributable to unitholders</b>		<b>-</b>	-

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

**Australian Unity Healthcare Property Trust**  
**Consolidated statement of financial position**  
**As at 30 June 2021**

**Consolidated statement of financial position**

	Notes	2021 \$'000	2020 \$'000
<b>Assets</b>			
Cash and cash equivalents	11	71,069	46,415
Receivables	12	18,998	13,913
Financial assets held at fair value through profit or loss	13	238,494	199,438
Loans receivable	14	63,139	124,021
Other assets		4,451	10,954
Properties held for sale	15(c)	16,700	-
Investment properties	15	2,225,661	1,815,534
<b>Total assets</b>		<b>2,638,512</b>	<b>2,210,275</b>
<b>Liabilities</b>			
Distributions payable	10	23,238	18,405
Payables	16	23,513	19,394
Financial liabilities held at fair value through profit or loss	13	3,617	7,180
Lease liabilities	15(e)	3,447	3,591
Borrowings	17	511,495	573,289
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>565,310</b>	<b>621,859</b>
<b>Net assets attributable to unitholders - liability</b>	9	<b>2,073,202</b>	<b>1,588,416</b>

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

Australian Unity Healthcare Property Trust  
 Consolidated statement of changes in net assets attributable to unitholders - liability  
 For the year ended 30 June 2021

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

	2021 \$'000	2020 \$'000
<b>Balance at the beginning of the year</b>	<b>1,588,416</b>	1,319,616
Profit before finance costs attributable to unitholders	<b>401,573</b>	96,017
Distributions to unitholders	<b>(81,946)</b>	(67,100)
Applications (net of transaction costs)	<b>196,980</b>	291,493
Redemptions	<b>(43,113)</b>	(61,426)
Units issued upon reinvestment of distributions	<b>11,292</b>	9,816
<b>Balance at the end of the year</b>	<b>2,073,202</b>	1,588,416

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

**Australian Unity Healthcare Property Trust**  
**Consolidated statement of cash flows**  
**For the year ended 30 June 2021**

**Consolidated statement of cash flows**

	Notes	2021 \$'000	2020 \$'000
<b><i>Cash flows from operating activities</i></b>			
Interest received		5,176	1,396
Distributions and other income received		4,927	3,263
Collection of financing receivables		9,323	4,591
Rental income received		113,476	84,865
Payments to suppliers		<u>(36,505)</u>	<u>(34,054)</u>
<b>Net cash inflow from operating activities</b>	22	<u>96,397</u>	<u>60,061</u>
<b><i>Cash flows from investing activities</i></b>			
Purchase of investment properties		(37,670)	(14,675)
Acquisition costs on purchases of investment properties		(4,433)	(1,324)
Payments for additions to owned investment properties		(97,529)	(236,577)
Receipts from the repayment of loans advanced to tenants		23,236	-
Advanced to tenants for loans		-	(86,375)
Receipts from the repayment of loans advanced to related party		40,294	-
Advanced to related party for loans		(1,713)	(17,981)
Purchase of financial assets held at fair value through profit or loss		(392)	(165,097)
Payments for potential acquisitions		(1,219)	(8,603)
Proceeds from sale of investment properties		1,511	-
Disposal costs paid from sale of investment properties		<u>(70)</u>	<u>-</u>
<b>Net cash outflow from investing activities</b>		<u>(77,985)</u>	<u>(530,632)</u>
<b><i>Cash flows from financing activities</i></b>			
Proceeds from applications by unitholders		196,980	291,493
Payments for redemptions by unitholders		(43,112)	(61,426)
Repayment of borrowings		(317,500)	(203,800)
Proceeds from borrowings		254,700	506,000
Distributions paid		(65,822)	(55,828)
Borrowing costs paid		(18,860)	(16,450)
Payment of lease liabilities		(144)	(182)
Interest rate derivative break costs paid		<u>-</u>	<u>(10,756)</u>
<b>Net cash inflow from financing activities</b>		<u>6,242</u>	<u>449,051</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>24,654</b>	<b>(21,520)</b>
Cash and cash equivalents at the beginning of the year		<u>46,415</u>	<u>67,935</u>
Cash and cash equivalents at the end of the year	11	<u>71,069</u>	<u>46,415</u>

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

**Notes to the financial statements**

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## **1 General information**

These consolidated financial statements cover Australian Unity Healthcare Property Trust ("the Scheme") and its subsidiaries. The Scheme was constituted on 17 June 1998 and 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 Funds Management Limited (ABN 60 071 497 115) ("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:

- Healthcare Property Trust Sub-trust No. 2 (formerly Primary Health Care Property Trust) which was established by Trust Deed dated 21 December 2015; and,
- Herston SRACC Trust which was established by Constitution dated 20 February 2017; and,
- Australian Unity Aged Care Property Trust which was established by Trust Deed dated 1 June 2021.

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 28 October 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, loan receivables, 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.

## 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*

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 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 15. 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 assets and liabilities 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.

Direct properties acquired under sale and leaseback arrangements with option to repurchase are recognised as financing receivables which are classified as financial assets held at fair value through profit or loss in the consolidated statement of financial position. Under AASB 15 *Revenue from Contracts with Customers* the transactions do not meet the requirements for a sale and shall be accounted for as financing arrangements within the scope of AASB 9 *Financial Instruments*.

Financial instruments 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 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.

This category includes loans receivables and other receivables/payables.

#### (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.

## **2 Summary of significant accounting policies (continued)**

### **(d) Financial instruments (continued)**

#### *(ii) Recognition/derecognition (continued)*

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

#### *(iii) Measurement*

Except for financing receivables, 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.

Financing receivables are measured initially at cost of acquisition, being the consideration on the date of acquisition plus transaction costs and subsequently 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, loan receivables and other receivables/payables are measured initially at fair value plus transaction costs and subsequently are carried at amortised cost using the effective interest method.

The Scheme assesses on a forward looking basis the expected credit losses (ECL) associated with its financial assets carried at amortised cost. The recognition of impairment depends on whether there has been a significant increase in credit risk.

For loan receivables, the Scheme applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

- **Stage 1: 12-months ECL**  
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- **Stage 2: Lifetime ECL- not credit impaired**  
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.
- **Stage 3: Lifetime ECL - credit impaired**  
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Scheme assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

The Scheme assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of significant increase in credit risk, loans are grouped on the basis of shared credit risk characteristics, taking into account the type of loans, days in arrears, loan collaterals, remaining term to maturity, geographical location of the borrower and other relevant factors. The Scheme considers its historical loss experience and adjusts this for current observable data.

## **2 Summary of significant accounting policies (continued)**

### **(d) Financial instruments (continued)**

#### *(iii) Measurement (continued)*

The amount of ECL is measured as the probability-weighted amount of the present value of all reasonable cash shortfalls over the expected life of the loans discounted at the effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Scheme and all the cash flows that the Scheme expects to receive.

The amount of ECL is recognised using a loan loss provision account. If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the loan loss provision reverts from lifetime ECL to 12-months ECL.

#### *(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. Changes in the value of this financial liability are recognised in the consolidated statement of comprehensive income as they arise.

The Scheme classifies the net assets attributable to unitholders as liabilities as they do not satisfy the criteria under AASB 132 *Financial instruments: Presentation*.

### **(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. Bank overdrafts, if any, are shown within borrowings in the consolidated statement of financial position.

Receipts relating to financing receivables is classified as cash flows from operating activities as this represents one of the Scheme's income generating activity.

### **(h) Investment income**

Dividend income is recognised on the ex-dividend date.

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.

## **2 Summary of significant accounting policies (continued)**

### **(h) Investment income (continued)**

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 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. The distributions are recognised in the consolidated statement of comprehensive income as finance costs attributable to unitholders.

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

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

### **(m) 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 replacement of the incurred credit loss method. 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 allowance account. Subsequent recoveries of amounts previously written off are credited against property expenses in the consolidated statement of comprehensive income.

### **(n) Payables**

Payables include liabilities and accrued expenses 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.

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

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

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

## **2 Summary of significant accounting policies (continued)**

### **(n) Payables (continued)**

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

Payables to related parties are recognised and carried at the nominal amount due. They are carried at the nominal amount due to the short term nature of the payable. Interest is taken up as an expense on an accrual basis.

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

### **(o) Applications and redemptions**

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.

### **(p) Borrowings and borrowing costs**

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

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

### **(q) Goods and Services Tax (GST)**

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

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

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

## 2 Summary of significant accounting policies (continued)

### (r) Leases as lessor

#### *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.

#### *Outgoing income*

Outgoing income is recognised on an accruals basis.

#### *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) Leases as lessee

The right-of-use asset and a corresponding lease liability are recognised from the initial application of AASB 16 on 1 July 2019 or at the date at which the leased asset is available for use by the Scheme. The Scheme is not required to make any adjustments on transition for leases previously accounted for as investment property using the fair value model in AASB 140 *Investment Property*.

#### *Right-of-use assets*

Right-of-use assets are measured at cost comprising the following

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and,
- restoration costs.

As the Scheme states its investment property at fair value, subsequent to initial recognition the Scheme applies fair value model to right-of-use assets that meet the definition of investment property in AASB 140.

#### *Lease liabilities*

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Scheme under residual value guarantees;
- the exercise price of a purchase option if the Scheme is reasonably certain to exercise that option;
- payments of penalties for terminating the lease if the lease term reflects the Scheme exercising that option; and,

## **2 Summary of significant accounting policies (continued)**

### **(s) Leases as lessee (continued)**

- payments to be made under reasonably certain extension options.

Subsequent to the initial recognition, lease liabilities are adjusted by the interest charges, lease payments made and any re-measurement to reflect reassessment or lease modifications.

When the Scheme is exposed to potential future increases in variable lease payments based on an index or rate, these are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### **(t) Use of judgements and estimates**

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

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

The key weighted average assumptions used by the external independent property valuers in the latest valuations have been used by the Scheme for the investment properties and the weighted average total for all properties, including the weighted average lease expiry ("WALE"), have been disclosed in note 20.

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

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

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

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

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

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

## 2 Summary of significant accounting policies (continued)

### (u) Rounding of amounts

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.

### (v) 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 Interest income

	2021 \$'000	2020 \$'000
Cash and cash deposits	2	17
Loan receivables	5,738	4,497
	<u>5,740</u>	<u>4,514</u>

## 4 Rental income

	2021 \$'000	2020 \$'000
Rental income	109,200	81,671
Outgoings income	14,700	9,253
	<u>123,900</u>	<u>90,924</u>

Rental income includes movement for the straight lining of rental income of \$6,697,000 (2020: \$710,000).

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 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 have requested rent relief under the Code. The Scheme has held "good faith" discussions with those tenants. The Scheme recognised \$260,000 in rent abatement for rent waivers granted as at 30 June 2021.

## 5 Property expenses

	2021	2020
	\$'000	\$'000
Recoverable outgoings	16,526	10,265
Non-recoverable outgoings	3,913	2,706
Doubtful debts provision and bad debts expense	(19)	314
Amortisation of lease commissions & lease incentives	2,923	1,624
	<b>23,343</b>	14,909

The doubtful debts provision and bad debts expense includes the reversal of prior year doubtful debts provision of \$19,000 in relation to rent waivers granted under the Code.

## 6 Distribution income

	2021	2020
	\$'000	\$'000
Related unlisted managed investment schemes	271	741
Listed property trusts	3,738	3,410
	<b>4,009</b>	4,151

## 7 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	51,677	(23,763)
Net realised losses on financial assets held at fair value through profit or loss	-	(10,756)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<b>51,677</b>	(34,519)

## 8 Auditor's remuneration

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

	2021	2020
	\$	\$
<i>Audit services - PwC</i>		
Audit and review of financial statements	165,000	145,000
Audit of compliance plan	3,157	2,930
Total auditors' remuneration	<u>168,157</u>	<u>147,930</u>

## 9 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. There are three classes of units in the Scheme being Retail, Wholesale and Class A Units.

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

	2021	2020	2021	2020
	No. '000	No. '000	\$'000	\$'000
<b>Contributed equity</b>				
Opening balance	926,227	806,907	1,288,841	1,048,958
<b>Retail units</b>				
Applications	101	76	208	156
Redemptions	(4,479)	(4,750)	(9,347)	(8,972)
Units issued upon reinvestment of distributions	1,296	1,240	2,539	2,250
	<u>(3,082)</u>	<u>(3,434)</u>	<u>(6,600)</u>	<u>(6,566)</u>
<b>Wholesale units</b>				
Applications (net of transaction costs)	77,050	152,272	196,762	291,281
Redemptions	(9,537)	(18,329)	(19,506)	(33,863)
Units issued upon reinvestment of distributions	4,414	4,076	8,388	7,240
	<u>71,927</u>	<u>138,019</u>	<u>185,644</u>	<u>264,658</u>
<b>Class A units</b>				
Applications	8	46	10	56
Redemptions	(11,034)	(15,594)	(14,260)	(18,591)
Units issued upon reinvestment of distributions	299	283	365	326
	<u>(10,727)</u>	<u>(15,265)</u>	<u>(13,885)</u>	<u>(18,209)</u>
Closing balance	<u>984,345</u>	<u>926,227</u>	<u>1,454,000</u>	<u>1,288,841</u>

**9 Net assets attributable to unitholders (continued)**

	2021	2020
	\$'000	\$'000
<b>Undistributed income</b>		
Opening balance	299,575	270,658
Increase in net assets attributable to unitholders	319,627	28,917
Closing balance	619,202	299,575
<b>Total net assets attributable to unitholders</b>	<b>2,073,202</b>	1,588,416

**Capital risk management**

The Scheme considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications whilst redemptions occur quarterly for Retail and Wholesale units and monthly for Class A units, at the discretion of unitholders via withdrawal offers by the Responsible Entity.

Applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets 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.

The Scheme temporarily suspended application of units whilst existing regular savings plans and distribution reinvestment plans continue to operate. The decision to temporarily suspend applications will be reviewed by the Responsible Entity on an ongoing basis as the Scheme progress its development and acquisition program.

In line with continued active capital management of the Scheme, the temporary suspension of applications for the Scheme's Wholesale units was lifted on 9 June 2021 and a \$180 million placement to Dexus Wholesale Management Limited, an Australian domiciled real estate group and a \$20 million placement to Australian Unity Strategic Holdings Pty Ltd, a wholly-owned subsidiary of Australian Unity Limited were both made at \$2.60 per wholesale unit, a then ~16% premium to the prevailing net asset value per wholesale unit.

Additionally, a \$120 million entitlement offer (Entitlement Offer) for wholesale units was made to existing unitholders, with the offer open to existing unitholders until 12 July 2021. Any shortfall arising from the Entitlement Offer was then able to be offered to new investors. Proceeds from the capital raising will be used to strengthen the Scheme's balance sheet for growth, providing funding to accelerate the execution of its significant development pipeline and near-term acquisition opportunities. After the capital raising, applications for the Scheme's Wholesale units were again suspended until further notice.

## 10 Distributions to unitholders

The distributions for the year were as follows:

	2021 \$'000	2021 CPU	2020 \$'000	2020 CPU
<b>Distributions - Retail units</b>				
30 September	1,757	2.0250	1,620	1.7970
31 December	1,949	2.2720	1,623	1.8180
31 March	2,190	2.5670	1,661	1.8770
30 June (payable)	2,217	2.6290	1,818	2.0800
	<u>8,113</u>		<u>6,722</u>	
<b>Distributions - Wholesale units</b>				
30 September	13,960	2.1330	10,347	2.0050
31 December	15,775	2.4140	13,692	2.0550
31 March	16,315	2.5050	13,458	2.0280
30 June (payable)	18,642	2.5640	14,360	2.1920
	<u>64,692</u>		<u>51,857</u>	
<b>Distributions - Class A units</b>				
30 September	2,093	1.1560	2,118	1.0860
31 December	2,343	1.3110	2,071	1.0800
31 March	2,326	1.3220	2,105	1.1280
30 June (payable)	2,379	1.3750	2,227	1.2120
	<u>9,141</u>		<u>8,521</u>	
<b>Total distributions</b>	<u>81,946</u>		<u>67,100</u>	

## 11 Cash and cash equivalents

	2021 \$'000	2020 \$'000
Cash at bank	26,546	5,596
Cash management trusts	44,523	40,819
	<u>71,069</u>	<u>46,415</u>

## 12 Receivables

	2021 \$'000	2020 \$'000
Trade receivables	14,209	8,441
Distributions receivables	970	1,762
GST receivables	2,780	2,578
Interest receivables	1,039	1,411
Doubtful debts provision	-	(279)
	<u>18,998</u>	<u>13,913</u>

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

	2021 \$'000	2020 \$'000
Listed property trusts	90,916	55,307
Financing receivables	147,578	144,131
<b>Total financial assets held at fair value through profit or loss</b>	<u>238,494</u>	<u>199,438</u>
Derivatives	<u>3,617</u>	<u>7,180</u>
<b>Total financial liabilities held at fair value through profit or loss</b>	<u>3,617</u>	<u>7,180</u>

Financing receivables represent the fair value of financial assets recognised on the Scheme's acquisition of the six aged care properties from Infinite Care. The properties were acquired under sale and leaseback agreements with option to buy back in future periods. As a result, the transactions do not meet the requirements for a sale under AASB 15 *Revenue from Contracts with Customers* and the acquisitions are recorded as a financial asset under AASB 9 *Financial Instruments*.

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

The following table details the financing receivables held by the Scheme:

	Acquisition Date	Independent valuation date	Independent valuation amount \$'000	Independent valuer	Carrying value 2021 \$'000	Carrying value 2020 \$'000
Edge Hill Orchards Aged Care Facility, 15 Oregon Street, Manoora, QLD	19/12/2019	30/06/2021	31,399	JLL	<b>31,399</b>	30,817
Caravonica Aged Care Facility, 15-17 Lake Placid Road, Caravonica, QLD	19/12/2019	30/06/2021	24,951	JLL	<b>24,951</b>	24,716
Edmonton Gardens Aged Care Facility, 1-15 Bruce Highway, Edmonton, QLD	19/12/2019	30/06/2021	24,949	JLL	<b>24,949</b>	24,677
Mount Lofty Toowoomba Aged Care Facility, 69 Stuart Street, Harlaxton QLD	31/01/2020	30/06/2021	25,220	JLL	<b>25,220</b>	23,733
Cornubia Aged Care Facility, 136-144 Beenleigh Redland Bay Road, Cornubia	31/01/2020	30/06/2021	23,999	JLL	<b>23,999</b>	23,569
Ipswich Aged Care Facility, 41-43 South Street, Ipswich QLD	31/01/2020	30/06/2021	17,060	JLL	<b>17,060</b>	16,619
<b>Total</b>			<b>147,578</b>		<b>147,578</b>	144,131

Financing receivables are independently valued using discounted cash flow method.

The Scheme also independently valued the above listed aged care facilities on 26 May 2021 using the valuation technique used for investment properties and the total valuation amount was \$148,500,000 (2020:\$145,450,000).

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 19.

COVID-19 has also impacted aged care operators as aged care facilities were placed under increased restrictions. The six properties with Infinite Care are all based in Queensland which to date have been spared of the significant impacts compared to several facilities in New South Wales and Victoria. Infinite Care have not requested for rent relief under the Code.

### 14 Loan receivables

	2021 \$'000	2020 \$'000
Loans to tenants	<b>63,139</b>	86,375
Loans to related party	<b>-</b>	37,646
	<b>63,139</b>	124,021

Gross impaired assets represent those assets that are contractually past due with security insufficient to cover the principal and arrears. The Scheme calculated provision for impairment based on the expected credit loss model (ECL). As at 30 June 2021, all loans were considered low risk of default under Stage 1 category and are considered not impaired. No loan loss provision made during the year ended 30 June 2021 (2020: \$nil)

Loans to tenants comprises six loans to Infinite Care advanced when the aged care properties were acquired (refer to note 13). The loans were provided to finance lessee costs of fitting out of the aged care properties and are governed by a Fit Out Loan Agreement. The loans are repayable in four years and the interest is payable on a quarterly basis. The loans are secured by a fixed and floating charge over the assets of the applicable lessee and approved aged care provider entities, with cross guarantees provided between the holding companies. Total principal repayments of \$23,236,000 were made during the year (2020: \$5,057,000).

## 15 Investment properties

### (a) Property details

	Type	Ownership (%)	Acquisition date	Independent valuation date	Independent valuation amount \$'000	Independent valuer	Carrying value 2021 \$'000	Carrying value 2020 \$'000
Herston Quarter - Surgical Treatment and Rehabilitation Service (STARS), Herston QLD	Hospital	100	22/02/2017	27/04/2021	526,000	JLL	526,665	395,728
Peninsula Private Hospital, Langwarrin, VIC	Hospital	100	14/07/2006	27/04/2021	243,500	JLL	243,520	206,221
Mulgrave Private Hospital, Dandenong North, VIC	Hospital	100	07/07/1999	27/04/2021	155,250	JLL	155,329	132,500
Beleura Private Hospital, Morningside, VIC *	Hospital	100	07/07/1999	27/04/2021	122,500	JLL	145,042	97,106
RPAH Medical Centre, Newton, NSW	Medical Centre	100	01/07/2002	19/02/2021	108,000	Colliers	108,279	94,615
15 Butterfield Street, Herston, QLD	Medical Centre	100	11/04/2016	27/04/2021	105,300	JLL	105,764	81,551
8 Herbert Street, St Leonards, NSW	Medical Centre	100	05/12/2013	27/04/2021	77,000	JLL	77,540	69,511
Brisbane Waters Private Hospital, Woy Woy, NSW	Hospital	100	21/07/2014	27/04/2021	59,800	JLL	59,875	52,300
103 Victoria Parade, Collingwood VIC	Medical Centre	100	20/06/2016	27/04/2021	57,500	JLL	57,500	52,760
Sunshine Private Hospital and Western Day Surgery, Sunshine, VIC **	Hospital	100	11/07/2017	26/05/2021	47,000	CBRE	50,730	32,506
Western Hospital, Henley Beach, QLD	Hospital	100	12/11/2018	18/02/2021	43,900	CBRE	46,653	31,499
Brunswick Private Hospital, Brunswick, VIC	Hospital	100	17/08/2009	18/02/2021	45,500	CBRE	46,134	43,897
310 Selby Road North, Osborne Park, WA	Medical Centre	100	20/06/2016	31/03/2021	45,500	JLL	45,500	41,435
Robina Private Hospital, Robina, QLD	Hospital	100	17/06/2015	18/02/2021	44,560	Valued Care	45,186	40,960
Manningham Medical Centre, Templestowe Lower, VIC	Medical Centre	100	29/07/2008	31/03/2021	42,900	Valued Care	42,927	40,648
Greensborough Medical Centre, Greensborough, VIC	Medical Centre	100	01/04/2016	31/03/2021	38,500	Valued Care	38,500	33,305
Tuggerah Lakes Private Hospital, Kanwal, NSW	Hospital	100	31/01/2017	18/02/2021	29,000	Valued Care	29,008	26,402
Townsville Private Clinic, Townsville, QLD	Hospital	100	20/10/2014	31/03/2021	27,800	JLL	28,078	21,894
Campus Alpha, Robina, QLD	Hospital	100	28/07/2016	24/06/2021	26,800	CBRE	26,800	27,027
Hunters Hill Private Hospital, Hunters Hill, NSW	Hospital	100	31/10/2000	19/02/2021	25,750	JLL	25,976	22,505
Constitution Hill Aged Care, Northmead, NSW	Aged Care	100	22/12/2008	18/02/2021	23,800	JLL	23,975	23,087
North Shore Specialist Day Hospital, Greenwich, NSW	Medical Centre	100	21/08/2008	22/05/2020	22,750	Colliers	23,005	22,907
HIS Diagnostic Imaging Centre, Richmond, VIC	Medical Centre	100	23/12/2015	18/02/2021	21,500	CBRE	21,500	21,010
Berkeley Vale Private Hospital, Berkeley Vale, NSW	Hospital	100	31/10/2000	18/02/2021	21,000	JLL	21,018	20,238
Figtree Private Hospital, Figtree, NSW	Hospital	100	31/10/2000	18/02/2021	18,000	JLL	18,006	16,845
Robina Medical Centre, Robina QLD	Medical Centre	100	20/04/2016	18/02/2021	17,800	Valued Care	17,811	17,000
566 Olsen Avenue, Molendinar, QLD	Medical Centre	100	15/06/2020	26/05/2021	17,750	CBRE	17,755	8,685
Ipswich Medical Centre and Day Hospital, QLD	Medical Centre	100	31/05/2007	26/05/2021	17,350	Valued Care	17,612	14,505
The Eye Centre, 2 Short St, Southport, QLD	Medical Centre	100	17/05/2019	31/03/2021	17,400	JLL	17,461	17,286
Mackay Medical Centre and Day Hospital, Mackay, QLD	Medical Centre	100	08/05/2007	28/06/2021	16,700	Transaction	16,850	13,158
Corrimal Medical Centre, Corrimal, NSW	Medical Centre	100	23/12/2015	18/02/2021	16,700	CBRE	16,700	15,900

## 15 Investment properties (continued)

### (a) Property details (continued)

	Type	Ownership (%)	Acquisition Date	Independent valuation date	Independent valuation amount \$'000	Independent valuer	Carrying value 2021 \$'000	Carrying value 2020 \$'000
Gosford Private Medical Centre, Gosford, NSW	Medical Centre	100	02/04/2015	31/03/2021	15,500	CBRE	15,500	15,000
14 Highfields Circuit, Port Macquarie, NSW	Medical Centre	100	15/03/2018	18/02/2021	13,100	CBRE	13,108	11,800
Victoria House Medical Centre, East Victoria Park, WA	Medical Centre	100	17/09/2020	18/02/2021	12,880	JLL	12,885	-
39, 41 & 43 Orth Street, Kingswood NSW	Assets held pending development	100	22/10/2020	26/05/2021	10,350	JLL	11,397	-
1 and 3 Addison Road, Pennington, SA	Medical Centre	100	11/05/2018	18/02/2021	9,950	JLL	9,950	9,100
38 & 40 Orth Street; 26 Somerset Street; 1, 3 & 5 Hargrave Street, Kingswood, NSW	Assets held pending development	100	19/08/2020	26/05/2021	9,225	JLL	9,234	-
Herston Private Hospital, Herston, QLD	Assets held pending development	100	24/05/2018	26/05/2021	8,400	CBRE	8,410	6,565
Eureka Medical Centre, Ballarat, VIC	Medical Centre	100	12/09/2005	18/02/2021	8,000	CBRE	8,000	8,008
80-82 Bridge Road, Richmond, VIC	Medical Centre	100	23/12/2015	24/06/2021	7,000	CBRE	7,000	8,327
34 Investigator Drive, Robina, QLD	Assets held pending development	100	28/07/2016	24/06/2021	4,250	CBRE	4,250	4,246
1, 1A, and 1B President Road, Kellyville, NSW	Assets held pending development	100	29/09/2020	26/05/2021	4,050	CBRE	4,085	-
Lot 907, Oceanside Health Hub, Birtinya QLD	Assets held pending development	100	29/05/2020	24/06/2021	3,600	m3property	3,600	4,006
7 Vidler Avenue, Woy Woy, NSW	Assets held pending development	100	05/12/2019	18/02/2021	2,400	Valued Care	2,400	2,400
70 Moreland Rd, Brunswick, VIC	Assets held pending development	100	12/11/2018	24/06/2021	1,560	CBRE	1,560	1,200
7 Westwood Avenue, Belmore NSW	Assets held pending development	100	06/04/2021	10/02/2021	1,100	JLL	1,163	-
93 Davies St, Brunswick, VIC	Assets held pending development	100	15/01/2019	24/06/2021	1,070	CBRE	1,070	910
7 Wiowera Road, Kanwal, NSW	Assets held pending development	100	21/01/2021	18/02/2021	840	Valued Care	859	-
101 Herbert Street, Mornington, VIC	Assets held pending development	100	12/12/2014	18/02/2021	775	CBRE	775	775
22 Gillon Court, St Albans, VIC	Assets held pending development	100	05/03/2021	26/05/2021	730	CBRE	733	-
99 Herbert Street, Mornington, VIC	Assets held pending development	100	31/01/2020	18/02/2021	675	CBRE	675	675

## 15 Investment properties (continued)

### (a) Property details (continued)

	Type	Ownership %	Acquisition Date	Independent valuation date	Independent valuation amount \$'000	Independent valuer	Carrying value 2021 \$'000	Carrying value 2020 \$'000
103 Herbert Street, Mornington, VIC	Assets held pending development	100	15/01/2015	18/02/2021	675	CBRE	675	675
105 Herbert Street, Mornington, VIC	Assets held pending development	100	15/01/2015	18/02/2021	675	CBRE	675	675
11 Gillon Court, St Albans, VIC	Assets held pending development	100	22/03/2021	26/05/2021	670	CBRE	671	-
24 Gillon Court, St Albans, VIC	Assets held pending development	100	26/06/2019	26/05/2021	650	CBRE	650	750
15 Dwyer Avenue, Woy Woy, NSW	Assets held pending development	100	21/12/2017	18/02/2021	600	Valued Care	584	580
9 Gillon Court, St Albans, VIC	Assets held pending development	100	27/01/2021	26/05/2021	590	CBRE	590	-
651 Pacific Highway, Kanwal, NSW	Assets held pending development	100	09/05/2018	18/02/2021	590	Valued Care	590	570
205 St Albans Rd, St Albans, VIC	Assets held pending development	100	3/12/2020	26/05/2021	530	CBRE	530	-
3 Woiwera Street, Kanwal, NSW	Assets held pending development	100	13/09/2017	18/02/2021	380	Valued Care	380	350
1 Woiwera Street, Kanwal, NSW	Assets held pending development	100	30/04/2018	18/02/2021	350	Valued Care	350	340
<b>Total</b>					<b>2,203,975</b>		<b>2,239,064</b>	<b>1,811,943</b>
Add: Investment property leaseholds ***							<b>3,447</b>	<b>3,591</b>
<b>Less: Properties held for sale</b>							<b>(16,850)</b>	
<b>Total investment properties</b>							<b>2,225,661</b>	<b>1,815,534</b>

\* includes 95 Herbert Street, Mornington, VIC

\*\* includes 2 and 4 Ginifer Court, St Albans, VIC, 13 and 15 Gillon Court, St Albans, VIC

\*\*\* Upon adoption of AASB 16, the Scheme recognised a right-of-use asset on the ground lease at RPAH Medical Centre which resulted in an increase in the carrying value of the investment property leasehold and related liabilities of \$3,773,000 on 1 July 2019. Refer to note 15(e) for further details.

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 20.

## 15 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	1,815,534	1,468,513
Acquisitions	43,462	16,013
Additions	100,703	248,402
Capitalised borrowing costs	2,646	6,189
Lease commissions and incentives amortisation	(2,923)	(1,624)
Revaluation movements	278,047	74,978
Straight-lining of rental income	6,697	(710)
Reclassified as properties held for sale	(16,850)	-
Disposal	(1,511)	-
Payment of lease liabilities	(144)	-
Initial recognition of right of use asset	-	3,773
Closing balance	<u>2,225,661</u>	<u>1,815,534</u>

The Scheme completed the purchase of the following properties during the year:

On 19 August 2020, the Scheme completed the purchase of 38 & 40 Orth St, 26 Somerset St and 1, 3 & 5 Hargrave St, Kingswood, NSW for a combined purchase price of \$9,225,000 and acquisition costs of \$831,000.

On 17 September 2020, the Scheme completed the purchase of Victoria House Medical Centre, East Victoria Park, WA for a purchase price of \$12,530,000 and acquisition costs of \$909,000.

On 29 September 2020, the Scheme completed the purchase of 1 A & B President Road, Kellyville, NSW for a purchase price of \$3,800,000 and acquisition costs of \$608,000.

On 22 October 2020, the Scheme completed the purchase of 39, 41 and 43 Orth Street, Kingswood, NSW for a purchase price of \$4,865,000 and acquisition costs of \$2,770,000.

On 3 December 2020, the Scheme completed the purchase of 205 St Albans Road, St Albans, VIC for a purchase price of \$1,250,000 and acquisition costs of \$115,000.

On 21 January 2021, the Scheme completed the purchase of 7 Wiowera Road, Kanwal, NSW for a purchase price of \$1,200,000 and acquisition costs of \$156,000.

On 27 January 2021, the Scheme completed the purchase of 9 Gillon Court, St Albans, VIC for a purchase price of \$1,200,000 and acquisition costs of \$110,000.

On 5 March 2021, the Scheme completed the purchase of 22 Gillon Court, St Albans, VIC for a purchase price of \$1,250,000 and acquisition costs of \$117,000.

On 22 March 2021, the Scheme completed the purchase of 11 Gillon Court, St Albans, VIC for a purchase price of \$1,250,000 and acquisition costs of \$113,000.

On 6 April 2021, the Scheme completed the purchase of 7 Westwood Avenue, Belmore, NSW for a purchase price of \$1,100,000 and acquisition costs of \$63,000.

On 22 February 2021, the Scheme sold 1560 Stumpy Gully Road, Moorooduc, VIC (Beleura Clinic) for a consideration of \$1,511,000. After selling costs a loss of \$79,000 was realised.

## 15 Investment properties (continued)

### (c) Movements in properties held for sale

	30 June 2021 \$'000	30 June 2020 \$'000
Opening balance	-	-
Additions	16,850	-
Revaluation movements	(150)	-
Lease commissions and incentives amortisations	-	-
Straight-lining of rental income	-	-
Closing balance	<u>16,700</u>	<u>-</u>

On 28 June 2021, the Scheme exchanged contracts to sell all four lots of Mackay Medical Centre and Day Surgery, Mackay, QLD. On 5 July 2021, the Scheme received \$16,100,000 excluding selling costs for three of the four lots. The contract of sale for the remaining lot of vacant land was subject to conditions precedent that were met on 4 August 2021. Settlement occurred on 11 August 2021 for \$600,000 excluding selling costs.

### (d) Leasing arrangements as a lessor

Some of the investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	2021 \$'000	2020 \$'000
Within one year	106,841	76,575
Later than one year but not later than 5 years	399,320	271,691
Later than 5 years	<u>1,239,149</u>	<u>821,167</u>
	<u>1,745,310</u>	<u>1,169,433</u>

### (e) Leasing arrangements as a lessee

The ground lease at RPAH Medical Centre is held under long-term operating lease. The lease liabilities comprised minimum future lease payments including the two lease extension options. The Scheme is potentially exposed to variable lease payments which shall be reviewed every three years and not reflected in the measurement of lease liabilities.

Reconciliations of the carrying amounts of lease liabilities are set out below:

	30 June 2021 \$'000	30 June 2020 \$'000
Opening balance	3,591	3,773
Interest charge on lease liabilities	154	162
Lease payments	<u>(298)</u>	<u>(344)</u>
Closing balance	<u>3,447</u>	<u>3,591</u>

## 15 Investment properties (continued)

### (f) Contractual obligations

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

	2021 \$'000	2020 \$'000
Within one year	98,898	83,161
Later than one year but not later than 5 years	29,210	12,366
	<u>128,108</u>	<u>95,527</u>

The Scheme's share of capital commitments will be funded using the Scheme's cash and cash equivalents and debt facility. Refer to notes 11 and 17, respectively.

## 16 Payables

	2021 \$'000	2020 \$'000
Trade payables	3,687	729
Rent received in advance	2,719	1,402
Accrued expenses	14,440	14,041
Accrued borrowing costs	1,588	2,307
GST payables	1,079	915
	<u>23,513</u>	<u>19,394</u>

## 17 Borrowings

	2021 \$'000	2020 \$'000
Bank loan	514,500	577,300
Unamortised borrowing costs	(3,005)	(4,011)
	<u>511,495</u>	<u>573,289</u>

The Scheme had access to:

	2021 \$'000	2020 \$'000
<b>Credit facilities</b>		
Cash advance facilities	852,000	740,000
Drawn balance	(514,500)	(577,300)
Undrawn balance	<u>337,500</u>	<u>162,700</u>

## 17 Borrowings (continued)

The bank loan comprises four tranches:

- Tranche A is a \$220,000,000 (2020: \$220,000,000) facility expiring on 22 January 2023;
- Tranche A2 is a \$150,000,000 (2020: \$nil) facility expiring on 22 January 2023;
- Tranche B is a \$282,000,000 (2020: \$320,000,000) facility expiring on 22 January 2023;
- Tranche C is a \$100,000,000 (2020: \$100,000,000) facility expiring on 22 January 2023; and
- Tranche D is a \$100,000,000 (2020: \$100,000,000) facility expiring on 22 January 2025.

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

Reconciliations of the net debt are set out below:

	2021 \$'000	2020 \$'000
<b>Analysis of changes in consolidated net debt</b>		
Opening balance	530,885	207,165
Net proceeds from borrowings	(62,800)	302,200
Other cash movements	(24,654)	21,520
Closing balance	<u>443,431</u>	<u>530,885</u>
Bank loan	514,500	577,300
Cash and cash equivalents	(71,069)	(46,415)
Consolidated net debt	<u>443,431</u>	<u>530,885</u>

## 18 Derivative financial instruments

2021	Contract/notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
<b>Interest rate swaps</b>			
Maturing on 30 November 2021 at a fixed rate of 0.796%	33,000	-	112
Maturing on 30 November 2021 at a fixed rate of 0.796%	33,000	-	106
Maturing on 30 November 2021 at a fixed rate of 0.796%	33,000	-	106
Maturing on 24 February 2022 at a fixed rate of 0.786%	33,000	-	160
Maturing on 24 February 2022 at a fixed rate of 0.786%	33,000	-	160
Maturing on 24 February 2022 at a fixed rate of 0.786%	33,000	-	160
Maturing on 1 May 2023 at a fixed rate of 0.853%	20,000	-	232
Maturing on 1 May 2023 at a fixed rate of 0.853%	20,000	-	232
Maturing on 1 May 2023 at a fixed rate of 0.853%	20,000	-	232
Maturing on 29 November 2024 at a fixed rate of 0.975%	50,000	-	712
Maturing on 29 November 2024 at a fixed rate of 0.975%	50,000	-	698
Maturing on 29 November 2024 at a fixed rate of 0.980%	50,000	-	707
	<u>408,000</u>	<u>-</u>	<u>3,617</u>

## 18 Derivative financial instruments (continued)

2020	Contract/notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
<b>Interest rate swaps</b>			
Maturing on 30 November 2021 at a fixed rate of 0.796%	33,000	-	305
Maturing on 30 November 2021 at a fixed rate of 0.796%	33,000	-	297
Maturing on 30 November 2021 at a fixed rate of 0.796%	33,000	-	297
Maturing on 24 February 2022 at a fixed rate of 0.786%	33,000	-	335
Maturing on 24 February 2022 at a fixed rate of 0.786%	33,000	-	335
Maturing on 24 February 2022 at a fixed rate of 0.786%	33,000	-	335
Maturing on 1 May 2023 at a fixed rate of 0.853%	20,000	-	354
Maturing on 1 May 2023 at a fixed rate of 0.853%	20,000	-	354
Maturing on 1 May 2023 at a fixed rate of 0.853%	20,000	-	354
Maturing on 29 November 2024 at a fixed rate of 0.975%	50,000	-	1,411
Maturing on 29 November 2024 at a fixed rate of 0.975%	50,000	-	1,395
Maturing on 29 November 2024 at a fixed rate of 0.980%	50,000	-	1,408
	408,000	-	7,180

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 2.

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

A net unrealised gain of \$3,564,000 (2020: loss of \$8,347,000) relating to the change in the fair value of the Scheme's interest rate swap contracts and interest rate derivative break costs of \$nil (2020: \$10,756,000) were recognised in the consolidated statement of comprehensive income during the year ended 30 June 2021.

## 19 Financial risk management

### (a) Objectives, strategies, policies and processes

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

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

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

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

### (b) Market risk

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

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

#### (i) Price risk

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

Price risk exposure arises from the Scheme's investment in 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 \$'000	2020 \$'000
<b>Assets</b>		
Listed property trusts	90,916	55,307
Total exposure	<u>90,916</u>	<u>55,307</u>

## 19 Financial risk management (continued)

### (b) Market risk (continued)

#### (i) Price risk (continued)

Sensitivity	Impact on profit and net assets attributable to unitholders	
	2021 \$'000	2020 \$'000
Securities prices +13.60% (2020: +25.00%)	12,365	13,827
Securities prices -13.60% (2020: -25.00%)	(12,365)	(13,827)

#### (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 has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain entities in which the Scheme invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model.

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 table below summarises the Scheme's exposure to interest rate risks on its monetary assets and liabilities. It includes the Scheme's assets and liabilities at fair values, categorised by maturity dates:

2021	Floating interest rate \$'000	Fixed interest rate				Non-interest bearing \$'000	Total \$'000
		3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000		
<b>Assets</b>							
Cash and cash equivalents	71,069	-	-	-	-	-	71,069
Receivables	-	-	-	-	-	18,998	18,998
Financial assets held at fair value through profit or loss	-	-	-	-	-	238,494	238,494
Loan receivables	-	-	19,433	43,706	-	-	63,139
<b>Total financial assets</b>	<b>71,069</b>	<b>-</b>	<b>19,433</b>	<b>43,706</b>	<b>-</b>	<b>257,492</b>	<b>391,700</b>
<b>Liabilities</b>							
Distribution payable	-	-	-	-	-	23,238	23,238
Payables	-	-	-	-	-	23,513	23,513
Financial liabilities held at fair value through profit or loss*	(408,000)	-	-	-	-	-	(408,000)
Lease liabilities	-	3	7	41	3,396	-	3,447
Borrowings	514,500	-	-	-	-	-	514,500
<b>Total financial liabilities</b>	<b>106,500</b>	<b>3</b>	<b>7</b>	<b>41</b>	<b>3,396</b>	<b>46,751</b>	<b>156,698</b>
<b>Net financial assets/(liabilities)</b>	<b>(35,431)</b>	<b>(3)</b>	<b>19,426</b>	<b>43,665</b>	<b>(3,396)</b>	<b>210,741</b>	<b>235,002</b>

## 19 Financial risk management (continued)

### (b) Market risk (continued)

#### (ii) Interest rate risk (continued)

2020	Floating interest rate \$'000	Fixed interest rate				Non-interest bearing \$'000	Total \$'000
		3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000		
<b>Assets</b>							
Cash and cash equivalents	46,415	-	-	-	-	-	46,415
Receivables	-	-	-	-	-	13,913	13,913
Financial assets held at fair value through profit or loss	-	-	-	-	-	199,438	199,438
Loan receivables	-	-	37,646	86,375	-	-	124,021
<b>Total financial assets</b>	<b>46,415</b>	<b>-</b>	<b>37,646</b>	<b>86,375</b>	<b>-</b>	<b>213,351</b>	<b>383,787</b>
<b>Liabilities</b>							
Distribution payable	-	-	-	-	-	18,405	18,405
Payables	-	-	-	-	-	19,394	19,394
Financial liabilities held at fair value through profit or loss*	(408,000)	-	-	-	-	-	(408,000)
Lease liabilities	-	47	97	39	3,408	-	3,591
Borrowings	577,300	-	-	-	-	-	577,300
<b>Total financial liabilities</b>	<b>169,300</b>	<b>47</b>	<b>97</b>	<b>39</b>	<b>3,408</b>	<b>37,799</b>	<b>210,690</b>
<b>Net financial assets/(liabilities)</b>	<b>(122,885)</b>	<b>(47)</b>	<b>37,549</b>	<b>86,336</b>	<b>(3,408)</b>	<b>175,552</b>	<b>173,097</b>

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

Drawn borrowings were 79.30% hedged as at 30 June 2021 (2020: 70.67%)

Sensitivity	Impact on profit and net assets attributable to unitholders	
	2021 \$'000	2020 \$'000
Interest rate +0.60% (2020: +1.00%)	(213)	(1,229)
Interest rate -0.60% (2020: -1.00%)	213	1,229

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

### (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 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. The additional provision during the current financial year was immaterial.

## **19 Financial risk management (continued)**

### **(c) Credit risk (continued)**

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.

Loans receivable consist of fit-out and construction loans. The Scheme is exposed to the risk of loss in relation to these loans due to the failure by borrowers to meet their obligation in accordance with the agreed terms. To mitigate the risk of potential losses that may arise from any default, the Scheme holds collateral as security for the loans. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of loans, net of any provisions for impairment. The compliance with credit limits is regularly monitored by the Scheme.

Despite of the increased uncertainties due to COVID-19 pandemic, the Scheme believes the loans have not had a significant increase in the credit risk since initial recognition. The aged care facilities and the constructions related to the loans are all located in Queensland which have not been significantly impacted by the COVID-19 pandemic compared to Victoria and New South Wales. The borrowers have complied with the loan agreements.

The Scheme makes an assessment whether there is a significant increase in credit risk at each reporting date. As disclosed in the accounting policy note, the Scheme applies a three-stage approach to distinguish the categories of loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. No loan loss provision made during the current financial year.

### **(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.

### **Maturities 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.

## 19 Financial risk management (continued)

### (d) Liquidity risk (continued)

*Maturities analysis of financial liabilities (continued)*

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
<b>2021</b>				
Distributions payable	23,238	-	-	-
Payables	23,513	-	-	-
Financial liabilities at fair value through profit or loss*	2,721	1,832	1,420	595
Lease liabilities	160	160	160	2,967
Borrowings	-	414,500	-	100,000
Net assets attributable to unitholders	2,073,202	-	-	-
<b>Total financial liabilities</b>	<b>2,122,834</b>	<b>416,492</b>	<b>1,580</b>	<b>103,562</b>

\* *Undiscounted interest payment obligations using BBSW3M as at 30 June 2021. Interest rate swaps were restructured on 23 July 2021.*

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
<b>2020</b>				
Distributions payable	18,405	-	-	-
Payables	19,394	-	-	-
Financial liabilities at fair value through profit or loss*	3,129	3,129	2,042	877
Lease liabilities	298	160	160	10,240
Borrowings	-	-	477,300	100,000
Net assets attributable to unitholders	1,588,416	-	-	-
<b>Total financial liabilities</b>	<b>1,629,642</b>	<b>3,289</b>	<b>479,502</b>	<b>111,117</b>

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

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 \$161,895,000 (2020: \$101,722,000).

Investment in Australian Unity Wholesale Cash Fund and Australian Unity Sustainable Short-Term Income Fund (formerly Australian Unity Sustainable Enhanced Cash Fund) are included in the liquid assets of the Scheme above.

### (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 20.

## 20 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 the 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
<b>Financial assets</b>				
<i>Financial assets held at fair value through profit or loss</i>				
Listed property trusts	90,916	-	-	90,916
Financing receivables	-	-	147,578	147,578
<b>Total financial assets</b>	<b>90,916</b>	<b>-</b>	<b>147,578</b>	<b>238,494</b>
<b>Non-financial assets</b>				
Properties held for sale	-	-	16,700	16,700
Investment properties	-	-	2,225,661	2,225,661
<b>Total non-financial assets</b>	<b>-</b>	<b>-</b>	<b>2,242,361</b>	<b>2,242,361</b>
<b>Financial liabilities</b>				
<i>Financial liabilities held at fair value through profit or loss</i>				
Derivatives	-	3,617	-	3,617
<b>Total financial liabilities</b>	<b>-</b>	<b>3,617</b>	<b>-</b>	<b>3,617</b>

## 20 Fair value hierarchy (continued)

2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
<i>Financial assets held at fair value through profit or loss</i>				
Listed property trusts	55,307	-	-	55,307
Financing receivables	-	-	141,131	141,131
<b>Total financial assets</b>	<b>55,307</b>	<b>-</b>	<b>141,131</b>	<b>196,438</b>
<b>Non-financial assets</b>				
Investment properties	-	-	1,815,534	1,815,534
<b>Total non-financial assets</b>	<b>-</b>	<b>-</b>	<b>1,815,534</b>	<b>1,815,534</b>
<b>Financial liabilities</b>				
<i>Financial liabilities held at fair value through profit or loss</i>				
Derivatives	-	7,180	-	7,180
<b>Total financial liabilities</b>	<b>-</b>	<b>7,180</b>	<b>-</b>	<b>7,180</b>

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.

The fair value of financing receivables is determined with reference to the discounted cash flows associated with the underlying properties and their lease agreements. Independent valuations of these properties are obtained regularly, typically annually, in line with the Scheme's policy for investment properties, as disclosed below. The fair value estimates for financing receivables are included in level 3.

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.

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.

## 20 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, typically annually, to aid with the determination of the assets fair value. In determining the fair value of an investment property, the primary method of assessment is considered to be via reconciliation between the discounted cash flow and income capitalisation methods. Direct comparison may also be used if appropriate.

- 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 analyses comparable sales on a range of metrics and compares those metrics against those of the subject property to establish the property's market value.

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

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 15(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 (%)	<b>5.16%*</b>	5.82%*	The higher the capitalisation rate, the lower the fair value.
Occupancy rate by income (%)	<b>98.30%*</b>	98.20%*	The higher the occupancy rate, the higher the fair value.
Weighted average lease expiry (years)	<b>15.54 years*</b>	14.48 years*	The higher the lease expiry, the higher the fair value.

\*Includes the Infinite Care aged care properties classified as investment properties for unit pricing and management reporting purposes.

## 20 Fair value hierarchy (continued)

The table below illustrates the key valuation assumptions used in the determination of the fair value of financing receivables relating to the Infinite Care aged care properties:

Valuation inputs	2021	2020	Relationship of inputs to fair value
Weighted average terminal capitalisation rate (%)	<b>7.34%</b>	7.39%	The higher the capitalisation rate, the lower the fair value.
Weighted average discount rate (%)	<b>7.34%</b>	7.39%	The higher the discount rate, the lower the fair value.

### (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 15. 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 and loan receivables 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 and loan receivables approximates the carrying amount.

## 21 Related party transactions

### Responsible entity

The Responsible Entity of Australian Unity Healthcare Property Trust is Australian Unity Funds Management Limited (ABN 60 071 497 115).

### Key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of Australian Unity Funds Management 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 Funds Management 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.

## 21 Related party transactions (continued)

### Responsible Entity's fees and other transactions

Under the Scheme's Constitution, the Responsible Entity is entitled to receive fees monthly calculated daily by reference to the gross assets of the Scheme.

Effective 1 January 2021, the Scheme restructured the fees on its Retail unit class which reduced the base management fees paid by the unitholders to 0.65% per annum of the gross asset value ("GAV") of the Retail unit's share of the Scheme's GAV under \$2 billion (previously 0.95% per annum) and 0.50% per annum of the GAV of the Retail unit's share of the Scheme's GAV over \$2 billion (previously 0.80% per annum).

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

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

	2021	2020
	\$	\$
Management fees for the year paid/payable by the Scheme to the Responsible Entity	<b>15,277,684</b>	13,114,112
Administration expenses incurred by the Responsible Entity which are reimbursed in accordance with the Scheme's Constitution	<b>3,590,802</b>	3,794,084
Fees rebated by the Responsible Entity for the Scheme's investments in other schemes managed by the Responsible Entity	<b>87,585</b>	138,202
Aggregate amounts payable to the Responsible Entity at the end of the year	<b>1,680,404</b>	919,711

#### (a) Other related party transactions

##### *Australian Unity Property Management Pty Ltd*

Australian Unity Property Management Pty Ltd ("AUPML") 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 AUPML for the year ended 30 June 2021 was \$3,459,080 (2020: \$157,229). Total accrued fees payable to AUPML as at 30 June 2021 was \$1,269,302 (2020: \$5,600).

##### *Herston Quarter Redevelopment*

On 23 February 2017, the Scheme through its sub-trust Herston SRACC Trust, entered into an agreement to develop a specialist public health facility located in Herston, Queensland. This development is part of the Herston Quarter redevelopment in Brisbane undertaken by Herston Development Company Pty Ltd ("the Developer").

The Scheme reimbursed the Developer for costs associated with the development of Herston Quarter - STARS. The amount charged to the Scheme during the year was \$6,481,491 (2020: \$261,998).

The Scheme provided loans to Herston Car Park Company Ltd ("HCPC") to provide funding for the development of the car park and a portion of the common area associated with the Herston Quarter redevelopment. The loan receivable from HCPC was fully repaid as at 30 June 2021 (2020: \$37,645,747), which includes total interest income capitalised during the year of \$936,084 (2020: \$1,705,816).

##### *Constitution Hill Aged Care*

The Scheme charged Australian Unity Care Services Pty Limited (ACN 065 558 134) ("AUCSPL") total rent of \$1,937,928 (2020: \$1,881,732) during the year, of which \$nil (2020: \$nil) remains receivable as at 30 June 2021.

## 21 Related party transactions (continued)

### Responsible Entity's fees and other transactions (continued)

#### (a) Other related party transactions (continued)

The Responsible Entity, AUPML, the Developer, HCPC and AUCSPL are wholly owned subsidiaries of Australian Unity Limited (ABN 23 087 648 888) and members of the Australian Unity Group. All related party transactions are under normal commercial terms and conditions and at market rates.

#### Related party unitholdings

Parties related to the Scheme (including Australian Unity Funds Management Limited, its related parties and other schemes managed by Australian Unity Funds Management 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
Australian Unity Property Income Fund	4,168	4,373	9,905	0.47	205	-	413
Lifeplan Australian Family Society Limited	2,700	2,700	6,116	0.29	-	-	260
AUFM Managed Fund No 2	1,465	1,538	3,483	0.17	73	-	145
AUFM Managed Fund No 3	893	937	2,123	0.10	44	-	89
AUFM Managed Fund No 1	334	351	795	0.04	17	-	33
Australia Unity Strategic Holdings Pty Limited	-	7,692	17,423	0.83	7,692	-	197
<b>Total</b>	<b>9,560</b>	<b>17,591</b>	<b>39,845</b>	<b>1.90</b>	<b>8,031</b>	<b>-</b>	<b>1,137</b>

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

#### 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
Australian Unity Property Income Fund	5,527	4,168	7,723	0.48	2,425	(3,784)	523
Lifeplan Australian Family Society Limited	-	2,700	5,003	0.31	2,700	-	59
AUFM Managed Fund No 2	1,928	1,465	2,715	0.17	79	(542)	152
AUFM Managed Fund No 3	1,791	893	1,655	0.10	55	(953)	109
AUFM Managed Fund No 1	444	334	620	0.04	16	(126)	34
<b>Total</b>	<b>9,690</b>	<b>9,560</b>	<b>17,716</b>	<b>1.10</b>	<b>5,275</b>	<b>(5,405)</b>	<b>877</b>

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

## 21 Related party transactions (continued)

### Investments

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

	No. of units held opening	No. of units held closing	Fair value of investment	Interest held	No. of units acquired	No. of units disposed	Distributions received/receivable
	'000	'000	\$'000	%	'000	'000	\$'000
<b>2021</b>							
Australian Unity Wholesale Cash Fund	14,158	8,474	8,474	1.62	46,277	(51,961)	9
Australian Unity Sustainable Short Term Income Fund (formally Australian Unity Sustainable Enhanced Cash Fund)	26,568	35,741	36,032	8.31	9,173	-	261
	<b>40,726</b>	<b>44,215</b>	<b>44,506</b>		<b>55,450</b>	<b>(51,961)</b>	<b>271</b>
	No. of units held opening	No. of units held closing	Fair value of investment	Interest held	No. of units acquired	No. of units disposed	Distributions received/receivable
	'000	'000	\$'000	%	'000	'000	\$'000
<b>2020</b>							
Australian Unity Wholesale Cash Fund	23,297	14,158	14,158	2.57	334,353	(343,490)	335
Australian Unity Sustainable Short Term Income Fund (formally Australian Unity Sustainable Enhanced Cash Fund)	26,144	26,568	26,661	5.47	424	-	406
	<b>49,441</b>	<b>40,726</b>	<b>40,819</b>		<b>334,777</b>	<b>(343,490)</b>	<b>741</b>

Distributions received/receivable includes an amount of \$22,590 (2020: \$31,954) which remains unpaid at the end of the year.

## 22 Reconciliation of profit to net cash inflows from operating activities

	2021 \$'000	2020 \$'000
Increase in net assets attributable to unitholders	319,627	28,917
Distribution to unitholders	81,946	67,100
Add back interest expenses and debt establishment costs	16,508	11,777
Add back interest rate derivatives break costs paid	-	10,756
Realised loss on sale of investment property	80	-
Net (gains)/losses on financial instruments	(51,677)	23,763
Change in fair value of the investment properties - revaluation increment	(277,897)	(74,978)
Increase in receivables	(5,084)	(8,841)
Increase/(decrease) in accounts payable/liabilities	7,764	(2,591)
Decrease/(increase) in other assets	750	(973)
Adjustment to net lease incentives and straight line rental	(4,134)	2,287
Effect of valuation changes on cash equivalent	127	(41)
Capitalised interest income	(936)	(1,706)
Collection of financing receivables	9,323	4,591
<b>Net cash inflows from operating activities</b>	<b>96,397</b>	<b>60,061</b>

## 23 Parent entity financial information

	2021 \$'000	2020 \$'000
<b>Statement of financial position</b>		
Cash and cash equivalents	59,796	45,653
Receivables	9,365	15,894
Loan receivables	63,139	86,375
Financial assets held at fair value through profit or loss	238,494	199,438
Other assets	4,194	10,702
Investment in subsidiaries	682,128	537,671
Properties held for sale	16,700	-
Investment properties	1,574,427	1,303,364
<b>Total assets</b>	<b>2,648,243</b>	<b>2,199,097</b>
Distributions payable	23,238	18,405
Payables	33,244	8,216
Financial liabilities held at fair value through profit or loss	3,617	7,180
Lease liabilities	3,447	3,591
Borrowings	511,495	573,289
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>575,041</b>	<b>610,681</b>
<b>Net assets attributable to unitholders</b>	<b>2,073,202</b>	<b>1,588,416</b>

### 23 Parent entity financial information (continued)

	2021	2020
<b>Statement of comprehensive income</b>	<b>\$'000</b>	<b>\$'000</b>
Profit before finance costs attributable to unitholders	<b>401,573</b>	96,017
 <i><b>Finance costs attributable to unitholders</b></i>		
Distributions to unitholders	<b>(81,946)</b>	(67,100)
Increase in net assets attributable to unitholders	<b>(319,627)</b>	(28,917)
<b>Total comprehensive income for the year</b>	<b>-</b>	-

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

On 23 July 2021, the Scheme restructured all of its interest rate swaps at a cost of \$4,368,000.

On 4 August 2021, the Scheme completed the purchase of Park Lot 77, Bunjil Way, Knoxfield, VIC for a purchase price of \$10,750,000 excluding acquisition costs.

As part of the Scheme's active management, thirty-nine properties were independently revalued in August 2021 which resulted in recording a net revaluation fair value increment of \$212,436,000. Market transactional evidence emerged during July 2021, of which the most significant increases in value were predominantly attributable to the longer WALE of the Scheme's assets, mainly Hospitals.

On 23 September 2021, the Scheme completed the purchase of 151-153 Furlong Road, St Albans, VIC for a purchase price of \$6,000,000 excluding acquisition costs.

On 5 October 2021, the Scheme completed the purchase of 9 Westwood Avenue, Belmore, NSW for a purchase price of \$1,900,000 excluding acquisition costs.

On 22 October 2021, the Scheme exchanged unconditional contracts to purchase 74 University Drive, Varsity Lakes, QLD, 260 Old Cleveland Road East, Capalaba, QLD, and 15-29 Bonton Avenue Deception Bay, QLD for a combined purchase price of \$93,649,000 excluding acquisition costs. Settlement is expected to occur within 30 days from the contract date.

Other than the matters above, the directors of the Responsible Entity are not aware of any other matters or circumstances arising since 30 June 2021 that have 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.

## **25 External proposal to acquire all of the units in the Scheme and related matters**

In February 2021, a consortium comprising NorthWest Healthcare Properties Real Estate Investment Trust (NorthWest) and a Singaporean sovereign wealth fund GIC Private Limited (GIC) commenced a process to seek to acquire all the units in the Scheme, resulting in four unsolicited offers being made between February to June 2021 and ultimately, NorthWest convening a unitholder meeting to consider and vote on resolutions proposed by NorthWest which, if approved by the Scheme's unitholders, would have resulted in NorthWest's acquisition of 100% of the units on issue in the Scheme.

The Responsible Entity recommended that each offer be rejected on the basis they materially undervalued the Scheme. In mid-July 2021, following a hearing in the Supreme Court of New South Wales to determine certain matters arising out of the Responsible Entity's application to the Court seeking judicial advice, NorthWest formed the view there was insufficient unitholder support for the proposal to be successful and withdrew its proposal and cancelled the meeting of Scheme's unitholders'.

During this time, the Responsible Entity, along with Australian Unity Limited and other parties, was named as a defendant in a separate legal proceeding brought by NorthWest. The proceeding concerns NorthWest's claim that certain aspects of the equity raising activities undertaken by the Responsible Entity during the second half of the 2021 financial year and aspects of its response (in that capacity) to NorthWest's proposal to the Scheme's unitholders to acquire 100% of the units in the Scheme, were in breach of its duties or breached provisions of the *Corporations Act 2001*. NorthWest is seeking declarations by the Court to this effect, as well as court orders invalidating certain transactions entered into by the Responsible Entity and the other defendants as part of the 2021 equity raising activities.

This litigation is ongoing and remains before the New South Wales Supreme Court. The Responsible Entity is vigorously defending these claims. The Court's current timetable for the proceeding indicates that if the matter continues to a trial, it is likely to be heard during the second half of the 2022 financial year. Unitholders are encouraged to refer to the Scheme's website for any updates from the Responsible Entity on the progress and status of the proceeding.

## **26 Contingent assets and liabilities and commitments**

There have been legal claims for damages lodged against the Responsible Entity, as detailed at note 25, for which no provision has been raised, due to the belief that it is not probable that these claims will succeed and that it is not practicable to estimate the potential effect of these claims.

The Scheme had no other contingent assets, liabilities 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 \$128,108,000 (2020: \$95,527,000).

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The consolidated financial statements and notes set out on pages 9 to 52 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

28 October 2021



## *Independent auditor's report*

To the unitholders of Australian Unity Healthcare Property Trust

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### *Our opinion*

In our opinion:

The accompanying financial report of Australian Unity Healthcare Property Trust ("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 net assets attributable to unitholders – liability 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.

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### *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.

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### *Other information*

The directors of Australian Unity Funds Management 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.

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### *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.

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### *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](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). This description forms part of our auditor's report.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'George Sagonas'.

George Sagonas  
Partner

Melbourne  
28 October 2021