

## APPENDIX 4E

### Preliminary financial report for the financial year ended 30 June 2018

|                |                              |
|----------------|------------------------------|
| Name of entity | Aventus Retail Property Fund |
|                | ARSN 608 000 764             |

#### Explanation of reporting periods

The annual financial report of Aventus Retail Property Fund ("the Fund") is for the period 1 July 2017 to 30 June 2018. The previous corresponding period was 1 July 2016 to 30 June 2017.

#### Results for announcement to the market

|   |      | Change<br>% |    | 2018<br>\$m |
|---|------|-------------|----|-------------|
| Revenue from ordinary activities                            | Up   | 26.0%       | to | 164.6       |
| Profit from ordinary activities attributable to unitholders | Down | 14.7%       | to | 135.6       |
| Net profit for the year attributable to unitholders         | Down | 14.7%       | to | 135.6       |

The \$34.0 million increase in revenue from ordinary activities during the financial year was mainly attributable to the acquisition of the Castle Hill Super Centre and Marsden Park Home on 3 July 2017. These properties contributed additional revenues of \$30.2 million during the financial year ended 30 June 2018. These additional revenues were partially offset by the disposal of Shepparton Home on 21 December 2017 and Tweed Hub on 28 February 2018.

The \$23.3 million decrease in net profit compared to the prior financial year was mainly attributable to a \$24.8 million increase in portfolio transaction costs; a \$13.6 million increase in finance costs associated with the Group's expanded debt portfolio and a \$13.2 million decrease in net fair value gains on investment properties. These items were offset by a \$26.6 million increase in net property income.

## Distributions

|                | Distribution<br>per unit<br>(cents) | Total<br>distribution<br>\$m | Ex-<br>distribution<br>Date | Record<br>date | Payment<br>date |
|----------------|-------------------------------------|------------------------------|-----------------------------|----------------|-----------------|
| September 2017 | 4.05                                | 19.9                         | 28/09/2017                  | 29/09/2017     | 23/11/2017      |
| December 2017  | 4.07                                | 20.1                         | 28/12/2017                  | 29/12/2017     | 22/02/2018      |
| March 2018     | 4.07                                | 20.1                         | 28/03/2018                  | 29/03/2018     | 24/05/2018      |
| June 2018      | 4.07                                | 20.1                         | 28/06/2018                  | 29/06/2018     | 31/08/2018      |
| Total          | 16.26                               | 80.2                         |                             |                |                 |
| September 2016 | 3.88                                | 15.3                         | 29/09/2016                  | 30/09/2016     | 23/11/2016      |
| December 2016  | 3.96                                | 15.7                         | 29/12/2016                  | 30/12/2016     | 15/02/2017      |
| March 2017     | 4.02                                | 16.0                         | 30/03/2017                  | 31/03/2017     | 25/05/2017      |
| June 2017      | 4.02                                | 16.0                         | 29/06/2017                  | 30/06/2017     | 24/08/2017      |
| Total          | 15.88                               | 63.0                         |                             |                |                 |

During the financial year the Fund operated a distribution reinvestment plan ("DRP") under which unitholders may elect to reinvest all or part of their distribution in new units in the Fund rather than being paid in cash. The last date for the receipt of an election notice for participation in the DRP is the next business day after the record date for the respective quarterly distribution.

The DRP unit price is determined as an average of the daily volume weighted average price of the Fund's units sold on the Australian Securities Exchange during a 10 day trading period prior to the payment date for the distribution. The DRP unit price for the quarters ended 30 September 2017 and 31 December 2017 included a discount of 2%. There was no discount to the DRP unit price for remaining quarters during the financial year.

## Net tangible assets

|                                   | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|-----------------------------------|---------------------|---------------------|
| Net tangible assets               | 1,175.2             | 1,111.7             |
| Net tangible assets per unit (\$) | 2.38                | 2.27                |

## Entities over which control has been gained or lost during the period

Not applicable.

## Details of associates and joint venture entities

Not applicable.

## Accounting standards used by foreign entities

Not applicable.

## Audit

This report is based on the attached consolidated financial report which has been audited by Ernst & Young.

# AVENTUS RETAIL PROPERTY FUND

ARSN 608 000 764

Annual report  
for the financial year ended 30 June 2018



## CONTENTS

|  |    |
|--|----|
| Directors' report                              | 3  |
| Auditor's independence declaration             | 13 |
| Annual financial report                        |    |
| Consolidated statement of comprehensive income | 14 |
| Consolidated balance sheet                     | 15 |
| Consolidated statement of changes in equity    | 16 |
| Consolidated statement of cash flows           | 17 |
| Notes to the consolidated financial statements | 18 |
| Directors' declaration                         | 60 |
| Independent auditor's report                   | 61 |

## DIRECTORS' REPORT

The directors of Aventus Capital Limited ("the Responsible Entity"), the responsible entity of Aventus Retail Property Fund ("the Fund"), present their report together with the consolidated financial statements of the Fund and its consolidated entities ("the Group") for the financial year ended 30 June 2018.

### Directors and company secretaries

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:

- > Bruce Carter Independent Non-Executive Chairman
- > Darren Holland Executive Director
- > Kieran Pryke Independent Non-Executive Director
- > Robyn Stubbs Independent Non-Executive Director
- > Brett Blundy Non-Executive Director (resigned as alternate director to Nico van der Merwe and appointed as director on 11 August 2017)
- > Nico van der Merwe Alternate Director to Brett Blundy (resigned as director and appointed as alternate director to Brett Blundy on 11 August 2017)

The company secretaries of the Responsible Entity are Mary Weaver AGIA and Lawrence Wong.

### Principal activity

The principal activity of the Group during the financial year was investment in large format retail property assets. There was no significant change in the Group's principal activity during the financial year.

### Review of operations and results

#### Summary of financial performance

A summary of the Group's financial performance for the financial year is set out below.

|   | 2018<br>\$m | 2017<br>\$m |
|---|-------------|-------------|
| Net profit for the financial year           | 135.6       | 158.9       |
| Funds from operations ("FFO")               | 88.9        | 70.5        |
| FFO per unit (cents)                        | 18.1        | 17.7        |
| Basic and diluted earnings per unit (cents) | 27.5        | 39.2        |
| Distributions to unitholders                | 80.2        | 63.0        |
| Distributions to unitholders (cents)        | 16.3        | 15.9        |

The \$23.3 million decrease in net profit compared to the prior financial year was mainly attributable to a \$24.8 million increase in portfolio transaction costs; a \$13.6 million increase in finance costs associated with the Group's expanded debt portfolio and a \$13.2 million decrease in net fair value gains on investment properties. These items were offset by a \$26.6 million increase in net property income.

## DIRECTORS' REPORT

### Review of operations and results (continued)

#### Summary of financial performance (continued)

##### FFO

The table below provides a reconciliation between the statutory net profit for the financial year and FFO. FFO represents the net profit for the year adjusted for:

- > straight-lining of rental income;
- > amortisation of rental guarantees;
- > amortisation of debt establishment costs;
- > unrealised fair value gains or losses on investment properties;
- > unrealised fair value gains or losses on derivative financial instruments;
- > portfolio transaction costs;
- > performance fees; and
- > other non-cash or non-recurring amounts outside core operating activities.

|   | 2018<br>\$m | 2017<br>\$m |
|---|-------------|-------------|
| Statutory net profit  | 135.6       | 158.9       |
| Straight-lining of rental income  | (3.3)       | (4.5)       |
| Amortisation of rental guarantees   | 3.1         | 1.3         |
| Amortisation of debt establishment costs                                      | 1.3         | 0.8         |
| Net gain on movement in fair value of investment properties                   | (78.2)      | (91.4)      |
| Net (gain)/loss on movement in fair value of derivative financial instruments | 0.9         | (3.0)       |
| Portfolio transaction costs   | 26.9        | 2.1         |
| Performance fee   | 2.8         | 6.3         |
| Other - rounding  | (0.2)       | -           |
| FFO   | 88.9        | 70.5        |

FFO has been determined in accordance with best practice guidelines published by the Property Council of Australia. FFO is the basis upon which distributions are determined by the directors. The Fund's distribution policy is to distribute between 90 and 100% of FFO to unitholders.

##### Distributions

Distributions declared and/or paid to unitholders of the Fund during the financial year were as follows:

|                | Distribution<br>per unit<br>(cents) | Total<br>distribution<br>\$m | Ex-<br>distribution<br>Date | Record<br>date | Payment<br>date |
|----------------|-------------------------------------|------------------------------|-----------------------------|----------------|-----------------|
| September 2017 | 4.05                                | 19.9                         | 28/09/2017                  | 29/09/2017     | 23/11/2017      |
| December 2017  | 4.07                                | 20.1                         | 28/12/2017                  | 29/12/2017     | 22/02/2018      |
| March 2018     | 4.07                                | 20.1                         | 28/03/2018                  | 29/03/2018     | 24/05/2018      |
| June 2018      | 4.07                                | 20.1                         | 28/06/2018                  | 29/06/2018     | 31/08/2018      |
| Total          | 16.26                               | 80.2                         |                             |                |                 |
| September 2016 | 3.88                                | 15.3                         | 29/09/2016                  | 30/09/2016     | 23/11/2016      |
| December 2016  | 3.96                                | 15.7                         | 29/12/2016                  | 30/12/2016     | 15/02/2017      |
| March 2017     | 4.02                                | 16.0                         | 30/03/2017                  | 31/03/2017     | 25/05/2017      |
| June 2017      | 4.02                                | 16.0                         | 29/06/2017                  | 30/06/2017     | 24/08/2017      |
| Total          | 15.88                               | 63.0                         |                             |                |                 |

## DIRECTORS' REPORT

### Review of operations and results (continued)

#### Summary of financial position

A summary of the Group's financial position at 30 June 2018 is set out below.

|                                     | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|-------------------------------------|---------------------|---------------------|
| <b>Assets</b>                       |                     |                     |
| Investment property portfolio       | 1,886.9             | 1,392.4             |
| Total assets                        | 1,900.5             | 1,476.1             |
| Net tangible assets                 | 1,175.2             | 1,111.7             |
| Net tangible assets (\$ per unit)   | 2.38                | 2.27                |
| <b>Capital management</b>           |                     |                     |
| Drawn debt                          | 678.0               | 329.3               |
| Debt facility limit                 | 800.0               | 500.0               |
| Cash and undrawn debt               | 125.6               | 204.6               |
| Gearing ratio (%)                   | 35.6%               | 20.5%               |
| Interest rate hedging               | 420.0               | 240.0               |
| Hedged debt to drawn debt ratio (%) | 61.9%               | 72.9%               |

#### Investment property portfolio

- > At 30 June 2018 the Group owned 20 large format retail investment properties across Australia with a combined value of \$1.9 billion. The weighted average capitalisation rate of the portfolio was 6.69% (30 June 2017: 7.24%).
- > On 3 July 2017 the Group acquired Castle Hill Super Centre and Marsden Park Home for \$436.0 million. The acquisition was funded via a \$214.7 million accelerated non-renounceable entitlement offer and a \$300.0 million increase in the Group's syndicated bank debt facility. Additional details of the acquisitions are disclosed in note 22 to the financial statements.
- > On 21 December 2017 the Group sold Shepparton Home and also exchanged an unconditional contract for the sale of Tweed Hub. The sale of Tweed Hub settled on 28 February 2018. The combined sales price for Shepparton Home and Tweed Hub was \$60.1 million, reflecting a 6.5% premium to the carrying value at 30 June 2017 and a weighted yield of 7.42%. The sales were in line with the Group's strategy to divest smaller regional centres to maintain balance sheet strength and reduce gearing. Additional details of the sales are disclosed in note 12 to the financial statements.
- > In relation to development activities the Group completed the redevelopment of the former Bunnings tenancy at Sunshine Coast Home, the construction of the portfolio's first child care centre at Cranbourne Home and the development of level 1 at Tuggerah Super Centre also which added an additional 10,000 square metres of retail GLA to the centre.

#### Debt portfolio

- > The Group continued to comply with and maintain significant headroom for all key debt covenants during the financial year.
- > Drawn and undrawn debt at 30 June 2018 amounted to \$678.0 million and \$122.0 million respectively.
- > Gearing increased from 20.5% at 30 June 2017 to 35.6% at 30 June 2018. Gearing at 30 June 2017 was below the Group's targeted gearing range of 30% to 40% due to a \$160.0 million debt repayment in June 2017 following partial receipt of funds raised for the Castle Hill Super Centre and Marsden Park Home acquisitions.

## DIRECTORS' REPORT

### Review of operations and results (continued)

#### Summary of financial position (continued)

##### Debt portfolio (continued)

- > In July 2017 the Group finalised a \$300.0 million increase in its syndicated bank debt facility as part of the Castle Hill Super Centre and Marsden Park Home acquisitions. Key terms and conditions are disclosed in note 16 to the financial statements.
- > In December 2017 the Group's existing syndicated bank debt facility agreement was restructured to include a new common terms deed. There were no changes to debt covenants or individual tranche facility limits, maturity dates, repayment terms and interest rate margins.
- > In January 2018 the Group entered into a new \$110.0 million, 7-year, syndicated loan note facility agreement with bank and institutional lenders. The proceeds were used to repay a portion of tranche B under the syndicated bank debt facility. Key terms and conditions of the loan notes are disclosed in note 16 to the financial statements. In July 2018 the Group received unconditional commitments from lenders for a \$50.0 million extension of the loan note facility.
- > In July 2018 the Group entered into \$60.0 million of new 5 year bi-lateral debt facilities with bank lenders. The proceeds were used to repay a portion of tranche B debt under the syndicated bank debt facility.
- > In July 2018 the Group also extended the maturity dates of \$400.0 million of debt under its syndicated bank debt facility by an additional 12 months.

##### Hedging

- > The Group had \$420.0 million in interest rate swaps at 30 June 2018. An additional \$180 million in interest rate swaps were entered into during July 2017.
- > Hedging coverage as a percentage of drawn debt decreased from 72.9% at 30 June 2017 to 61.9% at 30 June 2018.

##### Significant changes in state of affairs

With the exception of property acquisitions, divestments, redevelopments and debt refinancing activities outlined in the "review of operations" section above there were no other significant changes in the state of affairs of the Group during the financial year.

##### Business strategies and prospects for future financial years

The Group will continue to engage in its principal activity in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's constitution.

The key business strategies of the Group include:

- > optimising the tenancy mix across the portfolio through proactive management and leasing leverage;
- > executing on future development projects;
- > participating in sector consolidation through acquisition of additional centres;
- > monitor potential regulatory changes in the LFR sector which could enable a broader range of tenants to occupy centres within the portfolio; and
- > focused capital management.

Refer to the "events occurring after the reporting period" section below for details on the proposed internalisation of management of the Fund during the year ending 30 June 2019.



## DIRECTORS' REPORT

### Information on directors

The following information is current as at the date of this report.

| <b>Bruce Carter</b>                               |  |
|---|--|
| <b>Independent non-executive chairman</b>         |  |
| Experience and expertise                          | <p>Bruce has spent over 30 years in corporate recovery and insolvency. Bruce is a consultant at Ferrier Hodgson in Adelaide where he was previously the managing partner for 19 years. He was formerly a partner at Ernst &amp; Young, Chair of the South Australian Economic Development Board and a member of the Executive Committee of Cabinet.</p> <p>Bruce is currently Chair of the Australian Submarine Corporation, Deputy Chair of SkyCity Entertainment Group Limited, a director of the Bank of Queensland Limited and a director of Genesee &amp; Wyoming Inc. He holds a Masters of Business Administration from Heriot-Watt University and a Bachelor of Economics from University of Adelaide. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.</p> |
| Other current listed and government directorships | <p>ASC Pty Limited<br/> SkyCity Entertainment Group Limited<br/> Bank of Queensland Limited<br/> Genesee &amp; Wyoming Inc</p>   |
| Special responsibilities                          | <p>Chairman<br/> Member of the Audit, Risk and Compliance Committee</p>  |
| Interest in units in the Fund                     | 1,189,312  |
| <b>Darren Holland</b>                             |  |
| <b>Executive director</b>                         |  |
| Experience and expertise                          | <p>Darren has more than 25 years experience in the retail property industry. He is experienced in leasing, development, asset management and acquisitions, and has grown assets under management from one centre in 2004 to 20 centres at the date of this report, valued at \$1.9 billion.</p> <p>Prior to co-founding the Aventus Property Group, Darren played a leading role in the development and management of the only pure-play listed Australian LFR owner and operator to date, Homemaker Retail Group (ASX: HRP). He holds a Bachelor of Business (Land Economics) from the University of Western Sydney and is a Licensed Real Estate Agent.</p>  |
| Other current listed directorships                | None   |
| Special responsibilities                          | None   |
| Interest in units in the Fund                     | 2,544,889  |

## DIRECTORS' REPORT

### Information on directors (continued)

| <b>Kieran Pryke</b>                                   |   |
|---|---|
| <b>Independent non-executive director</b>             |   |
| Experience and expertise                              | <p>Kieran has over 25 years experience in the property industry. He spent 9 years in various finance roles across the construction, development and investment management divisions within Lend Lease Corporation before becoming CFO of General Property Trust ("GPT") in 1996. He remained as CFO of GPT during and after the internalisation of management of GPT. Kieran was CFO of Australand Property Group between 2010 and 2014 and the CFO of Grocon between July 2016 and July 2018.</p> <p>Kieran holds a Bachelor of Commerce (Accounting) from the University of Wollongong and is a Fellow of CPA Australia.</p>  |
| Other current listed and not-for-profit directorships | Qzharvest Limited   |
| Special responsibilities                              | Chairman of the Audit, Risk and Compliance Committee  |
| Interest in units in the Fund                         | 70,873  |
| <b>Robyn Stubbs</b>                                   |   |
| <b>Independent non-executive director</b>             |   |
| Experience and expertise                              | <p>Robyn is a board director and executive coach working across the commercial, government and not-for-profit sectors. Drawing on a successful 25+ year career as a senior executive in large, complex organisations, Robyn sits on the Board of ASX-listed Invocare Limited as well as Lifeline Northern Beaches. She provides executive coaching services to a diverse range of corporate clients via ECI Partners.</p> <p>Prior to joining the Aventus Board in 2015, Robyn spent 8 years with Stockland as a General Manager, her last role heading up Retail Leasing across a portfolio of 40 shopping centres nationally.</p> <p>Robyn is a graduate of the Australian Institute of Company Directors, she holds a Master of Science degree in Coaching Psychology from The University of Sydney and was awarded a University Medal with her business degree from the University of Technology, Sydney.</p> |
| Other current listed and not-for-profit directorships | Lifeline Northern Beaches<br>Invocare Limited   |
| Special responsibilities                              | Member of the Audit, Risk and Compliance Committee  |
| Interest in units in the Fund                         | 41,364  |

## DIRECTORS' REPORT

### Information on directors (continued)

| Brett Blundy  | Non-executive director   |
|---|--|
| Experience and expertise                              | <p>Brett is a substantial unitholder in the Fund and is also the majority shareholder of the Aventus Property Group which provides funds and property management services to the Group.</p> <p>Brett is also Chairman and Founder of BB Retail Capital (BBRC). BBRC is a pre-eminent private investment group with diverse interests across three key portfolios including global retail brands, retail properties and the beef industry.</p> <p>Brett also sits on the Board of Directors of Human Longevity Inc.</p> |
| Other current listed and not-for-profit directorships | Human Longevity Inc  |
| Special responsibilities                              | None   |
| Interest in units in the Fund                         | 142,643,925  |
| Nico van der Merwe                                    | Alternate director   |
| Experience and expertise                              | <p>Nico joined BBRC in 1997. He has held a number of senior finance roles across BBRC and is currently the Group Chief Financial Officer.</p> <p>Nico has over 30 years experience in commercial roles across the retail, real estate and cattle industry sectors. He holds Bachelor of Accounting Science (Hons) and Bachelor of Commerce degrees and is a member of the Institute of Chartered Accountants in Australia.</p>   |
| Other current listed directorships                    | None   |
| Special responsibilities                              | None   |
| Interest in units in the Fund                         | -  |

### Remuneration report

The directors of the Responsible Entity are remunerated by the Aventus Property Group. Director fees of independent non-executive directors of the Responsible Entity are reimbursed by the Fund. Details of these fees are outlined in note 23(c) to the financial statements.

## DIRECTORS' REPORT

### Responsible Entity's interests in the Fund

The Responsible Entity did not hold any units in the Fund at balance date.

### Fees paid to the Responsible Entity and associates

Fees paid to the Responsible Entity and associates during the financial year are disclosed in note 23 to the financial statements.

### Interests in the Fund

The number of units in the Fund issued during the financial year and the total number of units on issue at 30 June 2018 are disclosed in note 18 to the financial statements.

### Units under option

No options over unissued units were granted during the financial year. There were no units under option at 30 June 2018 or at the date of this report.

### Environmental regulations

The Group's development activities are subject to development approvals and environmental regulations under Commonwealth, state and local government legislation. To the best of the directors' knowledge, development activities during the financial year have been undertaken in compliance with development approvals and applicable environmental regulations.

### Events occurring after the reporting period

#### Proposed internalisation

On 10 August 2018 the Responsible Entity announced it had entered into an implementation deed with the shareholders of Aventus Property Group Pty Ltd ("APG") to internalise the management of the Fund.

The internalisation proposal is binding subject to certain conditions including approval of the proposal by the Fund's unitholders at a meeting to be held on 25 September 2018.

The proposed internalisation involves:

1. the Fund forming a new 100% owned subsidiary – Aventus Holdings Limited ("AHL");
2. the Fund distributing one fully paid ordinary share in AHL to unitholders for each existing unit they hold in the Fund;
3. stapling each share in AHL to each existing unit in the Fund to form a new stapled security. Stapled securities would commence trading on the ASX under the existing code AVN, initially on a deferred settlement basis, with full trading expected to commence on or about 2 October 2018; and
4. AHL acquiring APG and its subsidiaries (comprising the Fund's responsible entity, funds manager, property manager and services company) for a total purchase consideration of \$143 million plus APG's net tangible assets to be fixed at \$5 million. The \$143 million will be funded via \$85 million in stapled securities and \$58 million in cash. The \$5 million net tangible assets amount will be funded in cash.

APG is owned by entities associated with Brett Blundy and Darren Holland.

## DIRECTORS' REPORT

### Events occurring after the reporting period (continued)

#### Proposed internalisation (continued)

If the proposed internalisation is approved all fees currently charged to AVN by APG (including performance fees) would be eliminated on consolidation in future financial periods. The proposal would also include the Group assuming the management of the Kotara North property which is owned by an entity associated with Brett Blundy.

#### Debt refinancing

Debt refinancing activities undertaken subsequent to the end of the financial year are outlined in the 'Debt portfolio' section above.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

#### Insurance of officers and indemnities

No insurance premiums are paid for out of the assets of the Group in regards to insurance cover provided to either the officers of the Responsible Entity or the auditors of the Fund.

So long as the officers of the Responsible Entity act in accordance with the Fund's constitution and the law, the officers remain indemnified out of the assets of the Group against losses incurred while acting on behalf of the Group.

To the extent permitted by law, the Responsible Entity has agreed to indemnify the auditors of the Fund, Ernst & Young, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit except for any loss in respect of any matters which are finally determined to have resulted from Ernst & Young's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the financial year.

#### Audit and non-audit services

Details of amounts paid or payable to the Fund's auditors for audit and non-audit services during the financial year are disclosed in note 30 to the financial statements.

The Responsible Entity is satisfied that the provision of non-audit services did not compromise the auditor's independence requirements under the Corporations Act 2001 as:

- > all non-audit services have been reviewed by the audit, risk and compliance committee to ensure they do not impact on the impartiality and objectivity of the auditor; and
- > none of the services undermine the general principles relating to auditor independence as set out in Accounting Professional and Ethical Standards Board APES 110 Code of Ethics for Professional Accountants.

## DIRECTORS' REPORT

### 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 13.

### Rounding of amounts

The Fund is a registered scheme of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report and the financial report. In accordance with that Legislation Instrument amounts in the directors' report and the financial report have been rounded off to the nearest hundred thousand dollars, or in certain cases, to the nearest thousand dollars.

This report is made in accordance with a resolution of the directors of the Responsible Entity made pursuant to s298(2) of the Corporations Act 2001.



Darren Holland  
Executive Director

Sydney  
10 August 2018



Bruce Carter  
Chairman

Sydney  
10 August 2018

## **Auditor's independence declaration to the Directors of Aventus Capital Limited as the Responsible Entity of Aventus Retail Property Fund**

As lead auditor for the audit of Aventus Retail Property Fund for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Aventus Retail Property Fund and the entities it controlled during the financial year.



Ernst & Young



Mark Conroy  
Partner  
10 August 2018

# **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

|   | Notes | 2018<br>\$m  | 2017<br>\$m  |
|---|-------|--------------|--------------|
| <b>Revenue</b>  |       |              |              |
| Rental and other property revenue                           |       | 163.4        | 129.6        |
| Other revenue   |       | 1.2          | 1.0          |
|   |       | 164.6        | 130.6        |
| <b>Other income</b>   |       |              |              |
| Net gain on movement in fair value of investment properties |       | 78.2         | 91.4         |
|   |       |              |              |
| Total revenue and other income                              |       | 242.8        | 222.0        |
|   |       |              |              |
| <b>Expenses</b>   |       |              |              |
| Property expenses   |       | (40.8)       | (33.6)       |
| Finance costs   | 5     | (25.3)       | (11.7)       |
| Management fees   | 23(g) | (9.9)        | (7.9)        |
| Performance fees  | 23(g) | (2.8)        | (6.3)        |
| Portfolio transaction costs                                 | 6     | (26.9)       | (2.1)        |
| Other expenses  |       | (1.5)        | (1.5)        |
|   |       |              |              |
| Total expenses  |       | (107.2)      | (63.1)       |
|   |       |              |              |
| <b>Profit for the year</b>                                  |       | <b>135.6</b> | <b>158.9</b> |
|   |       |              |              |
| <b>Other comprehensive income</b>                           |       | -            | -            |
|   |       |              |              |
| <b>Total comprehensive income for the year</b>              |       | <b>135.6</b> | <b>158.9</b> |
|   |       |              |              |
| <b>Earnings per unit</b>                                    |       |              |              |
| Basic (cents per unit)                                      | 7     | 27.5         | 39.2         |
| Diluted (cents per unit)                                    | 7     | 27.5         | 39.2         |

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



# **CONSOLIDATED BALANCE SHEET** **AS AT 30 JUNE 2018**

|                                      | Notes | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|--------------------------------------|-------|---------------------|---------------------|
| <b>Assets</b>                        |       |                     |                     |
| <b>Current assets</b>                |       |                     |                     |
| Cash and cash equivalents            | 8     | 3.6                 | 33.9                |
| Receivables                          | 9     | 2.1                 | 21.0                |
| Rental guarantees                    | 10    | 3.3                 | 2.2                 |
| Other assets                         | 11    | 2.1                 | 25.4                |
| <b>Total current assets</b>          |       | <b>11.1</b>         | <b>82.5</b>         |
| <b>Non-current assets</b>            |       |                     |                     |
| Derivative financial instruments     | 17    | 0.4                 | 0.7                 |
| Rental guarantees                    | 10    | 2.1                 | 0.5                 |
| Investment properties                | 12    | 1,886.9             | 1,392.4             |
| <b>Total non-current assets</b>      |       | <b>1,889.4</b>      | <b>1,393.6</b>      |
| <b>Total assets</b>                  |       | <b>1,900.5</b>      | <b>1,476.1</b>      |
| <b>Liabilities</b>                   |       |                     |                     |
| <b>Current liabilities</b>           |       |                     |                     |
| Payables                             | 13    | (15.9)              | (10.8)              |
| Borrowings                           | 16    | (89.9)              | -                   |
| Derivative financial instruments     | 17    | (0.1)               | -                   |
| Distributions payable                | 14    | (20.1)              | (16.0)              |
| Provision for performance fees       | 23(g) | (9.1)               | -                   |
| Deferred revenue                     | 15    | (4.0)               | (3.1)               |
| <b>Total current liabilities</b>     |       | <b>(139.1)</b>      | <b>(29.9)</b>       |
| <b>Non-current liabilities</b>       |       |                     |                     |
| Borrowings                           | 16    | (584.5)             | (327.0)             |
| Derivative financial instruments     | 17    | (1.7)               | (1.2)               |
| Provision for performance fees       | 23(g) | -                   | (6.3)               |
| <b>Total non-current liabilities</b> |       | <b>(586.2)</b>      | <b>(334.5)</b>      |
| <b>Total liabilities</b>             |       | <b>(725.3)</b>      | <b>(364.4)</b>      |
| <b>Net assets</b>                    |       | <b>1,175.2</b>      | <b>1,111.7</b>      |
| <b>Equity</b>                        |       |                     |                     |
| Issued units                         | 18    | 975.1               | 967.0               |
| Retained earnings                    | 19    | 200.1               | 144.7               |
| <b>Total equity</b>                  |       | <b>1,175.2</b>      | <b>1,111.7</b>      |

The consolidated balance sheet should be read in conjunction with the accompanying notes.

# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

|  | Notes | Issued<br>units<br>\$m | Retained<br>earnings<br>\$m | Total<br>equity<br>\$m |
|--|-------|------------------------|-----------------------------|------------------------|
| <b>Balance at 1 July 2016</b>                  |       | 747.6                  | 48.8                        | 796.4                  |
| Profit for the year                            |       | -                      | 158.9                       | 158.9                  |
| Other comprehensive income                     |       | -                      | -                           | -                      |
| <b>Total comprehensive income for the year</b> |       | -                      | 158.9                       | 158.9                  |
| Issue of units net of transaction costs        |       | 219.4                  | -                           | 219.4                  |
| Distributions paid or provided for             | 20    | -                      | (63.0)                      | (63.0)                 |
| <b>Balance at 30 June 2017</b>                 |       | <b>967.0</b>           | <b>144.7</b>                | <b>1,111.7</b>         |
| <b>Balance at 1 July 2017</b>                  |       | <b>967.0</b>           | <b>144.7</b>                | <b>1,111.7</b>         |
| Profit for the year                            |       | -                      | 135.6                       | 135.6                  |
| Other comprehensive income                     |       | -                      | -                           | -                      |
| <b>Total comprehensive income for the year</b> |       | -                      | 135.6                       | 135.6                  |
| Issue of units net of transaction costs        |       | 8.1                    | -                           | 8.1                    |
| Distributions paid or provided for             | 20    | -                      | (80.2)                      | (80.2)                 |
| <b>Balance at 30 June 2018</b>                 |       | <b>975.1</b>           | <b>200.1</b>                | <b>1,175.2</b>         |

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

# **CONSOLIDATED STATEMENT OF CASH FLOWS** **FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

|   | Notes | 2018<br>\$m    | 2017<br>\$m   |
|---|-------|----------------|---------------|
| <b>Cash flows from operating activities</b>                 |       |                |               |
| Rental and other property revenue received                  |       | 177.1          | 141.3         |
| Other revenue received                                      |       | 3.0            | 2.3           |
| Payments to suppliers                                       |       | (67.5)         | (56.6)        |
| Finance costs paid  |       | (22.0)         | (14.4)        |
| Payment of portfolio transaction costs                      |       | (2.3)          | (26.2)        |
| <b>Net cash inflows from operating activities</b>           | 21(a) | <b>88.3</b>    | <b>46.4</b>   |
| <b>Cash flows from investing activities</b>                 |       |                |               |
| Payments for capital expenditure                            |       | (40.4)         | (21.8)        |
| Proceeds on sale of investment properties                   |       | 59.9           | -             |
| Payments for businesses net of cash acquired                |       | (416.0)        | (20.0)        |
| <b>Net cash outflows from investing activities</b>          |       | <b>(396.5)</b> | <b>(41.8)</b> |
| <b>Cash flows from financing activities</b>                 |       |                |               |
| Proceeds from issue of units                                |       | -              | 214.7         |
| Unit issue transaction costs                                |       | (0.3)          | (2.6)         |
| Proceeds from borrowings                                    |       | 580.9          | 54.0          |
| Repayment of borrowings                                     |       | (232.2)        | (186.7)       |
| Payment of debt establishment costs                         |       | (2.7)          | -             |
| Distributions paid  |       | (67.8)         | (54.4)        |
| <b>Net cash inflows from financing activities</b>           |       | <b>277.9</b>   | <b>25.0</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |       | <b>(30.3)</b>  | <b>29.6</b>   |
| <b>Cash at the beginning of the financial year</b>          |       | <b>33.9</b>    | <b>4.3</b>    |
| <b>Cash at the end of the financial year</b>                | 8     | <b>3.6</b>     | <b>33.9</b>   |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of preparation

### a) Statement of compliance

The Aventus Retail Property Fund ("Fund") is a listed managed investment scheme incorporated and domiciled in Australia. The financial statements comprise the consolidated financial statement of the Fund and its subsidiaries ("the Group").

These general purpose financial statements have been prepared in accordance with the Fund's constitution, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The consolidated financial statements of the Group also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorised for issue by the directors on 10 August 2018.

### b) Excess of current liabilities over current assets

The Group's current liabilities exceeded its current assets by \$128.0 million at 30 June 2018. The deficiency is attributable to \$90.0 million in tranche B bank debt, which matures in October 2018, plus \$20.1 million in distributions and \$9.1 million in performance fees payable which are classified as current liabilities at balance date.

The Group's cash and undrawn debt at 30 June 2018 amounted to \$125.6 million. As disclosed in note 16 to the financial statements an additional \$110 million of debt was raised in July 2018. Current liabilities will be settled in the normal course of business from undrawn debt commitments plus cash flows from operations.

### c) Comparative information

Where necessary, comparative information has been adjusted to conform with changes in presentation in the current year.

### d) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- financial assets and derivative financial instruments measured at fair value; and
- investment properties measured at fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation (continued)

#### e) Rounding of amounts

The Fund is a registered scheme of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report and the financial report. In accordance with that Legislation Instrument amounts in the directors' report and the financial report have been rounded off to the nearest hundred thousand dollars, or in certain cases, to the nearest thousand dollars.

#### f) Functional and presentation currency

All amounts presented in the consolidated financial statements are expressed in Australian dollars which is the functional and presentation currency of the Group.

#### g) New and amended accounting standards and interpretations adopted by the Group

The Group has adopted all of the new and revised accounting standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operation and effective for the financial reporting period beginning 1 July 2017.

The adoption of these new or revised standards and interpretations did not have a significant impact on the current or prior financial years and is not likely to affect future financial periods.

#### h) New and amended accounting standards and interpretations issued but not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2018 and have not been early adopted by the Group. The directors' assessment of the impact of these new standards and interpretations is set out below.

| Title                        | Key requirements and impacts   | Effective date |
|------------------------------|--|----------------|
| AASB 9 Financial Instruments | <p>AASB 9 "Financial Instruments" addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It has also introduced new rules for hedge accounting and impairment of financial assets.</p> <p>The directors do not expect the new standard to have a significant impact on the recognition or measurement of the Group's financial instruments.</p> <p>The standard will be effective for annual reporting periods commencing on or after 1 January 2018 but is available for early adoption. At the date of this report the directors have not early adopted AASB 9.</p> | 1 January 2018 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of preparation (continued)

### h) New and amended accounting standards and interpretations issued but not yet adopted by the Group (continued)

| Title  | Key requirements and impacts  | Effective date |
|--|---|----------------|
| AASB 15 <i>Revenue from Contracts with Customers</i> | <p>The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 "Revenue" which covers contracts for goods and services and AASB 111 "Construction Contracts" which covers construction contracts.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.</p> <p>The scope of AASB 15 excludes income derived from leases which is accounted for under AASB 117 "Leases".</p> <p>As the Group's main source of revenue is rental income derived from tenants in accordance with operating leases, and non-rental income is immaterial, the adoption of the new revenue recognition rules will not have a significant impact on the Group's accounting policies or the amounts recognised in the financial statements.</p> <p>The standard will be effective for annual reporting periods commencing on or after 1 January 2018 but is available for early adoption. At the date of this report the directors have not early adopted AASB 15.</p> | 1 January 2018 |
| AASB 16 <i>Leases</i>                                | <p>AASB 16 supersedes AASB 117 "Leases" and associated interpretations. Key features of AASB 16 from a lessor perspective include:</p> <ul style="list-style-type: none"> <li>AASB 16 substantially carries forward the lessor accounting requirements from AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases.</li> <li>AASB 16 also requires enhanced disclosure to be provided by lessors that will improve information disclosed about a lessor's risk exposure.</li> </ul> <p>As AASB 16 retains the distinction between operating leases and finance leases for lessors there is no fundamental change in accounting for leases between the Group and its tenants. The new standard will result in increased disclosure in the financial report.</p> <p>The new standard will be effective for annual reporting periods commencing on or after 1 January 2019 but is available for early adoption.</p> <p>At the date of this report the directors have not early adopted AASB 16.</p>  | 1 January 2019 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all years presented unless otherwise stated.

The consolidated financial statements are for the Group consisting of the Fund and its subsidiaries.

#### a) Principles of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Inter-entity transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to consolidate for an investment because of a loss of control any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### b) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### b) Business combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

#### c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Darren Holland, in his capacity as chief executive officer and executive director of Aventus Capital Limited.

#### d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of allowances, rebates and amounts collected on behalf of third parties. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Revenue for the Group's business activities is recognised on the following basis:

#### **Rental and other property income**

Rental and other property income derived from investment properties (inclusive of outgoings recovered from tenants) is recognised on a straight-line basis over the term of the lease.

The portion of rental income relating to fixed increases in rent in future years is recognised as a separate component of investment properties and amortised on a straight-line basis over the term of the lease.

#### **Interest income**

Interest income is recognised on an accruals basis using the effective interest method. Interest income is disclosed as 'other income' in the statement of comprehensive income.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### e) Expenses

##### **Property expenses**

Property expenses include rates, taxes and other property outgoings incurred in relation to investment properties. Property expenses are recorded on an accruals basis.

##### **Finance costs**

Finance costs include interest, fair value movements in derivative financial instruments, payments in respect of derivative financial instruments and the amortisation of other costs incurred in respect of obtaining finance.

Finance costs associated with the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset during the period that is required to complete and prepare the asset for its intended use.

Borrowing costs not associated with qualifying assets are recognised as an expense when incurred.

Other costs incurred in respect of obtaining finance, including loan establishment fees, are deferred and expensed over the term of the respective loan facility.

##### **Management fees**

Management fees are recognised on an accruals basis. Refer to note 23(g) for further information on management fees.

##### **Other expenses**

All other expenses are recognised on an accruals basis.

#### f) Income tax

Under current income tax legislation, the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the unitholders are not presently entitled.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are generally not recognised in the financial statements, on the basis that the Fund is a flow through trust for Australian tax purposes. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Fund constitution.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### g) Goods and service tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included within receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

#### h) Cash and cash equivalents

For the purpose of presentation in the 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.

#### i) Receivables

Receivables are initially recognised at the amounts due to the Group less any provision for doubtful debts. Rent and outgoings receivable are usually settled within 30 days of recognition. Receivables are presented as current assets unless collection is not expected for greater than 12 months after reporting date.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the year in which they are identified. A provision for doubtful debts is raised where there is objective evidence that the Group will not collect all amounts due. The amount of the provision is the difference between the carrying amount and estimated future cash flows. Cash flows relating to current receivables are not discounted.

#### j) Rental guarantees

Rental guarantees are measured as the expected future cash flows to be received under the guarantee arrangements and are disclosed as a separate asset in the balance sheet. Guarantees are recognised in the statement of comprehensive income on an amortised cost basis over the period of the guarantee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### k) Investment properties

Investment properties comprise large format retail centres which are held for long-term rental yields and/or capital appreciation and are not occupied by the Group.

With the exception of investment properties acquired as part of a business combination (refer to note 2b), investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value.

Fair value is the amount at which the investment property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A willing seller is neither a forced seller nor one prepared to sell at a price not considered reasonable in the market.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences;
- discounted cash flow projections based on reliable estimates of future cash flows;
- capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

Gains and losses arising from changes in fair value of investment properties are recognised in profit or loss in the period in which they arise.

The Group obtains independent valuations for its investment properties at least every two years.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates. Fair value is determined using a long term investment period. Specific circumstances of the owner are not taken into account.

The carrying amount of investment properties recorded in the balance sheet may include the cost of acquisition, additions, refurbishments, improvements, lease incentives, leasing costs and assets relating to fixed increases in operating lease rentals in future years.

Existing investment properties being developed for continued future use are also carried at fair value.

Where the Group disposes of an investment property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, with a corresponding adjustment recorded in profit or loss.

#### l) Lease incentives and leasing fees

Prospective lessees may be offered incentives as an inducement to enter into non-cancellable operating leases. These incentives may take various forms including rent-free periods, upfront cash payments, or a contribution to certain lessee costs such as a fitout contribution. Leasing fees may also be incurred for the negotiation of leases. Incentives and leasing fees are capitalised in the consolidated balance sheet as a component of investment properties and amortised on a straight-line basis over the term of the lease as an adjustment to rental income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### m) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### n) Payables

Payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

#### o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### p) Derivative financial instruments

The Group has entered into derivative financial instruments, in the form of interest rate swap agreements, to partially hedging against interest rate fluctuations on its debt facilities.

The Group has not adopted hedge accounting. Derivative financial instruments are classified as financial instruments at fair value through profit or loss. Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Subsequent changes in fair value are recognised in profit or loss.

Fair value is determined using valuation techniques with reference to observable market inputs for similar instruments. The fair value of all derivative contracts has been confirmed with the counter party.

Derivative financial instruments are presented as current assets or liabilities as appropriate if they are expected to be settled within 12 months, or presented as non-current assets or liabilities if they are expected to be settled more than 12 months after the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### q) Distributions payable

A payable is recognised for the amount of any distribution declared and appropriately authorised on or before the end of the reporting period but not distributed at the end of the reporting period.

#### r) Issued units

Issued units are classified as equity and recognised at the fair value of the consideration received by the Fund. Transaction costs directly attributable to the issue of new ordinary units are recognised directly in equity as a deduction from the proceeds received.

#### s) Earnings per unit

##### **Basic earnings per unit**

Basic earnings per unit is calculated by dividing the profit or loss attributable to unitholders by the weighted average number of ordinary units outstanding during the financial period, adjusted for bonus elements in ordinary units issued during the period.

##### **Diluted earnings per unit**

Diluted earnings per unit is calculated by dividing the profit or loss attributable to unitholders, adjusted for the after income tax effect of interest and other financing costs associated with dilutive potential ordinary units, by the weighted average number of ordinary units and dilutive potential ordinary units outstanding during the financial period.

The weighted average number of units used in calculating basic and diluted earnings per unit is retrospectively adjusted for bonus elements in ordinary units issued during the financial year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements, are disclosed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events, that may have a financial impact on the Group and are believed to be reasonable under the circumstances.

#### a) Critical accounting estimates and assumptions

The Group is required in certain circumstances to make estimates and assumptions concerning the future. The resulting accounting estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

##### ***Estimated fair value of investment properties***

Critical assumptions underlying the estimated fair value of investment properties are those relating to passing and market rents, capitalisation rates, terminal yields and discount rates.

If there is any change in these assumptions or economic conditions the fair value of the investment properties may differ. Refer to note 24 for further information on the assumptions used in assessing the fair value of investment properties.

##### ***Estimated fair value of derivative financial instruments***

The fair value of derivative assets and liabilities are based on assumptions of future events and involve significant estimates. The fair value of the derivatives reported at the reporting date may differ if there is volatility in market rates. Refer to note 24 for further information on the assumptions used in assessing the fair value of derivative financial instruments.

##### ***Provision for performance fee***

Aventus Funds Management Pty Limited is entitled to a performance fee calculated in accordance with the terms and conditions of the Management Services Agreement disclosed in note 23(g).

At 30 June 2018 the Group had recognised a \$9.1 million provision for performance fees for the inaugural performance period which ended on 30 June 2018. No provision has been recognised at 30 June 2018 in relation to the second performance fee period ending 30 June 2019 as it is not probable a performance fee will be ultimately payable at 30 June 2019.

#### b) Critical judgements in applying the group's accounting policies

There were no significant judgements, apart from those involving estimations, in the process of applying the Group's accounting policies that had a significant effect on the amounts recognised in the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. Segment information

The Group has only one reportable segment being investment in Australian large format retail assets.

The Group has determined it has one operating segment based on the internal information that is provided to the chief operating decision maker and which is used in making strategic decisions. Darren Holland has been identified as the chief operating decision maker in his capacity as chief executive officer and executive director of the Responsible Entity.

### 5. Finance costs

|  | 2018<br>\$m | 2017<br>\$m |
|--|-------------|-------------|
| Interest and finance costs   | 24.7        | 14.9        |
| Less: amounts capitalised relating to redevelopment of investment properties | (0.3)       | (0.2)       |
|  | 24.4        | 14.7        |
| Fair value (gains)/losses on interest rate swaps                             | 0.9         | (3.0)       |
| Finance costs expensed   | 25.3        | 11.7        |

The capitalisation rate used to determine the amount of borrowing costs capitalised during the financial year was the weighted average interest rate applicable to the Group's general borrowings.

### 6. Portfolio transaction costs

|                  | 2018<br>\$m | 2017<br>\$m |
|------------------|-------------|-------------|
| Stamp duty costs | 24.0        | -           |
| Advisory fees    | 2.7         | 1.9         |
| Other            | 0.2         | 0.2         |
| Total            | 26.9        | 2.1         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. Earnings per unit

|  | 2018  | 2017  |
|--|-------|-------|
| Net profit for the year (\$m)  | 135.6 | 158.9 |
| Weighted average number of units used in calculating basic and diluted earnings per unit | 492.4 | 405.0 |
| Basic and diluted earnings per unit (cents)  | 27.5  | 39.2  |

The weighted average number of units used in calculating basic and diluted earnings per unit has been retrospectively adjusted for bonus elements in ordinary units issued during the financial year.

### 8. Cash and cash equivalents

|                          | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|--------------------------|---------------------|---------------------|
| Cash at bank and in hand | 3.6                 | 33.9                |

### 9. Receivables

|                          | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|--------------------------|---------------------|---------------------|
| <b>Current</b>           |                     |                     |
| Trade receivables        | 0.9                 | 0.6                 |
| Provision for impairment | (0.4)               | (0.2)               |
|                          | 0.5                 | 0.4                 |
| Deposits paid            | -                   | 20.0                |
| Other receivables        | 1.6                 | 0.6                 |
| <b>Total</b>             | <b>2.1</b>          | <b>21.0</b>         |

Trade receivables represent outstanding rental income and outgoings due from tenants.

Information about the impairment and ageing of receivables and the Group's exposure to credit risk is disclosed in note 26(c).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. Rental guarantees

|                    | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|--------------------|---------------------|---------------------|
| <b>Current</b>     |                     |                     |
| Rental guarantees  | 3.3                 | 2.2                 |
| <b>Non-current</b> |                     |                     |
| Rental guarantees  | 2.1                 | 0.5                 |

Rental guarantees relate to six of the Group's investment properties with expiry dates ranging from May 2021 to July 2022.

### 11. Other assets

|  | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|--|---------------------|---------------------|
| <b>Current</b>                           |                     |                     |
| Stamp duty paid in advance of settlement | -                   | 24.0                |
| Prepayments                              | 2.1                 | 1.4                 |
| <b>Total</b>                             | 2.1                 | 25.4                |

The \$24.0 million in stamp duty paid in advance of settlement at 30 June 2017 relates to the acquisition of the Castle Hill Super Centre and Marsden Park Home. Details of the acquisitions are disclosed in note 22.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. Investment properties

| Property                                     | Last independent valuation date | Independent valuation \$m | Carrying value 30 June 2018 \$m | Carrying value 30 June 2017 \$m |
|--|---------------------------------|---------------------------|---------------------------------|---------------------------------|
| Ballarat Home                                | 31 December 2017                | 40.5                      | 40.6                            | 38.6                            |
| Bankstown Home                               | 30 June 2018                    | 60.9                      | 60.9                            | 56.5                            |
| Belrose Super Centre <sup>1</sup>            | 31 December 2017                | 173.0                     | 176.5                           | 158.7                           |
| Caringbah Home                               | 31 December 2017                | 92.3                      | 92.3                            | 91.4                            |
| Castle Hill Super Centre                     | 30 June 2018                    | 347.0                     | 347.0                           | -                               |
| Cranbourne Home                              | 31 December 2017                | 133.0                     | 133.9                           | 129.2                           |
| Epping Hub                                   | 31 December 2017                | 43.0                      | 43.4                            | 40.8                            |
| Highlands Hub                                | 31 December 2017                | 33.0                      | 33.3                            | 31.8                            |
| Jindalee Home                                | 31 December 2017                | 123.4                     | 124.7                           | 110.2                           |
| Kotara Home (South)                          | 31 December 2017                | 120.0                     | 121.0                           | 112.5                           |
| Logan Super Centre                           | 30 June 2018                    | 91.2                      | 91.2                            | 88.5                            |
| MacGregor Home                               | 31 December 2017                | 24.0                      | 24.0                            | 23.9                            |
| Marsden Park Home                            | 30 June 2018                    | 101.0                     | 101.0                           | -                               |
| McGraths Hill Home                           | 30 June 2018                    | 40.5                      | 40.5                            | 39.4                            |
| Midland Home                                 | 31 December 2017                | 62.0                      | 62.8                            | 58.5                            |
| Mile End Home                                | 31 December 2017                | 97.0                      | 97.7                            | 92.1                            |
| Peninsula Home                               | 31 December 2017                | 83.5                      | 83.7                            | 79.8                            |
| Shepparton Home <sup>2</sup>                 | 2 April 2016                    | 21.6                      | -                               | 21.7                            |
| Sunshine Coast Home                          | 30 June 2018                    | 95.8                      | 95.8                            | 85.0                            |
| Tuggerah Super Centre                        | 30 June 2018                    | 85.0                      | 85.0                            | 65.5                            |
| Tweed Hub <sup>3</sup>                       | 31 December 2016                | 34.3                      | -                               | 34.7                            |
| Warners Bay Home                             | 31 December 2017                | 37.0                      | 37.0                            | 36.3                            |
|  |                                 |                           | 1,892.3                         | 1,395.1                         |
| Less amounts classified as rental guarantees |                                 |                           | (5.4)                           | (2.7)                           |
| Total  |                                 |                           | 1,886.9                         | 1,392.4                         |

1. Includes Belrose Gateway Centre which was acquired in December 2015.
2. Shepparton Home was sold on 21 December 2017 for \$20.0 million.
3. Tweed Hub was sold on 28 February 2018 for \$40.1 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. Investment properties (continued)

A reconciliation of the movement in the carrying value of investment properties during the financial year is outlined below:

|   | 2018<br>\$m | 2017<br>\$m |
|---|-------------|-------------|
| Balance at the beginning of the financial year                    | 1,392.4     | 1,268.9     |
| Additions via business combinations (excluding rental guarantees) | 431.0       | -           |
| Additions   | -           | 4.0         |
| Disposals   | (60.1)      | -           |
| Capitalised expenditure   | 41.9        | 23.2        |
| Straight-lining of rental income                                  | 3.3         | 4.5         |
| Net gain on movement in fair value of investment properties       | 78.2        | 91.4        |
| Amounts reclassified from rental guarantees                       | 0.2         | 0.4         |
| Balance at the end of the financial year                          | 1,886.9     | 1,392.4     |

Refer to note 24 for information on how the Group determines fair value of investment properties.

#### a) Acquisitions and disposals during the financial year

##### Castle Hill Super Centre and Marsden Park Home

On 3 July 2017 the Group acquired Castle Hill Super Centre and Marsden Park Home for a combined purchase price of \$436.0 million. The acquisitions have been accounted for as a business combination. Refer to note 22 to the financial statements for further details.

##### Shepparton Home and Tweed Hub

On 21 December 2017 the Group sold Shepparton Home for \$20.0 million and also exchanged an unconditional contract for the sale of Tweed Hub for \$40.1 million. Settlement of the Tweed Hub property occurred on 28 February 2018. The combined sales price of \$60.1 million reflected a 6.5% premium to the carrying value of the properties at 30 June 2017 and a weighted yield of 7.42%. The sales were in line with the Group's strategy to divest smaller centres to maintain balance sheet strength and reduce gearing.

#### b) Leasing arrangements

The Group's investment properties are leased to tenants under non-cancellable operating leases with rentals payable on a monthly basis. Future minimum rentals receivable under the leases as at 30 June 2018 and 30 June 2017 are as follows:

|  | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|--|---------------------|---------------------|
| Within 1 year                                | 97.6                | 104.3               |
| Later than 1 year but not later than 5 years | 271.4               | 283.8               |
| Later than 5 years                           | 86.5                | 114.9               |
| Total  | 455.5               | 503.0               |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. Payables

|                             | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|-----------------------------|---------------------|---------------------|
| <b>Current</b>              |                     |                     |
| Trade payables and accruals | 12.7                | 8.8                 |
| Other payables              | 3.2                 | 2.0                 |
| <b>Total</b>                | <b>15.9</b>         | <b>10.8</b>         |

Trade payables are unsecured and are usually paid within 30 days of recognition.

### 14. Distributions payable

|                       | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|-----------------------|---------------------|---------------------|
| <b>Current</b>        |                     |                     |
| Distributions payable | 20.1                | 16.0                |

### 15. Deferred revenue

|                  | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|------------------|---------------------|---------------------|
| <b>Current</b>   |                     |                     |
| Deferred revenue | 4.0                 | 3.1                 |

Deferred revenue represents rental income received in advance. Deferred revenue will be recognised as revenue in accordance with note 2(d).

### 16. Borrowings

|                                     | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|-------------------------------------|---------------------|---------------------|
| <b>Current</b>                      |                     |                     |
| <i>Secured</i>                      |                     |                     |
| Syndicated bank debt facility       | 90.0                | -                   |
| Less: unamortised transaction costs | (0.1)               | -                   |
|                                     | 89.9                | -                   |
| <b>Non-current</b>                  |                     |                     |
| <i>Secured</i>                      |                     |                     |
| Syndicated bank debt facility       | 478.0               | 329.3               |
| Syndicated loan note facility       | 110.0               | -                   |
| Less: unamortised transaction costs | (3.5)               | (2.3)               |
| <b>Total</b>                        | <b>584.5</b>        | <b>327.0</b>        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16. Borrowings (continued)

#### a) Syndicated bank debt facility

The Group's syndicated bank debt facility is a revolving cash advance facility.

Loan repayments are interest only with a lump sum payment of all amounts outstanding at the end of the term. Key features of each tranche are summarised as follows:

|                      | Tranche<br>A         | Tranche<br>B         | Tranche<br>C         | Tranche<br>E         | Tranche<br>F         | Tranche<br>G         | Tranche<br>H         |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Tranche limit</b> | \$200 million        | \$90 million         | \$100 million        | \$50 million         | \$50 million         | \$75 million         | \$125 million        |
| <b>Term</b>          | 5 years              | 3 years              | 5 years              | 4 years              | 4 years              | 5 years              | 5 years              |
| <b>Maturity</b>      | October 2020         | October 2018         | May 2021             | July 2021            | July 2021            | July 2022            | July 2022            |
| <b>Interest</b>      | 30 day BBSY + margin | 30 day BBSY + margin | 30 day BBSY + margin | 90 day BBSY + margin | 90 day BBSY + margin | 90 day BBSY + margin | 30 day BBSY + margin |

The facility is denominated in Australian dollars.

Tranches E, F, G and H were entered into on 3 July 2017 to partially fund the acquisition of Castle Hill Super Centre and Marsden Park Home. Refer to note 22 for details of the acquisition. \$1.4 million in debt establishment costs were incurred in relation to the new tranches.

#### b) Syndicated loan note facility

On 19 January 2018 the Group entered into a \$110 million syndicated loan note facility with bank and institutional lenders. Key terms are summarised as follows:

|                       |  |
|-----------------------|--|
| <b>Facility limit</b> | \$110 million  |
| <b>Term</b>           | 7 years (5 year initial term plus 2 x 1 year extensions at the option of the Group)  |
| <b>Maturity</b>       | January 2025   |
| <b>Interest</b>       | 90-day BBSY + margin   |
| <b>Repayments</b>     | Before 3 <sup>rd</sup> anniversary – non-call period<br>Before 4 <sup>th</sup> anniversary – 105% prepayment<br>Before 5 <sup>th</sup> anniversary – 101% prepayment |

The facility is denominated in Australian dollars.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16. Borrowings (continued)

#### c) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the financial year:

|                               | 30 June 2018 |              |                | 30 June 2017 |              |                |
|-------------------------------|--------------|--------------|----------------|--------------|--------------|----------------|
|                               | Limit<br>\$m | Drawn<br>\$m | Undrawn<br>\$m | Limit<br>\$m | Drawn<br>\$m | Undrawn<br>\$m |
| Syndicated bank debt facility |              |              |                |              |              |                |
| - Tranche A                   | 200.0        | 200.0        | -              | 200.0        | 40.0         | 160.0          |
| - Tranche B                   | 90.0         | 90.0         | -              | 200.0        | 200.0        | -              |
| - Tranche C                   | 100.0        | 95.3         | 4.7            | 100.0        | 89.3         | 10.7           |
| - Tranche E                   | 50.0         | 50.0         | -              | -            | -            | -              |
| - Tranche F                   | 50.0         | 50.0         | -              | -            | -            | -              |
| - Tranche G                   | 75.0         | -            | 75.0           | -            | -            | -              |
| - Tranche H                   | 125.0        | 82.7         | 42.3           | -            | -            | -              |
| Syndicated loan note facility | 110.0        | 110.0        | -              | -            | -            | -              |
| Total                         | 800.0        | 678.0        | 122.0          | 500.0        | 329.3        | 170.7          |

Undrawn debt under the syndicated bank debt facility may be drawn at any time.

An additional tranche (tranche D) of up to \$100 million may be added to the existing debt facility subject to the satisfaction of certain conditions. No commitment is provided by the banks for this additional tranche and there is no certainty that it will be available in future financial periods.

#### d) Debt refinancing subsequent to the end of the financial year

In July 2018 the Group undertook the following refinancing activities:

- > An additional \$60.0 million of 5 year bi-lateral debt was raised with bank lenders with the proceeds used to repay tranche B debt under the syndicated bank debt facility.
- > The maturity dates of tranches C, E, F, G and H under the syndicated bank debt facility, amounting to \$400.0 million of committed debt, were extended by an additional 12 months.
- > The Group received unconditional commitments from lenders for a \$50.0 million extension of the Group's loan note facility.

#### e) Compliance with debt covenants

The Group complied with the financial covenants of its borrowing facilities during the financial year. Key financial covenants under the syndicated bank debt and loan note facilities are summarised as follows:

- Interest cover ratio is at least 2 times;
- Loan to value ratio is less than or equal to 55%; and
- Total liabilities to total tangible assets ratio is less than or equal to 55%.

Covenants are assessed semi-annually.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16. Borrowings (continued)

#### f) Security

The Group's debt facilities are secured by:

- a first ranking real property mortgage in respect of each property in the portfolio;
- a first ranking general security deed over all the assets of the guarantors;
- a first ranking specific security deed over all the shares and units held by the guarantors; and
- a limited recourse share mortgage provided by Aventus Capital Limited.

### 17. Derivative financial instruments

|                                     | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|-------------------------------------|---------------------|---------------------|
| <b>Non-current assets</b>           |                     |                     |
| Interest rate swaps - at fair value | 0.4                 | 0.7                 |
| <b>Current liabilities</b>          |                     |                     |
| Interest rate swaps - at fair value | 0.1                 | -                   |
| <b>Non-current liabilities</b>      |                     |                     |
| Interest rate swaps - at fair value | 1.7                 | 1.2                 |

The Group utilises interest rate swaps to partially hedge against interest rate risk fluctuations. Interest rate swaps have the economic effect of converting borrowings from floating interest rates to fixed interest rates.

At 30 June 2018 the Group had entered into interest rate swap agreements totalling \$420.0 million (30 June 2017: \$240.0 million) representing 61.9% (30 June 2017: 72.9%) of drawn debt. Key features of the interest rate swaps are summarised as follows:

| Maturity date | Notional amount<br>\$m | Fair value<br>30 June 2018<br>\$m | Fair value<br>30 June 2017<br>\$m |
|---------------|------------------------|-----------------------------------|-----------------------------------|
| October 2018  | 80.0                   | (0.1)                             | (0.5)                             |
| October 2019  | 40.0                   | (0.2)                             | (0.3)                             |
| May 2020      | 20.0                   | 0.1                               | 0.1                               |
| October 2020  | 40.0                   | (0.3)                             | (0.4)                             |
| May 2021      | 60.0                   | 0.3                               | 0.6                               |
| June 2021     | 25.0                   | (0.1)                             | -                                 |
| July 2021     | 30.0                   | (0.1)                             | -                                 |
| July 2022     | 125.0                  | (1.0)                             | -                                 |
| Total         | 420.0                  | (1.4)                             | (0.5)                             |

As at 30 June 2018 the fixed rate on the interest rate swaps ranged from 1.83% to 2.43% per annum (30 June 2017: 1.83% to 2.36%). Interest rate swap contracts require settlement of net interest receivable or payable on a monthly or quarterly basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. Issued units

|  | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|--|---------------------|---------------------|
| 494,174,250 ordinary units (2017: 490,421,802) | 975.1               | 967.0               |

A reconciliation of the movement in ordinary units during the financial year is as follows:

|  | 2018<br>Units | 2018<br>\$m | 2017<br>Units | 2017<br>\$m |
|--|---------------|-------------|---------------|-------------|
| Balance at the beginning of the financial year                     | 490,421,802   | 967.0       | 394,717,614   | 747.6       |
| Units issued under entitlement offer                               | -             | -           | 92,533,186    | 214.7       |
| Unit issue costs   | -             | (0.1)       | -             | (2.4)       |
| Units issued in accordance with the distribution reinvestment plan | 3,752,448     | 8.2         | 3,171,002     | 7.1         |
| Balance at the end of the financial year                           | 494,174,250   | 975.1       | 490,421,802   | 967.0       |

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

Each unit ranks equally and has the same rights attached to it as with all other units on issue.

Each unit confers the right to vote at meetings of unitholders, subject to any voting restrictions imposed on a unitholder under the Corporations Act and the ASX Listing Rules.

#### Entitlement offer

On 30 May 2017 the Fund announced in a 1 for 4.3 accelerated non-renounceable entitlement offer to assist fund the acquisition of Castle Hill Super Centre and Marsden Park Home. Refer to note 22 for details of the acquisition.

The entitlement offer resulted in the issue of 92.5 million units, at an issue price of \$2.32, and raised a total of \$214.7 million in additional equity.

New units issued under the offer ranked equally with existing units and are entitled to all future distributions of the Fund, except for distributions relating to the quarter ended 30 June 2017.

Costs directly associated with the equity raise amounted to \$2.5 million and have been recognised directly in equity as a reduction to gross proceeds raised.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. Retained earnings

|                   | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|-------------------|---------------------|---------------------|
| Retained earnings | 200.1               | 144.7               |

A reconciliation of the movement in retained earnings during the financial year is as follows:

|  | 2018<br>\$m | 2017<br>\$m |
|--|-------------|-------------|
| Balance at the beginning of the financial year | 144.7       | 48.8        |
| Net profit for the year                        | 135.6       | 158.9       |
| Distributions paid or payable                  | (80.2)      | (63.0)      |
| Balance at the end of the financial year       | 200.1       | 144.7       |

### 20. Distributions

|                                  | 2018<br>Distribution -<br>cents per unit | 2018<br>Distribution<br>\$m | 2017<br>Distribution -<br>cents per unit | 2017<br>Distribution<br>\$m |
|----------------------------------|--|-----------------------------|--|-----------------------------|
| <b>Fully paid ordinary units</b> |  |                             |  |                             |
| September quarter                | 4.05                                     | 19.9                        | 3.88                                     | 15.3                        |
| December quarter                 | 4.07                                     | 20.1                        | 3.96                                     | 15.7                        |
| March quarter                    | 4.07                                     | 20.1                        | 4.02                                     | 16.0                        |
| June quarter                     | 4.07                                     | 20.1                        | 4.02                                     | 16.0                        |
| Total                            | 16.26                                    | 80.2                        | 15.88                                    | 63.0                        |

#### ***Distribution Reinvestment Plan***

During the financial year the Fund operated a distribution reinvestment plan ("DRP") under which unitholders may elect to reinvest all or part of their distribution in new units in the Fund rather than being paid in cash. The last date for the receipt of an election notice for participation in the DRP is the next business day after the record date for the respective quarterly distribution.

The DRP unit price is determined as an average of the daily volume weighted average price of the Fund's units sold on the Australian Securities Exchange during a 10 day trading period prior to the payment date for the distribution. The DRP unit price for the quarters ended 30 September 2017 and 31 December 2017 included a discount of 2%. There was no discount to the DRP unit price for remaining quarters during the financial year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. Statement of cash flow information

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

|  | 2018<br>\$m | 2017<br>\$m |
|--|-------------|-------------|
| Profit for the year  | 135.6       | 158.9       |
| <i>Adjustments for</i>   |             |             |
| Finance costs capitalised  | (0.3)       | (0.2)       |
| Straight-lining of rental income   | (3.3)       | (4.5)       |
| Amortisation of rental guarantees  | 3.1         | 1.3         |
| Amortisation of debt establishment costs   | 1.3         | 0.8         |
| Net gain on movement in fair value of investment properties                                      | (78.2)      | (91.4)      |
| Net (gain)/loss on movement in fair value of interest rate swaps                                 | 0.9         | (3.0)       |
| Change in operating assets and liabilities, net of effects from purchase of controlled entities: |             |             |
| (Increase)/decrease in receivables   | (1.1)       | 2.4         |
| (Increase)/decrease in other assets  | 23.3        | (24.6)      |
| Increase/(decrease) in payables  | 3.3         | (0.9)       |
| Increase/(decrease) in deferred revenue  | 0.9         | 1.3         |
| Increase/(decrease) in provision for performance fees  | 2.8         | 6.3         |
| Net cash inflow from operating activities  | 88.3        | 46.4        |

#### b) Non-cash investing and financing activities

|   | 2018<br>\$m | 2017<br>\$m |
|---|-------------|-------------|
| Units issued in accordance with the Fund's distribution reinvestment plan | 8.2         | 7.1         |

There were no other non-cash investment or financing activities during the financial year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. Business combinations

#### Acquisition of Castle Hill Super Centre and Marsden Park Home

On 3 July 2017 the Group acquired Castle Hill Super Centre and Marsden Park Home for \$436.0 million. The acquisition was funded via a \$214.7 million accelerated non-renounceable entitlement offer and a \$300.0 million increase the Group's debt facility.

Both properties were acquired at fair value. Accordingly, no goodwill arose as a result of the transaction. Details of the purchase consideration and the net assets acquired are as follows:

|                               | \$m          |
|-------------------------------|--------------|
| <b>Purchase consideration</b> |              |
| Cash paid                     | 436.0        |
| <b>Total</b>                  | <b>436.0</b> |

The assets recognised as a result of the acquisition are as follows:

|   | Fair Value   |
|---|--------------|
|   | \$m          |
| Investment properties                   | 431.0        |
| Rental guarantees                       | 5.0          |
| <b>Net identifiable assets acquired</b> | <b>436.0</b> |

#### Impact of the acquisition on related party investment management fees

As part of the acquisition Aventus Funds Management Pty Ltd has agreed to waive 50% of its investment management fee relating to the assets for the financial years ending 30 June 2018 and 30 June 2019.

#### Revenue and profit contributions

From the date of acquisition to 30 June 2018 the acquired businesses contributed revenues of \$30.2 million and a net profit of \$6.2 million (including \$24.0 million of transaction costs).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. Related party transactions

#### a) Responsible entity

The responsible entity of the Fund is Aventus Capital Limited ("Responsible Entity").

#### b) Responsible Entity fees

The Responsible Entity is not entitled to a fee for services provided to the Group.

#### c) Directors of the Responsible Entity

The following persons held office as directors of the Responsible Entity during the whole of the financial year and up to the date of this report, unless otherwise stated:

- > Bruce Carter Independent Non-Executive Chairman
- > Darren Holland Executive Director
- > Kieran Pryke Independent Non-Executive Director
- > Robyn Stubbs Independent Non-Executive Director
- > Brett Blundy Non-Executive Director (resigned as alternate director to Nico van der Merwe and appointed as director on 11 August 2017)
- > Nico van der Merwe Alternate Director to Brett Blundy (resigned as director and appointed as alternate director to Brett Blundy on 11 August 2017)

Executive and non-executive directors of the Responsible Entity are remunerated by the Aventus Property Group.

Director fees of independent non-executive directors are reimbursed by the Group. The total amount reimbursed for the year ended 30 June 2018 amounted to \$469,000 (2017: \$367,000). Director fees are disclosed as part of other expenses in the statement of comprehensive income.

#### d) Directors interest in the Fund

Directors' interest in the Fund at 30 June 2018 and 30 June 2017 are summarised as follows:

| Director           | Number of units held in the Fund 30 June 2018 | Number of units held in the Fund 30 June 2017 |
|--------------------|---|---|
| Bruce Carter       | 1,189,312                                     | 919,312                                       |
| Darren Holland     | 2,544,889                                     | 2,264,077                                     |
| Kieran Pryke       | 70,873  | 70,873  |
| Robyn Stubbs       | 41,364  | 28,349  |
| Brett Blundy       | 142,643,925                                   | 142,643,925                                   |
| Nico van der Merwe | -   | -   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. Related party transactions (continued)

#### e) Key management personnel

Key management personnel ("KMP") are defined by AASB 124 "Related Party Transactions" as "those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity".

The Responsible Entity is considered to be the KMP of the Group.

#### f) Manager

The manager of the Fund is Aventus Funds Management Pty Limited ("Manager"). Directors of the Manager are Darren Holland and Brett Blundy. Directors of the Manager are remunerated by the Aventus Property Group.

#### g) Management fees

The Manager is entitled to remuneration in the form of an investment management fee and a performance fee in accordance with a Management Services Agreement.

#### Investment management fee

The investment management fee is calculated as:

- 0.6% per annum of the gross asset value ("GAV") of the Group, where GAV is less than or equal to \$2.0 billion; and
- 0.5% of the GAV of the Group, where GAV is greater than \$2.0 billion.

The investment management fee is calculated and payable on a monthly basis.

Total investment management fees incurred for the year ended 30 June 2018 amounted to \$9,937,000 (2017: \$7,912,000).

As disclosed in note 22 as part of the acquisition of Castle Hill Super Centre and Marsden Park Home Aventus Funds Management Pty Ltd has agreed to waive 50% of its investment management fee relating to the assets for the financial years ending 30 June 2018 and 30 June 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. Related party transactions (continued)

#### g) Management fees (continued)

##### Performance fee

The Manager is also entitled to a performance fee of 20% of the percentage by which the total return of the Fund exceeds a hurdle of 12%. This is calculated as:

$20\% \times \text{Outperformance \%} \times \text{Closing NTA}$   
(together with any carry forward outperformance as further described below) where:

- **Outperformance %** = Total Return less the Hurdle Rate
- **Total Return** = Change in the NTA per unit over the relevant period plus the distributions per unit paid during the relevant period dividend by the NTA per unit at the commencement of the relevant period (expressed as a percentage).

Total return is measured on a three-year rolling basis and annualised as a compounded annual growth rate. For the 2016 financial year, total return is measured from the commencement date of the Management Services Agreement to 30 June 2016 and the first performance fee period ends on 30 June 2018.

- **Hurdle Rate** = 12%
- **Closing NTA** = The NTA of the Fund on the last day of the relevant period.

The first performance fee amount (if any) will become payable on the publication of the Fund's financial results after the third financial year after commencement of the Management Services Agreement (i.e. after 30 June 2018), with performance fees calculated and payable annually thereafter.

The total fee payable (comprising the investment management fee plus the performance fee) in any year is capped at 1.0% of GAV of the Fund. Any excess fee is carried over to subsequent performance fee periods (subject to the performance of the Fund and any application of the cap during that period). Any prior period underperformance must be recovered before the Manager becomes entitled to the payment of a performance fee in respect of a subsequent period. The performance fee may be paid to the Manager in cash or units (at the election of the Manager).

At 30 June 2018 the Group has recognised a \$9,059,000 provision for performance fees (30 June 2017: \$6,269,000).

No provision has been recognised at 30 June 2018 in respect of the second performance fee period ending 30 June 2019 on the basis it is not probable a performance fee will be payable at 30 June 2019. As disclosed in note 3(a) this is considered a critical accounting estimate at balance date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. Related party transactions (continued)

#### h) Property and development management fees

Aventus Property Management Pty Limited ("Property Manager") is entitled to the following fees in accordance with the Property Management and Development Agreement:

| Fee type   | Basis of calculation   |
|--|--|
| Leasing fee for new tenants                                    | 15% of face rental (being gross rent payable by a tenant, disregarding incentives and rent abatements) for the first year of the lease term.   |
| Leasing renewal fee (existing tenant not exercising an option) | 10% of face rental for the first year of a new lease or additional leased space (as applicable) if an existing tenant enters into a new lease for premises it currently occupies (excluding by way of exercise of an option), relocates to new premises within the relevant property or enters into a new lease for new space in a property in the portfolio.  |
| Leasing renewal fee (existing tenant exercising an option)     | 7% of face rental for the first year of a new lease if an existing tenant exercises an option to continue leasing their current space in a property in the portfolio.  |
| Leasing market rent review fee                                 | 7% of the increase between the rent payable for the year before the relevant rent review and the rent payable for the year after that rent review date as a result of the market rent review.  |
| Leasing administration fee                                     | \$4,000 per lease documentation negotiated and prepared by the Property Manager (without double servicing where relevant lease agreements are prepared by external parties).   |
| Asset and property management fee                              | 4% of face rental (payable in equal monthly instalments in arrears) provided that where, immediately prior to a property becoming subject to the Property and Development Management Agreement (for example, the acquisition of a new property), the property management fee in respect of that property (which is recoverable from tenants as outgoings under the terms of the relevant lease agreements) is higher than 4% of the total face rent, the Property Manager shall be entitled to that higher fee for so long as it remains recoverable from the tenants under the relevant lease agreements. The property manager is also entitled to salary and on-cost recoveries associated with managing the property. |
| Development services fee                                       | 5% of total development costs (being the total cost of any development works undertaken in respect of a property), calculated and payable monthly in arrears. The Property Manager will only be able recover an amount equal to 2% of the total development cost from the time the development proposal is approved to the commencement of construction, with the balance to be paid in instalments from the time that construction commences to delivery of the project.  |

Total fees incurred in accordance with the Property Management and Development Agreement for the year ended 30 June 2018 amounted to \$16,766,000 (2017: \$13,498,000).

Asset and property management fees are included as part of property expenses in the statement of comprehensive income. Leasing fees and development services fees are capitalised into the carrying value of investment properties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. Related party transactions (continued)

#### i) Rental guarantees

In conjunction with acquisitions made in October 2015 a director related entity provided rental guarantees to the Group which expired in October 2016. The rental guarantees were negotiated on an arm's length basis.

Rental guarantees claimed from the director related entity during the financial year ended 30 June 2017 amounted to \$53,000. There were no related party rental guarantees outstanding at 30 June 2018 or 2017.

#### j) Rental income

Total rental income derived from the Aventus Property Group during the financial year amounted to \$289,000 (2017: \$220,000).

#### k) Outstanding payable balances with related parties

Total amounts payable to the Aventus Property Group at 30 June 2018 amounted to \$11,891,000 (30 June 2017: \$8,234,000).

Related party payables are unsecured and are usually paid within 30 days of recognition.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. Related party transactions (continued)

#### I) Subsidiaries

The Group's subsidiaries are set out below. All subsidiaries are incorporated in Australia.

| Name of entity                                  | Ownership interest |           | Principal activities     |
|---|--------------------|-----------|--------------------------|
|   | 2018<br>%          | 2017<br>% |                          |
| <b>Parent entity</b>                            |                    |           |                          |
| Aventus Retail Property Fund                    |                    |           |                          |
| <b>Subsidiaries</b>                             |                    |           |                          |
| Aventus Bankstown Holding Trust                 | 100%               | 100%      | Investment holding trust |
| Aventus Bankstown Unit Trust - <sup>1</sup>     | 100%               | 100%      | Property investment      |
| Aventus Belrose Unit Trust                      | 100%               | 100%      | Property investment      |
| Aventus Caringbah Unit Trust                    | 100%               | 100%      | Property investment      |
| Aventus Castle Hill Unit Trust                  | 100%               | 100%      | Property investment      |
| Aventus Cranbourne Unit Trust                   | 100%               | 100%      | Property investment      |
| Aventus Cranbourne Thompsons Road Unit Trust    | 100%               | 100%      | Property investment      |
| Aventus Diversified Unit Trust                  | 100%               | 100%      | Investment holding trust |
| Aventus Ballarat Unit Trust - <sup>2</sup>      | 100%               | 100%      | Property investment      |
| Aventus Highlands Unit Trust - <sup>2</sup>     | 100%               | 100%      | Property investment      |
| Aventus Tweed Unit Trust - <sup>2</sup>         | 100%               | 100%      | Property investment      |
| Aventus Warners Bay Unit Trust - <sup>2</sup>   | 100%               | 100%      | Property investment      |
| Aventus Epping Unit Trust                       | 100%               | 100%      | Property investment      |
| Aventus Jindalee Unit Trust                     | 100%               | 100%      | Property investment      |
| Aventus Kotara South Unit Trust                 | 100%               | 100%      | Property investment      |
| Aventus Logan Holding Trust                     | 100%               | 100%      | Investment holding trust |
| Aventus Logan Unit Trust - <sup>3</sup>         | 100%               | 100%      | Property investment      |
| Aventus MacGregor Holding Trust                 | 100%               | 100%      | Investment holding trust |
| Aventus MacGregor Unit Trust - <sup>4</sup>     | 100%               | 100%      | Property investment      |
| Aventus Marsden Park Unit Trust                 | 100%               | 100%      | Property investment      |
| Aventus McGraths Hill Holding Trust             | 100%               | 100%      | Investment holding trust |
| Aventus McGraths Hill Unit Trust - <sup>5</sup> | 100%               | 100%      | Property investment      |
| Aventus Midland Unit Trust                      | 100%               | 100%      | Property investment      |
| Aventus Mile End Unit Trust                     | 100%               | 100%      | Property investment      |
| Aventus Mile End Stage 3 Unit Trust             | 100%               | 100%      | Property investment      |
| Aventus Peninsula Unit Trust                    | 100%               | 100%      | Property investment      |
| Aventus Property Administration Pty Ltd         | 100%               | 100%      | Administration           |
| Aventus Shepparton Unit Trust                   | 100%               | 100%      | Property investment      |
| Aventus Sunshine Coast Unit Trust               | 100%               | 100%      | Property investment      |
| Aventus Tuggerah Unit Trust                     | 100%               | 100%      | Property investment      |

1 - Entity is a 100% owned subsidiary of Aventus Bankstown Holding Trust

2 - Entity is a 100% owned subsidiary of Aventus Diversified Unit Trust

3 - Entity is a 100% owned subsidiary of Aventus Logan Holding Trust

4 - Entity is a 100% owned subsidiary of Aventus MacGregor Holding Trust

5 - Entity is a 100% owned subsidiary of Aventus McGraths Hill Holding Trust

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. Related party transactions (continued)

#### m) Key related party contracts

##### **Kotara Home call option and pre-emptive deed**

The Group's Kotara Home (South) property ("Kotara South") is adjacent to another property ("Kotara North") which is owned by an entity associated with Brett Blundy. The respective owners have entered into the Kotara Call Option and Pre-emptive Deed under which:

- The owner of Kotara South grants to the owner of Kotara North a call option to acquire Kotara South ("Call Option"); and
- The owner of Kotara North and the owner of Kotara South have each granted the other reciprocal pre-emptive rights in the event that either of them wishes to sell their respective Kotara properties ("Pre-emptive Right").

Further information relating to the Call Option and the Pre-emptive Right is outlined below.

##### **Call option**

Where as a result of a vote of the unitholders in the Fund, there is a change of the responsible entity of the Fund to an entity who is not a member of the Aventus Property Group ("Call Option Event") the following process will apply:

- The owner of Kotara North may require a valuation to be conducted on Kotara South, with two independent valuers to be appointed – one by the owner of Kotara North Owner and one by the new responsible entity;
- the purchase price for Kotara South will be the average of the two valuations; and
- upon receipt of those valuations, the owner of Kotara North may exercise the call option and purchase Kotara South for the relevant purchase price so determined.

##### **Pre-emptive right**

Under the pre-emptive right, where an owner wishes to deal with their Kotara property, it must give notice to the other owner of the proposed sale terms which will constitute an offer to the relevant recipient to acquire the selling owner's Kotara property. The owner will have 40 days to accept those sale terms. If the offer is not accepted, then the owner selling its Kotara asset may sell to another third party within six months on terms and at a price that are no more favourable to the proposed purchaser than the terms offered under the pre-emptive right.

#### n) Reimbursement of costs by the Fund

The Responsible Entity, Manager and Property Manager are entitled to be reimbursed for expenses relating to proper performance of their respective duties as responsible entity, manager and property manager. This includes the cost of the Group's external advisors, (including auditors), custodian fees, registry fees, ASX fees, and expenses, costs and disbursements incurred by Aventus Property Group personnel in connection with the due and proper management and administration of the Group.

Total amounts reimbursed by the Group for the above costs during the year ended 30 June 2018 amounted to \$535,000 (2017: \$514,000).

#### o) Parent entity related party transactions

Reimbursement of independent non-executive director fees are disclosed in note 23(d). Management fees are disclosed in note 23(g).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24. Fair value measurement

This note provides information about how the Group determines fair value of assets and liabilities.

#### a) Assets and liabilities measured at fair value on a recurring basis

The Group measures investment properties and derivative financial instruments at fair value on a recurring basis.

To provide an indication about the reliability of inputs used in determining fair value, the Group classifies its assets and liabilities into three levels prescribed under accounting standards. An explanation of each level is outlined below:

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 or indirectly.

Level 3 – Inputs for the asset or liability are not based on observable market data (unobservable inputs).

The following table summarises the Group's assets and liabilities measured and recognised at fair value on a recurring basis:

|                                  |      | Level 2                |                        | Level 3                |                        | Total                  |                        |
|----------------------------------|------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                                  | Note | 30 June<br>2018<br>\$m | 30 June<br>2017<br>\$m | 30 June<br>2018<br>\$m | 30 June<br>2017<br>\$m | 30 June<br>2018<br>\$m | 30 June<br>2017<br>\$m |
| <b>Non-financial assets</b>      |      |                        |                        |                        |                        |                        |                        |
| Derivative financial instruments | 17   | 0.4                    | 0.7                    | -                      | -                      | 0.4                    | 0.7                    |
| Investment properties            | 12   | -                      | -                      | 1,886.9                | 1,392.4                | 1,886.9                | 1,392.4                |
| <b>Financial liabilities</b>     |      |                        |                        |                        |                        |                        |                        |
| Derivative financial instruments | 17   | 1.8                    | 1.2                    | -                      | -                      | 1.8                    | 1.2                    |

There were no transfers between levels of fair value measurement during the financial year.

The Group did not measure any financial assets or liabilities at fair value on a non-recurring basis as at 30 June 2018 or 30 June 2017.

#### Valuation techniques used to derive level 2 fair values

The only level 2 assets or liabilities measured at fair value are interest rate swaps.

The fair value of interest rate swaps is estimated using the discounted cash flow technique. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24. Fair value measurement (continued)

#### **Valuation techniques used to derive level 3 fair values**

The only level 3 assets or liabilities measured at fair value are investment properties.

The Group obtains independent valuations for its investment properties at least every two years.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The fair value of investment properties is determined using recognised valuation techniques such as the capitalisation of net income method and discounted cash flow method.

Key inputs used in determining property values as at 30 June 2018 and 30 June 2017 are outlined below. Terminal yields and discount rates relate solely to independent valuations.

|  | Range<br>30 June<br>2018 | Weighted<br>average<br>30 June<br>2018 | Range<br>30 June<br>2017 | Weighted<br>average<br>30 June<br>2017 |
|--|--------------------------|--|--------------------------|--|
| Net passing rent (\$ per square metre) | \$119 to \$377           | \$264                                  | \$94 to \$353            | \$227                                  |
| Net market rent (\$ per square metre)  | \$150 to \$379           | \$267                                  | \$133 to \$353           | \$232                                  |
| Adopted capitalisation rate (%)        | 5.50% to 7.75%           | 6.69%                                  | 6.75% to 8.00%           | 7.24%                                  |
| Adopted terminal yield (%)             | 5.75% to 7.25%           | 6.47%                                  | 7.00% to 7.25%           | 7.16%                                  |
| Adopted discount rate (%)              | 7.50% to 8.50%           | 7.77%                                  | 8.50% to 8.75%           | 8.62%                                  |

In determining the valuation of all investment properties measured at recurring fair value, consideration has been given to the highest and best use of those properties.

#### **Sensitivity analysis**

| Valuation input             | Relationship of valuation input to fair value                 |
|-----------------------------|---|
| Net passing rent            | The higher net passing rent, the higher the fair value.       |
| Net market rent             | The higher net market rent, the higher the fair value.        |
| Adopted capitalisation rate | The higher the capitalisation rate, the lower the fair value. |
| Adopted terminal yield      | The higher the termination yield, the lower the fair value.   |
| Adopted discount rate       | The higher the discount rate, the lower the fair value.       |

#### **b) Assets and liabilities not measured at fair value**

The Group has a number of assets and liabilities which are not measured at fair value in the balance sheet. The fair values of these assets and liabilities are not materially different to their carrying amounts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25. Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so it can continue to provide returns for unitholders and maintain an optimal capital structure to reduce the cost of capital.

The Group's capital structure consists of cash, borrowings and equity. In determining the optimal capital structure, the Group takes into account a number of factors including the capital needs of its portfolio, the relative cost of debt versus equity, the execution and market risk of raising equity or debt, the financial risks of debt including increased volatility of earnings due to exposure to interest rate movements, the liquidity risk of maturing debt facilities and the market in general.

In order to maintain or adjust the capital structure, the Group may adjust the amount of distributions paid to unitholders, return capital to unitholders, issue new units or sell assets to reduce debt.

The Group's capital position is monitored using the following gearing ratio:

|   | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|---|---------------------|---------------------|
| Gross borrowings                              | 678.0               | 329.3               |
| Less: cash and cash equivalents               | (3.6)               | (33.9)              |
| Net debt                                      | 674.4               | 295.4               |
| Total assets (less cash and cash equivalents) | 1,896.9             | 1,442.2             |
| Gearing ratio (%)                             | 35.6                | 20.5%               |

The Group's strategy is to maintain a gearing ratio of between 30% and 40%.

The gearing ratio at 30 June 2017 was below the Group's targeted gearing range of 30% to 40% due to a \$160.0 million debt repayment in June 2017 on receipt of funds raised from the entitlement offer to partially finance the acquisition of the Castle Hill Super Centre and Marsden Park Home in July 2017. The Group's gearing ratio increased to 38.9% on settlement of the properties.

### 26. Financial risk management

The Group's activities expose it to financial risks including interest rate risk, liquidity risk and credit risk.

#### a) Interest rate risk

Interest rate risk is the risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group's main interest rate risk arises from borrowings with variable interest rates.

The Group manages interest rate risk by using floating to fixed interest rate swaps which have the effect of converting a portion of the Group's borrowings from variable to fixed interest rates. The Group's policy for maintaining minimum levels of borrowings at fixed rates using interest rate swaps varies depending upon the maturity profile of the debt.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26. Financial risk management (continued)

#### a) Interest rate risk (continued)

The Group's exposure to interest rate risk from borrowings is summarised in the table below:

|   | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|---|---------------------|---------------------|
| <b>Floating rate borrowings</b>                 |                     |                     |
| Syndicated bank debt facility                   | 568.0               | 329.3               |
| Syndicated loan note facility                   | 110.0               | -                   |
| <b>Derivative financial instruments</b>         |                     |                     |
| Interest rate swaps (notional principal amount) | (420.0)             | (240.0)             |
| Net interest rate exposure                      | 258.0               | 89.3                |

Further details of the Group's borrowings and interest rate swaps held at 30 June 2018 and 30 June 2017 are disclosed in notes 16 and 17 respectively.

#### **Interest rate risk sensitivity**

The impact of a 1% increase/decrease in market interest rates at balance date would result in a \$2.6 million (2017: \$0.9 million) decrease/increase in profit or loss per annum. Aside from the profit or loss impact on equity, the 1% increase/decrease in market interest rates at the reporting date has no other impact on equity.

#### b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Management manages liquidity by ensuring there is sufficient cash and/or committed undrawn borrowings available.

Management prepares and monitors rolling forecasts of liquidity reserves, comprising cash and undrawn borrowing facilities, on the basis of expected future cash flows.

The Group's financing arrangements, debt maturity profiles and access to undrawn borrowing facilities at 30 June 2018 and 30 June 2017 are disclosed in note 16.

#### **Maturities of financial liabilities**

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- all non-derivative financial liabilities, and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows.

For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26. Financial risk management (continued)

#### b) Liquidity risk (continued)

30 June 2018

| Contractual maturities of financial liabilities | Less than 6 months<br>\$m | 6-12 months<br>\$m | 1 to 3 years<br>\$m | 3-5 years<br>\$m | Greater than 5 years<br>\$m | Total contracted cash flows<br>\$m | Carrying amount of liabilities<br>\$m |
|---|---------------------------|--------------------|---------------------|------------------|-----------------------------|------------------------------------|---------------------------------------|
| <b>Non-derivative</b>                           |                           |                    |                     |                  |                             |                                    |                                       |
| Payables  | 15.9                      | -                  | -                   | -                | -                           | 15.9                               | 15.9                                  |
| Distributions payable                           | 20.1                      | -                  | -                   | -                | -                           | 20.1                               | 20.1                                  |
| Borrowings                                      | 101.1                     | 10.2               | 331.5               | 194.8            | 116.8                       | 754.4                              | 674.4                                 |
| Provision for performance fees                  | 9.1                       | -                  | -                   | -                | -                           | 9.1                                | 9.1                                   |
| <b>Total</b>                                    | <b>146.2</b>              | <b>10.2</b>        | <b>331.5</b>        | <b>194.8</b>     | <b>116.8</b>                | <b>799.5</b>                       | <b>719.5</b>                          |
| <b>Derivative</b>                               |                           |                    |                     |                  |                             |                                    |                                       |
| Interest rate swaps                             | 0.5                       | 0.4                | 1.4                 | 0.5              | -                           | 2.8                                | 1.8                                   |

30 June 2017

| Contractual maturities of financial liabilities | Less than 6 months<br>\$m | 6-12 months<br>\$m | 1 to 3 years<br>\$m | 3-5 years<br>\$m | Greater than 5 years<br>\$m | Total contracted cash flows<br>\$m | Carrying amount of liabilities<br>\$m |
|---|---------------------------|--------------------|---------------------|------------------|-----------------------------|------------------------------------|---------------------------------------|
| <b>Non-derivative</b>                           |                           |                    |                     |                  |                             |                                    |                                       |
| Payables  | 10.8                      | -                  | -                   | -                | -                           | 10.8                               | 10.8                                  |
| Distributions payable                           | 16.0                      | -                  | -                   | -                | -                           | 16.0                               | 16.0                                  |
| Borrowings                                      | 4.9                       | 4.8                | 210.6               | 132.2            | -                           | 352.5                              | 329.3                                 |
| Provision for performance fees                  | -                         | -                  | 6.3                 | -                | -                           | 6.3                                | 6.3                                   |
| <b>Total</b>                                    | <b>31.7</b>               | <b>4.8</b>         | <b>216.9</b>        | <b>132.2</b>     | <b>-</b>                    | <b>385.6</b>                       | <b>362.4</b>                          |
| <b>Derivative</b>                               |                           |                    |                     |                  |                             |                                    |                                       |
| Interest rate swaps                             | 0.5                       | 0.5                | 1.0                 | 0.1              | -                           | 2.1                                | 1.2                                   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26. Financial risk management (continued)

#### c) Credit risk

##### ***Risk management and security***

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the Group. The Group's credit risk arises from cash and cash equivalents and receivables. The carrying amount of these financial assets disclosed in the balance sheet represents the maximum credit exposure to the Group at 30 June 2018 and 30 June 2017.

To manage credit risk in relation to cash and cash equivalents, deposits are held with financial institutions with AA- Standards and Poor's credit ratings.

To manage credit risk in relation to receivables, tenants are billed monthly in advance. For some tenants the Group may also obtain collateral in the form of security deposits, bank guarantees or rental guarantees. Management also monitors tenancy exposure across its portfolio on a monthly basis.

##### ***Impaired receivables***

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment.

The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

##### ***Receivables past due but not impaired***

As at 30 June 2018, trade receivables of \$0.5 million (30 June 2017: \$0.1 million) were past due but not impaired. These relate to tenants for whom there is no recent history of default.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. Events occurring after the reporting period

#### a) Proposed internalisation

On 10 August 2018 the Responsible Entity announced it had entered into an implementation deed with the shareholders of Aventus Property Group Pty Ltd ("APG") to internalise the management of the Fund.

The internalisation proposal is binding subject to certain conditions including approval of the proposal by the Fund's unitholders at a meeting to be held on 25 September 2018.

The proposed internalisation involves:

1. the Fund forming a new 100% owned subsidiary – Aventus Holdings Limited ("AHL");
2. the Fund distributing one fully paid ordinary share in AHL to unitholders for each existing unit they hold in the Fund;
3. stapling each share in AHL to each existing unit in the Fund to form a new stapled security. Stapled securities would commence trading on the ASX under the existing code AVN, initially on a deferred settlement basis, with full trading expected to commence on or about 2 October 2018; and
4. AHL acquiring APG and its subsidiaries (comprising the Fund's responsible entity, funds manager, property manager and services company) for a total purchase consideration of \$143 million plus APG's net tangible assets to be fixed at \$5 million. The \$143 million will be funded via \$85 million in stapled securities and \$58 million in cash. The \$5 million net tangible assets amount will be funded in cash.

APG is owned by entities associated with Brett Blundy and Darren Holland.

If the proposed internalisation is approved all fees currently charged to AVN by APG (including performance fees) would be eliminated on consolidation in future financial periods. The proposal would also include the Group assuming the management of the Kotara North property which is owned by an entity associated with Brett Blundy.

#### b) Debt refinancing

Refer to note 16 for details of debt refinancing activities undertaken subsequent to the end of the financial year.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 28. Commitments

#### Capital commitments

Significant capital expenditure contracted for at the end of the financial year but not recognised as liabilities is as follows:

|                                      | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|--------------------------------------|---------------------|---------------------|
| Acquisition of investment properties | -                   | 416.4               |
| Development expenditure              | 3.0                 | 7.5                 |
| Total                                | 3.0                 | 423.9               |

#### Acquisition of investment properties

##### Castle Hill Super Centre and Marsden Park Home

On 30 May 2017 the Group exchanged contracts to acquire Castle Hill Super Centre and Marsden Park Home. As disclosed in note 22 the settlement date of the acquisitions was 3 July 2017.

Total outstanding commitments under the contract at 30 June 2017 amounted to \$416.4 million.

#### Development expenditure

The Group has entered into contracts for the redevelopment of a number of its investment properties. Total commitments as at 30 June 2018 amounted to \$3.0 million excluding GST (2017: \$7.5 million excluding GST).

### 29. Contingent assets and liabilities

#### Bank guarantees

At 30 June 2018 the Group had given \$1.1 million in bank guarantees relating to the redevelopment of one of its investment properties (30 June 2017: \$1.1 million). Drawn bank guarantees represent contingent liabilities of the Group and do not form part of borrowings disclosed in the balance sheet. Drawn bank guarantees are also excluded from total borrowings when calculating the Group's debt covenants.

The Group's bank guarantee facility has a limit of \$5 million and expires on 13 September 2019.

#### Performance fees

In the event that the proposed internalisation disclosed in note 27(a) does not proceed a performance fee of approximately \$2.8 million may be payable in relation to the second performance fee period ending 30 June 2019. The actual performance fee payable (if any) may differ as key inputs into the performance fee calculation are based on future events.

There were no other contingent liabilities or assets at 30 June 2018 or 30 June 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by the auditors of the Fund.

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| <b>Ernst &amp; Young</b>                  |                |                |
| <b>Audit and other assurance services</b> |                |                |
| Audit and review of financial statements  | 233            | 240            |
| Compliance plan audit                     | 20             | 20             |
| Other assurance services                  | 70             | 69             |
| Due diligence services                    | 163            | 89             |
| Total audit and other assurance services  | 486            | 418            |
| <b>Taxation services</b>                  |                |                |
| Tax compliance services                   | -              | 125            |
| Tax advisory services                     | 4              | 25             |
| Total taxation services                   | 4              | 150            |
| <b>Consulting services</b>                | 88             | -              |
| Total remuneration                        | 578            | 568            |

### 31. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has 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. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

#### a) ISDA Master Agreements

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position payable/ receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated.

#### b) Shepparton Home Guarantee

In connection with the sale of Shepparton Home in December 2017 \$0.9 million of the sale proceeds were placed in trust to cover rental guarantees provided to the purchaser. Any monies not claimed at the end of the rental guarantee period will be returned to the Group.

As at 30 June 2018 the Group had a receivable of \$0.6 million and a corresponding rental guarantee liability of \$0.6 million. These amounts have been netted off in the balance sheet as the Group has a legally enforceable right to offset the recognised amounts and the receivable is realised and the guarantee liability is settled simultaneously.

At 30 June 2018 and 30 June 2017 there were no other financial assets and liabilities that were offset in the balance sheet.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32. Parent entity information

#### a) Summary financial information

The Fund previously acquired the units in Aventus Kotara (South) Unit Trust ("Kotara South") where the acquisition was accounted for as a reverse acquisition and resulted in the Fund (the legal parent) being accounted for as a subsidiary of the Group and Kotara South (the legal subsidiary) being accounted for as the parent entity of the Group for financial reporting purposes in the previous period. In the current period, the disclosures related to the parent entity have been revised to align to the legal parent for financial reporting purposes.

The individual financial statements for the Fund show the following aggregate amounts:

|  | 2018<br>\$m | 2017<br>\$m |
|--|-------------|-------------|
| <b>Statement of comprehensive income</b> |             |             |
| Profit for the year                      | 21.0        | 37.7        |
| Total comprehensive income for the year  | 21.0        | 37.7        |

|                         | 30 June 2018<br>\$m | 30 June 2017<br>\$m |
|-------------------------|---------------------|---------------------|
| <b>Balance sheet</b>    |                     |                     |
| Current assets          | 6.0                 | 79.8                |
| Non-current assets      | 1,567.6             | 1,287.8             |
| Total assets            | 1,573.6             | 1,367.6             |
| Current liabilities     | (125.7)             | (19.4)              |
| Non-current liabilities | (586.2)             | (435.5)             |
| Total liabilities       | (711.9)             | (454.9)             |
| Net assets              | 861.7               | 912.7               |
| Issued capital          | 1,010.9             | 1,002.9             |
| Accumulated losses      | (149.2)             | (90.2)              |
| Total equity            | 861.7               | 912.7               |

#### b) Guarantees entered into by the parent entity

With the exception of guarantees provided in relation to the Group's debt facilities the Fund had not provided any guarantees as at 30 June 2018 or 30 June 2017.

#### c) Contingent liabilities of the parent entity

With the exception of items disclosed in note 29 to the financial statements the Fund did not have any contingent liabilities as at 30 June 2018 or 30 June 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32. Parent entity information (continued)

#### d) Contractual commitments

The Fund did not have any contractual commitments as at 30 June 2018 or 30 June 2017.

#### e) Determining the parent entity financial information

The financial information for the Fund has been prepared on the same basis as the consolidated financial statements with the exception of the following:

- > Investments in subsidiaries are recorded at cost in the financial statements of the Fund.  
Distributions received from subsidiaries are recognised in the Fund's profit or loss when its right to receive the distribution is established.

## DIRECTORS' DECLARATION


In the directors' opinion:

- a) the financial statements and notes are in accordance with the Corporations Act 2001, including:
  - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  - ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date, and
- b) there are reasonable grounds to believe that Aventus Retail Property Fund will be able to pay its debts as and when they become due and payable.


The financial statements also comply with International Financial Reporting Standards as disclosed in note 1(a) to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors of the Responsible Entity made pursuant to s295(5) of the Corporations Act 2001.

  
\_\_\_\_\_  
Darren Holland  
Executive Director

Sydney  
10 August 2018

  
\_\_\_\_\_  
Bruce Carter  
Chairman

Sydney  
10 August 2018

## Independent Auditor's Report to the unitholders of Aventus Retail Property Fund

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Aventus Retail Property Fund (the Fund) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### 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 are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

### Investment Property Portfolio – Determination of fair value

#### Why significant

The Group owns large format retail centres classified as investment property carried at fair value. The carrying value of investment properties at 30 June 2018 amounted to \$1,886.9 million and represents 99.3% of total assets.

As disclosed in Note 2 (k) fair values are determined by the directors at the end of each reporting period with reference to external independent property valuations or internal directors' valuations, with changes in fair value recognised in the consolidated statement of comprehensive income.

This was considered a key audit matter due to the number of judgments required in determining fair value. These judgments include determining the capitalisation rate, discount rate, market rent, re-leasing costs and forecast occupancy levels. Minor changes in certain assumptions can lead to significant changes in the valuation.

Note 24 of the financial report discloses the sensitivity of these valuations to changes in key assumptions.

#### How our audit addressed the key audit matter

Our audit procedures included the following:

- We assessed the competence, capabilities, and the objectivity of the independent valuers and the competence and capabilities of the internal experts that prepared the internal directors' valuations.
- For both independent valuations and internal directors valuations we:
  - Assessed the appropriateness of the valuation methodology;
  - Assessed the key assumptions and inputs including the net passing rent, operating expenses, occupancy rates, lease terms, and capital expenditure.
  - Evaluated the capitalisation rates adopted, and movement in the year, based on our knowledge of the property portfolio, published industry reports and comparable property valuations.
- Our real estate valuation specialists assisted with the assessment of a sample of internal and independent valuations by evaluating the valuation methodology and key inputs and assumptions highlighted above.



## Related Party Transactions

### Why significant

The Group is an externally managed property fund. The responsible entity, Aventus Capital Limited, and the property manager of the fund, entities collectively controlled by Aventus Property Group, are considered related parties under Australian Accounting Standards.

The property manager is entitled to a performance fee in the event that the Group exceeds a predetermined level of return over a 3 year period. Determining if the performance fee will be payable at a future date is subject to uncertainty.

The Group incurred a total of \$31.1 million in investment, asset & property, development management fees including expense reimbursements, performance fees and independent director fees. No provision has been recorded with respect to future performance fee periods ending subsequent to 30 June 2018.

This was considered a key audit matter due to the significance of the transactions and judgment involved in determining the performance fee.

Disclosure of related party transactions, including the nature of the arrangements and amounts paid by Group, is included in note 23 to the financial report.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- Considered contracts and agreements with related parties to understand the nature of the transactions.
- Assessed whether related party transactions recorded and disclosed were consistent with our understanding of the contracts and agreements and our understanding of the business, including significant transactions which have occurred during the period.
- Compared the consistency in the recording and disclosure of related party transactions in the financial report against agreements in place, minutes of directors' meetings and market announcements.
- Assessed the Group's judgments as to the probability of a performance fee becoming payable in the future as it relates to future performance fee periods extending beyond 30 June 2018. These procedures considered if, at balance sheet date, the performance fee met the recognition criteria of and the disclosure requirements of Australian Accounting Standards.
- In assessing the performance fee payable we considered the implications of the internalisation proposal as disclosed in note 27 of the financial report.

## Information Other than the Financial Report and Auditor's Report Thereon

The directors of Aventus Capital Limited, the Responsible Entity of the Group, are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

## Responsibilities of the Directors for the Financial Report

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

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

## Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Ernst & Young



Mark Conroy  
Partner  
Sydney  
10 August 2018