

# ASX Announcement – Australian Unity Office Fund

27 February 2023

## Appendix 4D

### Australian Unity Office Fund ('AOF') Preliminary Final Report For the Half-Year Ended 31 December 2022

Results for announcement to the market

1.0	<b>Reporting period</b>				
	Current reporting period	6 months to 31 December 2022			
	Prior reporting period	6 months to 31 December 2021			
2.0	<b>Results for announcement to the market</b>	<b>31 December 2022</b>	<b>31 December 2021</b>	<b>Movement \$'000</b>	<b>Movement %</b>
		<b>\$'000</b>	<b>\$'000</b>		
2.1	Total revenues and other income (Note 1)	21,367	23,846	(2,479)	(10.40)%
2.2	Profit from ordinary activities after tax attributable to unitholders	979	6,834	(5,855)	(85.67)%
2.3	Net profit for the period attributable to unitholders	979	6,834	(5,855)	(85.67)%
2.3A	Directors assessment of Funds From Operations (Note 2)	12,138	15,643	(3,505)	(22.41)%
2.4	<b>Distributions</b>	<b>Amount per unit</b>	<b>Record date</b>		
	Distribution for 1 July 2022 to 30 September 2022	2.50 cents	30 September 2022		
	Distribution for 1 October 2022 to 31 December 2022	2.50 cents	31 December 2022		
2.5	Record date for determining entitlement to the distributions	Refer section 2.4			
2.6	Brief explanation of any figures in 2.1 to 2.4 necessary to enable the figures to be understood.	Refer to the Annual financial report and directors' report for the year ended 31 December 2022 attached to this Appendix 4D for further information.			
3	Net tangible assets per security	<b>31 December 2022</b>	<b>31 December 2021</b>		
		\$2.22	\$2.67		
4	Details of entities over which control has been gained or lost during the period, including the following.	Not applicable.			

## ASX Announcement – Australian Unity Office Fund

5	Details of individual and total distributions and distribution payments.  Distribution for 1 July 2022 to 30 September 2022  Distribution for 1 October 2022 to 31 December 2022	Date Paid	Amount per unit	Foreign sourced income
		27 October 2022	2.50 cents	n/a
		27 January 2023	2.50 cents	n/a
6	Details of any distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any distribution reinvestment plan.	Not applicable.		
7	Details of associates and joint venture entities including the following.	Not applicable.		
8	For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Financial Reporting Standards).	Not applicable.		
9	If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph	Not applicable.		

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

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

### About AOF

AOF is an ASX-listed REIT that wholly owns a portfolio of properties located across Australian metropolitan and CBD markets.

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

#### Issuer:

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271 Spring Street  
Melbourne VIC 3000  
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# **Australian Unity Office Fund**

ARSN 113 369 627

## **Interim report for the half-year ended 31 December 2022**

# Australian Unity Office Fund

ARSN 113 369 627

## Interim report for the half-year ended 31 December 2022

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## Directors' report

The directors of Australian Unity Investment Real Estate Limited (ABN 86 606 414 368), the Responsible Entity of Australian Unity Office Fund (the "Scheme"), present their report together with the consolidated financial statements of the Scheme for the half-year ended 31 December 2022.

### Directors

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

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

\* Member of the Audit & Risk Committee

### Company secretary

The following person was the company secretary of the Responsible Entity during the half-year and up to the date of this report:

Liesl Petterd

## Operating and financial review

### Principal activities

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

### Investment objective and strategy

The Scheme's investment objective is to maximise returns for unitholders through:

- owning Australian real estate assets in metropolitan and CBD markets;
- generating income by delivering and maintaining sustainable occupancy levels;
- divesting assets to make capital available;
- as appropriate, recycle available capital to refurbish and reposition assets; and,
- exploring other value maximisation initiatives.

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

Australian Unity Property Management Pty Ltd (ABN 76 073 590 600) has been appointed to provide a number of property related services to the Scheme.

## **Review of operations**

### **Sale of 30 Pirie Street, Adelaide, SA**

On 25 November 2022, the Scheme entered into a conditional contract for the sale of 30 Pirie Street, Adelaide, SA. The sale price of \$73,000,000, excluding settlement adjustments, reflected the asset's independent valuation as at 30 June 2022. Settlement occurred on 20 December 2022 with the net proceeds used to repay the Scheme's borrowings and reduce gearing.

### **Sale of 2 Eden Park Drive, Macquarie Park, NSW**

On 12 December 2022, the Scheme entered into a conditional contract for the sale of 2 Eden Park Drive, Macquarie Park, NSW. The sale price of \$68,825,000, excluding settlement adjustments, represents a 10% premium to the 30 June 2022 independent valuation of \$62,500,000. Settlement occurred on 14 February 2023 with the net proceeds used to repay the Scheme's borrowings and reduce gearing.

In the interim report for the half-year ended 31 December 2022, 2 Eden Park Drive, Macquarie Park, NSW was classed as being held for sale.

### **Sale of 5 Eden Park Drive, Macquarie Park, NSW**

On 16 February 2023, the Scheme entered into an unconditional contract for the sale of 5 Eden Park Drive, Macquarie Park, NSW. The sale price of \$80,750,000, excluding settlement adjustments, represents approximately a 1% premium to the 30 June 2022 independent valuation of \$80,000,000. Settlement is expected in March 2023.

In the interim report for the half-year ended 31 December 2022, 5 Eden Park Drive, Macquarie Park, NSW was classed as an investment property.

### Financial result

The following table summarises the statutory profit for the half-year ended 31 December 2022 and provides a comparison to the statutory profit for the half-year ended 31 December 2021.

\$'000	Half-year ended 31 December 2022	Half-year ended 31 December 2021 restated
Rental income *	23,229	26,376
Property expenses **	(6,418)	(6,021)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(1,896)	(2,530)
<b>Net property income</b>	<b>14,915</b>	<b>17,825</b>
Interest income	34	-
Net (losses)/gains on financial instruments held at fair value	(810)	3,041
Net fair value decrement of investment properties	(5,775)	(4,804)
Disposal costs***	(1,506)	(1,092)
Management fees	(1,625)	(1,939)
Borrowing costs	(2,916)	(2,742)
Other expenses ****	(1,338)	(3,455)
<b>Profit attributable to unitholders</b>	<b>979</b>	<b>6,834</b>

\* Rental income excludes the impact of straight lining of rental income and excludes amortisation of leasing commissions and amortisation of tenant incentives.

\*\* Property expenses includes expected credit losses.

\*\*\*Disposal costs for the half-year ended 31 December 2022 relate to costs incurred in the disposal of 30 Pirie Street, Adelaide and 2 Eden Park Drive, Macquarie Park. Disposal costs for the half-year ended 31 December 2021 relate to costs incurred in the disposal of 32 Phillip Street, Parramatta.

\*\*\*\* Other expenses for the half-year ended 31 December 2021 include \$2,626,000 of costs in relation to the proposed merger with the Australian Unity Diversified Property Fund that did not proceed.

As at 31 December 2022, the Scheme's net assets per unit attributable to unitholders was \$2.22 (30 June 2022: \$2.26).

### Funds From Operations

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

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

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

A reconciliation of the statutory profit to FFO and distributions is set out below for the half-year ended 31 December 2022 and 31 December 2021.

**Funds From Operations (continued)**

\$'000	Half-year ended 31 December 2022	Half-year ended 31 December 2021 restated
Net profit	979	6,834
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	1,896	2,530
Net losses/(gains) on financial instruments held at fair value	810	(3,041)
Net fair value decrement of investment properties	5,775	4,804
Amortisation of borrowing costs	306	142
Once off adjustments *	1,506	3,718
Add back: Rental abatement incentives	866	656
<b>Directors' assessment of Funds from Operations</b>	<b>12,138</b>	<b>15,643</b>
<b>Distributions declared</b>	<b>8,219</b>	<b>12,493</b>

\*The Scheme incurred, \$1,506,000 of disposal costs for the half-year ended 31 December 2022; as these costs are one off in nature, and not part of the underlying and recurring earnings of the Scheme, the directors have excluded them from the FFO calculation.

For the year ended 31 December 2021, the Scheme incurred \$1,092,000 of disposal costs and \$2,626,000 of costs in relation to the proposed merger with the Australian Unity Diversified Property Fund that did not proceed; as these costs are one off in nature, and not part of the underlying and recurring earnings of the Scheme, the directors have excluded them from the FFO calculation.

Cents per unit	Half-year ended 31 December 2022	Half-year ended 31 December 2021
Directors' assessment of Funds From Operations	7.4	9.5
Distributions declared	5.0	7.6
Payout ratio (Distributions declared/Funds From Operations)	67.6%	80.0%

**Property portfolio**

At 31 December 2022 the scheme wholly owned seven properties located across Australian metropolitan and CBD markets (30 June 2022: eight properties), of which one, 2 Eden Park Drive, Macquarie Park, NSW, was held for sale. The portfolio was valued at \$462,327,000 (30 June 2022: \$539,820,000) and had a total net lettable area of 71,183 sqm (30 June 2022: 95,904 sqm). Excluding 2 Eden Park Drive, Macquarie Park, NSW which was held for sale at 31 December 2022 and settled on 14 February 2023 and 5 Eden Park Drive, Macquarie Park, NSW which unconditionally exchanged on 16 February 2023, the portfolio was valued at \$316,655,000.

**a) Leasing and occupancy**

At 31 December 2022, the Scheme's investment properties weighted average lease expiry was 3.0 years (30 June 2022: 2.5 years) and occupancy rate was 75.7% (30 June 2022: 84.4%). Excluding 2 Eden Park Drive, Macquarie Park, NSW and 5 Eden Park Drive, Macquarie Park, NSW, the weighted average lease expiry was 3.1 years and occupancy 67.4%.

**b) Valuations**

468 St Kilda Road, Melbourne, VIC and 150 Charlotte Street, Brisbane, QLD were independently valued at 31 December 2022.

At 31 December 2022 the weighted average capitalisation rate for the portfolio was 5.6% (30 June 2022: 5.7%). Excluding 2 Eden Park Drive, Macquarie Park, NSW and 5 Eden Park Drive, Macquarie Park, NSW, the weighted average capitalisation rate for the portfolio was 5.7%



### **Capital management**

Following the sale of 30 Pirie Street, Adelaide, SA, the Responsible Entity on behalf of the Scheme terminated \$65,000,000 of the Scheme's debt facility tranches with the existing financiers. All tranches of the Scheme's \$185,000,000 debt facility (\$250,000,000 at 30 June 2022) expire on 17 March 2025. The facility is secured against the assets of the Scheme and is non-recourse to unitholders.

The Scheme terminated an interest rate swap with a contract/notional value of \$30,000,000, realising a \$1,378,000 gain. Interest rate swaps with a contract/notional value of \$100,000,000, representing 97% of the drawn borrowings, were in place at 31 December 2022.

Net proceeds from the sale of 30 Pirie Street, Adelaide, SA, were used to repay debt, with drawn borrowings at 31 December 2022 totalling \$103,000,000 (30 June 2022: \$170,300,000) with a weighted average all-in interest cost of 3.0% (30 June 2022: 2.9%).

The Scheme's gearing (calculated as interest bearing liabilities, excluding unamortised establishment costs, less cash, divided by total tangible assets less cash) was 20.2% (30 June 2022: 30.4%).

The Scheme did not breach its debt covenants during the half-year ended 31 December 2022.

The Distribution Reinvestment Plan (DRP) was not active for the half-year ended 31 December 2022.

### **Outlook and guidance**

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

The Responsible Entity will continue to focus on active portfolio management, including progressing asset management and refurbishment and repositioning initiatives at 10 Valentine Avenue, Parramatta and 150 Charlotte Street, Brisbane. The Scheme will also continue to explore other initiatives to maximise returns for the Scheme's unitholders, including divesting assets.

The Responsible Entity provides distribution guidance of 2.50 cents per unit for the March 2023 quarter. This guidance is subject to no material change in the Scheme's portfolio, no material change in current market conditions and no unforeseen events. The Responsible Entity will provide distribution guidance on a quarterly basis until further notice.

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

### **Matters subsequent to the end of the half-year**

On 14 February 2023, the Scheme settled the disposal of 2 Eden Park Drive, Macquarie Park, NSW for \$68,825,000, excluding settlement adjustments.

On 16 February 2023, the Scheme entered into an unconditional contract to sell 5 Eden Park Drive, Macquarie Park, NSW for \$80,750,000, excluding settlement adjustments. Settlement is expected in March 2023.

Other than the above matters, the Directors of the Responsible Entity are not aware of any other matter or circumstance arising since 31 December 2022 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the consolidated statement of financial position as at 31 December 2022 or on the results and cash flows of the Scheme for the half-year ended on that date.

**Significant changes in state of affairs**

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

**Indemnification and insurance of officers and auditors**

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

**Environmental regulation**

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

**Rounding of amounts**

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

**Auditor's independence declaration**

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

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



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



W Peter Day  
Independent Non-Executive Director and Chairman

27 February 2023



## Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Office Fund for the half-year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in blue ink that reads 'Britt Hawkins'.

Britt Hawkins  
Partner  
PricewaterhouseCoopers

Melbourne  
27 February 2023

Australian Unity Office Fund  
Consolidated statement of comprehensive income  
For the half-year ended 31 December 2022

**Consolidated statement of comprehensive income**

	Notes	Half-year	
		2022	2021 restated
		\$'000	\$'000
<b>Income</b>			
Rental income	3	21,333	23,846
Property expenses	4	(6,418)	(6,021)
<b>Net property income</b>		<b>14,915</b>	17,825
Interest income		34	-
Net (losses)/gains on financial instruments held at fair value through profit or loss		(810)	3,041
Net fair value decrement of investment properties	9(b)	(5,775)	(4,804)
<b>Total income net of property expenses</b>		<b>8,364</b>	16,062
<b>Expenses</b>			
Management fees		1,625	1,939
Disposal costs		1,506	1,092
Borrowing costs and other related costs		2,916	2,742
Other expenses	5	1,338	3,455
<b>Total expenses, excluding property expenses</b>		<b>7,385</b>	9,228
<b>Profit attributable to unitholders</b>		<b>979</b>	6,834
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income attributable to unitholders</b>		<b>979</b>	6,834
<b>Basic and diluted earnings per unit attributable to unitholders (cents per unit)</b>		<b>0.60</b>	4.16

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

**Australian Unity Office Fund**  
**Consolidated statement of financial position**  
**As at 31 December 2022**

**Consolidated statement of financial position**

	31 December 2022	30 June 2022
Notes	\$'000	\$'000
<b>Assets</b>		
Cash and cash equivalents	8,155	3,261
Receivables	426	1,357
Other assets	8 241	873
Financial assets held at fair value through profit or loss	10 6,501	8,689
Property held for sale	68,172	-
Investment properties	9 394,155	539,820
<b>Total assets</b>	<b>477,650</b>	<b>554,000</b>
<b>Liabilities</b>		
Distributions payable	7 4,110	6,247
Payables	6,698	6,677
Borrowings	11 102,591	169,585
<b>Total liabilities</b>	<b>113,399</b>	<b>182,509</b>
<b>Net assets attributable to unitholders</b>	<b>6 364,251</b>	<b>371,491</b>

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

**Australian Unity Office Fund**  
**Consolidated statement of changes in equity**  
**For the half-year ended 31 December 2022**

**Consolidated statement of changes in equity**

	<b>Half-year</b>	
	<b>2022</b>	2021
	<b>\$'000</b>	\$'000
<b>Balance at the beginning of the half-year</b>	<b>371,491</b>	444,832
<b>Comprehensive income for the half-year</b>		
Profit attributable to unitholders	<u>979</u>	<u>6,834</u>
<b>Total comprehensive income attributable to unitholders</b>	<b>979</b>	6,834
<b>Transactions with unitholders</b>		
Distributions paid and payable	<u>(8,219)</u>	<u>(12,493)</u>
<b>Total transactions with unitholders</b>	<b>(8,219)</b>	(12,493)
<b>Balance at the end of the half-year</b>	<b><u>364,251</u></b>	<u>439,173</u>

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

**Australian Unity Office Fund**  
**Consolidated statement of cash flows**  
**For the half-year ended 31 December 2022**

**Consolidated statement of cash flows**

	<b>Half-year</b>	
	<b>2022</b>	2021
	<b>\$'000</b>	\$'000
<b><i>Cash flows from operating activities</i></b>		
Rental income received	<b>24,849</b>	26,684
Payments to suppliers	<b>(9,361)</b>	(10,105)
Interest received	<b>34</b>	-
<b>Net cash inflows from operating activities</b>	<b>15,522</b>	16,579
<b><i>Cash flows from investing activities</i></b>		
Payments for additions to owned investment properties	<b>(3,764)</b>	(4,965)
Deposits paid & transactions costs in relation to acquisition of 96 York Street	-	(1,799)
Proceeds from sale of investment property	<b>72,188</b>	66,000
<b>Net cash inflows from investing activities</b>	<b>68,424</b>	59,236
<b><i>Cash flows from financing activities</i></b>		
Proceeds from borrowings	<b>6,701</b>	5,500
Repayment of borrowings	<b>(74,000)</b>	(65,000)
Borrowings costs and other related costs paid	<b>(2,774)</b>	(3,176)
Distributions paid	<b>(10,357)</b>	(12,411)
Proceeds from break of interest rate swap	<b>1,378</b>	-
<b>Net cash outflows from financing activities</b>	<b>(79,052)</b>	(75,087)
<b>Net increase in cash and cash equivalents</b>	<b>4,894</b>	728
Cash and cash equivalents at the beginning of the half-year	<b>3,261</b>	8,935
<b>Cash and cash equivalents at the end of the half-year</b>	<b>8,155</b>	9,663

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

**Notes to the consolidated financial statements**

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## **1 General information**

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

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

The Responsible Entity is incorporated and domiciled in Australia.

The consolidated financial statements are for the period 1 July 2022 to 31 December 2022.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 27 February 2023. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

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

## **2 Basis of preparation**

These consolidated interim financial statements for the half-year ended 31 December 2022 have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This consolidated interim financial report does not include all the notes of the type normally included in a set of annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 30 June 2022 and any public announcements made in respect of the Scheme during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The significant accounting policies have been consistently applied in the current financial period and the comparative period, unless otherwise stated. Where necessary, comparative information has been re-presented to be consistent with current period disclosures.

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

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

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

### *Compliance with International Financial Reporting Standards*

Compliance with AASB 134 ensures that the interim consolidated financial report of the Scheme, comprising the consolidated financial statements and notes thereto, complies with the International Accounting Standard IAS 34 *Interim Financial Reporting*.

## 2 Basis of preparation (continued)

### *New accounting standards and amendments adopted by the Scheme*

There are no new accounting standards, interpretations or amendments to existing standards that are effective for the first time for the reporting period that have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

### *New accounting standards, amendments and interpretations not yet adopted*

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for 31 December 2022 reporting period and have not yet been applied in the financial statements. None of these are expected to have a material effect on the financial statements of the Scheme.

### *Prior period restatement*

During the half-year, the Scheme identified that net gain on disposal of investment properties had been incorrectly classified. A net fair value gain on investment property that was sold during the comparative period of \$3,023,000 has been reclassified from net gains on disposal of investment property to net fair value decrement of investment properties. Following the reclassification, the remaining costs have been renamed disposal costs to better reflect the nature of these items. There is no impact to the Scheme's profit, net assets or funds from operations as a result of the restatement of the comparative period.

## 3 Rental income

	Half-year	
	2022	2021
	\$'000	\$'000
Rental income	19,076	21,689
Outgoings income	3,994	4,122
Amortisation of lease commissions & lease incentives	(1,737)	(1,965)
<b>Total rental income</b>	<b>21,333</b>	<b>23,846</b>

Rental income includes an adjustment for the straight lining of rental income of (\$159,000) (2021:(\$564,000)).

## 4 Property expense

	Half-year	
	2022	2021
	\$'000	\$'000
Recoverable outgoings	5,787	5,621
Non recoverable outgoings	841	479
Doubtful debts provision and bad debt expense	(210)	(79)
<b>Total property expenses</b>	<b>6,418</b>	<b>6,021</b>

## 5 Other expenses

	Half-year	
	2022	2021
	\$'000	\$'000
Other expenses	1,338	3,455
<b>Total other expenses</b>	<b>1,338</b>	<b>3,455</b>

During the half-year ended 31 December 2021, the Scheme incurred \$2,626,000 of costs in relation to the proposed merger with the Australian Unity Diversified Property Fund, which did not proceed.

## 6 Net assets attributable to unitholders

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

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

	Movement in no. of units		Movement in net assets	
	Half-year		Half-year	
	2022	2021	2022	2021
	No. '000	No. '000	\$'000	\$'000
<b>Contributed equity</b>				
Opening balances	164,383	164,383	374,067	374,067
Units issued through the DRP	-	-	-	-
<b>Closing balance</b>	<b>164,383</b>	<b>164,383</b>	<b>374,067</b>	<b>374,067</b>
<b>Undistributed income</b>				
Opening balance			(2,576)	70,765
Decrease in net assets attributable to unitholders			(7,240)	(5,659)
<b>Closing balance</b>			<b>(9,816)</b>	<b>65,106</b>
<b>Total net assets attributable to unitholders</b>			<b>364,251</b>	<b>439,173</b>

## 7 Distributions to unitholders

The distributions declared for the half-year were as follows:

	Half-year			
	2022	2022	2021	2021
	\$'000	CPU	\$'000	CPU
30 September	4,109	2.5000	6,247	3.8000
31 December (payable)	4,110	2.5000	6,247	3.8000
	<b>8,219</b>	<b>5.0000</b>	<b>12,494</b>	<b>7.6000</b>

## 8 Other assets

	31 December 2022 \$'000	30 June 2022 \$'000
Prepaid expenses	241	873
<b>Total other assets</b>	<b>241</b>	<b>873</b>

## 9 Investment properties

### (a) Property details

	Type	Ownership (%)	Acquisition date	Independent Valuation date	Independent Valuation amount \$'000	Valuer	Carrying value 31 December 2022 \$'000	30 June 2022 \$'000
2-10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	30/06/2022	98,000	Cushman & Wakefield	98,525	98,000
468 St Kilda Rd, Melbourne, VIC	Commercial/ Freehold	100%	03/07/2007	31/12/2022	80,000	CBRE	80,000	83,200
5 Eden Park Drive, Macquarie Park, NSW	Office/ Freehold	100%	11/02/2014	-	n/a	-	77,500	80,000
150 Charlotte Street, Brisbane, QLD	Office/ Freehold	100%	20/10/2017	31/12/2022	72,000	Savills	72,000	77,100
96 York Street, Beenleigh, QLD	Office/ Freehold	100%	25/02/2022	31/03/2022	33,520	Colliers	33,520	33,520
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	30/06/2022	32,500	Knight Frank	32,610	32,500
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/02/2014	SOLD	-	-	-	73,000
2 Eden Park Drive, Macquarie Park, NSW	Commercial/ Freehold	100%	20/06/2013	-	n/a	-	68,172	62,500
<b>Total</b>							<b>462,327</b>	<b>539,820</b>
Less: Properties held for sale (see note 9(c))							<b>(68,172)</b>	
<b>Total Investment properties</b>							<b>394,155</b>	<b>539,820</b>

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

On 12 December 2022, the Scheme entered into a conditional contract for the sale of 2 Eden Park Drive, Macquarie Park, NSW. The carrying value at 31 December 2022 represents the expected net sales proceeds. Settlement occurred on 14 February 2023 with the net proceeds used to repay the Scheme's borrowings and reduce gearing.

On 20 December 2022, the Scheme settled the sale of 30 Pirie Street, Adelaide, SA for consideration of \$73,000,000, excluding settlement adjustments.

On 16 February 2023, the Scheme entered into a contract to sell 5 Eden Park Drive, Macquarie Park, NSW for \$80,750,000, excluding settlement adjustments. Settlement is expected in March 2023.

## 9 Investment properties (continued)

### (b) Movements in carrying amount

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

	31 December 2022	30 June 2022 restated
	\$'000	\$'000
Opening balance	539,820	638,850
Acquisitions	-	35,799
Additions	2,366	13,513
Disposal	(72,188)	(66,000)
Lease commissions and incentives amortisation	(1,737)	(4,001)
Straight-lining of rental income	(159)	(2,195)
Revaluation movements	(5,775)	(76,146)
Reclassification as property held for sale	(68,172)	-
<b>Closing balance</b>	<b>394,155</b>	<b>539,820</b>

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

	31 December 2022	30 June 2022
	\$'000	\$'000
Opening balance	-	-
Transfers from investment property	68,172	-
<b>Closing balance</b>	<b>68,172</b>	<b>-</b>

On 12 December 2022, the Scheme entered into a conditional contract for the sale of 2 Eden Park Drive, Macquarie Park, NSW. The carrying value at 31 December 2022 represents the expected net sales proceeds. Settlement occurred on 14 February 2023 with the net proceeds used to repay the Scheme's borrowings and reduce gearing.

### (d) Leasing arrangements

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

	31 December 2022	30 June 2022 restated
	\$'000	\$'000
Within one year	19,288	31,678
Later than one year but not later than 5 years	34,438	44,944
Later than 5 years	14,765	15,374
	<b>68,491</b>	<b>91,996</b>

During the half-year, the Scheme identified that the future aggregate minimum lease payments receivable under non-cancellable leases at 30 June 2022 was understated. This has been corrected, resulting in an increase in the future aggregate minimum lease payments receivable under non-cancellable leases of \$22,938,000.

## 9 Investment properties (continued)

### (e) Sensitivity information

A sensitivity analysis was undertaken to assess the impact of capitalisation rates, discount rates and terminal yields on the fair value of the investment properties. The estimated impact of a change in these significant unobservable inputs is illustrated in the table below. The sensitivity analysis excludes 2 Eden Park Drive, Macquarie Park, NSW which was held for sale at 31 December 2022.

	31 December 2022 \$'000	30 June 2022 \$'000
Adopted capitalisation rate (+0.25%) (June 2022: +0.25%)	(21,528)	(31,313)
Adopted capitalisation rate (-0.25%) (June 2022: -0.25%)	23,775	32,737
Adopted discount rate (+0.25%) (June 2022: +0.25%)	(5,648)	(12,627)
Adopted discount rate (-0.25%) (June 2022: -0.25%)	5,874	12,948
Adopted terminal yield (+0.25%) (June 2022: +0.25%)	(7,855)	(18,782)
Adopted terminal yield (-0.25%) (June 2022: -0.25%)	8,701	20,028

## 10 Financial assets held at fair value through profit or loss

	31 December 2022 \$'000	30 June 2022 \$'000
Derivative assets	6,501	8,689
<b>Total financial assets held at fair value through profit or loss</b>	<b>6,501</b>	<b>8,689</b>

## 11 Borrowings

	31 December 2022 \$'000	30 June 2022 \$'000
Bank loan	103,000	170,300
Unamortised borrowing costs	(409)	(715)
	<b>102,591</b>	<b>169,585</b>

Following the sale of 30 Pirie Street, Adelaide, SA, the Responsible Entity on behalf of the Scheme terminated \$65,000,000 of the Scheme's debt facility tranches with the existing financiers. All tranches of the Schemes \$185,000,000 debt facility (\$250,000,000 at 30 June 2022) expire on 17 March 2025. The facility is secured against the assets of the Scheme and is non-recourse to unitholders. The Scheme did not breach its debt covenants during the half-year ended 31 December 2022.

## 11 Borrowings (continued)

The Scheme had access to:

	<b>31 December 2022 \$'000</b>	30 June 2022 \$'000
<b>Credit facilities</b>		
Cash advance facilities	185,000	250,000
Drawn balance	<u>(103,000)</u>	<u>(170,300)</u>
<b>Undrawn balance</b>	<u>82,000</u>	<u>79,700</u>
	<b>31 December 2022 \$'000</b>	30 June 2022 \$'000
<b>Analysis of changes in consolidated net debt</b>		
Opening balance	167,039	181,865
Net repayment of borrowings	(67,300)	(20,500)
Other cash movements	<u>(4,894)</u>	<u>5,674</u>
<b>Closing balance</b>	<u>94,845</u>	<u>167,039</u>
Bank loan	103,000	170,300
Cash and cash equivalents	<u>(8,155)</u>	<u>(3,261)</u>
<b>Consolidated net debt</b>	<u>94,845</u>	<u>167,039</u>

## 12 Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made in determining the fair values of the financial instruments since the last annual financial report. The Scheme measures and recognises financial assets/(liabilities) held at fair value through profit or loss on a recurring basis.

### (a) Fair value hierarchy

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

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

## 12 Fair value measurement of financial instruments (continued)

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

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

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

All fair value measurements disclosed are recurring fair value measurements.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>31 December 2022</b>				
<b>Financial assets</b>				
<i>Financial assets held at fair value through profit or loss</i>				
Derivatives	-	6,501	-	6,501
<b>Total financial assets</b>	-	6,501	-	6,501
<b>Non-financial assets</b>				
Properties held for sale	-	-	68,172	68,172
Investment properties	-	-	394,155	394,155
<b>Total non-financial assets</b>	-	-	462,327	462,327
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2022</b>				
<b>Financial assets</b>				
<i>Financial assets held at fair value through profit or loss</i>				
Derivatives	-	8,689	-	8,689
<b>Total financial assets</b>	-	8,689	-	8,689
<b>Non-financial assets</b>				
Investment properties	-	-	539,820	539,820
<b>Total non-financial assets</b>	-	-	539,820	539,820

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1, 2 and 3 for fair value hierarchy during the half-year ended 31 December 2022 (30 June 2022: \$nil).



## 12 Fair value measurement of financial instruments

### (b) Valuation techniques

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

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

The stated fair value of each financial instruments at the end of the reporting period represents the Responsible Entity's best estimate at the end of the reporting period.

#### *(i) Investment properties*

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

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

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

The Responsible Entity elected to independently revalue 468 St Kilda Road, Melbourne, VIC and 150 Charlotte Street, Brisbane, QLD at 31 December 2022, with the independent valuation considered by the Responsible Entity to represent the best estimate of fair value as at the end of the reporting period.

The other investment properties were not independently revalued as their carrying value was considered by the Responsible Entity to represent the best estimate of fair value as at the end of the reporting period.

If an investment property is sold in the future the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the consolidated financial statements if that differs from the valuation.

### (c) Fair value of other financial instruments

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

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

### **13 Events occurring after end of the half-year**

On the 14 February 2023, the Scheme settled on the disposal of 2 Eden Park Drive, Macquarie Park, NSW for \$68,825,000, excluding settlement adjustments.

On 16 February 2023, the Scheme entered into an unconditional contract to sell 5 Eden Park Drive, Macquarie Park, NSW for \$80,750,000, excluding settlement adjustments. Settlement is expected in March 2023.

Other than the matters identified above, the Directors of the Responsible Entity are not aware of any other matter or circumstance arising since 31 December 2022 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the consolidated statement of financial position as at 31 December 2022 or on the results and cash flows of the Scheme for the half-year ended on that date.

### **14 Contingent assets and liabilities and commitments**

There were no contingent assets or liabilities as at 31 December 2022 (30 June 2022: \$nil).

Commitments arising from contracts principally relating to capital expenditure on investment properties which are contracted for at reporting date but not recognised on the consolidated statement of financial position are \$119,000 (30 June 2022: \$951,000).

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The consolidated financial statements and notes set out on pages 9 to 23 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards as it relates to AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated Scheme's financial position as at 31 December 2022 and of its performance, as represented by the results of its operations and cash flows for the financial reporting period ended on that date.
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable, and
- (c) The consolidated financial statements are in accordance with the Scheme's Constitution.

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



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



W Peter Day  
Independent Non-Executive Director and Chairman

27 February 2023



## ***Independent auditor's review report to the unitholders of Australian Unity Office Fund***

### **Report on the half-year financial report**

#### ***Conclusion***

We have reviewed the half-year financial report of Australian Unity Office Fund (the Scheme) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Australian Unity Office Fund does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### ***Basis for conclusion***

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

#### ***Responsibilities of the directors of the Responsible Entity for the half-year financial report***

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



### ***Auditor's responsibilities for the review of the half-year financial report***

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Britt Hawkins*

Britt Hawkins  
Partner

Melbourne  
27 February 2023