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# **Centuria Capital Group**

## **Financial Report**

### **for the year ended 30 June 2018**

Centuria Capital Group comprises of Centuria Capital Limited ABN 22 095 454 336 (the 'Company') and its subsidiaries and Centuria Capital Fund ARSN 613 856 358 ('CCF') and its subsidiaries. The Responsible entity of CCF is Centuria Funds Management Limited ACN 607 153 588, AFSL 479 873, a wholly owned subsidiary of the Company.

**Centuria Capital Group**  
**Financial Report - 30 June 2018**

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These consolidated financial statements are the financial statements of the consolidated entity consisting of Centuria Capital Limited and its subsidiaries. A list of material subsidiaries is included in note E2. The consolidated financial statements are presented in the Australian currency.

Centuria Capital Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Centuria Capital Limited  
Level 39, 100 Miller Street  
North Sydney NSW 2060

The consolidated financial statements were authorised for issue by the Directors on 14 August 2018. The Directors have the power to amend and reissue the consolidated financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Shareholder Centre on our website: [www.centuria.com.au](http://www.centuria.com.au)

## Directors' report

The directors of Centuria Capital Limited (the 'Company') present their report together with the consolidated financial statements of the Company and its controlled entities (the 'Group') for the financial year ended 30 June 2018 and the auditor's report thereon.

ASX listed Centuria Capital Group consists of the Company and its controlled entities including Centuria Capital Fund ('CCF'). The shares in the Company and the units in CCF are stapled, quoted and traded on the Australian Securities Exchange ('ASX') as if they were a single security under the ticker code 'CNI'.

### Directors and directors' interests

<b>Mr Garry S. Charny, BA. LL.B. <i>Independent Non-Executive Director and Chairman</i></b>		
Experience and expertise	<p>Garry was appointed to the Board on 23 February 2016 and appointed Chairman on 30 March 2016.</p> <p>He is Managing Director and founding principal of Wolseley Corporate, an Australian based corporate advisory and investment house which transacts both domestically and internationally.</p> <p>He has had a broad range experience in both listed and unlisted companies across a diverse range of sectors including property, retail, technology and media. He formerly practised as a barrister in the fields of commercial and equity.</p>	
Other directorships	Garry is Chairman of Wolseley Corporate. He is also Chairman of Spotted Turquoise Films, an international Film and Television company based in Sydney and Los Angeles. He is Chairman of Shero Investments, a Sydney based investment company.	
Special responsibilities	<p>Chairman of the Board</p> <p>Chairman of the Conflicts Committee</p> <p>Chairman of the Nomination and Remuneration Committee</p> <p>Member of the Audit, Risk Management and Compliance Committee</p>	
Interests in CNI	Ordinary stapled securities	237,314

<b>Mr Peter J. Done, B.Comm, FCA. <i>Independent Non-Executive Director</i></b>		
Experience and expertise	<p>Peter was appointed to the Board on 28 November 2007. Peter was a partner of KPMG for 27 years until his retirement in June 2006.</p> <p>He has extensive knowledge in accounting, audit and financial management in the property development and financial services industries, corporate governance, regulatory issues and Board processes through his many senior roles.</p>	
Other directorships	None.	
Special responsibilities	<p>Chairman of the Audit, Risk Management and Compliance Committee</p> <p>Member of the Nomination and Remuneration Committee</p> <p>Member of the Investment Committee</p>	
Interests in CNI	Ordinary stapled securities	1,083,676

Directors and directors' interests (continued)

<b>Mr John R. Slater</b> , Dip.FS (FP), F Fin. <i>Independent Non-Executive Director</i>		
Experience and expertise	<p>John was appointed to the Board on 22 May 2013 having been an adviser to the Centuria Life Friendly Society Investment Committees since 2011.</p> <p>John was a senior executive in the KPMG Financial Services practice from 1989 to 1999 and acted as State director of the Brisbane practice. He has also served on the Investment Committees of KPMG Financial Services, Berkley Group and Byron Capital.</p> <p>In 2008, John founded boutique Financial Advisory firm Riviera Capital, subsequently sold in 2016 and has a wealth of financial services experience.</p>	
Other directorships	None.	
Special responsibilities	<p>Member of the Audit, Risk Management and Compliance Committee</p> <p>Member of the Nomination and Remuneration Committee</p>	
Interests in CNI	Ordinary stapled securities	2,889,075

<b>Ms Susan Wheeldon-Steele</b> , MBA. <i>Independent Non-Executive Director</i>		
Experience and expertise	<p>Susan was appointed to the Board on 31 August 2016.</p> <p>Susan is the Head of Performance at Google where she works with major national and global companies to develop and deliver growth strategies that future proof and build clients' businesses and brands in a constantly changing environment.</p> <p>She has previous experience in retail property asset management at AMP Capital Shopping Centres, as Head of Brand &amp; Retail, responsible for delivering alternative revenue from 38 retail assets across Australia and New Zealand with combined annual sales in excess of \$5 billion.</p>	
Other directorships	None.	
Special responsibilities	Member of the Conflicts Committee	
Interests in CNI	Ordinary stapled securities	Nil.

Directors and directors' interests (continued)

<b>Mr Nicholas R. Collishaw</b> , SAFin, FAAP, FRICS, <i>[Non-Executive Director]</i>		
Experience and expertise	<p>Nicholas was appointed CEO - Listed Property Funds at Centuria Property Funds on 1 May 2013 and to the Board on 27 August 2013. Effective 1 January 2018, Nicholas resigned as CEO - Listed Property Funds and became a Non-Executive Director.</p> <p>Prior to this role, Nicholas held the position of CEO and Managing Director at the Mirvac Group. During his time at Mirvac (2005-2012), Nicholas was responsible for successfully guiding the business through the GFC and implementing a strategy of sustained growth for the real estate development and investment company. During Nicholas' 30 year career, he has held senior positions with James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management. He has extensive experience in all major real estate markets in Australia and investment markets in the United States, United Kingdom and the Middle East.</p>	
Other directorships	None.	
Special responsibilities	CEO - Listed Property Funds- resigned 1 January 2018	
Interests in CNI	Ordinary stapled securities	3,086,227
	Performance rights granted	858,811

<b>Mr John E. McBain</b> , Dip. Urban Valuation, <i>Executive Director and Chief Executive Officer</i>		
Experience and expertise	<p>John was a founding director and major shareholder in boutique property funds manager Century Funds Management, which was established in 1999 and was acquired by Over Fifty Group in July 2006. He joined the Over Fifty Group Board on 10 July 2006 and was appointed Chief Executive Officer in 2008. In 2011 the company was renamed Centuria Capital.</p> <p>Prior to forming Century, in 1990 John founded Hanover Group, a specialist property investment consultancy and in 1995 he formed Waltus Investments Australia, a dedicated property fund manager. John formerly held senior positions in a number of property development and property investment companies in Australia, New Zealand and the United Kingdom.</p>	
Other directorships	John is also a director of QV Equities Limited, a licensed investment company listed on the ASX.	
Special responsibilities	Chief Executive Officer	
Interests in CNI	Ordinary stapled securities	5,191,995
	Performance rights granted	1,495,515

Directors and directors' interests (continued)

Mr Jason C. Huljich, B. Comm. <i>Executive Director and Head of Real Estate and Funds Management</i>		
Experience and expertise	<p>Jason was appointed to the Board on 28 November 2007.</p> <p>Jason leads Centuria's Property Funds Management business, which is responsible for both listed and unlisted property funds, the property services business, property acquisition and disposal and special property and debt opportunities. In this role he provides strategic leadership, ensuring the effective operation of Centuria's property business.</p> <p>He has extensive experience in the commercial property sector, with specialist skills in property investment and funds management. He is also the immediate past President of the Property Funds Association (PFA), which represents the \$125 billion direct property investment body in Australia, and continues to serve on their national executive.</p>	
Other directorships	None.	
Special responsibilities	Head of Real Estate and Funds Management	
Interests in CNI	Ordinary stapled securities	5,186,039
	Performance rights granted	872,740

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

Director	Board Meetings		Audit, Risk, Management & Compliance Committee Meetings		Nomination & Remuneration Committee Meetings		Conflicts Committee meetings	
	A	B	A	B	A	B	A	B
Mr Garry S. Charny	24	24	6	5	4	4	6	6
Mr Peter J. Done	24	22	6	6	4	4	#	#
Mr John R. Slater	24	23	6	4	4	3	#	#
Ms Susan Wheeldon-Steele	24	22	#	#	#	#	6	6
Mr Nicholas R. Collishaw	24	23	#	#	#	#	#	#
Mr John E. McBain	24	23	#	#	#	#	#	#
Mr Jason C. Huljich	24	20	#	#	#	#	#	#

A = Number of meetings attended

B = Number of meetings held during the time the Director held office during the year

# = Not a member of committee

Company secretary

Anna Kovarik was appointed to the position of Company Secretary on 5 July 2018.

Anna holds a Masters of Information Technology, a BA (Hons) in Systems Management and was awarded a distinction in the Global Executive MBA program at the University of Sydney. She is qualified as a solicitor in both the UK and NSW and was a senior associate at Allens law practice in Sydney.

Prior to joining Centuria, Anna held the position of Group Risk Manager at Mirvac Group and was previously Head of Group Insurance for AMP and General Counsel and Company Secretary at AMP Capital Brookfield.

Mr James Lonie held the position of company secretary from 16 June 2017 until his resignation on 5 July 2018.

## Principal activities

The principal activities of the Group during the financial year were the marketing and management of investment products including friendly society investment bonds and property investment funds as well as direct interest in property funds and other liquid investments.

## Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year, in addition to the operating and financial review below were as follows:

- Contributed equity attributable to Centuria Capital Group increased by \$95,705,000 from \$247,995,000 to \$343,700,000 as a result of equity raisings and vesting of rights under the Employee share scheme. Details of changes in contributed equity are disclosed in Note C10 to the consolidated financial statements.
- On 11 September 2017, the Group issued Tranche 2 of 7% fixed rate secured notes to the value of \$23,000,000. These notes mature on 21 April 2021 along with \$100,000,000 of fixed and floating rate secured notes which were issued during the year ended 30 June 2017.
- The Group increased its stake in Centuria Metropolitan REIT by 2.7% to 11.4% and Centuria Industrial REIT by 3.8% to 19.5%.
- The Group acquired a 9.3% strategic stake in Propertylink Group (PLG).

## Operating and financial review

The Group recorded a consolidated statutory net profit after tax for the year of \$56,190,000 (2017: \$26,295,000). Statutory net profit after tax has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards, which comply with International Financial Reporting Standards.

The Group recorded an operating profit after tax of \$45,087,000 (2017: \$15,489,000). Operating profit after tax excludes non-operating items such as transaction costs and fair value movements.

The statutory net profit after tax includes a number of items that are not operating in nature, the table below provides a reconciliation from statutory profit to operating profit.

	2018 \$'000	2017 \$'000
<b>Reconciliation of statutory profit to operating profit</b>		
Statutory profit after tax	56,190	26,295
<b>Less non-operating items:</b>		
Unrealised loss/(gain) on fair value movements in derivatives, property and investments	(8,604)	(4,434)
Corporate restructure & transaction costs	230	2,749
Impairment charges in relation to seed capital valuations	380	190
Profit attributable to controlled property funds	(8,061)	(10,934)
Eliminations between the operating and non-operating segment	5,761	2,643
Tax impact of above non-operating adjustments	(809)	(1,020)
<b>Operating profit after tax</b>	<b>45,087</b>	<b>15,489</b>

### Operating and financial review (continued)

Operating profit after tax provides an assessment of performance of the Group aligned with the reporting to the Group's CEO for resource allocation purposes.

Operational highlights for the key segments were as follows:

Segment	Operating profit after tax \$'000		Increase/ (Decrease) \$'000	Increase/ (Decrease) %	Highlights
	2018	2017			
Property Funds Management	34,221	11,041	23,180	210	(a)
Investment Bonds Division	3,473	2,648	825	31	(b)
Co-Investments	11,717	5,423	6,294	116	(c)

#### (a) Property Funds Management

For the year ended 30 June 2018, Property Funds Management operating profit after tax of \$34,221,000 was higher than the prior year ending 30 June 2017 by \$23,180,000 primarily due to the impact of performance fees of \$25,830,000 earned in the current year on the sale of 10 Spring Street property.

Excluding the after tax impact of performance fees the Property Funds Management segment profit increased by \$15,330,000 or 52% reflecting the growth in assets under management (AUM) in addition to the contribution arising from the 360 Capital transaction that occurred part way during the prior year.

Operational highlights for the year included:

- Increase in recurring Property Funds Management fees of \$12,935,000 or 67% from \$19,265,000 for the year ended 30 June 2017 to \$32,200,000 for the year ended 30 June 2018
- 27% increase in Unlisted AUM from \$1.5 billion as at 30 June 2017 to \$1.9 billion as at 30 June 2018
- 40% increase in Listed AUM from \$1.5 billion as at 30 June 2017 to \$2.1 billion as at 30 June 2018
- Centuria Industrial REIT acquired four properties with a total value of \$78.4 million
- Centuria Metropolitan REIT acquired four properties with a total value of \$210.9 million
- Performance fees of \$25,830,000 earned on the sale of 10 Spring St property
- Establishment of three Unlisted Property Funds:
  - July 2017: Centuria Sandgate Road Fund (\$106 million)
  - March 2018: Centuria Geelong Office Fund (\$115 million)
  - July 2018: Centuria 80 Grenfell Street Fund (\$185 million, 50% unlisted fund and 50% partnership with The Lederer Group).

#### (b) Investment Bonds Management

For the year ended 30 June 2018, the Investment Bonds Management segment increased its operating profit after tax by \$825,000 or 31% to \$3,473,000.

The Investment Bonds Management business delivered net overall AUM growth to \$0.9 billion across its product range representing a 12.5% increase in AUM from prior year.

Centuria's Investment Bonds Management business is the fourth largest friendly society/insurance bond issuer in Australia.



## Operating and financial review (continued)

### (c) Co-Investments

For the year ended 30 June 2018, the Co-Investments segment operating profit after tax increased by \$6,294,000 or 116% reflecting a \$127 million increase in co-investment holdings across listed and unlisted investments including various Funds managed by the Group.

With an increase in recurring investment revenue from \$6,068,000 for the year ended 30 June 2017 to \$20,705,000 for the year ended 30 June 2018 the Co-investments segment has contributed to improvement in the Group's overall recurring revenue which increased by 77% compared to the prior year. The Co-investments segment has contributed over 20% of the Group's total operating revenue for the year ended 30 June 2018.

The Co-investments of \$278 million as at 30 June 2018 included a \$124.3 million or a 19.48% stake in Centuria Industrial REIT as well as we as a \$68.6 million or 11.39% stake in the Centuria Metropolitan REIT and a \$59.3 million or 9.28% stake in PropertyLink Group (PLG).

The operating profit after tax for the Co-investments segment represents the distributions and returns generated from those investments after the applicable financing costs.

### Earnings per security (EPS)

	2018		2017	
	Operating	Statutory	Operating	Statutory
Basic EPS (cents/security)	16.3	19.8	10.3	11.5
Diluted EPS (cents/security)	14.9	18.1	10.1	11.4

### Dividends and Distributions

Dividends and distributions paid or declared by the Group during the current financial year were:

Dividends/distributions paid during the year	Cents per security	Total amount \$'000	Date paid/payable
Final 2017 dividend (100% franked)	2.4	5,453	24 August 2017
Final 2017 Trust distribution (66% tax deferred)	2.8	6,361	24 August 2017
Interim 2018 dividend (100% franked)	1.7	5,184	31 January 2018
Interim 2018 Trust distribution (estimated 60% tax deferred)	2.4	7,314	31 January 2018
<b>Dividends/distributions declared during the year</b>			
Final 2018 dividend (100% franked)	1.0	3,048	27 July 2018
Final 2018 Trust distribution (estimated 60% tax deferred)	3.1	9,449	27 July 2018
<b>Total amount</b>	<b>13.4</b>	<b>36,809</b>	

### Events subsequent to the reporting date

There has not arisen in the interval between 30 June 2018 and the date hereof any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, that would affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

### Likely developments

The Group continues to pursue its strategy of focusing on its core operations, utilising a strengthened balance sheet to provide support to grow and develop these operations.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

### Environmental regulation

The Group's operations are not subject to any significant environmental regulation.

### Indemnification of officers and auditors

The Company has agreed to indemnify all current and former directors and executive officers of the Company and its controlled entities against all liabilities to persons (other than the Company or a related body corporate) which arise out of the performance of their normal duties as a director or executive officer unless the liability relates to conduct involving a lack of good faith.

The Company has agreed to indemnify the directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

### Non-audit services

During the financial year, KPMG, the Group's auditor, has performed services in addition to the audit and review of the financial statements. Details of amounts paid or payable to KPMG are outlined in Note F4 to the financial statements.

The directors are satisfied that the provision of non-audit services during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in the financial statements do not compromise the external auditor's independence, based on advice received from the Audit, Risk Management & Compliance committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

### Rounding of amounts

The Group is an entity of a kind referred to in ASIC Legislative Instrument 2016/191, related to the 'rounding off' of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off, in accordance with the instrument to the nearest thousand dollars, unless otherwise indicated.

## Audited remuneration report

The remuneration report provides information about the remuneration arrangements for key management personnel (KMP), which includes Non-executive Directors and the Group's most senior management, for the year to 30 June 2018.

The report is structured as follows:

- Details of KMP covered in this report
- Remuneration policy and link to performance
- Remuneration of executive directors and senior management
- Key terms of employment contracts
- Non-executive director remuneration
- Director and senior management equity holdings and other transactions

### Details of KMP covered in this report

The following persons are considered KMP of the Company during or since the end of the most recent financial year:

Name	Role
Mr Garry S. Charny	Independent Non-Executive Director and Chairman
Mr Peter J. Done	Independent Non-Executive Director
Mr John R. Slater	Independent Non-Executive Director
Ms Susan Wheeldon-Steele	Independent Non-Executive Director
Mr Nicholas R. Collishaw	Non-Executive Director
Mr John E. McBain	Executive Director and Chief Executive Officer
Mr Jason C. Huljich	Executive Director and Head of Real Estate and Funds Management
Mr Simon W. Holt	Chief Financial Officer

The term 'senior management' is used in this remuneration report to refer to the executive directors and the Chief Financial Officer.

### Remuneration policy and link to performance

The Group recognises the important role people play in the achievement of its long-term objectives and as a key source of competitive advantage. To grow and be successful, the Group must be able to attract, motivate and retain capable individuals. The Group's remuneration policy focuses on the following:

- Ensuring competitive rewards are provided to attract and retain executive talent;
- Linking remuneration to performance so that higher levels of performance attract higher rewards;
- Aligning rewards of all staff, but particularly senior management, to the creation of value to shareholders;
- Making sure the criteria used to assess and reward staff include financial and non-financial measures of performance;
- Ensuring the overall cost of remuneration is managed and linked to the ability of the Group to pay; and
- Ensuring severance payments due to the Chief Executive Officer on termination are limited to pre-established contractual arrangements which do not commit the Group to making any unjustified payments in the event of non-performance.

The main objective in rewarding the Group's senior management for their performances is to ensure that shareholders' wealth is maximised through the Group's continued growth. It is necessary to structure and strengthen this focus to drive this strategy so that they are aligned with the Group's objectives and successes.

Under the remuneration policy, senior management's remuneration includes a fixed remuneration component, short-term and long-term incentive arrangements. The long-term incentives are based on the Group's performance for the year in reference to specific Earnings per Security (EPS) hurdles and Key Strategic Goals being met. The Group's remuneration is directly related to the performance of the Group through the linking of short and long-term incentives to these financial and non-financial measures.

The short-term incentives are based on the individual's performance in the preceding 12 months compared to pre-agreed goals.

## Audited remuneration report (continued)

### Remuneration policy and link to performance (continued)

Where senior management is remunerated with shares, the Remuneration Policy places no limitations to their exposure to risk in relation to the shares.

Target incentive remuneration refers to the incentive pay provided for meeting performance requirements. Actual incentive remuneration can vary for senior management depending on the extent to which they meet performance requirements.

In accordance with the Group's corporate governance, the structure of non-executive director and senior management remuneration is separate and distinct.

### Remuneration of senior management

#### Objective

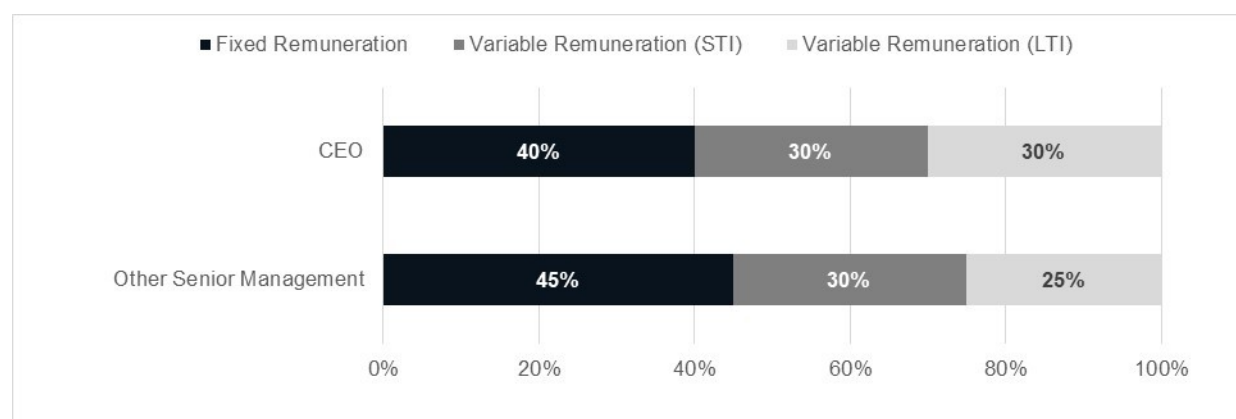
The Group aims to reward senior management with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- Reward senior management for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of senior management with those of stakeholders;
- Link rewards with the strategic goals and performance of the Group; and
- Ensure total remuneration is competitive by market standards.

#### Structure

In determining the level and make-up of senior management remuneration, the Chief Executive Officer and Board have regard to market levels of remuneration for comparable executive roles.

Remuneration packages include a mix of fixed and variable remuneration and short and long-term performance-based incentives. The proportion of fixed and variable remuneration for senior management (excluding the Chief Executive Officer) is established by the Chief Executive Officer and the Nomination & Remuneration Committee. The proportion of fixed and variable remuneration for the Chief Executive Officer is established solely by the Nomination & Remuneration Committee. While the allocation may vary from period to period, the table below details the approximate fixed and variable components for senior management.



## Audited remuneration report (continued)

### Remuneration of senior management (continued)

#### Structure (continued)

##### (a) Fixed Remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds. For senior management excluding the Chief Executive Officer, this is reviewed annually by the Chief Executive Officer and the Nomination & Remuneration Committee. The process consists of a review of Group, business unit and individual performance as well as relevant comparative remuneration in the market. The same process is used by the Nomination & Remuneration Committee when reviewing the fixed remuneration of the Chief Executive Officer.

Senior management are given the opportunity to receive their fixed remuneration in a variety of forms including cash and salary sacrifice items such as motor vehicles, motor vehicle allowances and/or additional superannuation contributions.

##### (b) Variable Remuneration

Under the Group's Senior Management Remuneration Policy, long and short-term performance incentives may be made under the Group's incentive plans. These are discussed further below.

##### (i) Short-term Incentives (STI)

The objective of the STI program is to link the achievement of the Group's non-financial and financial targets with the remuneration received by senior management charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to senior management to achieve operational targets and such that the cost to the Group is reasonable in the circumstances.

At the Board's absolute discretion, employees may be provided with the opportunity to receive an annual, performance-based incentive, either in the form of cash or the issue of shares in the Group, or a combination of both.

During the current financial year, the Group issued Nil (2017: Nil) ordinary securities to employees in addition to cash bonuses provided to employees.

##### (ii) Long-term Incentives (LTI)

The Group has an Executive Incentive Plan ("LTI Plan") which forms a key element of the Group's incentive and retention strategy for senior management under which Performance Rights ("Rights") are issued.

The primary objectives of the Plan include:

- focusing executives on the longer term performance of the Group to drive long term shareholder value creation;
- ensure senior management remuneration outcomes are aligned with shareholder interests, in particular, the strategic goals and performance of the Group; and
- ensure remuneration is competitive and aligned with general market practice by ASX listed entities.

Rights issued under the LTI Plan are issued in accordance with the thresholds approved at the Annual General Meeting (AGM).

A summary of the key terms of the Performance Rights are set out below.

**Audited remuneration report (continued)**

**Remuneration of senior management (continued)**

*Structure (continued)*

Term	Detail
<b>Performance Rights ("Rights")</b>	Each Right is a right to receive a fully paid ordinary stapled security in the Group ("Security"), subject to meeting the Performance Conditions. Upon meeting the Performance Conditions, the Rights vest and securities are allocated. Rights do not carry a right to vote or to dividends or, in general, a right to participate in other corporate actions such as bonus issues.
<b>Vesting conditions</b>	The Rights will vest to the extent that the board determines that: - The performance conditions that apply to the Rights were satisfied; and - The employee was continuously employed by the Company until the end of the Performance Period.
<b>Vesting date</b>	The date on which the Board determines the extent to which the performance conditions are satisfied and the Rights vest.
<b>Performance Conditions</b>	The Performance Conditions set out in the LTI Plan relate to: - Growth in Earnings Per Share ("EPS hurdle"); - Growth in property and friendly society funds under management ("FUM Hurdle"); and - Absolute Total Securityholder Return Performance ("Absolute TSR Hurdle").

**Audited remuneration report (continued)**

**Remuneration of senior management (continued)**

*Structure (continued)*

The Group currently operates three tranches of the Executive Incentive Plan ("Plan") as below.

Tranche	Grant Date	Performance Period
3	1 February 2016	1 July 2015 to 30 June 2018
4	1 January 2017	1 July 2016 to 30 June 2019
5	1 November 2017	1 July 2017 to 30 June 2020

The performance objectives for performance rights granted under Tranche 3 were met in full by 30 June 2018. As a result, these rights will vest on 31 August 2018.

*EPS Hurdle*

The percentage of Rights subject to the EPS Hurdle that vest, if any, will be determined as follows:

	Compound annual growth Rate	Portion of Rights that vest	Compound annual growth rate	Portion of Rights that vest
	Tranche 3 (45% of rights granted)		Tranche 4 (30% of rights granted)	
<b>Maximum % or above</b>	10% or greater	100%	10% or greater	100%
<b>Between threshold % and maximum %</b>	More than 6%, less than 10%	Pro-rata between 50% and 100%	More than 6%, less than 10%	Pro-rata between 50% and 100%
	More than 4%, less than 6%	Pro-rata between 25% and 50%	More than 4%, less than 6%	Pro-rata between 25% and 50%
<b>Threshold %</b>	4%	25%	4%	25%
<b>Less than the threshold %</b>	Less than 4%	0%	Less than 4%	0%

The Board has discretion to adjust the EPS performance hurdle to ensure that participants are neither advantaged nor disadvantaged by matters outside managements' control that affect EPS (for example, by excluding one-off non-recurrent items or the impact of significant acquisitions or disposals). Tranche 5 did not include an EPS hurdle.

*FUM Hurdle*

The percentage of Rights subject to the growth in FUM Hurdle that vest, if any, will be determined as follows:

	Compound annual growth Rate	Portion of Rights that vest	Compound annual growth Rate	Portion of Rights that vest	Compound annual growth Rate	Portion of Rights that vest
	Tranche 3 (15% of rights granted)		Tranche 4 (20% of rights granted)		Tranche 5 (25% of rights granted)	
<b>Maximum % or above</b>	18% or greater	100%	15% or greater	100%	20% or greater	100%
<b>Between threshold % and maximum %</b>	More than 14%, less than 18%	Pro-rata between 50% and 100%	More than 12%, less than 15%	Pro-rata vesting between 50% to 100%	More than 10%, less than 20%	Pro-rata vesting between 25% to 100%
	More than 10%, less than 14%	Pro-rata between 25% and 50%	More than 10%, less than 12%	Pro-rata vesting between 25% to 50%		
<b>Threshold %</b>	10%	25%	10%	25%	10%	25%
<b>Less than the threshold %</b>	Less than 10%	0%	Less than 10%	0%	Less than 10%	0%

**Audited remuneration report (continued)**

**Remuneration of senior management (continued)**

*Absolute TSR Hurdle*

The percentage of Rights subject to the Absolute TSR Hurdle that vest, if any, will be determined as follows:

	<b>Compound annual growth Rate</b>	<b>Portion of Rights that vest</b>	<b>Compound annual growth Rate</b>	<b>Portion of Rights that vest</b>	<b>Compound annual growth Rate</b>	<b>Portion of Rights that vest</b>
	<b>Tranche 3 (40% of rights granted)</b>		<b>Tranche 4 (50% of rights granted)</b>		<b>Tranche 5 (75% of rights granted)</b>	
<b>Maximum % or above</b>	18% or greater	100%	18% or greater	100%	15% or greater	100%
<b>Between threshold % and maximum %</b>	More than 15% less than 18%	Pro-rata between 50% and 100%	More than 15% less than 18%	Pro-rata vesting between 50% to 100%	More than 10% less than 15%	Pro-rata vesting between 25% to 100%
	More than 12%, less than 15%	Pro-rata between 25% and 50%	More than 12%, less than 15%	Pro-rata vesting between 25% to 50%		
<b>Threshold %</b>	12%	25%	12%	25%	10%	25%
<b>Less than the threshold %</b>	Less than 12%	0%	Less than 12%	0%	Less than 10%	0%

*Rights Granted*

The following Rights were granted to senior management:

<b>Key management personnel</b>	<b>No. of rights granted</b>	<b>Vesting conditions</b>	<b>Fair value at grant date</b>
<b>Tranche 3 (grant date of 1 February 2016) (i)</b>			
Mr John E. McBain	216,496	EPS Hurdle	\$0.87
	72,165	FUM Growth Hurdle	\$0.87
	192,441	Absolute TSR Growth Hurdle	\$0.19
Mr Jason C. Huljich	135,000	EPS Hurdle	\$0.87
	45,000	FUM Growth Hurdle	\$0.87
	120,000	Absolute TSR Growth Hurdle	\$0.19
Mr Nicholas R. Collishaw	135,000	EPS Hurdle	\$0.87
	45,000	FUM Growth Hurdle	\$0.87
	120,000	Absolute TSR Growth Hurdle	\$0.19
<b>Total</b>	<b>1,081,102</b>		

(i) The performance objectives for performance rights granted under Tranche 3 were met in full by 30 June 2018. As a result, these rights will vest on 31 August 2018.



**Audited remuneration report (continued)**

**Remuneration of senior management (continued)**

*Rights Granted (continued)*

Key management personnel	No. of Rights granted	Vesting conditions	Fair value at Grant Date
<b>Tranche 4 (grant date of 1 January 2017)</b>			
Mr John E. McBain	153,409	EPS Hurdle	\$0.88
	102,273	FUM Growth Hurdle	\$0.88
	255,682	Absolute TSR Growth Hurdle	\$0.16
Mr Jason C. Huljich	76,875	EPS Hurdle	\$0.88
	51,250	FUM Growth Hurdle	\$0.88
	128,125	Absolute TSR Growth Hurdle	\$0.16
Mr Nicholas R. Collishaw	76,875	EPS Hurdle	\$0.88
	51,250	FUM Growth Hurdle	\$0.88
	128,125	Absolute TSR Growth Hurdle	\$0.16
Mr Simon W. Holt	35,642	EPS Hurdle	\$0.88
	23,761	FUM Growth Hurdle	\$0.88
	59,403	Absolute TSR Growth Hurdle	\$0.16
<b>Total</b>	<b>1,142,670</b>		

Key management personnel	No. of Rights granted	Vesting conditions	Fair value at Grant Date
<b>Tranche 5 (grant date of 1 November 2017)</b>			
Mr John E. McBain	125,762	FUM Growth Hurdle	\$1.24
	377,287	Absolute TSR Growth Hurdle	\$0.62
Mr Jason C. Huljich	79,055	FUM Growth Hurdle	\$1.24
	237,165	Absolute TSR Growth Hurdle	\$0.62
Mr Nicholas R. Collishaw	75,640	FUM Growth Hurdle	\$1.24
	226,921	Absolute TSR Growth Hurdle	\$0.62
Mr Simon W. Holt	43,834	FUM Growth Hurdle	\$1.24
	131,502	Absolute TSR Growth Hurdle	\$0.62
<b>Total</b>	<b>1,297,166</b>		

Subject to the Boards' discretion, unvested Rights lapse upon the earliest of ceasing employment, corporate restructuring, divestment of a material business or subsidiary, change of control, clawback and lapse for fraud and breach, failure to satisfy the Performance Conditions and the 7th anniversary of the date of the grant.

**Audited remuneration report (continued)**

**Remuneration of senior management (continued)**

*Rights Granted (continued)*

The Group's overall objective is to reward executive directors and senior management based on the Group's performance and build on shareholders' wealth but this is subject to market conditions for the year. The table below sets out summary information about the Group's earnings for the past five years.

	30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
<b>5 year summary</b>					
<b>Statutory profit after tax attributable to Centuria Capital Group securityholders (\$'000)</b>	<b>54,765</b>	17,323	12,303	8,566	9,078
<b>Operating profit after tax (\$'000)</b>	<b>45,087</b>	15,489	11,344	6,280	5,904
<b>Share price at start of year</b>	<b>\$1.23</b>	\$1.05	\$0.93	\$0.80	\$0.82
<b>Share price at end of year</b>	<b>\$1.40</b>	\$1.23	\$1.05	\$0.93	\$0.80
<b>Interim dividend</b>	<b>4.1cps</b>	2.3cps	2.25cps	2.0cps	1.25cps
<b>Final dividend</b>	<b>4.1cps</b>	5.2cps	3.0cps	2.75cps	1.50cps
<b>Statutory basic earnings per Centuria Capital Group security</b>	<b>19.8cps</b>	11.5cps	15.8cps	11.0cps	11.6cps
<b>Operating basic earnings per Centuria Capital Group security</b>	<b>16.3cps</b>	10.3cps	14.8cps	8.1cps	7.6cps

*Rights vested*

During the year, 1,081,102 performance rights granted on 1 January 2015 under Tranche 2 to senior management vested. There were no performance rights under Tranche 2 that lapsed during the year.

Audited remuneration report (continued)

Remuneration of senior management (continued)

Statutory remuneration table

The following table discloses total remuneration of executive directors and senior management in accordance with the *Corporations Act 2001*:

		Short-term employee benefits	Post employment benefits	Other long-term benefits	Share-based payments	Total
	Year	Salaries (\$)	Bonus (\$)	Superannuation (\$)	Long service leave (\$)	\$
<b>Mr John E. McBain</b>	<b>2018</b>	<b>804,951</b>	<b>1,118,750</b>	<b>20,049</b>	<b>33,495</b>	<b>620,019</b>
Note (i)	2017	725,999	775,000	24,000	37,052	246,618
<b>Mr Jason C. Huljich</b>	<b>2018</b>	<b>679,076</b>	<b>1,025,000</b>	<b>20,049</b>	<b>(38,845)</b>	<b>187,742</b>
	2017	544,134	282,000	19,616	12,264	149,358
<b>Mr Nicholas R. Collishaw</b>	<b>2018</b>	<b>345,340</b>	<b>-</b>	<b>8,160</b>	<b>-</b>	<b>184,229</b>
Note (ii)	2017	544,134	782,000	19,616	-	149,358
<b>Mr Simon W. Holt</b>	<b>2018</b>	<b>459,201</b>	<b>412,500</b>	<b>20,049</b>	<b>-</b>	<b>63,926</b>
Note (iii)	2017	416,009	210,750	19,616	-	8,396
<b>Total</b>	<b>2018</b>	<b>2,288,568</b>	<b>2,556,250</b>	<b>68,307</b>	<b>(5,350)</b>	<b>1,055,916</b>
	2017	2,230,276	2,049,750	82,848	49,316	553,730

**Note (i)** Mr McBain's bonus for the year ended 30 June 2017 included a one-off \$200,000 transaction bonus which was paid following the successful completion of the 360 Capital acquisition.

**Note (ii)** Mr Collishaw's bonus for the year ended 30 June 2017 included a one-off \$500,000 incentive payment which he was entitled to receive as part of his employment contract upon successful listing of a listed property fund once the fund reaches \$500 million of assets under management. This incentive was paid during the year ended 30 June 2017. Also, Mr Collishaw's role changed from Executive Director and CEO- Listed Property Funds to Non-Executive Director effective 1 January 2018.

**Note (iii)** Mr Holt's bonus for the year ended 30 June 2017 included a one-off \$80,000 transaction bonus which was paid following the successful completion of the 360 Capital acquisition.

## **Audited remuneration report (continued)**

### **Key terms of employment contracts**

#### *Chief Executive Officer*

Mr John E. McBain, was appointed as Chief Executive Officer of the Group in April 2008. Mr John E. McBain is employed under contract. The summary of the major terms and conditions of his employment contract are as follows:

- Fixed Compensation plus superannuation contributions;
- Car parking within close proximity to the Company's office;
- Eligible to participate in the bonus program determined at the discretion of the Board;
- The Group may terminate this employment contract by providing six months written notice or provide payment in lieu of the notice period plus an additional six months. Any payment in lieu of notice will be based on the total fixed compensation package; and
- The Group may terminate the employment contract at any time without notice if serious misconduct has occurred. When termination with cause occurs the CEO is only entitled to remuneration up to the date of termination.

#### *Other senior management (standard contracts)*

All senior management are employed under contract. The Group may terminate their employment agreement by providing between three and six months written notice or providing payment in lieu of the notice period (based on the total fixed compensation package), and in the case of Mr Jason C. Huljich by payment of an additional six months.

### **Non-executive director remuneration**

#### *Objective*

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

#### *Structure*

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the aggregate amount determined is then divided between the directors as agreed. An aggregate maximum amount of not more than \$2,000,000 per year was approved at the 2017 Annual General Meeting.

#### *Directors' Fees*

Each director receives a fee for being a director of Group companies and an additional fee is paid to the Chairman and to the Chairman of each Board Committee. The payment of the additional fees to each Chairman recognises the additional time commitment and responsibility associated with the position.

Audited remuneration report (continued)

Non-executive director remuneration (continued)

Directors' Fees (continued)

		Shot-term benefits	Post-employment benefits	
	Year	Board fees \$	Superannuation \$	Total \$
Mr Garry S. Charny	2018	205,479	19,521	225,000
	2017	190,000	15,675	205,675
Mr Peter J. Done	2018	164,384	15,616	180,000
	2017	156,000	11,308	167,308
Mr John R. Slater	2018	118,722	11,278	130,000
	2017	142,000	10,070	152,070
Ms Susan Wheeldon-Steele	2018	87,671	8,329	96,000
	2017	71,160	6,760	77,920
Mr Nicholas R. Collishaw	2018	54,795	5,205	60,000
(i)	2017	-	-	-
Total	2018	631,051	59,949	691,000
	2017	559,160	43,813	602,973

Note (i) Mr Collishaw's role changed from Executive Director and CEO- Listed Property Funds to Non-Executive Director effective 1 January 2018.

Director and senior management equity holdings and other transactions

Director and senior management equity holdings

Set out below are details of movements in fully paid ordinary shares held by directors and senior management as at the date of this report.

Name	Balance at 1 July 2017	Movement	Balance at 30 June 2018	Changes prior to signing	Balance at signing date
Mr Garry S. Charny	196,573	40,741	237,314	-	237,314
Mr Peter J. Done	900,000	183,676	1,083,676	-	1,083,676
Mr John R. Slater	2,400,000	489,075	2,889,075	-	2,889,075
Ms Susan Wheeldon-Steele	-	-	-	-	-
Mr Nicholas R. Collishaw	2,263,136	156,250	2,419,386	-	2,419,386
Mr John E. McBain	5,035,745	686,985	5,722,730	-	5,722,730
Mr Jason C. Huljich	4,499,054	823,091	5,322,145	-	5,322,145
Mr Simon W. Holt	250,000	51,021	301,021	-	301,021

**Audited remuneration report (continued)**

***Director and senior management equity holdings and other transactions (continued)***

*Transactions with key management personnel*

As a matter of Board policy, all transactions with directors and director-related entities are conducted on arms-length commercial or employment terms.

During the financial year, the following transactions occurred between the Group and key management personnel:

- Wolseley Corporate Pty Ltd, a related party of Mr Garry S. Charny, was paid \$611,796 (inclusive of GST) (2017: \$478,500) for corporate advisory fees.
- Tailwind Consulting Pty Ltd, a related party of Mr John R. Slater was paid a total of \$198,000 (inclusive of GST) (2017: \$198,985) for consultancy services. In addition, Tailwind Consulting paid the Group \$5,280 for rental of office space (2017: \$2,200).
- Mr Nicholas R. Collishaw was paid a total of \$62,570 (inclusive of GST) (2017: \$nil) for consultancy services.

This report is made in accordance with a resolution of Directors.



Mr Garry S. Charny  
Director  
Sydney



Mr Peter J. Done  
Director  
Sydney

Sydney  
14 August 2018



## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Centuria Capital Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Centuria Capital Group for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Nigel Virgo  
Partner  
Sydney  
14 August 2018

# Centuria Capital Group

ABN 22 095 454 336

## Financial report 30 June 2018

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## Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Revenue	B2	134,513	127,429
Expenses	B3	(67,617)	(120,327)
Fair value movements of financial instruments and property		10,103	15,394
Finance costs	B4	(15,989)	(7,366)
Net movement in policyholder liability		9,053	16,589
<b>Profit before tax</b>		<b>70,063</b>	<b>31,719</b>
Income tax expense	B5	(13,873)	(5,424)
<b>Profit after tax</b>		<b>56,190</b>	<b>26,295</b>
<b>Profit after tax is attributable to:</b>			
Centuria Capital Limited		24,540	5,500
Centuria Capital Fund (non-controlling interests)		30,225	11,823
External non-controlling interests		1,425	8,972
<b>Profit after tax</b>		<b>56,190</b>	<b>26,295</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>56,190</b>	<b>26,295</b>
<b>Total comprehensive income for the year is attributable to:</b>			
Centuria Capital Limited		24,540	5,500
Centuria Capital Fund (non-controlling interests)		30,225	11,823
External non-controlling interests		1,425	8,972
<b>Total comprehensive income/(loss)</b>		<b>56,190</b>	<b>26,295</b>
<b>Profit after tax attributable to:</b>			
Centuria Capital Limited		24,540	5,500
Centuria Capital Fund (non-controlling interests)		30,225	11,823
<b>Profit after tax attributable to Centuria Capital Group securityholders</b>		<b>54,765</b>	<b>17,323</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earning per Centuria Capital Group security</b>			
Basic (cents per stapled security)	B6	19.8	11.5
Diluted (cents per stapled security)	B6	18.1	11.4
<b>Earnings per Centuria Capital Limited share</b>			
Basic (cents per share)		8.9	3.7
Diluted (cents per share)		8.1	3.6

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

## Consolidated statement of financial position

As at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Cash and cash equivalents	D2	101,914	74,382
Receivables	C2	21,164	16,380
Financial assets	C3	644,832	535,459
Investment properties held for sale	C4	63,400	-
Investment properties	C5	147,100	257,100
Other assets		2,036	1,551
Intangible assets	C6	157,663	157,663
<b>Assets</b>			
<b>Total assets</b>		<b>1,138,109</b>	<b>1,042,535</b>
<b>Liabilities</b>			
Payables	C7	32,405	33,895
Liability to 360 Capital Group		41,161	56,456
Provisions		1,597	1,301
Borrowings	C8	245,739	236,103
Interest rate swaps at fair value		23,411	19,324
Benefit Funds policyholder's liability		349,677	348,014
Provision for income tax	B5(b)	(161)	3,171
Deferred tax liabilities	B5(c)	3,119	2,320
<b>Total liabilities</b>		<b>696,948</b>	<b>700,584</b>
<b>Net assets</b>		<b>441,161</b>	<b>341,951</b>
<b>Equity</b>			
<b>Equity attributable to Centuria Capital Limited</b>			
Contributed equity	C10	98,770	77,323
Reserves		1,896	1,551
Retained earnings		28,005	11,694
<b>Total equity attributable to Centuria Capital Limited</b>		<b>128,671</b>	<b>90,568</b>
<b>Equity attributable to Centuria Capital Fund (non-controlling interests)</b>			
Contributed equity	C10	244,930	170,672
Retained earnings		18,183	4,844
<b>Total equity attributable to Centuria Capital Fund (non-controlling interests)</b>		<b>263,113</b>	<b>175,516</b>
<b>Total equity attributable to Centuria Capital Group securityholders</b>		<b>391,784</b>	<b>266,084</b>
<b>Equity attributable to external non-controlling interests</b>			
Contributed equity		32,927	45,367
Retained earnings		16,450	30,500
<b>Total equity attributable to external non-controlling interests</b>		<b>49,377</b>	<b>75,867</b>
<b>Total equity</b>		<b>441,161</b>	<b>341,951</b>

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

## Consolidated statement of changes in equity

For the year ended 30 June 2018

	Centuria Capital Limited				Centuria Capital Fund (non-controlling interests)			Total attributable to Centuria Capital Group External non-controlling interests				
	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Contributed equity \$'000	Retained earnings \$'000	Total \$'000	Securityholders \$'000	Contributed equity \$'000	Retained earnings \$'000	Total \$'000	Total equity \$'000
<b>Balance at 1 July 2017</b>	77,323	1,551	11,694	90,568	170,672	4,844	175,516	266,084	45,367	30,500	75,867	341,951
Profit/(loss) for the period	-	-	24,540	24,540	-	30,225	30,225	<b>54,765</b>	-	1,425	1,425	56,190
<b>Total comprehensive income for the year</b>	-	-	<b>24,540</b>	<b>24,540</b>	-	<b>30,225</b>	<b>30,225</b>	<b>54,765</b>	-	<b>1,425</b>	<b>1,425</b>	<b>56,190</b>
Equity based payment	535	345	-	880	-	-	-	<b>880</b>	-	-	-	880
Dividends and distributions paid/accrued	-	-	(8,229)	(8,229)	-	(16,764)	(16,764)	<b>(24,993)</b>	-	(6,880)	(6,880)	(31,873)
Stapled securities issued	21,494	-	-	21,494	77,146	-	77,146	<b>98,640</b>	-	-	-	98,640
Cost of equity raising	(582)	-	-	(582)	(2,888)	-	(2,888)	<b>(3,470)</b>	-	-	-	(3,470)
Deconsolidation of controlled property funds	-	-	-	-	-	(122)	(122)	<b>(122)</b>	(12,440)	(8,595)	(21,035)	(21,157)
<b>Balance at 30 June 2018</b>	<b>98,770</b>	<b>1,896</b>	<b>28,005</b>	<b>128,671</b>	<b>244,930</b>	<b>18,183</b>	<b>263,113</b>	<b>391,784</b>	<b>32,927</b>	<b>16,450</b>	<b>49,377</b>	<b>441,161</b>

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

## Consolidated statement of changes in equity

For the year ended 30 June 2018

	Centuria Capital Limited				Centuria Capital Fund (non-controlling interests)			Total attributable to Centuria Capital Group securityholders \$'000	External non-controlling interests			
	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Contributed equity \$'000	Retained earnings \$'000	Total \$'000		Contributed equity \$'000	Retained earnings \$'000	Total \$'000	Total equity \$'000
<b>Balance at 1 July 2016</b>	88,058	1,459	28,452	117,969	-	-	-	117,969	9,883	(185)	9,698	127,667
Profit/(loss) for the period	-	-	5,500	5,500	-	11,823	11,823	17,323	-	8,972	8,972	26,295
<b>Total comprehensive income for the year</b>	-	-	<b>5,500</b>	<b>5,500</b>	-	<b>11,823</b>	<b>11,823</b>	<b>17,323</b>	-	<b>8,972</b>	<b>8,972</b>	<b>26,295</b>
Acquisition of subsidiaries with Non-controlling interests	-	-	-	-	-	-	-	-	45,367	29,835	75,202	75,202
Equity based payment	356	92	-	448	-	-	-	448	-	-	-	448
Dividends and distributions paid/accrued	-	-	(8,927)	(8,927)	-	(6,979)	(6,979)	(15,906)	-	(8,122)	(8,122)	(24,028)
Stapling dividend and return of capital reinvested	(39,205)	-	(13,331)	(52,536)	52,536	-	52,536	-	-	-	-	-
Stapled securities issued	28,826	-	-	28,826	124,174	-	124,174	153,000	-	-	-	153,000
Cost of equity raising	(712)	-	-	(712)	(6,038)	-	(6,038)	(6,750)	-	-	-	(6,750)
Return of capital	-	-	-	-	-	-	-	-	(9,883)	-	(9,883)	(9,883)
<b>Balance at 30 June 2017</b>	<b>77,323</b>	<b>1,551</b>	<b>11,694</b>	<b>90,568</b>	<b>170,672</b>	<b>4,844</b>	<b>175,516</b>	<b>266,084</b>	<b>45,367</b>	<b>30,500</b>	<b>75,867</b>	<b>341,951</b>

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

## Consolidated statement of cash flows

For the year ended 30 June 2018

	2018 \$'000	2017 \$'000
Notes		
<b>Cash flows from operating activities</b>		
Management fees received	74,090	35,422
Rent received	23,349	16,440
Interest received	9,985	10,146
Distributions received	22,760	7,976
Interest paid	(14,162)	(5,918)
Income taxes paid	(16,817)	(7,042)
Payments to suppliers and employees	(53,440)	(45,008)
Proceeds from sale of property held for development	-	65,175
Payments for property held for development	-	(12,844)
Applications - Benefits Funds	21,942	27,711
Redemptions - Benefits Funds	(30,777)	(40,561)
<b>Net cash provided by operating activities</b>	D3 36,930	51,497
<b>Cash flows from investing activities</b>		
Proceeds from sale of related party investments	62,494	20,763
Purchase of investments in related parties	(123,760)	(150,138)
Loans to related parties for purchase of properties	(5,865)	(13,669)
Repayment of loans by related parties	2,000	7,072
Purchase of other investments	(52,723)	(1,186)
Proceeds from sale of investments	-	40,387
Loans provided to other parties	(25,980)	-
Loans repaid by other parties	25,980	-
Proceeds from sale of investment property	22,000	-
Payments in relation to investment properties	(8,840)	(1,300)
Benefit Funds (acquisitions)/disposals of investments in financial assets	13,202	(55,021)
Cash balance on acquisition of subsidiaries	-	10,619
Cash balance on consolidation of property funds	-	6,937
Collections from reverse mortgage holders	2,113	1,209
Payments for property, plant and equipment	(788)	(115)
Purchase of subsidiaries	-	(104,419)
Return of investment to external non-controlling interests	(5,366)	-
Deconsolidation of controlled property funds cash balance	(766)	-
<b>Net cash used in investing activities</b>	(96,299)	(238,861)
<b>Cash flows from financing activities</b>		
Proceeds from issues of securities to securityholders of Centuria Capital Group	98,639	153,000
Equity raising costs paid	(3,710)	(6,750)
Proceeds from borrowings	37,748	163,604
Repayment of borrowings	(14,185)	(114,108)
Capitalised borrowing costs paid	(446)	(1,937)
Distributions paid to securityholders of Centuria Capital Group	(24,310)	(4,092)
Proceeds from issues of securities to external non-controlling interests	-	5,526
Distributions paid to external non-controlling interests	(6,835)	(17,820)
<b>Net cash provided by financing activities</b>	86,901	177,423
<b>Net increase/(decrease) in cash and cash equivalents</b>	27,532	(9,941)
Cash and cash equivalents at the beginning of the financial year	74,382	84,323
<b>Cash and cash equivalents at end of year</b>	101,914	74,382

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

## A About the report

### A1 General information

The shares in Centuria Capital Limited, (the 'Company') and the units in Centuria Capital Fund ('CCF') are stapled to trade together as a single stapled security ('Stapled Security') on the ASX as 'Centuria Capital Group' (the 'Group') under the ticker code 'CNI'.

The Group is a for-profit entity and its principal activities are the marketing and management of investment products, including property investment funds and friendly society investment bonds, and co-investment in property investment funds.

#### Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements of the Group comprising the Company (as 'Parent') and its controlled entities for the year ended 30 June 2018 were authorised for issue by the Group's Board of Directors on 14 August 2018.

#### Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for financial assets at fair value through profit and loss, other financial assets, investment properties and derivative financial instruments which have been measured at fair value at the end of each reporting period. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, which is the company's functional currency, unless otherwise noted.

Assets and liabilities have been presented on the face of the statement of financial position in decreasing order of liquidity and do not distinguish between current and non-current items.

#### Rounding of amounts

The Group is an entity of a kind referred to in ASIC Legislative Instrument 2016/191, related to the 'rounding off' of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off, in accordance with the instrument to the nearest thousand dollars, unless otherwise indicated.

### A2 Significant accounting policies

The accounting policies and methods of computation in the preparation of the consolidated financial statements are consistent with those adopted in the previous financial year ended 30 June 2017 unless specifically outlined below or in the relevant notes to the consolidated financial statements.

When the presentation or classification of items in the consolidated financial statements has been amended, comparative amounts are also reclassified, unless it is impractical.

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.

These financial statements contain all significant accounting policies that summarise the recognition and measurement basis used and which are relevant to provide an understanding of the financial statements. Accounting policies that are specific to a note to the financial statements are described in the note to which they relate.

### A3 Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

### A3 Use of judgements and estimates (continued)

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note C5 Investment properties
- Note C6 Intangible assets
- Note F3 Financial instruments

### A4 Segment summary

As at 30 June 2018 the Group has four reportable operating segments. These reportable operating segments are the divisions which report to the Group's Chief Executive Officer and Board of Directors for the purpose of resource allocation and assessment of performance.

The reportable operating segments are:

Operating segments	Description
Property Funds Management	Management of listed and unlisted property funds
Investment Bonds Management	Management of the Benefit Funds of Centuria Life Limited and management of the Over Fifty Guardian Friendly Society Limited. The Benefit Funds include a range of financial products, including single and multi-premium investments.
Co-Investments	Direct interest in property funds and other liquid investments
Corporate	Overheads for supporting the Group's operating segments and management of a reverse mortgage lending portfolio

For the year ended 30 June 2018, Reverse Mortgages is no longer considered a separated operating segment on the basis that it is not significant to the Group and has been included in the Corporate operating segment.

In addition, the Group also provides disclosures in relation to a further four non-operating segments, which are:

Non-operating segments	Description
Non-operating items	Comprises transaction costs, mark-to-market movements on property and derivative financial instruments, and all other non-operating activities
Benefit Funds	Represents the operating results and financial position of the Benefit Funds which are required to be consolidated in the Group's financial statements in accordance with accounting standards
Controlled Property Funds	Represents the operating results and financial position of property funds which are controlled by the Group and consolidated under accounting standards
Eliminations	Elimination of transactions between the operating segments and the other three non-operating segments above

Where relevant, comparative financial information has been restated to ensure consistency in presentation of financial information across the applicable comparative periods.

The accounting policies of reportable segments are the same as the Group's accounting policies.

Refer below for an analysis of the Group's segment results:

- Note B1 Segment profit and loss
- Note C1 Segment balance sheet
- Note D1 Operating segment cash flows

## B Business performance

### B1 Segment profit and loss

For the year ended 30 June 2018	Notes	Property Funds Management \$'000	Investment Bonds Management \$'000	Co-Investments \$'000	Corporate \$'000	Operating profit \$'000	Non operating items \$'000	Benefits Funds \$'000	Controlled Property Funds \$'000	Eliminations \$'000	Statutory profit \$'000
Revenue	B2	66,428	10,792	20,705	2,845	100,770	-	20,179	21,801	(8,237)	134,513
Expenses	B3	(17,474)	(5,816)	(134)	(10,117)	(33,541)	(610)	(29,751)	(11,597)	7,882	(67,617)
Fair value movements of financial instruments and property		-	-	-	-	-	8,604	3,670	3,347	(5,518)	10,103
Finance costs	B4	(9)	(1)	(8,680)	(1,918)	(10,608)	-	(3)	(5,490)	112	(15,989)
Net movement in policyholder liabilities		-	-	-	-	-	-	9,053	-	-	9,053
<b>Profit/(Loss) before tax</b>		<b>48,945</b>	<b>4,975</b>	<b>11,891</b>	<b>(9,190)</b>	<b>56,621</b>	<b>7,994</b>	<b>3,148</b>	<b>8,061</b>	<b>(5,761)</b>	<b>70,063</b>
Income tax expense	B5	(14,724)	(1,502)	(174)	4,866	(11,534)	809	(3,148)	-	-	(13,873)
<b>Profit/(Loss) after tax</b>		<b>34,221</b>	<b>3,473</b>	<b>11,717</b>	<b>(4,324)</b>	<b>45,087</b>	<b>8,803</b>	<b>-</b>	<b>8,061</b>	<b>(5,761)</b>	<b>56,190</b>
<b>Profit/(loss) after tax attributable to:</b>											
Centuria Capital Limited		34,221	3,473	406	(11,208)	26,892	(2,267)	-	47	(132)	24,540
Centuria Capital Fund		-	-	11,311	6,884	18,195	11,070	-	6,589	(5,629)	30,225
<b>Profit/(loss) after tax attributable to Centuria Capital Group securityholders</b>		<b>34,221</b>	<b>3,473</b>	<b>11,717</b>	<b>(4,324)</b>	<b>45,087</b>	<b>8,803</b>	<b>-</b>	<b>6,636</b>	<b>(5,761)</b>	<b>54,765</b>
Non-controlling interests		-	-	-	-	-	-	-	1,425	-	1,425
<b>Profit/(loss) after tax</b>		<b>34,221</b>	<b>3,473</b>	<b>11,717</b>	<b>(4,324)</b>	<b>45,087</b>	<b>8,803</b>	<b>-</b>	<b>8,061</b>	<b>(5,761)</b>	<b>56,190</b>



## Business performance

### B1 Segment profit and loss (continued)

For the year ended 30 June 2017	Notes	Property Funds Management \$'000	Investment Bonds Management \$'000	Co- Investments \$'000	Reverse Mortgages \$'000	Corporate \$'000	Operating profit \$'000	Non operating items \$'000	Benefits Funds \$'000	Controlled Property Funds \$'000	Eliminations \$'000	Statutory profit \$'000
Revenue	B2	29,497	9,791	8,661	2,399	197	<b>50,545</b>	-	17,552	70,935	(11,603)	<b>127,429</b>
Expenses	B3	(13,685)	(5,390)	(152)	(545)	(7,696)	<b>(27,468)</b>	(2,939)	(38,366)	(61,237)	9,683	<b>(120,327)</b>
Fair value movements of financial instruments and property		-	-	-	-	-	-	4,434	7,831	3,852	(723)	<b>15,394</b>
Finance costs	B4	(39)	-	(2,249)	(1,831)	(630)	<b>(4,749)</b>	-	(1)	(2,616)	-	<b>(7,366)</b>
Net movement in policyholder liabilities		-	-	-	-	-	-	-	16,589	-	-	<b>16,589</b>
<b>Profit/(Loss) before tax</b>		<b>15,773</b>	<b>4,401</b>	<b>6,260</b>	<b>23</b>	<b>(8,129)</b>	<b>18,328</b>	<b>1,495</b>	<b>3,605</b>	<b>10,934</b>	<b>(2,643)</b>	<b>31,719</b>
Income tax expense	B5	(4,732)	(1,753)	(837)	(7)	4,490	<b>(2,839)</b>	1,020	(3,605)	-	-	<b>(5,424)</b>
<b>Profit/(Loss) after tax</b>		<b>11,041</b>	<b>2,648</b>	<b>5,423</b>	<b>16</b>	<b>(3,639)</b>	<b>15,489</b>	<b>2,515</b>	<b>-</b>	<b>10,934</b>	<b>(2,643)</b>	<b>26,295</b>
<b>Profit/(loss) after tax attributable to:</b>												
Centuria Capital Limited		11,041	2,648	1,956	16	(6,955)	<b>8,706</b>	(3,297)	-	1,704	(1,613)	<b>5,500</b>
Centuria Capital Fund		-	-	3,467	-	3,316	<b>6,783</b>	5,812	-	258	(1,030)	<b>11,823</b>
Profit/(loss) after tax attributable to Centuria Capital Group securityholders		11,041	2,648	5,423	16	(3,639)	<b>15,489</b>	2,515	-	1,962	(2,643)	<b>17,323</b>
Non-controlling interests		-	-	-	-	-	-	-	-	8,972	-	<b>8,972</b>
<b>Profit/(loss) after tax</b>		<b>11,041</b>	<b>2,648</b>	<b>5,423</b>	<b>16</b>	<b>(3,639)</b>	<b>15,489</b>	<b>2,515</b>	<b>-</b>	<b>10,934</b>	<b>(2,643)</b>	<b>26,295</b>

## Business performance

### B2 Revenue

	2018 \$'000	2017 \$'000
Management fees from property funds	29,705	18,294
Property acquisition fees	4,070	6,948
Property performance fees	26,738	1,239
Property sales fees	2,971	966
Management fees from Benefit Funds	3,706	2,992
Proceeds from sale of property held for development	-	59,250
Interest revenue	11,108	12,871
Rent and recoverable outgoings	21,553	11,098
Distribution/dividend revenue	29,621	9,633
Premiums - discretionary participation features only	2,711	3,961
Other income	2,330	177
	<b>134,513</b>	<b>127,429</b>

#### Recognition and measurement

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

##### (i) Management fees

Management fees are recognised on an accruals basis when the Group has the right to receive payment.

##### (ii) Property acquisition fees, sale fees and performance fees

Property acquisition fees are recognised when an investment property has been acquired in a fund managed by the Group.

Sales and performance fees derived from managed funds are recognised upon satisfaction of all conditions precedent to the sale of an investment property.

##### (iii) Sale of development properties

Revenue from the sale of apartments is recognised at the fair value of the consideration receivable when the significant risks and rewards of ownership have been transferred to the purchaser and where there is no continuing management involvement, which normally coincides with settlement of the contract for sale.

##### (iv) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding using the effective interest rate method.

##### (v) Rent and recoverable outgoings

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease.

Recoverable outgoings are recognised on an accrual basis.

##### (vi) Distribution/dividend revenue

Distribution/dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

## Business performance

### B2 Revenue (continued)

#### (a) Transactions with related parties

Management fees are charged to related parties in accordance with the respective trust deeds and management agreements.

	2018 \$	2017 \$
Management fees from Property Funds managed by Centuria	29,704,620	18,293,876
Distributions from Property Funds managed by Centuria	14,467,430	5,452,630
Property acquisition fees from Property Funds managed by Centuria	4,070,177	6,947,527
Sales fees from Property Funds managed by Centuria	2,970,550	966,160
Management fees from Over Fifty Guardian Friendly Society	3,552,177	2,991,534
Performance fees from Property Funds managed by Centuria	26,737,500	1,239,839
Interest income on loans to Property Funds managed by Centuria	501,525	513,622
Fees from Debt funds managed by Centuria	1,054,857	-
Distributions and interest from Debt Funds managed by Centuria	108,825	-
	<b>83,167,661</b>	<b>36,405,188</b>

#### (i) Terms and conditions of transactions with related parties

Investments in property funds and benefit funds held by certain directors and director-related entities are made on the same terms and conditions as all other persons. Directors and director-related entities receive the same returns on these investments as all other investors and policyholders.

The Company and its related parties entered into transactions, which are insignificant in amount, with directors and their director-related entities in their domestic dealings and are made in arm's length transactions at normal market prices and on normal commercial terms.

The Group pays some expenses on behalf of related entities and receives a reimbursement for these payments.

### B3 Expenses

	2018 \$'000	2017 \$'000
Employee benefits expense	21,260	17,468
Consulting and professional fees	4,558	3,097
Property outgoings and fund expenses	8,531	6,578
Corporate restructure and transaction costs	230	2,749
Administration fees	2,316	2,570
Impairment of seed capital	380	190
Cost of property held for development sold	-	50,670
Claims - discretionary participation features only	23,144	31,708
Other expenses	7,198	5,297
	<b>67,617</b>	<b>120,327</b>

## Business performance

### B3 Expenses (continued)

#### (a) Transactions with key management personnel

##### (i) Transactions with directors

For transactions with directors, refer to details included in the Audited remuneration report on page 20.

##### (ii) Key management personnel compensation

The aggregate compensation paid to key management personnel of the Group is set out below:

	2018 \$	2017 \$
Short-term employee benefits	5,475,869	4,803,187
Post-employment benefits	128,256	126,660
Other long-term employment benefits	(5,350)	49,316
Share-based payments	1,055,916	553,731
	<b>6,654,691</b>	<b>5,532,894</b>

Detailed information on key management personnel is included in the Audited remuneration report.

### B4 Finance costs

	2018 \$'000	2017 \$'000
Operating interest charges	8,567	2,871
Bank loans in Controlled Property Funds interest charges	5,490	2,616
Reverse mortgage facility interest charges	1,741	1,832
(Gain)/loss on derivatives on fair value hedges	1,115	(6,566)
Loss/(gain) on financial assets fair value hedges	(1,115)	6,566
Other finance costs	191	47
	<b>15,989</b>	<b>7,366</b>

#### Recognition and measurement

The Group's finance costs include:

- Interest expense recognised using the effective interest method.
- The net gain or loss on hedging instruments that are recognised in profit or loss.

### B5 Taxation

Current tax expense in respect of the current year	13,203	9,227
Adjustments to current tax in relation to prior years	(102)	-
	<b>13,101</b>	<b>9,227</b>
Deferred tax expense relating to the origination and reversal of temporary differences	772	(4,126)
Deferred tax charged directly to equity	-	323
<b>Income tax expense</b>	<b>13,873</b>	<b>5,424</b>

## Business performance

### B5 Taxation (continued)

#### (a) Reconciliation of income tax expense

The prima facie income tax expense on profit before income tax reconciles to the income tax expense in the consolidated financial statements as follows:

	2018 \$'000	2017 \$'000
Profit before tax	70,063	31,719
Less: profit not subject to income tax	(20,222)	(10,863)
	49,841	20,856
Income tax expense calculated at 30%	14,952	6,257
Add/(deduct) tax effect of amounts which are not deductible/(assessable)		
Tax offset for franked dividends	(1,032)	(313)
Non-allowable expenses - seed capital impairment	114	57
Non-allowable expenses - other	181	706
Recognition of previously unbooked capital losses	(240)	(1,193)
Adjustments to current tax in relation to prior years	(102)	(90)
<b>Income tax expense</b>	<b>13,873</b>	<b>5,424</b>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

#### (b) Current tax assets and liabilities

	2018 \$'000	2017 \$'000
<b>Current tax assets/(liabilities) attributable to:</b>		
Benefit Funds	690	(387)
Securityholders	(529)	(2,784)
	161	(3,171)

#### (c) Movement of deferred tax balances

	Opening balance \$'000	Movement \$'000	Closing balance \$'000
<b>Financial year ended 30 June 2018</b>			
<b>Deferred tax assets</b>			
Provisions	2,207	436	2,643
Financial derivatives	4,020	-	4,020
Capital losses	27,640	(826)	26,814
Transaction costs	374	(28)	346
<b>Deferred tax liabilities</b>			
Indefinite life management rights	(27,638)	-	(27,638)
Accrued income	(290)	-	(290)
Unrealised gain/(loss) on financial assets	(5,027)	(1,522)	(6,549)
Prepayments	(6)	-	(6)
Fair value measurements in mortgage assets	(3,600)	1,141	(2,459)
	(2,320)	(799)	(3,119)

## B5 Taxation (continued)

### (c) Movement of deferred tax balances (continued)

Financial year ended 30 June 2017	Opening balance \$'000	Movement \$'000	Closing balance \$'000
<b>Deferred tax assets</b>			
Provisions	1,795	412	2,207
Financial derivatives	2,730	1,290	4,020
Capital losses	203	27,437	27,640
Transaction costs	-	374	374
<b>Deferred tax liabilities</b>			
Indefinite life management rights	-	(27,638)	(27,638)
Accrued income	(2,509)	2,219	(290)
Unrealised gain/(loss) on financial assets	(4,316)	(711)	(5,027)
Prepayments	(6)	-	(6)
Fair value measurements in mortgage assets	(4,020)	420	(3,600)
	(6,123)	3,803	(2,320)

### (d) Capital tax losses

At 30 June 2018, the Group has \$nil (2017: \$373,750) tax effected unrecognised capital tax losses.

### Recognition and measurement

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### (i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### (ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and tax offsets, to the extent that it is probable that sufficient future taxable profits will be available to utilise them.

However, deferred tax assets and liabilities are not recognised for:

- taxable temporary differences that arise from the initial recognition of assets or liabilities in a transaction that is not a business combination which affects neither taxable income nor accounting profit;
- taxable temporary differences relating to investments in subsidiaries, associates and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising from goodwill

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## B5 Taxation (continued)

### Recognition and measurement (continued)

#### (ii) Deferred tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### (iii) Tax consolidation

The Company and all its wholly-owned Australian resident companies are part of a tax-consolidated group under Australian taxation law. The Company is the head entity in the tax-consolidated group. Tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in their separate financial statements using a 'standalone tax payer' approach. Under the tax funding arrangement between members of the tax-consolidated group, amounts are recognised as payable to or receivable by each member in relation to the tax contribution amounts paid or payable between Company and the members of the the tax-consolidated group.

Centuria Capital Fund (CCF) and its subsidiaries are not part of the tax-consolidation group. Under current Australian income tax legislation, Trusts are not liable for income tax, provided their securityholders are presently entitled to the taxable income of the Trust including realised capital gains each financial year.

The Benefit Funds are part of the tax consolidated group, and they are allocated a share of the income tax liability attributable to Centuria Life Limited equal to the income tax liability that would have arisen to the Benefit Funds had they been stand-alone.

#### (iv) Current and deferred tax for the period

Income taxes relating to items recognised directly in equity are recognised directly in equity and not in the statement of comprehensive income. In the case of a business combination, the tax effect is included in the accounting for the business combination.

## B6 Earnings per security

	2018 Cents	2017 Cents
Basic (cents per stapled security)	19.8	11.5
Diluted (cents per stapled security)	18.1	11.4

The earnings used in the calculation of basic and diluted earnings per security is the profit for the year attributable to Centuria Capital Group securityholders as reported in the consolidated statement of comprehensive Income.

The weighted average number of ordinary securities used in the calculation of basic and diluted earnings per security is as follows:

	2018	2017
Weighted average number of ordinary securities (basic)	277,224,977	150,835,465
Weighted average number of ordinary securities (diluted) <sup>(i)</sup>	301,789,890	152,619,939

- (i) The weighted average number of ordinary securities used in the calculation of diluted earnings per security is determined:
- as if 30 June 2018 was the end of the performance period of the grants of Rights under the LTI plan. All Rights that would have vested if 30 June 2018 was the end of the performance period are deemed to have been issued at the start of the financial year.
  - as if 20,098,470 unexercised options with an exercise price of \$1.30 per option have been converted to ordinary securities at the start of the financial year.

## Business performance

### B7 Dividends and distributions

	2018		2017	
	Cents per security	Total \$'000	Cents per share	Total \$'000
<b>Dividends/distributions paid during the year</b>				
Stapling dividend (fully franked)	-	-	17.27	13,331
Final year-end dividend (fully franked)	2.40	5,453	3.00	2,316
Final year-end distribution	2.80	6,361	-	-
Interim dividend (fully franked)	1.70	5,184	1.50	1,158
Interim distribution	2.40	7,314	0.80	618
<b>Dividends/distributions declared during the year</b>				
Final dividend (fully franked) <sup>(i)</sup>	1.00	3,048	2.40	5,453
Final distribution <sup>(i)</sup>	3.10	9,449	2.80	6,361
<b>Dividends/distributions paid/declared to Centuria Capital Group securityholders <sup>(ii)</sup></b>	<b>13.40</b>	<b>36,809</b>	<b>27.77</b>	<b>29,237</b>

<sup>(i)</sup> The Group declared a final dividend/distribution in respect of the year ended 30 June 2018 of 4.1 cents per stapled security which included a dividend of 1.00 cents per share and a distribution of 3.10 cents per security. The final dividend had a record date of 29 June 2018 and was subsequently was paid on 27 July 2018. The total amount payable of \$12,497,000 has been provided as a liability in these financial statements.

<sup>(ii)</sup> In addition to the dividends and distributions paid to Centuria Capital Group securityholders, the Group paid distributions of \$6,880,000 to external non-controlling interests.

#### (a) Franking credits

	2018 \$'000	2017 \$'000
Amount of franking credits available to shareholders of the Company for subsequent financial years <sup>(i)</sup>	15,682	5,919

(i) Before taking into account the impact of the final dividend payable on 27 July 2018.



## C Assets and liabilities

### C1 Segment balance sheet

Financial year ended 30 June 2018	Notes	Property Funds Management \$'000	Investment Bonds Management \$'000	Co-Investments \$'000	Corporate \$'000	Operating balance sheet \$'000	Benefits Funds \$'000	Controlled Property Funds \$'000	Eliminations \$'000	Statutory balance sheet \$'000
<b>Assets</b>										
Cash and cash equivalents	D2	22,189	6,170	11,531	36,499	76,389	20,148	5,377	-	101,914
Receivables	C2	6,209	1,318	6,334	3,290	17,151	6,400	(378)	(2,009)	21,164
Financial assets	C3	-	-	277,919	48,059	325,978	330,505	-	(11,651)	644,832
Investment properties held for sale	C4	-	-	-	-	-	-	63,400	-	63,400
Investment properties	C5	-	-	-	-	-	-	147,100	-	147,100
Other assets		62	244	-	1,730	2,036	-	-	-	2,036
Intangible assets	C6	157,663	-	-	-	157,663	-	-	-	157,663
<b>Total assets</b>		<b>186,123</b>	<b>7,732</b>	<b>295,784</b>	<b>89,578</b>	<b>579,217</b>	<b>357,053</b>	<b>215,499</b>	<b>(13,660)</b>	<b>1,138,109</b>
<b>Liabilities</b>										
Payables	C7	1,908	729	12,783	11,426	26,846	1,916	5,652	(2,009)	32,405
Liability to 360 Capital Group		-	-	6,562	-	6,562	-	34,599	-	41,161
Provisions		885	-	-	712	1,597	-	-	-	1,597
Borrowings	C8	-	-	123,552	8,429	131,981	-	115,758	(2,000)	245,739
Interest rate swap at fair value		-	-	-	22,939	22,939	-	472	-	23,411
Benefit Funds policy holders' liability		-	-	-	-	-	349,677	-	-	349,677
Provision for income tax	B5(b)	(490)	82	-	937	529	(690)	-	-	(161)
Deferred tax liability	B5(c)	923	(94)	-	(3,860)	(3,031)	6,150	-	-	3,119
<b>Total liabilities</b>		<b>3,226</b>	<b>717</b>	<b>142,897</b>	<b>40,583</b>	<b>187,423</b>	<b>357,053</b>	<b>156,481</b>	<b>(4,009)</b>	<b>696,948</b>
<b>Net assets</b>		<b>182,897</b>	<b>7,015</b>	<b>152,887</b>	<b>48,995</b>	<b>391,794</b>	<b>-</b>	<b>59,018</b>	<b>(9,651)</b>	<b>441,161</b>

## Assets and liabilities

## C1 Segment balance sheet (continued)

Financial year ended 30 June 2017	Notes	Property Funds Management \$'000	Investment Bonds Management \$'000	Co- Investments \$'000	Reverse Mortgages \$'000	Corporate \$'000	Operating balance sheet \$'000	Benefits Funds \$'000	Controlled Property Funds \$'000	Eliminations \$'000	Statutory balance sheet \$'000
<b>Assets</b>											
Cash and cash equivalents	D2	11,403	4,451	29,211	1,252	9,417	55,734	9,869	8,779	-	74,382
Receivables	C2	8,809	1,117	2,766	(25)	675	13,342	2,924	889	(775)	16,380
Financial assets	C3	-	-	151,354	46,186	-	197,540	340,271	10,460	(12,812)	535,459
Investment properties	C5	-	-	-	-	-	-	-	257,100	-	257,100
Other assets		124	38	-	-	1,389	1,551	-	-	-	1,551
Intangible assets	C6	157,663	-	-	-	-	157,663	-	-	-	157,663
<b>Total assets</b>		<b>177,999</b>	<b>5,606</b>	<b>183,331</b>	<b>47,413</b>	<b>11,481</b>	<b>425,830</b>	<b>353,064</b>	<b>277,228</b>	<b>(13,587)</b>	<b>1,042,535</b>
<b>Liabilities</b>											
Payables	C7	922	957	8,167	1,235	12,542	23,823	22	10,825	(775)	33,895
Liability to 360 Capital Group		-	-	7,938	-	-	7,938	-	48,518	-	56,456
Provisions		624	-	-	-	677	1,301	-	-	-	1,301
Borrowings	C8	(6)	-	98,125	9,147	-	107,266	-	131,487	(2,650)	236,103
Interest rate swap at fair value		-	-	-	18,190	-	18,190	-	1,134	-	19,324
Benefit Funds policy holders' liability		-	-	-	-	-	-	348,014	-	-	348,014
Provision for income tax	B5(b)	3,485	199	(123)	1,720	(2,497)	2,784	387	-	-	3,171
Deferred tax liability	B5(c)	422	(18)	-	(1)	(2,724)	(2,321)	4,641	-	-	2,320
<b>Total liabilities</b>		<b>5,447</b>	<b>1,138</b>	<b>114,107</b>	<b>30,291</b>	<b>7,998</b>	<b>158,981</b>	<b>353,064</b>	<b>191,964</b>	<b>(3,425)</b>	<b>700,584</b>
<b>Net assets</b>		<b>172,552</b>	<b>4,468</b>	<b>69,224</b>	<b>17,122</b>	<b>3,483</b>	<b>266,849</b>	<b>-</b>	<b>85,264</b>	<b>(10,162)</b>	<b>341,951</b>

## Assets and liabilities

### C2 Receivables

	2018 \$'000	2017 \$'000
Receivables from related parties (refer to note C2(a))	11,682	8,896
Other receivables	9,482	7,484
	<b>21,164</b>	<b>16,380</b>

The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

#### (a) Receivables from related parties

The following amounts were owed by related parties of the Group at the end of the financial year:

	2018 \$	2017 \$
Management fees owing from property funds managed by Centuria	3,483,289	2,627,836
Acquisition fee receivable from Centuria 80 Grenfell Fund	1,765,177	-
Acquisition fee receivable from Centuria Sandgate Road Fund	-	2,125,000
Distribution receivable from Centuria Industrial REIT	2,346,074	1,607,724
Recoverable expenses owing from property funds managed by Centuria	1,486,241	1,016,155
Distribution receivable from Centuria Metropolitan REIT	1,250,856	662,672
Receivable from Over Fifty Guardian Friendly Society Limited	758,951	524,360
Interest receivable from Centuria Sandgate Road Fund	-	305,933
Distribution receivable from Centuria Diversified Property Fund	28,378	-
Distribution receivable from Centuria Scarborough House Fund	613	26,455
Redemption funds receivable from Centuria Diversified Property Fund	435,781	-
Receivables from debt funds managed by Centuria	64,000	-
Interest receivable from Centuria 80 Grenfell Fund	62,799	-
	<b>11,682,159</b>	<b>8,896,135</b>

#### Recognition and measurement

Receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less an allowance for impairment. Due to the short-term nature of these financial rights, their carrying amounts are estimated to represent their fair values.

### C3 Financial assets

	2018 \$'000	2017 \$'000
Investments in trusts, shares and other financial instruments at fair value	362,799	324,497
Investment in related party unit trusts at fair value (refer to Note C3(a))	228,109	153,807
Loans receivable from related parties (refer to Note C3(b))	5,865	10,969
Reverse mortgage receivables <sup>(i)</sup>	28,289	27,675
Reverse mortgages - hedged item fair value adjustment	19,770	18,511
	<b>644,832</b>	<b>535,459</b>

(i) Whilst some mortgages are likely to be repaid during the next 12 months, the Group does not control the repayment date.

## Assets and liabilities

### C3 Financial assets (continued)

#### (a) Investments in related party unit trusts carried at fair value through profit or loss

The following table details related party investments carried at fair value through profit and loss.

Financial assets held by the Group	Fair value \$	2018	Ownership	Fair value \$	2017	Ownership
		Units held			Units held	
Centuria Industrial REIT	124,317,757	48,372,668	19.48%	81,877,894	33,148,975	15.64%
Centuria Metropolitan REIT	68,555,158	27,643,209	11.39%	38,858,876	15,481,624	8.68%
Centuria Diversified Property Fund	7,050,751	5,250,001	18.88%	-	-	0%
Centuria Bottleyard Fund	1,548,500	1,630,000	14.17%	-	-	0%
Centuria Rouse Hill Debt Fund	1,515,527	1,515,527	18.20%	-	-	0%
Centuria Zenith Fund	-	-	0%	6,050,000	5,000,000	6.35%
Centuria Scarborough House Fund	102,826	102,826	0.22%	4,365,826	4,622,826	10.03%
Centuria SOP Fund	-	-	0%	3,198,461	3,204,061	10.52%
Centuria Woden Green Estate Development Fund	-	-	0%	1,252,500	1,252,500	20.53%
Centuria ATP Fund	-	-	0%	650,000	500,000	0.81%
Centuria 203 Pacific Highway Fund	-	-	0%	104,000	100,000	0.33%
Centuria 19 Corporate Drive Fund	-	-	0%	90,213	76,452	0.48%
Centuria 2 Wentworth Street Fund	-	-	0%	65,000	50,000	0.18%
Centuria 8 Central Avenue Fund 2	-	-	0%	31,500	25,000	0.04%
Centuria Australian Shares Bond	-	-	0%	24,260	10,000	0.18%
Centuria Balanced Bond	-	-	0%	19,254	9,821	0.09%
Centuria High Growth Bond	-	-	0%	18,785	10,000	0.27%
	<b>203,090,519</b>			<b>136,606,569</b>		
<b>Financial assets held by the Benefit Funds</b>						
Centuria 8 Australia Avenue Fund	-	-	0%	1,562,198	1,458,635	7.69%
Centuria Metropolitan REIT	17,454,984	7,038,300	2.90%	13,168,321	5,246,343	2.94%
Centuria Industrial REIT	2,601,467	1,012,244	0.41%	2,470,000	1,000,000	0.48%
Centuria Iskia Development Fund	1,850,000	1,850,000	15.83%	-	-	0%
Centuria Bottleyard Fund	1,425,000	1,500,000	13.04%	-	-	0%
Centuria SOP Fund	951,400	1,000,000	3.28%	-	-	0%
Centuria Rouse Hill Debt Fund	735,716	735,716	8.83%	-	-	0%
	<b>25,018,567</b>			<b>17,200,519</b>		
	<b>228,109,086</b>			<b>153,807,088</b>		

## Assets and liabilities

### C3 Financial assets (continued)

#### (b) Loans receivable from related parties

The following short-term loans were receivable from related parties of the Group at the end of the financial year:

	2018 \$	2017 \$
Centuria 80 Grenfell Street Fund	5,865,000	-
Centuria Sandgate Road Fund	-	10,968,500
	<u>5,865,000</u>	<u>10,968,500</u>

#### Recognition and measurement

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of comprehensive income.

Reverse mortgage loan receivable financial assets are recorded at amortised cost using the effective interest method less impairment.

### C4 Investment properties held for sale

In June 2018, the Group decided to sell the following properties held within Centuria Retail Fund:

Property	2018 \$'000	2017 \$'000	2018 Capitalisation rate %	Most recent independent valuer cap rate %	2018 independent Discount rate %	Last independent valuation date	2018 Valuer
Windsor Marketplace, Windsor NSW	23,400	-	6.25%	6.50%	7.00%	Nov 2017	Director
City Centre Plaza, Rockhampton QLD	40,000	-	7.50%	7.00%	7.50%	Jun 2018	Independent
<b>Total fair value</b>	<u>63,400</u>	<u>-</u>					

The fair values listed above do not include estimated selling costs which are expected to be incurred upon disposal.

#### Recognition and measurement

Investment properties are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. These investment properties are carried at fair value. The valuation techniques to determine the fair value of investment properties held for sale are the same as the valuation techniques of investment properties described in Note C5(a).

## Assets and liabilities

### C5 Investment properties

	2018 \$'000	2017 \$'000
Opening balance	257,100	-
Acquisition of investment properties	-	249,700
Capital improvements and associated costs	3,985	2,232
Make good contributions	-	(675)
Gain/(loss) on fair value	(3,041)	3,630
Change in deferred rent and lease incentives	2,456	2,213
Deconsolidation of Havelock House Fund	(28,000)	-
Sale of investment property	(22,000)	-
Investment properties reclassified as held for sale	(63,400)	-
<b>Closing balance ^</b>	<b>147,100</b>	<b>257,100</b>

^ The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$9,387,000 (30 June 2017: \$10,140,000).

Property	2018 \$'000	2017 \$'000	2018 capitalisation rate %	Most recent independent valuer cap rate %	2018 Discount rate %	Last independent valuation date	2018 Valuer
111 St George Terrace, Perth WA	147,100	142,500	7.00%	7.00%	7.25%	Nov 2017	Director
City Centre Plaza, Rockhampton Qld	-	46,000	-%	-%	-%		
Havelock House, West Perth WA	-	28,000	-%	-%	-%		
Windsor Marketplace, Windsor NSW	-	22,100	-%	-%	-%		
441 Murray Street, Perth WA	-	18,500	-%	-%	-%		
<b>Total fair value</b>	<b>147,100</b>	<b>257,100</b>					

#### Recognition and measurement

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are initially recorded at cost which includes stamp duty and other transaction costs. Subsequently, the investment properties are measured at fair value with any change in value recognised in profit or loss. The carrying amount of investment properties includes components relating to deferred rent, lease incentives and leasing fees.

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

#### Key estimate and judgements

##### (a) Valuation techniques and significant unobservable inputs

The fair value of the investment properties were determined by the Directors of the Responsible Entity of the relevant funds or by an external, independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

## Assets and liabilities

### C5 Investment properties (continued)

#### (a) Valuation techniques and significant unobservable inputs (continued)

The valuations were prepared by considering the following valuation methodologies:

- Capitalisation approach: the annual net rental income is capitalised at an appropriate market yield to arrive at the property's market value. Appropriate capital adjustments are then made where necessary to reflect the specific cash flow profile and the general characteristics of the property.
- Discounted cash flow approach: this approach incorporates the estimation of future annual cash flows over a 10 year period by reference to expected rental growth rates, ongoing capital expenditure, terminal sale value and acquisition and disposal costs. The present value of future cash flows is then determined by the application of an appropriate discount rate to derive a net present value for the property.
- Direct comparison approach: this approach identifies comparable sales on a dollar per square metre of lettable area basis and compares the equivalent rates to the property being valued to determine the property's market value.

The valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between the lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

#### (b) Fair value measurement

The fair value measurement of investment properties has been categorised as a Level 3 fair value as it is derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

Significant unobservable inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Capitalisation rate	Decrease	Increase
Discount rate	Decrease	Increase

### C6 Intangible assets

	2018 \$'000	2017 \$'000
Indefinite life management rights	92,128	92,128
Goodwill	65,535	65,535
	<b>157,663</b>	<b>157,663</b>

	2018 \$'000	2017 \$'000
Balance at the beginning of the period	157,663	53,025
Acquired goodwill	-	12,510
Acquired management rights	-	92,128
	<b>157,663</b>	<b>157,663</b>

Goodwill and management rights are solely attributable to the Property Funds Management cash generating unit with recoverability determined by a value in use calculation using profit and loss projections covering a five year period, with a terminal value determined after five years.

### C6 Intangible assets (continued)

#### Recognition and measurement

##### (i) Indefinite life management rights

Management rights acquired in a business combination are initially measured at fair value and reflect the right to provide asset and fund management services in accordance with the management agreements.

##### (ii) Goodwill

Goodwill acquired in a business combination is measured at cost and subsequently measured at cost less any impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

##### (iii) Impairment

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed 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. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units or CGUs). Non-financial assets other than goodwill that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

#### Key estimates and judgements

The key assumptions used in the value in use calculations for the Property Funds Management cash-generating unit are as follows:

##### Revenue

Revenues in 2019 are based on the Board approved budget for 2019 and are assumed to increase at a rate of 7.5% (2017: 7.5%) per annum for years 2020-2022. The directors believe this is a prudent and achievable growth rate based on past experience.

##### Expenses

Expenses in 2019 are based on the budget for 2019 and are assumed to increase at a rate of 5.0% (2017: 5.0%) per annum for the years 2020-2022. The directors believe this is an appropriate growth rate based on past experience.

##### Discount rate

Discount rates are determined to calculate the present value of future cash flows. A pre-tax rate of 10.28% (2017: 10.59%) is applied to cash flow projections. In determining the appropriate discount rate, regard has been given to relevant market data as well as Company specific inputs.

##### Terminal growth rate

Beyond 2022, a growth rate of 3% (2017: 3%), in line with long term economic growth, has been applied to determine the terminal value of the asset.

#### Sensitivity to changes in assumptions

As at 30 June 2018, the estimated recoverable amount of intangibles including goodwill relating to the Property Funds Management cash-generating unit exceeded its carrying amount by \$175.2 million (2017: \$76.8 million). The table below shows the key assumptions used in the value in use calculation and the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value:

	Revenue growth rate (average)	Pre-tax discount rate	Expenses growth rate
Assumptions used in value in use calculation	7.50%	10.28%	5.00%
Rate required for recoverable amount to equal carrying value	(2.50)%	18.68%	15.50%



## Assets and liabilities

### C7 Payables

	2018 \$'000	2017 \$'000
Sundry creditors <sup>(i)</sup>	10,880	15,322
Dividend/distribution payable	12,813	12,351
Accrued expenses	8,712	6,222
	<b>32,405</b>	<b>33,895</b>

(i) Sundry creditors are non-interest bearing liabilities and are payable on commercial terms of 7 to 60 days.

#### Recognition and measurement

Payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Due to the short-term nature of these financial obligations, their carrying amounts are estimated to represent their fair values.

### C8 Borrowings

	2018 \$'000	2017 \$'000
Fixed rate secured notes (refer to Note C8(a))	83,000	60,000
Floating rate secured notes (refer to Note C8(a))	40,000	40,000
Reverse mortgage bill facilities and notes (refer to Note C8(c))	8,429	9,147
Bank loans in Controlled Property Funds (refer to Note C8(d))	115,758	128,837
Borrowing costs capitalised	(1,448)	(1,881)
	<b>245,739</b>	<b>236,103</b>

The terms and conditions relating to the above facilities are set out below.

#### (a) Secured notes

The Group issued Tranche 1 of secured corporate notes to the value of \$100,000,000 on 21 April 2017. This consisted of an issue of \$40,000,000 floating rate secured notes and \$60,000,000 7% fixed rate secured notes. The Group issued Tranche 2 to the value of \$23,000,000 7% fixed rate secured notes on 11 September 2017. These notes mature on 21 April 2021 and are secured against assets within certain subsidiaries of the Centuria Capital Fund Group.

#### (b) Corporate facility (secured)

The Company had a multi option facility with National Australia Bank which matured on 28 February 2018. The facility limit was \$30,500,000.

	2018 \$'000	2017 \$'000
Total facility available	-	30,500
Bank guarantee utilised <sup>1</sup>	-	(8,032)
Unused facility available at the end of the period	-	22,468

<sup>1</sup> Bank guarantee is not included in the borrowings note above

## Assets and liabilities

### C8 Borrowings (continued)

#### (c) Reverse mortgage bill facilities and notes (secured)

As at 30 June 2018, the Group had \$8,429,000 (2017: \$9,147,000) non-recourse notes on issue to ANZ Bank, secured over the remaining reverse mortgages held in Senex Warehouse Trust No.1 (a subsidiary of the Group) due to mature on 30 September 2018. In July 2018, the notes maturity was extended to 30 September 2019.

The facility limit as at 30 June 2018 is \$10,000,000 (2017: \$15,000,000) and is reassessed every 6 months with a view to reducing the facility in line with the reduction in the reverse mortgage book. Under the facility agreement, surplus funds (being mortgages repaid (including interest) less taxes, administration expenses and any hedge payments) are required to be applied against the facility each month. In July 2018, the facility limit was reduced to \$9,400,000.

	2018 \$'000	2017 \$'000
Facility Limit	10,000	15,000
Amount used at reporting date	(8,429)	(9,147)
Amount unused at reporting date	1,571	5,853

#### (d) Bank Loans - Controlled Property Funds (secured)

Each controlled property fund has debt facilities secured by first mortgage over each of the fund's investment property and a first ranking fixed and floating charge over all assets of each of the funds. Details of the amounts drawn and the maturity of each facility are as follows:

Fund	Current/non-current classification	Maturity date	Facility limit \$'000	Funds available \$'000	Draw down \$'000	Borrowing costs \$'000	Draw down \$'000
<b>30 June 2018</b>							
Centuria 111 St							
Georges Terrace Fund	Current	30 June 2019	83,800	4,320	79,480	(130)	79,350
Centuria Retail Fund	Current	31 July 2018**	37,400	992	36,408	-	36,408
							<u>115,758</u>
<b>30 June 2017</b>							
Centuria 111 St							
Georges Terrace Fund	Non-current	30 June 2019	81,500	10,839	70,661	(128)	70,533
Centuria Retail Fund	Current	30 June 2018	37,400	1,823	35,577	(76)	35,501
Centuria Havelock							
House Fund	Current	31 May 2018	13,000	1,000	12,000	(14)	11,986
Centuria 441 Murray							
Street Fund	Current	30 June 2018	12,000	1,159	10,841	(24)	10,817
							<u>128,837</u>

\*\* Subsequent to 30 June 2018, the maturity date of Centuria Retail Fund's debt facility was extended to 31 August 2018. The investment properties in the Centuria Retail Fund are classified as held for sale as at 30 June 2018 and the bank facility will be rolled over until properties are sold.

#### Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

## Assets and liabilities

### C9 Commitments and contingencies

#### (a) Operating leases

##### (i) Group as a lessee

The Group has commercial leases with respect to its Sydney and Melbourne office premises.

Future minimum rentals payable under operating leases are as follows:

	2018 \$'000	2017 \$'000
Not longer than 1 year	865	831
Longer than 1 year and not longer than 5 years	158	1,023
	<b>1,023</b>	<b>1,854</b>

##### (ii) Group as a lessor

The Group leases out its investment properties under operating leases.

The future minimum lease payments receivable under non-cancellable leases are as follows:

	2018 \$'000	2017 \$'000
Not longer than 1 year	13,574	16,212
Longer than 1 year and not longer than 5 years	39,120	48,310
Longer than 5 years	27,176	45,432
	<b>79,870</b>	<b>109,954</b>

#### (b) Contingencies

The Group has bank guarantees of \$532,304 for commercial leases with respect to its Sydney and Melbourne office premises. These bank guarantees are cash collateralised.

The above guarantees are issued in respect of the Group and do not constitute an additional liability to those already existing in interest bearing liabilities on the statement of financial position.

The Directors of the Group are not aware of any other contingent liabilities in relation to the Group, other than those disclosed in the financial statements, which should be brought to the attention of securityholders as at the date of completion of this report.

#### Recognition and measurement

When the terms of a lease transfer substantially all the risks and rewards of ownership to the Group, the lease is classified as a finance lease. All other leases are classified as operating leases.

##### (i) Group as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

##### (ii) Group as a lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

## Assets and liabilities

### C10 Contributed equity

	2018 No. of securities	\$'000	2017 No. of securities	\$'000
<b>Centuria Capital Limited</b>				
Balance at beginning of the period	229,815,736	77,323	76,631,699	88,058
Equity based payment	875,401	535	563,034	356
Return of capital reinvested in CCF	-	-	-	(39,205)
Stapled securities issued	74,102,037	21,494	152,621,003	28,826
Cost of equity raising	-	(582)	-	(712)
Balance at end of period	304,793,174	98,770	229,815,736	77,323

	2018 No. of securities	\$'000	2017 No. of securities	\$'000
<b>Centuria Capital Fund (non-controlling interests)</b>				
Balance at beginning of the period	229,815,736	170,672	-	-
Equity based payment	875,401	-	-	-
Stapling dividend and return of capital reinvested	-	-	77,194,733	52,536
Stapled securities issued	74,102,037	77,146	152,621,003	124,174
Cost of equity raising	-	(2,888)	-	(6,038)
Balance at end of the period	304,793,174	244,930	229,815,736	170,672

Fully paid ordinary securities carry one vote per security and carry the right to distributions.

On 29 June 2017, the Group issued 20,098,470 options to subscribe for stapled securities. The options have an exercise price of \$1.30 per stapled security and expire on 29 June 2022.

#### Recognition and measurement

Incremental costs directly attributed to the issue of ordinary shares are accounted for as a deduction from equity, net of any tax effects.

## D Cash flows

### D1 Operating segment cash flows <sup>(i)</sup>

For the year ended 30 June 2018

	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>		
Management fees received	81,370	43,589
Distributions received	15,529	5,301
Interest received	2,268	665
Payments to suppliers and employees	(36,342)	(33,061)
Income tax paid	(15,353)	(6,084)
Interest paid	(9,281)	(3,343)
<b>Net cash provided by operating activities</b>	<b>38,191</b>	<b>7,067</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of related party investments	64,009	20,763
Purchase of investments in related parties	(123,762)	(145,697)
Loans to related parties for purchase of properties	(5,865)	(13,669)
Repayment of loans by related parties	4,650	7,072
Purchase of other investments	(52,723)	(620)
Proceeds from sale of investments	-	47,757
Loans provided to other parties	(25,980)	-
Loans repaid by other parties	25,980	-
Collections from reverse mortgage holders	2,113	1,209
Cash balance on acquisition of subsidiaries	-	10,619
Purchase of subsidiaries	-	(104,419)
Payments for plant and equipment	(788)	(115)
<b>Net cash used in investing activities</b>	<b>(112,366)</b>	<b>(177,100)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of securities	98,639	153,000
Equity raising costs paid	(3,710)	(6,750)
Proceeds from borrowings	25,375	155,000
Repayment of borrowings	(718)	(82,403)
Capitalised borrowing costs paid	(446)	(1,936)
Distributions paid	(24,310)	(4,092)
<b>Net cash provided by financing activities</b>	<b>94,830</b>	<b>212,819</b>
<b>Net increase in operating cash and cash equivalents</b>	<b>20,655</b>	<b>42,786</b>
Cash and cash equivalents at the beginning of the period	55,734	12,948
<b>Cash and cash equivalents at the end of the period</b>	<b>76,389</b>	<b>55,734</b>

(i) The operating segment cash flows support the segment note disclosures of Centuria Capital Group and provide details in relation to the Operating Segment cash flows performance of the Group. The Operating Segment cash flows exclude the impact of cash flows attributable to Benefit Funds and Controlled Property Funds. Refer to page 27 of the consolidated financial statements for the full statutory cash flow statement of the Group.

## Cash flows

### D2 Cash and cash equivalents

Included in cash and cash equivalents attributable to shareholders is \$27,267,854 (2017: \$15,572,198) relating to amounts held by Centuria Life Limited, Senex Warehouse Trust No.1 and the Benefit Funds which is not readily available for use by the Group.

### D3 Reconciliation of profit for the period to net cash flows from operating activities

	2018 \$'000	2017 \$'000
Profit for the year	56,190	26,295
<b>Add (deduct) non-cash items:</b>		
Depreciation and amortisation	370	365
Impairment of seed capital	380	-
Share-based payment expense	662	447
Amortisation of borrowing costs	58	167
Profit on sale of investment property	(2,000)	-
Fair value movement of financial assets	(13,894)	(4,171)
Interest revenue from reverse mortgages	(2,453)	(2,377)
Unrealised gain/(loss) on investment properties	5,790	(3,631)
Amortisation of lease incentives	1,650	3,423
Costs paid for debt issuance	446	-
Provision for doubtful debts	100	-
<b>Changes in net assets and liabilities:</b>		
<b>(Increase)/decrease in assets:</b>		
Receivables	(7,526)	5,762
Prepayments	(67)	117
Property held for development	-	35,716
<b>Increase/(decrease) in liabilities:</b>		
Other payables	(2,660)	(11,009)
Tax provision	(3,113)	2,186
Deferred tax liability	820	(3,803)
Provisions	515	146
Policyholder liability	1,662	1,864
<b>Net cash flows provided by/(used in) operating activities</b>	<b>36,930</b>	<b>51,497</b>

### Recognition and measurement

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition. Bank overdrafts are shown within borrowings in the statement of financial position.

## E Group Structure

### E1 Business combination

#### (a) Current year

During the current year, there were no business combinations.

#### (b) Prior Year

##### (i) Stapling

The stapling of the Company and Centuria Capital Fund (CCF) was approved at an Extraordinary General Meeting of the shareholders of the Company on 10 October 2016. Following approval of the stapling, shares in the Company and units in CCF were stapled to one another on 17 October 2016 and are traded as a single security on the ASX.

CCF was established by the transfer of the Company's interest in Centuria Metropolitan REIT ('CMA') and other Co-investments to CCF in exchange for \$52,535,795 in equity of CCF. Assets transferred to CCF were transferred at fair value. As the co-investments were already held at fair value, there was no impact on the consolidated net assets. CCL distributed \$52,535,795 of its units in CCF to its shareholders through a \$13,331,181 dividend and a capital distribution of \$39,204,614.

In relation to the stapling of the Company and CCF, the Company is identified as the parent of the Group with the acquisition accounted for as a change in ownership without a loss of control. The issued units of CCF are not owned by the Company and are presented as non-controlling interests in the Group even though units in CCF are held directly by the shareholders of the Company.

The equity in the net assets of CCF and the profit/(loss) arising from those net assets have been separately identified in the statements of comprehensive income and financial position. CCF's contributed equity and retained earnings/accumulated losses are shown as a non-controlling interest in the consolidated financial statements in accordance with accounting standards.

##### (ii) 360 Capital acquisition

On 23 November 2016, the Group announced the purchase of all of the shares in Centuria Property Funds No. 2 Limited (formerly 360 Capital Investment Management Limited) ('CPF2L') and associated management rights over listed and unlisted property investment funds for which CPF2L is the responsible entity from 360 Capital Group Limited ('360 Capital'). Also as part of the acquisition, the Group agreed to acquire various stakes in those listed and unlisted funds.

The acquisition of shares in CPF2L and the interests in the listed and unlisted property investment funds (collectively, the 'Transaction') was settled on 9 January 2017.

This acquisition was funded by a combination of debt, equity and existing cash reserves, including \$150,000,000 capital raised from new and existing institutional investors, and a vendor loan amounting to \$50,000,000.

The acquisition also included a call option and a put option over stakes in the four unlisted property investment funds managed by CPF2L with a maximum option period of 2 years following completion of the acquisition.

This acquisition is part of the Group's strategy in growing its property funds management platform and increasing recurring revenues through additional co-investment in managed funds.

## E1 Business combination (continued)

### (b) Prior Year (continued)

#### (ii) 360 Capital acquisition (continued)

Details of the purchase consideration, the net assets acquired and goodwill recognised are as follows:

	2017 \$'000
<b>Purchase consideration</b>	
Cash paid on 9 January 2017	169,836
Loan from 360 Capital Group (repaid on 21 April 2017)	50,000
Call and put option liability	60,123
Contingent consideration	1,763
<b>Total purchase consideration</b>	<u>281,722</u>

As at 30 June 2018, the call and put option liability is \$41,024,000 (2017: \$54,693,000) and the contingent consideration is \$123,000 (2017: \$1,763,000). On 18 July 2018, the call and put option deed in relation to Centuria 111 St Georges Terrace Fund options was extended to 26 June 2019 from the original date of 9 January 2019.

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

	Fair value \$'000
Cash and cash equivalents	17,608
Investment Properties	249,700
Receivables	2,748
Payables	(6,509)
Borrowings	(128,495)
Derivative Financial Instruments	(757)
Co-investment in Centuria Industrial REIT (CIP)	81,414
Co-investment in Centuria Urban REIT (CUA)	30,725
Management rights (indefinite life)	92,128
<b>Net identifiable assets acquired</b>	<u>338,562</u>
Less: non-controlling interests	(69,350)
Add: goodwill attributable to the acquisition of 360 Capital	12,510
<b>Net assets acquired</b>	<u>281,722</u>

#### Transaction related costs

Transaction related costs of \$9,591,064 were incurred of which \$2,707,750 were included in expenses in profit or loss and \$6,883,314 were recognised directly in contributed equity.

#### Contingent consideration

The contingent consideration arrangement requires the Group to guarantee the distribution yield on co-investment stakes in unlisted property funds subject to put and call options to 7.5%. The contingent consideration liability recognised reflects the Group's expectation of the fair value of the amounts to be paid over the contingent period. The distributions are expected to be less than the guaranteed return.

#### Recognition and measurement

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method when control is transferred to the Group. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.



## Group Structure

### E2 Interests in material subsidiaries

The Group's principal subsidiaries at 30 June 2018 are set out below. Unless otherwise stated, they have issued capital consisting solely of ordinary shares or units that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The subsidiaries of the Group were incorporated in Australia which is also their principal place of business. The parent entity of the Group is Centuria Capital Limited.

Name of subsidiary	Ownership interest %	
	2018	2017
Centuria Capital Fund	0% (100% NCI)	0% (100% NCI)
Centuria Life Limited	100%	100%
Over Fifty Seniors Equity Release Pty Ltd	100%	100%
Senex Warehouse Trust No. 1	100%	100%
Centuria Property Funds Limited	100%	100%
Centuria Property Funds No. 2 Limited	100%	100%
Centuria Properties No. 3 Limited	100%	100%
Centuria Institutional Investments No. 3 Pty Limited	100%	100%
A.C.N. 062 671 872 Pty Limited	100%	100%
Centuria Strategic Property Limited	100%	100%
Centuria Funds Management Limited	100%	100%
Centuria Investment Holdings Pty Limited	100%	100%
Centuria Finance Pty Ltd	100%	100%
Centuria Property Services Pty Limited	100%	100%
Belmont Road Management Pty Limited	100%	100%
Belmont Road Development Pty Limited	100%	100%
Centuria Capital No. 2 Fund	100%	100%
Centuria Capital No. 2 Office Fund	100%	100%
Centuria Capital No. 2 Industrial Fund	100%	100%
Centuria Capital No. 3 Fund	100%	100%
Centuria Belmont Road Development Fund	27%	27%
Centuria Diversified Property Fund***	n/a	54%

During the year ended 30 June 2017, as part of the 360 Capital Transaction, the Group gained control over four unlisted property funds including Centuria 111 St Georges Terrace Fund, Centuria Retail Fund, Centuria Havelock House Fund and Centuria 441 Murray Street Fund. In 2017, these funds have been consolidated in these financial statements. As at 30 June 2018, Centuria Havelock House Fund and Centuria Murray Street Fund have been deconsolidated from these financial statements.

\*\*\* As at 30 June 2018, Centuria Diversified Property Fund has been deconsolidated from these financial statements.

### Recognition and measurement

#### (i) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. The Group controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## E2 Interests in material subsidiaries (continued)

### Recognition and measurement (continued)

#### (i) Basis of consolidation (continued)

The Company is required by AASB 10 Consolidated Financial Statements to recognise the assets, liabilities, income, expenses and equity of the benefit funds of its subsidiary, Centuria Life Limited (the "Benefit Funds"). The assets and liabilities of the Benefit Funds do not impact the net profit after tax or the equity attributable to the shareholders of the Company and the shareholders of the Company have no rights over the assets and liabilities held in the Benefit Funds. The Company has majority representation on the Board of the Over Fifty Guardian Friendly Society Limited (Guardian). However, as Guardian is a mutual organisation, the Company has no legal rights to Guardian's net assets, nor does it derive any benefit from exercising its power and therefore does not control Guardian.

## E3 Parent entity disclosure

As at, and throughout the current and previous financial year, the parent entity of the Group was Centuria Capital Limited.

	2018 \$'000	2017 \$'000
<b>Result of parent entity</b>		
Profit or loss for the year	13,147	15,557
Total comprehensive income for the year	13,147	15,557

### Financial position of parent entity at year end

Total assets	104,332	76,921
Total liabilities	(11,830)	(11,128)
Net assets	92,502	65,793

The parent entity presents its assets and liabilities in order of liquidity. The assets of the parent entity mainly consist of cash, short term receivables, investments in subsidiaries and deferred tax assets. The liabilities of the parent entity mainly consist of short term payables.

### Total equity of the parent entity comprising of:

Share capital	98,770	77,323
Share-based incentive reserve	1,896	1,551
Retained earnings/(loss)	(8,164)	(13,081)
<b>Total equity</b>	<b>92,502</b>	<b>65,793</b>

### (a) Guarantees entered into by the parent entity

The parent entity has, in the normal course of business, entered into guarantees in relation to the debts of its subsidiaries during the financial year.

### (b) Commitments and contingent liabilities of the parent entity

The parent entity has bank guarantees of \$532,304 for commercial leases with respect to its Sydney and Melbourne office premises. These bank guarantees are cash collateralised.

The above guarantees are issued in respect of the parent entity and do not constitute an additional liability to those already existing in interest bearing liabilities on the statement of financial position.

The Directors of the Company are not aware of any other contingent liabilities in relation to the parent entity, other than those disclosed in the financial statements.

## F Other

### F1 Share-based payment arrangements

#### (a) LTI Plan details

The Company has an Executive Incentive Plan ("LTI Plan") which forms a key element of the Company's incentive and retention strategy for senior executives under which Performance Rights ("Rights") are issued.

Each employee receives ordinary security of the Group on vesting of the performance rights. No amounts are paid or payable by the recipient on receipt of the performance rights or on vesting. The performance rights carry neither rights to dividends nor voting rights prior to vesting.

It is expected that future annual grants of performance rights will be made, subject to the Board's determination of the overall performance of the Group and market conditions. The vesting of any performance rights awarded will be subject to attainment of appropriate performance hurdles and on the basis of continuing employment with the Group.

Further details of the LTI Plan are included in the Audited remuneration report from page 9 to page 20.

	2018 Number
Performance rights outstanding at the beginning of the year	5,103,963
Performance rights granted during the year	2,113,780
Performance rights lapsed during the year	(458,129)
Performance rights vested during the year	(1,390,927)
Performance rights outstanding at the end of the year	<u>5,368,687</u>

The performance objectives for 1,672,133 of the performance rights issued under Tranche 3 were met in full by 30 June 2018. As a result, these rights will vest on 31 August 2018.

#### (b) Measurement of fair values

The fair value of the rights was calculated using a binomial tree valuation methodology for the Rights with non-market vesting conditions and a Monte-Carlo simulation for the Rights with market vesting conditions.

The inputs used in the measurement of the fair values at grant date of the rights were as follows:

	Tranche 3	Tranche 4	Tranche 5
Expected vesting date	31 August 2018	31 August 2019	31 August 2020
Share price at the grant date	\$0.96	\$1.02	\$1.46
Expected life	2.6 years	2.7 years	2.8 years
Volatility	20%	20%	20%
Risk free interest rate	1.85%	1.94%	1.96%
Dividend yield	5.4%	5.7%	5.7%

The following table sets out the fair value of the rights at the respective grant date:

Performance Condition	Tranche 3	Tranche 4	Tranche 5
EPS	\$0.87	\$0.88	N/A
Growth in FUM	\$0.87	\$0.88	\$1.24
Absolute TSR	\$0.19	\$0.16	\$0.62

During the year, share based payment expenses were recognised of \$1,478,291 (2017: \$448,247).

## F1 Share-based payment arrangements (continued)

### Recognition and measurement

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates with respect to non-market vesting conditions, if any, is recognised in profit for the year such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

## F2 Guarantees to Benefit Fund policyholders

Centuria Life Limited (CLL) provides a guarantee to policyholders of two of its Benefit Funds, Centuria Capital Guaranteed Bond Fund and Centuria Income Accumulation Fund as follows:

If, when CLL, in light of the Bonds, is required under the bond rules to pay policy benefits to a policy owner as a consequence of the termination of the Bond or the maturity or surrender of a policy, and CLL determines that the sums to be paid to the policy owner from the bonds shall be less than the amounts standing to the credit of the relevant accumulation account balance, (or in the case of a partial surrender, the relevant proportion of the accumulation account balance), CLL guarantees to take all action within its control, including making payment from its management fund to the policy owner to ensure that the total sums received by the policy owner as a consequence of the termination, maturity or surrender equal the relevant accumulation account balance, (or) in the case of a partial surrender, the relevant proportion thereof."

No provision has been raised in respect of these guarantees at this time for the following reasons:

- The funds follow an investment strategy that is appropriate for the liabilities of the fund. The Fund cannot alter their investment strategy without the approval of the members and APRA, following a report from the appointed actuary;
- The funds must meet the capital adequacy standards of APRA which results in additional reserves being held within the funds to enable the funds to withstand a "shock" in the market value of assets. If the Funds can withstand a shock in asset values and still meet their liabilities from their own reserves, then this further reduces the likelihood of the Funds calling on the guarantee provided; and
- CLL also continues to meet the ongoing capital requirements set by APRA.

## F3 Financial instruments

### (a) Management of financial instruments

The Board is ultimately responsible for the Risk Management Framework of the Group.

The Group employs a cascading approach to managing risk, facilitated through delegation to specialist committees and individuals within the Group.

The Group is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management and investment policies, approved by the Board, seek to minimise the potential adverse effects of these risks on the Group's financial performance. These policies may include the use of certain financial derivative instruments.

Centuria Life Limited (CLL) has also established an Investment Committee. The Investment Committee's function is to manage and oversee the Benefit Fund investments in accordance with the investment objectives and framework. Specifically, it has responsibility for setting and reviewing strategic asset allocations, reviewing investment performance, reviewing investment policy, monitoring and reporting on the performance of the investment risk management policy and performing risk management procedures in respect of the investments.

### F3 Financial instruments (continued)

#### (a) Management of financial instruments (continued)

From time to time, the Group outsources certain parts of the investment management of the Benefit Funds to specialist investment managers including co-ordinating access to domestic and international financial markets, and managing the financial risks relating to the operations of the Group in accordance with an investment mandate set out in the Group's constitution and the Benefit Funds' product disclosure statements. The Benefit Funds' investment mandates are to invest in equities and fixed interest securities via unit trusts, discount securities and may also invest in derivative instruments such as futures and options.

The Group uses interest rate swaps to manage interest rate risk and not for speculative purposes in any situation. Hedging is put in place where the Group is either seeking to minimise or eliminate cash-flow variability, i.e., converting variable rates to fixed rates, or changes in the fair values of underlying assets or liabilities, i.e., to convert fixed rates to variable rates.

Derivative financial instruments of the Benefit Funds, consolidated into the financial statements of the Group under AASB 10 Consolidated Financial Statements, are used only for hedging factual or anticipated exposures relating to investments. The use of financial derivatives in respect of Benefit Funds is governed by the Funds' investment policies, which provide written principles on the use of financial derivatives.

#### (b) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity capital. This overall strategy remains unchanged from the prior year.

The Group's capital structure consists of net debt (borrowings, offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings).

The Group carries on business throughout Australia, primarily through subsidiary companies that are established in the markets in which the Group operates. The operations of Centuria Life Limited are regulated by APRA and the management fund of the Society has a minimum Prescribed Capital Amount (PCA) that must be maintained at all times. It is calculated monthly and these results are reported to the Board each month. The current level of share capital of Centuria Life Limited meets the PCA requirements.

In addition, Centuria Property Funds Limited, Centuria Funds Management Limited and Centuria Property Fund No.2 Limited have AFS licences so as to operate registered property trusts. Regulations require these entities to hold a minimum net asset amount which is maintained by way of bank guarantees. Where necessary, the bank guarantees will be increased to ensure the net asset requirement is always met.

Operating cash flows are used to maintain and, where appropriate, expand the Group's funds under management as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group reviews regularly its anticipated funding requirements and the most appropriate form of funding (capital raising or borrowings) depending on what the funding will be used for.

The capital structure of the Benefit Funds (and management fund) consists of cash and cash equivalents, bill facilities and mortgage assets. The Benefit Funds also hold a range of financial assets for investment purposes including investments in unit trusts, equity and floating rate notes. The Investment Committee aims to ensure that there is sufficient capital for possible redemptions by unit holders of the Benefit Funds by regularly monitoring the level of liquidity in each fund.

The Benefit Funds have no restrictions or specific capital requirements on the application and redemption of units. The Benefit Funds' overall investment strategy remains unchanged from the prior year.

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

##### (i) Valuation techniques and assumptions applied in determining fair value

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. Discount rates are determined based on market rates applicable to the financial asset or liability.

### F3 Financial instruments (continued)

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

##### (i) Valuation techniques and assumptions applied in determining fair value (continued)

The valuation technique used to determine the fair value of the Group's reverse mortgage loan book is as follows:

- the weighted average reverse mortgage holders' age is 79 years;
- the future cash flows calculation is related to borrowers' mortality rates and mortality improvements. The data is sourced from mortality tables provided by the actuary;
- fixed or variable interest rates charged to borrowers are used to project future cash flows;
- a redemption rate, which is based on historical loan redemption experience, applies to future cash flow forecast; and
- year-end yield curve is used to discount future cash flows back to 30 June 2018 to determine the fair value.

##### (ii) Valuation techniques and assumptions applied in determining fair value of derivatives

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The valuation technique used to determine the fair value of the Fixed for Life interest rate swaps is as follows:

- the weighted average reverse mortgage holders' age is 79 years;
- the expected future cash flows in relation to the swaps are based on reverse mortgage borrowers' expected life expectancy sourced from mortality tables provided by the actuary; and the difference between the fixed swap pay rates and forward rates as of 30 June 2018 is used to calculate the future cash flows in relation to the swaps; and year-end yield curve plus a credit margin is used to discount future cash flows back to 30 June 2018 to determine the fair value.

##### (iii) Fair value measurements recognised in the statement of financial position

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value.

The table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1, 2 and 3 in the period.

30 June 2018	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
<b>Financial assets</b>				
Cash and cash equivalents	Amortised cost	Level 1	101,914	101,914
Financial assets at fair value	Fair value	Level 1	495,837	495,837
Receivables	Amortised cost	Level 2	21,164	21,164
Financial assets at fair value	Fair value	Level 2	99,721	99,721
Financial assets at fair value	Fair value	Level 3	1,215	1,215
Reverse mortgages receivables	Amortised cost	Level 3	28,289	28,289
Reverse mortgages - hedged item fair value adjustment	Fair value	Level 3	19,770	19,770
			<b>767,910</b>	<b>767,910</b>

**F3 Financial instruments (continued)****(c) Fair value of financial instruments (continued)****(iii) Fair value measurements recognised in the statement of financial position (continued)**

<b>30 June 2018</b>	<b>Measurement basis</b>	<b>Fair value hierarchy</b>	<b>Carrying amount \$'000</b>	<b>Fair value \$'000</b>
<b>Financial liabilities</b>				
Payables	Amortised cost	Level 2	32,405	32,405
Liability to 360 Capital Group	Amortised cost	Level 2	41,161	41,161
Benefit Funds policy holders' liability	Amortised cost	Level 2	349,677	349,677
Borrowings	Amortised cost	Level 2	245,739	246,854
Interest rate swaps at fair value	Fair value	Level 2	472	472
Interest rate swaps at fair value	Fair value	Level 3	22,939	22,939
			<b>692,393</b>	<b>693,508</b>
<b>30 June 2017</b>				
	<b>Measurement basis</b>	<b>Fair value hierarchy</b>	<b>Carrying amount \$'000</b>	<b>Fair value \$'000</b>
<b>Financial assets</b>				
Cash and cash equivalents	Amortised cost	Level 1	74,382	74,382
Receivables	Amortised cost	Level 2	16,380	16,380
Financial assets at fair value	Fair value	Level 1	142,894	142,894
Financial assets at fair value	Fair value	Level 2	345,164	345,164
Financial assets at fair value	Fair value	Level 3	1,215	1,215
Reverse mortgages receivables	Amortised cost	Level 3	27,675	27,675
Reverse mortgages - hedged item fair value adjustment	Fair value	Level 3	18,511	18,511
			<b>626,221</b>	<b>626,221</b>
<b>Financial liabilities</b>				
Payables	Amortised cost	Level 2	33,895	33,895
Liability to 360 Capital Group	Amortised cost	Level 2	56,456	56,456
Benefit Funds policy holders' liability	Amortised cost	Level 2	348,014	348,014
Borrowings	Amortised cost	Level 2	236,103	237,019
Interest rate swaps at fair value	Fair value	Level 2	1,134	1,134
Interest rate swaps at fair value	Fair value	Level 3	18,190	18,190
Total			<b>693,792</b>	<b>694,708</b>

The Group determines Level 2 fair values for financial assets and liabilities without an active market based on broker quotes. Level 2 fair values for simple over-the-counter derivatives are also based on broker quotes. Those quotes are tested for reasonableness by discounting expected future cash flows using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and counterparty where appropriate.

The Level 3 financial asset held by the Group is the fair value of the residential mortgage receivables attributable to interest rate risk. The Level 3 financial liability held by the Group is the fixed-for-life interest rate swaps. These items are designated in a fair value hedging relationship, with the fair value movements on the swaps offset by the fair value movements in the mortgage receivables. However, as the Group has only designated the fair value movements attributable to interest rate risk in the hedging relationship, any other fair value movements impact the profit and loss directly, such as credit risk movements.



### F3 Financial instruments (continued)

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

##### (iv) Reconciliation of Level 3 fair value measurements of financial assets and liabilities

Year ended 30 June 2018	Other mortgage backed assets at fair value \$'000	Reverse mortgages fair value \$'000	Fixed-for-life interest rate swaps \$'000	Total \$'000
Balance at 1 July 2017	1,215	46,187	(18,191)	29,211
Loan repaid	-	(1,695)	471	(1,224)
Accrued interest	-	2,453	(1,466)	987
Attributable to interest rate risk	-	1,114	(1,114)	-
Attributable to credit risk	-	-	(2,639)	(2,639)
Balance at 30 June 2018	1,215	48,059	(22,939)	26,335

Year ended 30 June 2017	Other mortgage backed assets at fair value \$'000	Reverse mortgages fair value \$'000	Fixed-for-life interest rate swaps \$'000	Total \$'000
Balance at 1 July 2016	1,214	51,561	(20,753)	32,022
Loan repaid	-	(1,208)	311	(897)
Accrued interest	1	2,400	(1,422)	979
Attributable to interest rate risk	-	(6,566)	6,566	-
Attributable to credit risk	-	-	(2,893)	(2,893)
Balance at 30 June 2017	1,215	46,187	(18,191)	29,211

#### Key estimates and judgements

The fair value of the 50 year residential mortgage loans and 50 year swaps are calculated using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument and not based on available observable market data due to the illiquid nature of the instruments. Use is made of discounted cash flow analysis using the applicable yield curve out to 20 years, with the yield curve at 20 years employed as the best proxy for subsequent rates due to non-observable market data.

Mortality rates for males and females have been based on the ABS 2013-2015 mortality table with adjustments for the demographic profile of the mortgage holders. Mortality improvements are assumed starting at 3% p.a. at age 70 and tapering down to 1% p.a. from age 90. Joint life mortality is based on last death for loans with joint borrowers.

#### Recognition and measurement

The Group enters into derivative financial instruments such as interest rate swaps to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The hedge is considered ineffective if it falls outside the range of 80% to 125%.



### F3 Financial instruments (continued)

#### (d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating risk of financial loss from default. The credit risk on financial assets of the Group and the parent recognised in the statement of financial position is generally the carrying amount, net of allowance for impairment loss.

Concentration of risk may exist when the volume of transactions limits the number of counterparties.

##### (i) Credit risk of reverse mortgages

Concentration of credit risk in relation to reverse mortgage loans is minimal, as each individual reverse mortgage loan is secured by an individual residential property. The loan is required to be paid off from the proceeds of disposal of the secured property after the borrower's death.

Individual property valuations are conducted at least every 3 years in accordance with financier's requirements. At 30 June 2018, the highest loan to value ratio (LVR) of a loan in the reverse mortgage loan book is 107% (2017: 113%), and there are 58 out of 222 (2017: 52 out of 232) reverse mortgage loans where the LVR is higher than 50%.

##### (ii) Credit risk on other financial assets

Credit risk on other financial assets such as investments in floating rate notes, standard discount securities and unit trusts is managed through strategic asset allocations with creditworthy counterparties and the on-going monitoring of the credit quality of investments, including the use of credit ratings issued by well-known rating agencies. The exposure of credit risk in respect of financial assets is minimal.

The Group does not have any significant credit risk exposure to any single entity in other financial assets or any group of counterparties having similar characteristics.

#### (e) Liquidity risk

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities.

The liquidity risk is managed for the Group at a corporate level. Bank account balances across all entities, current and future commitments, and expected cash inflows are reviewed in detail when the monthly cash flow projection is prepared for management purposes and presented to the Board at its regular monthly meetings. By comparing the projected cash flows with the assets and liabilities shown in the individual and consolidated statements of financial position, which are also prepared on a monthly basis for management purposes and presented to the Board, liquidity requirements for the Group can be determined. Based on this review, if it is considered that the expected cash inflows plus liquidity on hand, may not be sufficient in the near term to meet cash outflow requirements, including repayment of borrowings, a decision can be made to carry out one or more of the following:

- renegotiate the repayment terms of the borrowings;
- sell assets that are held on the statement of financial position; and/or
- undertake an equity raising.

This, combined with a profitable business going forward, should ensure that the Group continues to meet its commitments, including repayments of borrowings, as and when required.

The Group's overall strategy to liquidity risk management remains unchanged from the prior year.

The following table summarises the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the parent can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

The policy holders in the Benefit Funds are able to redeem their policies at any time and the Benefit Funds are therefore exposed to the liquidity risk of meeting policyholders' withdrawals at any time. The Investment Committee aims to ensure that there is sufficient capital for possible redemptions by policyholders of the Benefit Funds by regularly monitoring the level of liquidity in each fund.

### F3 Financial instruments (continued)

#### (e) Liquidity risk (continued)

	On demand	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivative financial liabilities</b>						
<b>Consolidated</b>						
<b>2018</b>						
Borrowings	-	38,213	90,160	148,460	-	276,833
Payables	-	32,405	-	-	-	32,405
Liability to 360 Capital Group	-	-	41,161	-	-	41,161
Benefit Funds policyholder's liability	349,677	-	-	-	-	349,677
<b>Total</b>	<b>349,677</b>	<b>70,618</b>	<b>131,321</b>	<b>148,460</b>	<b>-</b>	<b>700,076</b>
<b>2017</b>						
Borrowings	-	898	69,004	202,788	-	272,690
Payables	-	33,454	-	-	-	33,454
Liability to 360 Capital Group	-	-	-	56,456	-	56,456
Benefit Funds policyholder's liability	348,014	-	-	-	-	348,014
<b>Total</b>	<b>348,014</b>	<b>34,352</b>	<b>69,004</b>	<b>259,244</b>	<b>-</b>	<b>710,614</b>

The following table summarises the maturing profile of derivative financial liabilities. The table has been drawn up based on the undiscounted net cash flows on the derivative instruments that settle on a net basis.

	On demand	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Derivative financial liabilities</b>						
<b>Consolidated</b>						
<b>2018</b>						
Interest rate swaps	-	-	393	1,214	46,588	48,195
<b>Total</b>	<b>-</b>	<b>-</b>	<b>393</b>	<b>1,214</b>	<b>46,588</b>	<b>48,195</b>
<b>2017</b>						
Interest rate swaps	-	9	376	838	45,990	47,213
<b>Total</b>	<b>-</b>	<b>9</b>	<b>376</b>	<b>838</b>	<b>45,990</b>	<b>47,213</b>

#### (f) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk and price risk. Due to the nature of assets held by the Group (excluding the Benefit Funds), there is an asset and liability management process which determines the interest rate sensitivity of the statement of financial position and the implementation of risk management practices to hedge the potential effects of interest rate changes. The Group manages the market risk associated with its Benefit Funds by outsourcing its investment management. The Investment Manager manages the financial risks relating to the operations of the Benefit Funds in accordance with an investment mandate set out in the Benefit Funds' constitution and product disclosure statement. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

**F3 Financial instruments (continued)****(f) Market risk (continued)****(i) Interest rate risk management**

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. Management of this risk is evaluated regularly and interest rate swaps are used accordingly.

The tables below detail the Group's interest bearing financial assets and liabilities.

	Weighted average effective interest rate %	Variable rate \$'000	Fixed rate \$'000	Total \$'000
<b>2018</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1.63%	75,522	26,392	101,914
Other financial assets held by Benefit Funds	2.91%	205,035	26,229	231,264
Reverse mortgage receivables	8.72%	1,316	26,973	28,289
Total financial assets		281,873	79,594	361,467
<b>Financial liabilities</b>				
Borrowings	5.23%	(162,739)	(83,000)	(245,739)
Total financial liabilities		(162,739)	(83,000)	(245,739)
Net interest bearing financial assets/(liabilities)		119,134	(3,406)	115,728
<b>2017</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1.23%	61,286	13,396	74,682
Other financial assets held by Benefit Funds	3.67%	238,443	1,515	239,958
Reverse mortgage receivables	8.75%	1,124	26,551	27,675
Total financial assets		300,853	41,462	342,315
<b>Financial liabilities</b>				
Borrowings	4.67%	(176,103)	(60,000)	(236,103)
Total financial liabilities		(176,103)	(60,000)	(236,103)
Net interest bearing financial assets/(liabilities)		124,750	(18,538)	106,212

### F3 Financial instruments (continued)

#### (f) Market risk (continued)

##### (ii) Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of fixed rate financial assets held and the cash flow exposures on the issued variable rate debt.

The following table details the notional principal amounts and remaining expiry of the Group's outstanding interest rate swap contracts as at reporting date. These swaps are at fair value through profit and loss.

	Average contracted rate		Notional principal amount		Fair value	
<b>Pay fixed for floating contracts designated as effective in fair value hedge</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>%</b>	<b>%</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Controlled property funds interest rate swaps	<b>2.33%</b>	2.73%	<b>99,600</b>	106,100	<b>(472)</b>	(1,133)
Benefit funds interest rate swaps	<b>2.02%</b>	2.94%	<b>3,000</b>	20,000	<b>5</b>	(79)
50 years swaps contracts	<b>7.48%</b>	7.47%	<b>10,677</b>	11,373	<b>(22,939)</b>	(18,910)
			<b>113,277</b>	137,473	<b>(23,406)</b>	(20,122)

##### (iii) Interest rate sensitivity

The sensitivity analysis below has been determined based on the parent and the Group's exposure to interest rates at the balance date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of financial assets and financial liabilities that have variable interest rates. A 100 basis point (1%) increase or decrease represents management's assessment of the reasonably possible change in interest rate.

At reporting date, if variable interest rates had been 100 (2017: 100) basis points higher or lower and all other variables were held constant, the impact to the Group would have been as follows:

	Change in variable	Effect on profit after tax	
		<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Consolidated</b>			
Interest rate risk	<b>+1%</b>	<b>568</b>	(1,574)
<b>Consolidated</b>			
Interest rate risk	<b>-1%</b>	<b>(405)</b>	1,908

The methods and assumptions used to prepare the sensitivity analysis have not changed in the year. The sensitivity analysis takes into account interest-earning assets and interest-bearing liabilities attributable to the shareholders only, and does not take into account the bank bill facility margin changes.

## F4 Remuneration of auditors

Amounts received or due and receivable by KPMG:

	2018 \$	2017 \$
Audit and review of the financial report	347,165	308,000
Other services including AFSL and compliance plan audits	52,275	76,810
Cyber security review	89,175	-
Taxation services	-	30,000
	<b>488,615</b>	<b>414,810</b>

## F5 New Accounting Standards and Interpretations effective 1 July 2018

AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* are new standards which are effective for annual periods beginning after 1 July 2018. Whilst earlier application was permitted, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The Group is required to adopt AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018 and has assessed the estimated impact that the initial application of these standards will have on its consolidated financial statements.

Based on the Group's assessment, the Group does not believe that these new accounting standards will have a material impact on the Group's equity as at 1 July 2018. This impact is assessed based on analysis performed to date. The actual impacts of adopting the standard at 1 July 2018 may vary because the new accounting policies are subject to change until the Group presents its first financial statements at the date of initial application.

### (a) AASB 9 Financial Instruments

AASB 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

#### (i) Classification – Financial assets

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for all receivables and financial assets (which are already carried at fair value) except for reverse mortgage loan receivables.

Reverse mortgage loan receivables are currently recorded at amortised cost using the effective interest method less impairment. On transition to AASB 9, whilst these receivables will be reclassified to FVTPL, the Group does not expect a material change in their measurement and as a result there is no expected impact on the Group's equity at 1 July 2018. The implication of the change from amortised cost to FVTPL for future reporting periods may include increased volatility in the Group's results as gains or losses arising from variations in fair value measurement assumptions will be reported through the profit and loss.

## F5 New Accounting Standards and Interpretations effective 1 July 2018 (continued)

### (a) AASB 9 Financial Instruments (continued)

#### (ii) Impairment – Receivables

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to the Group's receivables which continue to be measured at amortised cost. The new impairment model will not apply to the Group's reverse mortgage loan receivables which will be classified as FVTPL as described above under AASB 9.

Based on its assessment, the Group does not believe that the new impairment model will have a material impact on its equity upon transition as at 1 July 2018.

#### (iii) Classification – Financial liabilities

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed.

#### (iv) Hedge accounting

The new hedge accounting rules generally allow for more hedge relationships to be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not expect a significant impact as a result of the hedging changes on transition on 1 July 2018.

#### (v) Transition

Changes in accounting policies resulting from the adoption of AASB 9 will generally be applied retrospectively, however as there are no expected material impact on carrying amounts of financial assets and financial liabilities, there will be no transitional implications on the Group's equity at 1 July 2018 nor its comparatives.

### (b) AASB 15 Revenue from Contracts with Customers

The new revenue standard, AASB 15 *Revenue from customers* applies to all contracts with customers to deliver goods or services as part of the entity's ordinary course of business excluding insurance contracts, financial instruments and leases which are addressed by other standards. It replaces existing revenue recognition guidance, including AASB 118 *Revenue* and AASB 111 *Construction Contracts*.

AASB 15 replaces the considerations of risks and rewards under AASB 118 to the concept of when control passes to the customer as the trigger point for the recognition of revenue.

The Group's revenue streams which are in scope under the new standard include management fees from property funds, property acquisition fees, property sales fees and property performance fees. Rental income, interest income, distribution and dividend income and fair value movements in investment properties are excluded from the scope of this standard.

Based on its assessment, the Group does not believe that the new standard will have a material transitional impact on the Group's equity as at 1 July 2018.

Performance fees are currently recognised upon satisfaction of all conditions precedent to the sale of an investment property and when significant risks and rewards have transferred. Whilst there is no expected material transitional impact from adoption of AASB 15, future performance fees will be recognised at an earlier point in time. In assessing the timing and measurement of performance fees to be recognised, consideration will be given to the facts and circumstances with respect to each investment property including external factors such as its current valuation, passage of time and outlook of the property market. Performance fees will only be recognised when they are deemed to be highly probable and the amount of the performance fees will not result in a significant reversal in future periods.

## F6 Other new Accounting Standards and Interpretations

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

### (a) AASB 16 Leases

#### (i) Nature of change

AASB 16 *Leases* was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

#### (ii) Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments as outlined in note C9(a). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

#### (iii) Mandatory application date

Mandatory for financial years commencing on or after 1 January 2019, but available for early adoption. Therefore mandatory application to the Group would be year ending 30 June 2020.

At this stage, the Group has not concluded whether it intends to adopt AASB 16 before its mandatory date.

## F7 Events subsequent to the reporting date

There has not arisen in the interval between 30 June 2018 and the date hereof any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## Directors' declaration

In the opinion of the Directors' of Centuria Capital Limited:

- (a) the consolidated financial statements and notes set out on pages 22 to 69 and the Remuneration Report set out on pages 9 to 20 in the Directors' Report, 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 Group'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 the Group will be able to pay its debts as and when they become due and payable.

Note A1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 Directors.



Mr Garry S. Charny  
Director  
Sydney



Mr Peter J. Done  
Director  
Sydney

Sydney  
14 August 2018



# Independent Auditor's Report

To the stapled security holders of Centuria Capital Group

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Centuria Capital Limited (the Company) as the deemed parent presenting the stapled security arrangement of the Centuria Capital Group (the **Stapled Group** Financial Report).

In our opinion, the accompanying Stapled Group Financial Report is in accordance with the *Corporations Act 2001*, including:

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

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of comprehensive income, Consolidated statements of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Stapled Group** comprises Centuria Capital Limited and the entities it controlled at the year-end or from time to time during the financial year and Centuria Capital Fund and the entities it controlled at the year-end or from the time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Stapled Group and Company in accordance with 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 fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

The **Key Audit Matters** we identified are:

- Recoverable amount of Goodwill and Indefinite Life Intangible Assets
- Valuation of Investment Properties and Investment Properties Held for Sale
- Hedge Accounting and Valuation of Derivatives

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Recoverable amount of Goodwill and Indefinite Life Intangible Assets (\$157.7m)

Refer to Note C6 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>At 30 June 2018, the Stapled Group's intangible assets comprise goodwill and management rights. A key audit matter was the Stapled Group's annual testing of goodwill and management rights for impairment. We focused on the significant forward-looking assumptions the Stapled Group applied in their value in use model including:</p> <ul style="list-style-type: none"> <li>• Forecast operating cash flows, growth rates and terminal growth rates, which may reduce available headroom. This drives additional audit effort specific to their feasibility and consistency of application to the Stapled Group's strategy; and</li> <li>• Discount rate - these are complicated in nature and vary according to the conditions and environment the specific cash generating unit ("CGU") is subject to from time to time. The Stapled Group's model is sensitive to changes in the discount rate. Accordingly, we involve our valuation specialist with the assessment.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the value in use method applied by the Stapled Group in the annual test of goodwill for impairment against the requirements of the accounting standards;</li> <li>• Assessing the Stapled Group's determination of their CGUs based on our understanding of the operations of the Stapled Group's business, and how independent cash flows were generated, against the requirements of the accounting standards;</li> <li>• Comparing the forecast cash flows contained in the value in use model to Board approved forecasts;</li> <li>• Assessing the Stapled Group's ability to accurately forecast by comparing historical forecasts to actual results;</li> <li>• Evaluating the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures;</li> </ul>

	<ul style="list-style-type: none"> <li>Assessed the consistency of the forecasts and growth rates to the Stapled Group's stated plan and strategy and past performance of the Stapled Group, based on our experience regarding the feasibility of these in the economic environment in which they operate; and</li> <li>Involving our valuation specialists, we analysed the discount rate against publicly available data of a group of comparable entities and assessed the valuation approach and methodology against market and industry practices and accounting standards.</li> </ul>
<b>Valuation of Investment Properties (\$147.1m) and Investment Properties Held for Sale (\$63.4m)</b>	
Refer to Notes C4 and C5 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>The valuation of investment properties and investment properties held for sale is a key audit matter as they are significant in value to the Stapled Group (being 18% of total assets) and contain assumptions with estimation uncertainty.</p> <p>These estimates lead to additional audit effort due to differing assumptions based on asset classes, geographies and characteristics of individual investment properties.</p> <p>The Stapled Group's policy is investment properties and investment properties held for sale are valued at fair value and the fair value is determined by the Stapled Group using internal methodologies and through the use of external valuation experts.</p> <p>We focussed on the following significant assumptions contained in the Stapled Group's valuation methodology for investment properties:</p> <ul style="list-style-type: none"> <li>capitalisation rates;</li> <li>market rental yield;</li> <li>vacancy levels;</li> <li>projections of capital expenditure; and</li> <li>leasing incentives.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>Understanding the Stapled Group's process regarding the valuation of investment properties;</li> <li>Assessing the methodologies used in the valuations of investment properties for consistency with accounting standards and Stapled Group policies;</li> <li>Assessing the scope, competence and objectivity of external experts engaged by the Stapled Group and internal valuers;</li> <li>Worked with our real estate valuation specialists and read published reports and industry commentary to gain an understanding of prevailing market conditions;</li> <li>On a portfolio basis, taking into account the asset classes, geographies and characteristics of individual investment properties, challenged, with reference to published reports or industry commentary, significant assumptions including: capitalisation rates, market rental yields, weighted average lease expiry and vacancy levels, capital adjustments and assessed the difference between the capitalisation rate and discounted cash-flow valuation approaches; and</li> </ul>

	<ul style="list-style-type: none"> <li>On a sample basis, assessed the appropriateness of specific valuation assumptions through comparison to market analysis published by industry experts, recent market transactions, inquiries with the Stapled Group and historical performance of the investment properties.</li> </ul>
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#### Hedge Accounting and Valuation of Derivatives (\$22.9m)

Refer to Note F3(c) to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The Stapled Group issues reverse mortgages and enters into an interest rate swap derivative contract to manage the interest rate risk associated with the reverse mortgage. The Stapled Group applies hedge accounting on the interest rate swap derivative contract.</p> <p>The hedge accounting and valuation of derivatives was identified as a key audit matter due to the complexity in auditing the hedging arrangement. This is a result of the complex hedge accounting requirements and the significant judgments made by the Stapled Group in the valuation of the derivative such as the credit spread which required our specialist involvement.</p>	<p>Involving our specialist, our procedures included:</p> <ul style="list-style-type: none"> <li>Reading the hedge documentation and assessing the accounting for the hedge arrangement and effectiveness against the requirements of the Australian Accounting Standards;</li> <li>Comparing the Stapled Group's determination of the weighted average maturity used in the credit spread model against the historical maturity and age of reverse mortgage borrower;</li> <li>Evaluating the sensitivity of the hedge model by varying the weighted average maturity used in the credit spread model to identify bias or inconsistency in application;</li> <li>Assessing the credit spread by comparing the relevant Australia Corporate Curve from Bloomberg to the Australian Dollar Swap Curve; and</li> <li>Independently valuing the swap portfolio and comparing it to the Stapled Group's valuation.</li> </ul>

#### Other Information

Other Information is financial and non-financial information in Centuria Capital Group's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of the Company are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report. The Key Financial Metrics, Chairman's Report, Chief Executive's Report, Unlisted Property, Listed Property, Centuria Life and Centuria in the Community are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### **Responsibilities of the Directors for the Financial Report**

The Directors of the Company are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Stapled Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Stapled 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 objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Centuria Capital Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

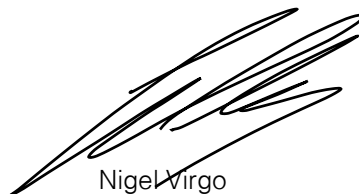
### Our responsibilities

We have audited the Remuneration Report included in pages 9 to 20 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Nigel Virgo

Partner

Sydney

14 August 2018

## Additional stock exchange information

The securityholder information set out below was applicable as at 31 July 2018.

### Distribution of securities

Analysis of numbers of securityholders by size of holding:

Holding	Number of holders	Number of securities
1 - 1000	857	427,820
1,001 - 5,000	4,212	10,360,747
5,001 - 10,000	849	5,896,641
10,001 - 100,000	897	24,987,635
100,001 and over	143	263,120,331
	6,958	304,793,174

There were 311 holders of less than a marketable parcel of securities holding 62,724 securities.

### Top 20 Securityholders

The names of the twenty largest holders of securities are listed below:

	Number held	Percentage of issued securities
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 12 A/C>	45,405,404	14.90
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	41,376,869	13.58
PERSHING AUSTRALIA NOMINEES PTY LTD <NOMINEE A/C>	38,415,438	12.60
J P MORGAN NOMINEES AUSTRALIA LIMITED	29,554,574	9.70
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	24,349,842	7.99
CITICORP NOMINEES PTY LIMITED	10,140,483	3.33
GH 2016 PTY LIMITED <HARVEY 2006 OPTION A/C>	9,536,034	3.13
RESOLUTE FUNDS MANAGEMENT PTY LTD <HANOVER PROPERTY S/F A/C>	3,977,679	1.31
CICERONE CAPITAL PTY LTD <MELBURGP A/C>	3,512,057	1.15
BUTTONWOOD NOMINEES PTY LTD	3,166,791	1.04
BRYSHAW MANAGEMENT PTY LTD <BRYSHAW A/C>	2,725,002	0.89
PARITAI PTY LIMITED <PARITAI A/C>	2,544,293	0.83
AVANTEOS INVESTMENTS LIMITED <2412987 JRSWJH A/C>	2,408,164	0.79
UBS NOMINEES PTY LTD	2,252,901	0.74
PARSONAGE PROVIDENT P/L <PARSONAGE PROVIDENT FUND A/C>	2,200,830	0.72
HWM (NZ) HOLDINGS LIMITED	2,052,745	0.67
NATIONAL NOMINEES LIMITED	1,607,512	0.53
NATIONAL EXCHANGE PTY LTD <CORP A/C>	1,401,563	0.46
ERSKINE IMPORT PTY LTD	1,370,000	0.45
MR ROGER WILLIAM DOBSON <DOBSON SUPER FUND A/C>	1,318,062	0.43
	229,316,243	75.24

### Substantial holders

Substantial holders in the Group are set out below.

	Number held	Percentage
ESR CAYMAN LTD	45,405,404	14.90%
MAGIC TT PTY LTD	42,677,495	14.00%
ELLERSTON CAPITAL LIMITED	26,425,800	8.67%
	<u>114,508,699</u>	<u>37.57%</u>

### Voting rights

All ordinary securities carry one vote per security without restriction.



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# **Centuria Capital Fund Financial Report for the year ended 30 June 2018<sup>1</sup>**

Centuria Capital Fund comprises of Centuria Capital Fund ARSN 613 856 358 (the 'Fund') and its subsidiaries. The Responsible entity of the Fund is Centuria Funds Management Limited (the 'Company') ACN 607 153 588, AFSL 479 873.

<sup>1</sup>This Fund was established on 20 July 2016. The comparative information in these consolidated financial statements reflect the results of operations and financial affairs of the Fund from its inception to 30 June 2017.

**Centuria Capital Fund  
Financial Report - 30 June 2018**

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These consolidated financial statements are the financial statements of the consolidated entity consisting of Centuria Capital Fund and its subsidiaries. A list of the major subsidiaries is included in note E2. The consolidated financial statements are presented in the Australian currency.

Centuria Capital Fund is a trust, registered and domiciled in Australia.

Its registered office is:

Centuria Capital Fund  
Level 39, 100 Miller Street  
100 Miler Street  
North Sydney NSW 2060

The consolidated financial statements were authorised for issue by the Directors of the Responsible Entity on 14 August 2018. The Directors have the power to amend and reissue the consolidated financial statements.

## Directors' Report

The directors of Centuria Funds Management Limited (the 'Company') as the Responsible Entity for Centuria Capital Fund (the 'Fund') present their report together with the consolidated financial statements of the Fund and its controlled entities (the 'Group') for the financial year ended 30 June 2018 and the auditor's report thereon.

ASX listed Centuria Capital Group consists of Centuria Capital Limited ('CCL') and its controlled entities including the Fund. The shares in CCL and the units in the Fund are stapled, quoted and traded on the Australian Securities Exchange ('ASX') as if they were a single security under the ticker code 'CNI'.

### Directors and directors' interests

Directors of Centuria Funds Management Limited during or since the end of the financial year are:

<b>Mr Garry S Charny, BA. LL.B. <i>Independent Non-Executive Director and Chairman</i></b>		
Experience and expertise	<p>Garry was appointed to the Board on 8 August 2016, and appointed as Chairman of the Board on the same date.</p> <p>He is Managing Director and founding principal of Wolseley Corporate, an Australian based corporate advisory and investment house which transacts both domestically and internationally.</p> <p>He has had a broad range experience in both listed and unlisted companies across a diverse range of sectors including property, retail, technology and media. He formerly practised as a barrister in the fields of commercial and equity.</p>	
Other directorships	Garry is Chairman of Wolseley Corporate. He is also Chairman of Spotted Turquoise Films, an international Film and Television company based in Sydney and Los Angeles. He is Chairman of Shero Investments, a Sydney based investment company.	
Special responsibilities	<p>Chairman of the Board</p> <p>Member of the Audit, Risk Management and Compliance Committee</p>	
Interests in CNI	Ordinary stapled securities	237,314

<b>Mr Peter J. Done, B.Comm, FCA. <i>Independent Non-Executive Director</i></b>		
Experience and expertise	<p>Peter was appointed to the Board on 8 August 2016. Peter was a partner of KPMG for 27 years until his retirement in June 2006.</p> <p>He has extensive knowledge in accounting, audit and financial management in the property development and financial services industries, corporate governance, regulatory issues and Board processes through his many senior roles.</p>	
Other directorships	None.	
Special responsibilities	Chairman of the Audit, Risk Management and Compliance Committee	
Interests in CNI	Ordinary stapled securities	1,083,676

Directors and directors' interests (continued)

<b>Mr John R. Slater</b> , Dip.FS (FP), F Fin. <i>Independent Non-Executive Director</i>		
Experience and expertise	<p>John was appointed to the Board on 8 August 2016.</p> <p>John was a senior executive in the KPMG Financial Services practice from 1989 to 1999 and acted as State director of the Brisbane practice. He has also served on the Investment Committees of KPMG Financial Services, Berkley Group and Byron Capital.</p> <p>In 2008, John founded boutique Financial Advisory firm Riviera Capital, subsequently sold in 2016 and has a wealth of financial services experience.</p>	
Other directorships	None.	
Special responsibilities	Member of the Audit, Risk Management and Compliance Committee	
Interests in CNI	Ordinary stapled securities	2,889,075

<b>Ms Susan Wheeldon-Steele</b> , MBA. <i>Independent Non-Executive Director</i>		
Experience and expertise	<p>Susan was appointed to the Board on 31 August 2016.</p> <p>Susan is the Head of Performance at Google where she works with major national and global companies to develop and deliver growth strategies that future proof and build clients' businesses and brands in a constantly changing environment.</p> <p>She has previous experience in retail property asset management at AMP Capital Shopping Centres, as Head of Brand &amp; Retail, responsible for delivering alternative revenue from 38 retail assets across Australia and New Zealand with combined annual sales in excess of \$5 billion.</p>	
Other directorships	None.	
Special responsibilities	None.	
Interests in CNI	Ordinary stapled securities	Nil.

<b>Mr Nicholas R. Collishaw</b> , SAFin, FAAP, FRICS. <i>Non-Executive Director</i>		
Experience and expertise	<p>Nicholas was appointed to the Board on 8 August 2016.</p> <p>Nicholas was appointed CEO - Listed Property Funds at Centuria Property Funds on 1 May, 2013. Effective 1 January 2018, Nicholas resigned as CEO - Listed Property Funds and became a Non-Executive Director</p> <p>Prior to this role, Nicholas held the position of CEO and Managing Director at the Mirvac Group. During his time at Mirvac (2005-2012), Nicholas was responsible for successfully guiding the business through the GFC and implementing a strategy of sustained growth for the real estate development and investment company. During Nicholas' 30 year career, he has held senior positions with James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management. He has extensive experience in all major real estate markets in Australia and investment markets in the United States, United Kingdom and the Middle East.</p>	
Other directorships	None.	
Special responsibilities	CEO - Listed Property Funds - resigned 1 January 2018	
Interests in CNI	Ordinary stapled securities	3,086,227
	Performance rights granted	858,811

Directors and directors' interests (continued)

<b>Mr John E. McBain</b> , Dip. Urban Valuation. <i>Executive Director and Chief Executive Officer</i>		
Experience and expertise	<p>John was appointed to the Board and Chief Executive Officer on 8 August 2016.</p> <p>John was a founding director and major shareholder in boutique property funds manager Century Funds Management, which was established in 1999 and was acquired by Over Fifty Group in July, 2006. He joined the Over Fifty Group Board on 10 July, 2006 and was appointed Chief Executive Officer in 2008. In 2011 the company was renamed Centuria Capital.</p> <p>Prior to forming Century, in 1990 John founded Hanover Group, a specialist property investment consultancy and in 1995 he formed Waltus Investments Australia, a dedicated property fund manager. John formerly held senior positions in a number of property development and property investment companies in Australia, New Zealand and the United Kingdom.</p>	
Other directorships	John is also a director of QV Equities Limited, a licensed investment company listed on the ASX.	
Special responsibilities	Chief Executive Officer	
Interests in CNI	Ordinary stapled securities	5,191,995
	Performance rights granted	1,495,515

<b>Mr Jason C. Huljich</b> , B. Comm. <i>Executive Director and Head of Real Estate and Funds Management</i>		
Experience and expertise	<p>Jason was appointed to the Board on 8 August 2016.</p> <p>Jason leads Centuria's Property Funds Management business, which is responsible for both listed and unlisted property funds, the property services business, property acquisition and disposal and special property and debt opportunities. He is also an Executive Director of Centuria Capital Group. In this role he provides strategic leadership, ensuring the effective operation of Centuria's property business.</p> <p>He has extensive experience in the commercial property sector, with specialist skills in property investment and funds management. He is also the immediate past President of the Property Funds Association (PFA), which represents the \$125 billion direct property investment body in Australia, and continues to serve on their national executive.</p>	
Other directorships	None.	
Special responsibilities	Head of Real Estate and Funds Management	
Interests in CNI	Ordinary stapled securities	5,186,039
	Performance rights granted	872,740

Company secretary

Anna Kovarik was appointed to the position of Company Secretary on 5 July 2018.

Anna holds a Masters of Information Technology, a BA (Hons) in Systems Management and was awarded a distinction in the Global Executive MBA program at the University of Sydney. She is qualified as a solicitor in both the UK and NSW and was a senior associate at Allens law practice in Sydney.

Prior to joining Centuria, Anna held the position of Group Risk Manager at Mirvac Group and was previously Head of Group Insurance for AMP and General Counsel and Company Secretary at AMP Capital Brookfield.

Mr James Lonie held the position of company secretary from 16 June 2017 until his resignation on 5 July 2018.

### Principal activities

The principal activity of the Group during the financial year was holding direct interest in property funds and other liquid investments.

### Significant changes and state of affairs

Significant changes in the state of affairs of the Group during the financial year, in addition to the operating and financial review below were as follows

- Contributed equity attributable to Centuria Capital Fund increased by \$74,258,000 from \$170,672,000 to \$244,930,000 as a result of equity raisings. Details of changes in contributed equity is disclosed in Note C8 to the consolidated financial statements.
- On 11 September 2017, the Group issued Tranche 2 of 7% fixed rate secured notes to the value of \$25,000,000. These notes mature on 21 April 2021 along with \$100,000,000 of fixed and floating rate secured notes which were issued during the year ended 30 June 2017.
- The Group increased its stake in Centuria Metropolitan REIT by 2.7% to 11.4% and Centuria Industrial REIT by 3.8% to 19.5%.
- The Group acquired a 9.3% strategic stake in Propertylink Group (PLG).

### Results of operations

The Group's profit from continuing operations for the year ended 30 June 2018 was \$31,763,000 (2017: \$15,936,000).

### Earnings per unit

	2018 Statutory	2017 Statutory
Basic EPS (cents/security)	10.9	8.6
Diluted EPS (cents/security)	10.0	8.5

### Distributions

Distributions paid or declared by the Group to the Fund's unitholders during the current financial year were:

	Cents per security	Total amount \$'000	Date paid/payable
<b>Distributions paid during the year</b>			
Final 2017 Trust distribution (66% tax deferred)	2.80	6,361	24 August 2017
Interim 2018 Trust distribution (estimated 60% tax deferred)	2.40	7,314	31 January 2018
<b>Distributions declared during the year</b>			
Final 2018 Trust distribution (estimated 60% tax deferred)	3.10	9,499	27 July 2018
<b>Total amount</b>	<b>8.30</b>	<b>23,174</b>	

### Responsible Entity interests

The following fees were paid and/or payable to the Responsible Entity and its related parties during the financial year:

	2018 \$	2017 \$
Management and custodian fees paid to Centuria Property Funds No. 2 Limited	1,228,459	766,113
Management fees paid to Centuria Funds Management Limited	200,000	189,589
	<b>1,428,459</b>	<b>955,702</b>

**Events subsequent to the reporting date**

There has not arisen in the interval between 30 June 2018 and the date hereof any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Fund, that would affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

**Likely developments**

The Group continues to pursue its strategy of focusing on its core operations, utilising a strengthened balance sheet to provide support to grow and develop these operations.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

**Environmental regulation**

The Group's operations are not subject to any significant environmental regulation.

**Indemnification of officers and auditors**

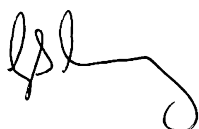
Under the Fund's constitution the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

The Responsible Entity has not indemnified or agreed to indemnify any auditor or other officer of the Fund, or any related body corporate.

**Rounding of amounts**

The Group is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of Directors.



Mr Garry S Charny  
Director



Mr Peter J. Done  
Director

Sydney  
14 August 2018



## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Centuria Funds Management Limited, the Responsible Entity  
of Centuria Capital Fund

I declare that, to the best of my knowledge and belief, in relation to the audit of Centuria Capital Fund  
for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the  
*Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Nigel Virgo  
Partner  
Sydney  
14 August 2018



# Centuria Capital Fund

## Financial report 30 June 2018

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## Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Revenue	B1	48,797	20,657
Expenses	B2	(11,764)	(9,793)
Fair value movements of financial instruments and property		8,900	9,937
Finance costs	B3	(14,170)	(4,865)
<b>Net Profit</b>		<b>31,763</b>	<b>15,936</b>
<b>Profit/(loss) is attributable to:</b>			
Centuria Capital Fund		30,224	11,668
Non-controlling interests		1,539	4,268
<b>Profit after tax</b>		<b>31,763</b>	<b>15,936</b>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year</b>		<b>31,763</b>	<b>15,936</b>
<b>Total comprehensive income/(loss) for the year is attributable to:</b>			
Centuria Capital Fund		30,224	11,668
Non-controlling interests		1,539	4,268
<b>Total comprehensive income/(loss)</b>		<b>31,763</b>	<b>15,936</b>
<b>Profit/(loss) attributable to:</b>			
Unitholders of Centuria Capital Fund		30,224	11,668
		<b>Cents</b>	<b>Cents</b>
<b>Earnings/(loss) per Centuria Capital Fund unit</b>			
Basic (cents per unit)	B5	10.9	8.6
Diluted (cents per unit)	B5	10.0	8.5

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

## Consolidated balance sheet

As at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
<b>Assets</b>			
Cash and cash equivalents		16,909	36,775
Receivables	C1	5,987	7,798
Financial assets at fair value	C2	365,732	239,381
Investment properties held for sale	C3	63,400	-
Investment properties	C4	147,100	257,100
<b>Total assets</b>		<b>599,128</b>	<b>541,054</b>
<b>Liabilities</b>			
Payables	C5	18,437	18,327
Liability to 360 Capital Group		41,161	56,456
Borrowings	C6	239,310	226,962
Interest rate swaps at fair value		472	1,134
<b>Total liabilities</b>		<b>299,380</b>	<b>302,879</b>
<b>Net assets</b>		<b>299,748</b>	<b>238,175</b>
<b>Equity</b>			
<b>Equity attributable to Centuria Capital Fund</b>			
Contributed equity	C8	244,930	170,672
Retained earnings		5,518	(7,821)
<b>Total equity attributable to unitholders of Centuria Capital Fund</b>		<b>250,448</b>	<b>162,851</b>
<b>Equity attributable to non-controlling interests</b>			
Contributed equity		32,927	45,367
Retained earnings		16,373	29,957
<b>Total equity attributable to non-controlling interests</b>		<b>49,300</b>	<b>75,324</b>
<b>Total equity</b>		<b>299,748</b>	<b>238,175</b>

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

## Consolidated statement of changes in equity

For the year ended 30 June 2018

	Centuria Capital Fund			Non-controlling interests			
	Contributed equity \$'000	Retained earnings \$'000	Equity attributable to Centuria Capital Fund unitholders \$'000	Contributed equity \$'000	Retained earnings \$'000	Total \$'000	Total equity \$'000
<b>Balance at 1 July 2017</b>	170,672	(7,821)	162,851	45,367	29,957	75,324	238,175
Profit/(loss) for the year	-	30,224	30,224	-	1,539	1,539	31,763
<b>Total comprehensive income for the year</b>	-	<b>30,224</b>	<b>30,224</b>	-	<b>1,539</b>	<b>1,539</b>	<b>31,763</b>
Distributions paid/accrued	-	(16,763)	(16,763)	-	(6,528)	(6,528)	(23,291)
Stapled securities issued	77,146	-	77,146	-	-	-	77,146
Cost of equity raising	(2,888)	-	(2,888)	-	-	-	(2,888)
Deconsolidation of controlled property funds	-	(122)	(122)	(12,440)	(8,595)	(21,035)	(21,157)
<b>Balance at 30 June 2018</b>	<b>244,930</b>	<b>5,518</b>	<b>250,448</b>	<b>32,927</b>	<b>16,373</b>	<b>49,300</b>	<b>299,748</b>

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

## Consolidated statement of changes in equity

	Centuria Capital Fund			Non-controlling interests			
	Contributed equity \$'000	Retained earnings \$'000	Equity attributable to Centuria Capital Fund unitholders \$'000	Contributed equity \$'000	Retained earnings \$'000	Total \$'000	Total equity \$'000
<b>Balance at 20 July 2016</b>	-	-	-	-	-	-	-
Profit/(loss) for the year	-	11,668	11,668	-	4,268	4,268	15,936
<b>Total comprehensive income for the year</b>	-	<b>11,668</b>	<b>11,668</b>	-	<b>4,268</b>	<b>4,268</b>	<b>15,936</b>
Acquisition of subsidiaries with non-controlling interests	-	-	-	45,367	29,507	74,874	74,874
Fair value loss on acquisition (impact of transaction as part of stapled group)	-	(12,510)	(12,510)	-	-	-	(12,510)
Distributions paid/accrued	-	(6,979)	(6,979)	-	(3,818)	(3,818)	(10,797)
Units issued as part of stapling	52,536	-	52,536	-	-	-	52,536
Stapled securities issued	124,174	-	124,174	-	-	-	124,174
Cost of equity raising	(6,038)	-	(6,038)	-	-	-	(6,038)
<b>Balance at 30 June 2017</b>	<b>170,672</b>	<b>(7,821)</b>	<b>162,851</b>	<b>45,367</b>	<b>29,957</b>	<b>75,324</b>	<b>238,175</b>

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

## Consolidated statement of cash flows

For the year ended 30 June 2018

	2018 \$'000	2017 \$'000
Notes		
<b>Cash flows from operating activities</b>		
Interest received	1,933	740
Rent received	23,639	12,360
Distributions received	15,155	2,901
Payments to suppliers	(16,267)	(9,948)
Interest paid	(12,386)	(3,037)
Other income	192	-
<b>Net cash provided by operating activities</b>	<b>12,266</b>	<b>3,016</b>
D1		
<b>Cash flows from investing activities</b>		
Proceeds from sale of related party investments	61,037	15,763
Purchase of investments in related parties	(125,339)	(138,698)
Loans to related parties for purchase of properties	(5,865)	(13,669)
Repayment of loans by related parties	6,020	-
Purchase of other investments	(52,944)	(1,186)
Cash balance on acquisition of subsidiaries	-	21,556
Loans provided to other parties	(17,400)	-
Loans repaid by other parties	17,400	-
Sale of investment property	22,000	-
Payments in relation to investment properties	(8,840)	(1,300)
Cash balance on consolidation of unlisted funds	-	6,937
Deconsolidation of controlled property funds cash balance	(766)	-
Return of investment to external non-controlling interests	(5,366)	-
<b>Net cash used in investing activities</b>	<b>(110,063)</b>	<b>(110,597)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of units to unitholders of Centuria Capital Fund	77,146	124,174
Equity raising costs paid	(2,888)	(6,038)
Proceeds from borrowings	37,746	150,300
Repayment of borrowings	(13,467)	(50,000)
Capitalised borrowing costs paid	(446)	(1,931)
Loan advanced to related party	-	(73,239)
Distributions paid to unitholders of Centuria Capital Fund	(13,676)	(618)
Distributions paid to non-controlling interests	(6,484)	(3,818)
Proceeds from issues of units to non-controlling interests	-	5,526
<b>Net cash provided by financing activities</b>	<b>77,931</b>	<b>144,356</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(19,866)</b>	<b>36,775</b>
Cash and cash equivalents at the beginning of the financial year	36,775	-
Cash and cash equivalents at 20 July 2017	-	-
<b>Cash and cash equivalents at end of year</b>	<b>16,909</b>	<b>36,775</b>

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

## A About the report

### A1 General information

The units in the Fund and the shares in CCL are stapled to trade together as a single stapled security ('Stapled Security') on the ASX as 'Centuria Capital Group' under the ASX ticker code of CNI.

The Fund and its controlled entities (the 'Group') is a for-profit entity and its principal activities are holding direct interest in property funds and other liquid investments.

#### Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements of the Group comprising the Fund (as 'Parent') and its controlled entities for the year ended 30 June 2018 were authorised for issue by the Board of Directors of Centuria Funds Management Limited as the Responsible Entity on 14 August 2018.

This Fund was established on 20 July 2016. The comparative information in these consolidated financial statements reflect the results of operations and financial affairs of the Fund from its inception to 30 June 2017.

#### Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for financial assets at fair value through profit and loss, investment properties and derivative financial instruments, and other financial assets, which have been measured at fair value at the end of each reporting period. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, which is the Group's functional currency, unless otherwise noted.

Assets and liabilities have been presented on the face of the Statement of financial position in decreasing order of liquidity and do not distinguish between current and non-current items.

#### Rounding of amounts

The Fund The Group is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars unless otherwise indicated.

### A2 Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.

These consolidated financial statements contain all significant accounting policies that summarise the recognition and measurement basis used and which are relevant to provide an understanding of the financial statements. Accounting policies that are specific to a note to the financial statements are described in the note to which they relate.

### A3 Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note C4 Investment properties
- Note F1 Financial instruments

## B Business performance

### B1 Revenue

	2018 \$'000	2017 \$'000
Interest revenue	8,713	4,246
Rent and recoverable outgoings	21,547	11,073
Distribution revenue	18,358	5,337
Other income	179	1
	<b>48,797</b>	<b>20,657</b>

#### Recognition and measurement

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

##### (i) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding using the effective interest rate method.

##### (ii) Rent and recoverable outgoings

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease.

Recoverable outgoings are recognised on an accrual basis.

##### (iii) Distribution revenue

Distribution revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

#### (a) Transactions with related parties

	2018 \$	2017 \$
Distributions from Property Funds managed by Centuria	14,200,093	5,337,362
Interest income on loan to Centuria Finance Pty Limited	7,084,552	3,505,718
Interest income on loans to Property Funds managed by Centuria	501,525	513,622
Distributions and interest from Debt Funds managed by Centuria	108,825	-
	<b>21,894,995</b>	<b>9,356,702</b>

### B2 Expenses

	2018 \$'000	2017 \$'000
Consulting and professional fees	321	301
Property outgoings and fund expenses	11,395	8,293
Corporate restructure and transaction costs	-	1,177
Other expenses	48	22
	<b>11,764</b>	<b>9,793</b>



## Business performance

### B2 Expenses (continued)

#### (a) Transactions with related parties

	2018 \$	2017 \$
Management and custodian fees paid to Centuria Property Funds No. 2 Limited	1,228,459	766,113
Management fees paid to Centuria Funds Management Limited	200,000	189,589
	<b>1,428,459</b>	<b>955,702</b>

### B3 Finance costs

	2018 \$'000	2017 \$'000
Operating interest charges	8,679	2,110
Bank loans in Property Funds interest charges	5,490	2,616
Other finance costs	1	139
	<b>14,170</b>	<b>4,865</b>

#### Recognition and measurement

The Group's finance costs include:

- Interest expense recognised using the effective interest method.
- The net gain or loss on hedging instruments that are recognised in profit or loss.

### B4 Taxation

Under current tax legislation, Trusts are not liable for income tax, provided their securityholders are presently entitled to the taxable income of the Trust including realised capital gains each financial year.

### B5 Earnings per security

	2018 Cents	2017 Cents
Basic earnings per unit	10.9	8.6
Diluted earnings per unit	10.0	8.5

The earnings used in the calculation of basic and diluted earnings per unit is the profit for the year attributable to unitholders of the Fund as reported in the consolidated statement of comprehensive income.

The weighted average number of ordinary units used in the calculation of basic and diluted earnings per units is as follows:

	2018	2017
Weighted average number of ordinary units (basic)	277,224,977	134,951,618
Weighted average number of ordinary units (diluted) <sup>(i)</sup>	301,789,890	136,736,092

- (i) The weighted average number of ordinary securities used in the calculation of diluted earnings per security is determined:
- as if 30 June 2018 was the end of the performance period of the grants of Rights under the LTI plan issued by Centuria Capital Group. All Rights that would have vested if 30 June 2018 was the end of the performance period are deemed to have been issued at the start of the financial year.
  - as if 20,098,470 unexercised options with an exercise price of \$1.30 per option have been converted to ordinary securities at the start of the financial year.

## Business performance

### B6 Distributions

	2018		2017	
	Cents per unit	Total \$'000	Cents per security	Total \$'000
<b>Distributions paid during the year</b>				
Final year-end distribution	2.80	6,361	-	-
Interim distribution	2.40	7,314	0.80	618
<b>Distributions declared during the year</b>				
Final distribution <sup>(i)</sup>	3.10	9,449	2.80	6,361
<b>Distributions paid/declared distributions paid to Centuria Capital Fund unitholders <sup>(ii)</sup></b>	<b>8.30</b>	<b>23,124</b>	<b>3.60</b>	<b>6,979</b>

<sup>(i)</sup> The Group declared a final distribution in respect of the year ended 30 June 2018 of 3.10 cents per security. The final distribution had a record date of 29 June 2018 was subsequently paid on 27 July 2018. The total amount payable of \$9,449,000 has been provided as a liability in these financial statements.

<sup>(ii)</sup> In addition to the distributions paid to Centuria Capital Fund unitholders, the Group paid distributions of \$6,528,000 to non-controlling interests.

## C Assets and liabilities

### C1 Receivables

	2018 \$'000	2017 \$'000
Receivables from related parties (refer to Note C1(a))	4,189	6,623
Other receivables	1,798	1,175
	<b>5,987</b>	<b>7,798</b>

The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

#### (a) Receivables from related parties

The following amounts owed by related parties of the Group at the end of the financial year:

	2018 \$	2017 \$
Intercompany receivables from Corporate entities within Centuria Capital Group	-	4,020,101
Distribution receivable from Centuria Industrial REIT	2,346,074	1,607,724
Distribution receivable from Centuria Metropolitan REIT	1,250,856	662,672
Interest receivable from Centuria Sandgate Road Fund	-	305,933
Distribution receivable from Centuria Scarborough House Fund	613	26,455
Receivables from Debt Funds managed by Centuria	64,000	-
Interest receivable from Centuria 80 Grenfell Street Fund	62,799	-
Redemption funds receivable from Centuria Diversified Fund	435,781	-
Distribution receivable from Centuria Diversified Property Fund	28,378	-
	<b>4,188,501</b>	<b>6,622,885</b>

#### Recognition and measurement

Receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less an allowance for impairment. Due to the short-term nature of these financial rights, their carrying amounts are estimated to represent their fair values.

### C2 Financial assets at fair value

	2018 \$'000	2017 \$'000
Investments in trusts and other financial assets	58,977	1,153
Investment in related party unit trusts (refer to Note C2(a))	203,091	136,544
Loans receivable from related parties (refer to Note C2(b))	103,664	101,684
	<b>365,732</b>	<b>239,381</b>

## Assets and liabilities

## C2 Financial assets at fair value (continued)

## (a) Investments in related party unit trusts carried at fair value through profit or loss

The following table details related party investments carried at fair value through profit and loss.

	Fair value \$	2018 Units held	Ownership %	Fair value \$	2017 Units held	Ownership %
<b>Financial assets held by the Group</b>						
Centuria Industrial REIT	124,317,757	48,372,688	19.48%	81,877,894	33,148,945	15.54%
Centuria Metropolitan REIT	68,555,158	27,643,209	11.39%	38,858,876	15,481,624	8.68%
Centuria Diversified Property Fund	7,050,751	5,250,001	18.88%	-	-	0%
Centuria Bottleyard Fund	1,548,500	1,630,000	14.17%	-	-	0%
Centuria Rouse Hil Debt Fund	1,515,527	1,515,527	18.20%	-	-	0%
Centuria Zenith Fund	-	-	0%	6,050,000	5,000,000	6.35%
Centuria Scarborough House Fund	102,826	102,826	0.22%	4,365,826	4,622,826	10.03%
Centuria SOP Fund	-	-	0%	3,198,461	3,204,061	10.52%
Centuria Woden Green Estate Development Fund	-	-	0%	1,252,500	1,252,500	20.53%
Centuria ATP Fund	-	-	0%	650,000	500,000	0.81%
Centuria 203 Pacific Highway Fund	-	-	0%	104,000	100,000	0.33%
Centuria 19 Corporate Drive Fund	-	-	0%	90,213	76,452	0.48%
Centuria 2 Wentworth Street Fund	-	-	0%	65,000	50,000	0.18%
Centuria 8 Central Avenue Fund 2	-	-	0%	31,500	25,000	0.04%
	<u>203,090,519</u>			<u>136,544,270</u>		

## Assets and liabilities

### C2 Financial assets at fair value (continued)

#### (b) Loans receivable from related parties

The following short-term loans were receivable from related parties of the Group at the end of the financial year:

	2018 \$	2017 \$
Centuria Finance Pty Limited	97,799,425	90,714,873
Centuria Sandgate Road Fund	-	10,968,500
Centuria 80 Grenfell Street Fund	5,865,000	-
	<b>103,664,425</b>	<b>101,683,373</b>

#### Recognition and measurement

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of comprehensive income.

### C3 Investment properties held for sale

In June 2018, the Group decided to sell the following properties held within Centuria Retail Fund:

Property	2018 \$'000	2017 \$'000	2018 Capitalisation rate %	Most recent independent valuer cap rate (%)	2018 Discount rate %	Last independent valuation date	2018 Valuer
Windsor Marketplace, Windsor NSW	23,400	-	6.25%	6.50%	7.00%	Nov 2017	Director
City Centre Plaza, Rockhampton	40,000	-	7.50%	7.00%	7.50%	Jun 2018	Independent
<b>Total fair value</b>	<b>63,400</b>	<b>-</b>					

The fair values listed above do not include estimated selling costs which are expected to be incurred upon disposal.

#### Recognition and measurement

Investment properties are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. These investment properties are carried at fair value. The valuation techniques to determine the fair value of investment properties held for sale are the same as the valuation techniques of investment properties described in Note C4(a).

## Assets and liabilities

### C4 Investment properties

	2018 \$'000	2017 \$'000
Opening balance	257,100	-
Acquisition of investment properties	-	249,700
Capital improvements and associated costs	3,985	2,232
Make good contributions	-	(675)
Gain/(loss) on fair value	(3,041)	3,630
Change in deferred rent and lease incentives	2,456	2,213
Deconsolidation of Havelock House Fund	(28,000)	-
Sale of investment property	(22,000)	-
Investment properties reclassified as held for sale	(63,400)	-
<b>Closing balance<sup>^</sup></b>	<b>147,100</b>	<b>257,100</b>

<sup>^</sup> The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$9,387,000 (30 June 2017: \$10,140,000).

Property	2018 \$'000	2017 \$'000	2018 Capitalisation rate %	Most recent independent valuer cap rate (%)	2018 Discount rate %	Last independent valuation date	Independent valuer firm
111 St George Terrace, Perth WA	147,100	142,500	7.00%	7.00%	7.25%	Nov 2017	Director
City Centre Plaza, Rockhampton Qld	-	46,000	-%	-%	-%		
Havelock House, West Perth WA	-	28,000	-%	-%	-%		
Windsor Marketplace, Windsor NSW	-	22,100	-%	-%	-%		
441 Murray Street, Perth WA	-	18,500	-%	-%	-%		
<b>Total fair value</b>	<b>147,100</b>	<b>257,100</b>					

#### Recognition and measurement

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are initially recorded at cost which includes stamp duty and other transaction costs. Subsequently, the investment properties are measured at fair value with any change in value recognised in profit or loss. The carrying amount of investment properties includes components relating to deferred rent, lease incentives and leasing fees.

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

#### Key estimate and judgements

##### (a) Valuation techniques and significant unobservable inputs

The fair value of the investment properties were determined by the Directors of the Responsible Entity of the relevant funds or by an external, independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

## Assets and liabilities

### C4 Investment properties (continued)

#### (a) Valuation techniques and significant unobservable inputs (continued)

The valuations were prepared by considering the following valuation methodologies:

- Capitalisation approach: the annual net rental income is capitalised at an appropriate market yield to arrive at the property's market value. Appropriate capital adjustments are then made where necessary to reflect the specific cash flow profile and the general characteristics of the property.
- Discounted cash flow approach: this approach incorporates the estimation of future annual cash flows over a 10 year period by reference to expected rental growth rates, ongoing capital expenditure, terminal sale value and acquisition and disposal costs. The present value of future cash flows is then determined by the application of an appropriate discount rate to derive a net present value for the property.
- Direct comparison approach: this approach identifies comparable sales on a dollar per square metre of lettable area basis and compares the equivalent rates to the property being valued to determine the property's market value.

The valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between the lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

#### (b) Fair value measurement

The fair value measurement of investment properties has been categorised as a Level 3 fair value as it is derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

Significant unobservable input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Capitalisation rate	Decrease	Increase
Discount rate	Decrease	Increase

### C5 Trade and other payables

	2018 \$'000	2017 \$'000
Sundry creditors <sup>(i)</sup>	8,069	10,467
Distribution Payable	9,959	6,898
Accrued expenses	409	962
	<b>18,437</b>	<b>18,327</b>

(i) Sundry creditors are non-interest bearing liabilities and are payable on commercial terms of 7 to 60 days.

#### Recognition and measurement

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Due to the short-term nature of these financial obligations, their carrying amounts are estimated to represent their fair values.

## Assets and liabilities

### C6 Borrowings

	2018 \$'000	2017 \$'000
Fixed rate secured notes (refer to Note C6(a))	85,000	60,000
Floating rate secured notes (refer to Note C6(a))	40,000	40,000
Bank loans in Property Funds (refer to Note C6(b))	115,758	128,837
Borrowing costs capitalised	(1,448)	(1,875)
	<b>239,310</b>	<b>226,962</b>

The terms and conditions relating to the above facilities are set out below.

#### (a) Corporate notes (secured)

The Group issued Tranche 1 of secured corporate notes to the value of \$100,000,000 on 21 April 2017. This consisted of an issue of \$40,000,000 floating rate secured notes and \$60,000,000 7% fixed rate secured notes. The Group issued Tranche 2 to the value of \$25,000,000 7% fixed rate secured notes on 11 September 2017. These notes mature on 21 April 2021 and are secured against assets within certain subsidiaries of the Group.

#### (b) Bank Loans - Property Funds (secured)

Each controlled property fund has debt facilities secured by first mortgage over each of the fund's investment property and a first ranking fixed and floating charge over all assets of each of the funds. Details of the amounts drawn and the maturity of each facility are as follows:

Fund	Current/non-current classification	Maturity date	Facility limit \$'000	Funds available \$'000	Draw down \$'000	Borrowing costs \$'000	Draw down \$'000
<b>30 June 2018</b>							
Centuria 111 St							
Georges Terrace Fund	Current	30 June 2019	83,800	4,320	<b>79,480</b>	(130)	<b>79,350</b>
Centuria Retail Fund	Current	31 July 2018**	37,400	992	<b>36,408</b>	-	<b>36,408</b>
							<b>115,758</b>
<b>30 June 2017</b>							
Centuria 111 St							
Georges Terrace Fund	Non-current	30 June 2019	81,500	10,839	<b>70,661</b>	(128)	<b>70,533</b>
Centuria Retail Fund	Current	30 June 2018	37,400	1,823	<b>35,577</b>	(76)	<b>35,501</b>
Centuria Havelock House Fund	Current	31 May 2018	13,000	1,000	<b>12,000</b>	(14)	<b>11,986</b>
Centuria 441 Murray Street Fund	Current	30 June 2018	12,000	1,159	<b>10,841</b>	(24)	<b>10,817</b>
							<b>128,837</b>

\*\* Subsequent to 30 June 2018, the maturity date of Centuria Retail Fund's debt facility was extended to 31 August 2018. The investment properties in the Centuria Retail Fund are classified as held for sale as at 30 June 2018 and the bank facility will be rolled over until properties are sold.

#### Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.



## Assets and liabilities

### C7 Commitments and contingencies

#### (a) Operating leases

##### (i) Group as a lessor

The Group leases out its investment properties under operating leases.

The future minimum lease payments receivable under non-cancellable leases are as follows:

	2018 \$'000	2017 \$'000
Not longer than 1 year	13,574	16,212
Longer than 1 year and not longer than 5 years	39,120	48,310
Longer than 5 years	27,176	45,432
	<b>79,870</b>	<b>109,954</b>

#### (b) Contingencies

The Group had no contingent liabilities at 30 June 2018.

#### Recognition and measurement

When the terms of a lease transfer substantially all the risks and rewards of ownership to the Group, the lease is classified as a finance lease. All other leases are classified as operating leases.

##### (i) Group as a lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

### C8 Contributed equity

	2018 No. of securities	\$'000	2017 No. of securities	\$'000
Balance at beginning of the period	229,815,736	170,672	-	-
Stapling dividend and return of capital reinvested	-	-	77,194,733	52,536
Equity based payment	875,401	-	-	-
Stapled securities issued	74,102,037	77,146	152,621,003	124,174
Cost of equity raising	-	(2,888)	-	(6,038)
Balance at end of the period	<b>304,793,174</b>	<b>244,930</b>	<b>229,815,736</b>	<b>170,672</b>

Fully paid ordinary securities carry one vote per security and carry the right to distributions.

On 29 June 2017, the Group issued 20,098,470 options to subscribe for units. The options have an exercise price of \$1.30 per unit and expire on 29 June 2022.

#### Recognition and measurement

Incremental costs directly attributed to the issue of ordinary units are accounted for as a deduction from equity, net of any tax effects.

## D Cash flows

### D1 Reconciliation of profit for the period to net cash flows from operating activities

	2018 \$'000	2017 \$'000
Profit for the year	31,763	15,936
<b>Add (deduct) non-cash items:</b>		
Unrealised gain on investment property	5,790	(3,631)
Fair value loss on acquisition	-	(12,510)
Fair value movement of financial instruments	(12,691)	6,204
Interest income on related party loan	(7,085)	-
Costs paid for debt issuance	446	-
Profit on sale of investment property	(2,000)	-
Amortisation of borrowing costs	52	167
Amortisation of lease incentives	1,650	3,058
<b>Changes in net assets and liabilities:</b>		
<b>(Increase)/decrease in assets:</b>		
Decrease/(Increase) in Receivables	(683)	(2,345)
<b>Increase/(decrease) in liabilities:</b>		
Increase/(Decrease) in Other Payables	(4,976)	(3,863)
<b>Net cash flows provided by operating activities</b>	<b>12,266</b>	<b>3,016</b>

#### Recognition and measurement

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition. Bank overdrafts are shown within borrowings in the statement of financial position.

## E Group Structure

### E1 Business combination

#### (a) Current year

During the current period, there were no business combinations.

#### (b) Prior year

##### (i) Stapling

The stapling of the Fund and CCL was approved at an Extraordinary General Meeting of the shareholders of CCL on 10 October 2016. Following approval of the stapling, shares in the CCL and units in Fund were stapled to one another on 17 October 2016 and are traded as a single security on the ASX.

The Fund was established by the transfer of the CCL's interest in Centuria Metropolitan REIT ('CMA') and other co-investments to the Fund in exchange for \$52,535,795 in equity of the Fund. Assets transferred to the Fund were transferred at fair value.

##### (ii) 360 Capital acquisition

On 23 November 2016, the Centuria Capital Group announced the purchase of all of the shares in Centuria Property Funds No. 2 Limited (formerly 360 Capital Investment Management Limited) ('CPF2L') and associated management rights over listed and unlisted property investment funds for which CPF2L is the responsible entity from 360 Capital Group Limited ('360 Capital'). Also as part of the acquisition, the Centuria Capital Fund Group agreed to acquire various stakes in those listed and unlisted funds.

The acquisition of shares in CPF2L and the interests in the listed and unlisted property investment funds (collectively, the 'Transaction') was settled on 9 January 2017.

This acquisition was funded by a combination of debt, equity and existing cash reserves, including \$150,000,000 capital raised by Centuria Capital Group from new and existing institutional investors, and a vendor loan amounting to \$50,000,000.

The acquisition also included a call option and a put option over stakes in the four unlisted property investment funds managed by CPF2L with a maximum option period of 2 years following completion of the acquisition.

Details of the purchase consideration, the net assets acquired and goodwill recognised are as follows:

	2018 \$'000
Purchase consideration	
Cash paid on 9 January 2017	66,046
Loan from 360 Capital Group (repaid on 21 April 2017)	50,000
Call and put option liability	60,123
Contingent consideration	1,763
Total purchase consideration	<u>177,932</u>

As at 30 June 2018, the call and put option liability is \$41,024,000 (2017: \$54,693,000) and the contingent consideration is 123,000 (2017: \$1,763,000). On 18 July 2018, the call and put option deed in relation to Centuria 111 St Georges Terrace Fund options was extended to 26 June 2019 from the original date of 9 January 2019.

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

## Group Structure

### E1 Business combination (continued)

#### (b) Prior year (continued)

##### (ii) 360 Capital acquisition (continued)

	Fair value \$'000
Cash and cash equivalents	6,937
Investment Properties	249,700
Receivables	1,851
Payables	(6,603)
Borrowings	(128,495)
Derivative Financial Instruments	(757)
Co-investment in Centuria Industrial REIT (CIP)	81,414
Co-investment in Centuria Urban REIT (CUA)	30,725
Net identifiable assets acquired	234,772
Less: non-controlling interests	(69,350)
	165,422
<b>Fair value loss on acquisition (impact of transaction as part of stapled group)</b>	<b>12,510</b>

##### (i) Transaction related costs

Transaction related costs of \$7,213,809 were incurred of which \$1,717,669 are included in expenses in profit or loss and \$6,037,140 are recognised directly in contributed equity.

##### (ii) Contingent consideration

The contingent consideration arrangement requires the Group to guarantee the distribution yield on co-investment stakes in unlisted property funds subject to put and call options to 7.5%. The contingent consideration liability recognised reflects the Group's expectation of the fair value of the amounts to be paid over the contingent period. The distributions are expected to be less than the guaranteed return.

#### Recognition and measurement

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method when control is transferred to the Group. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

### E2 Interests in subsidiaries

The Group's principal subsidiaries at 30 June 2018 are set out below. Unless otherwise stated, they have issued capital consisting solely of ordinary units that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The subsidiaries are incorporated in Australia which is also their principal place of business.

Name of subsidiary	Ownership interest %	
	2018	2017
Centuria Capital No. 2 Fund	100%	100%
Centuria Capital No. 2 Office Fund	100%	100%
Centuria Capital No. 2 Industrial Fund	100%	100%
Centuria Capital No. 3 Fund	100%	100%
Centuria Diversified Property Fund ***	n/a	54%

## E2 Interests in subsidiaries (continued)

During the period 30 June 2017, as part of the 360 Capital Transaction, the Group gained control over four unlisted property funds including Centuria 111 St Georges Terrace Fund, Centuria Retail Fund, Centuria Havelock House Fund and Centuria 441 Muarrry Street Fund. In 2017, these funds have been consolidated in these financial statements. As at 30 June 2018, Centuria Havelock House Fund and Centuria Murray Street Fund have been deconsolidated from these financial statements.

\*\*\* As at 30 June 2018, Centuria Diversified Property Fund has been deconsolidated from these financial statements.

### Recognition and measurement

#### (i) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund (subsidiaries). The Group controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## E3 Parent entity disclosure

As at, and throughout the current financial year, the parent entity of the Group was Centuria Capital Fund.

	2018	2017
	\$'000	\$'000
<b>Result of parent entity</b>		
Profit or loss for the year	18,214	3,894
Total comprehensive income for the year	18,214	3,894

### Financial position of parent entity at year end

Total assets	253	174,049
Total liabilities	(9,584)	(6,462)
<b>Net assets</b>	<b>(9,331)</b>	<b>167,587</b>

The parent entity presents its assets and liabilities in order of liquidity. The assets of the parent entity mainly consist of cash, short term receivables and financial assets. The liabilities of the parent entity mainly consist of short term payables.

### Total equity of the parent entity comprising of:

Share capital	244,930	170,672
Retained earnings/(loss)	(1,634)	(3,085)
<b>Total equity</b>	<b>243,296</b>	<b>167,587</b>

#### (a) Guarantees entered into by the parent entity

The parent entity has, in the normal course of business, entered into guarantees in relation to the debts of its subsidiaries during the financial year

#### (b) Commitments and contingent liabilities of the parent entity

The parent entity had no commitments for acquisition of property, plant and equipment nor any contingent liabilities as at 30 June 2018.

## F Other

### F1 Financial instruments

#### (a) Management of financial instruments

The Board is ultimately responsible for the Risk Management Framework of the Group.

The Group employs a cascading approach to managing risk, facilitated through delegation to specialist committees and individuals within the Group.

The Group is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management and investment policies, approved by the Board, seek to minimise the potential adverse effects of these risks on the Group's financial performance. These policies may include the use of certain financial derivative instruments.

The Group uses interest rate swaps to manage interest rate risk and not for speculative purposes in any situation. Hedging is put in place where the Group is either seeking to minimise or eliminate cash-flow variability, i.e., converting variable rates to fixed rates, or changes in the fair values of underlying assets or liabilities, i.e., to convert fixed rates to variable rates.

#### (b) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity capital.

The Group's capital structure consists of net debt (borrowings, offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings).

The Group carries on business throughout Australia, primarily through subsidiary companies that are established in the markets in which the Group operates.

Operating cash flows are used to maintain and, where appropriate, expand the Group's funds under management as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group reviews regularly its anticipated funding requirements and the most appropriate form of funding (capital raising or borrowings) depending on what the funding will be used for.

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

##### (i) Valuation techniques and assumptions applied in determining fair value

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. Discount rates are determined based on market rates applicable to the financial asset or liability.

##### (ii) Valuation techniques and assumptions applied in determining fair value of derivatives

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

##### (iii) Fair value measurements recognised in the statement of financial position

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value.

The table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

## F1 Financial instruments (continued)

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

#### (iii) Fair value measurements recognised in the statement of financial position (continued)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1, 2 and 3 in the period.

30 June 2018	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
<b>Financial assets</b>				
Cash and cash equivalents	Amortised cost	Level 1	16,909	16,909
Financial assets at fair value	Fair value	Level 1	252,157	252,157
Receivables	Amortised cost	Level 2	5,987	5,987
Financial assets at fair value	Fair value	Level 2	113,575	113,575
			<b>388,628</b>	<b>388,628</b>
<b>Financial liabilities</b>				
Payables	Amortised cost	Level 2	18,437	18,437
Liability to 360 Capital Group	Amortised cost	Level 2	41,161	41,161
Borrowings	Amortised cost	Level 2	239,310	240,424
Interest rate swaps at fair value	Fair value	Level 2	472	472
			<b>299,380</b>	<b>300,494</b>
30 June 2017	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
<b>Financial assets</b>				
Cash and cash equivalents	Amortised cost	Level 1	36,775	36,775
Financial assets at fair value	Fair value	Level 1	120,737	120,737
Receivables	Amortised cost	Level 2	7,798	7,798
Financial assets at fair value	Fair value	Level 2	118,644	118,644
			<b>283,954</b>	<b>283,954</b>
<b>Financial liabilities</b>				
Payables	Amortised cost	Level 2	18,327	18,327
Liability to 360 Capital Group	Amortised cost	Level 2	56,456	56,456
Borrowings	Amortised cost	Level 2	226,962	227,878
Interest rate swaps at fair value	Fair value	Level 2	1,134	1,134
Total			<b>302,879</b>	<b>303,795</b>

The Group determines Level 2 fair values for financial assets and liabilities without an active market based on broker quotes. Level 2 fair values for simple over-the-counter derivatives are also based on broker quotes. Those quotes are tested for reasonableness by discounting expected future cash flows using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the entity and counterparty where appropriate.

#### Recognition and measurement

The Group enters into derivative financial instruments such as interest rate swaps to manage its exposure to interest rate risk.

## F1 Financial instruments (continued)

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

#### Recognition and measurement (continued)

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

### (d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating risk of financial loss from default. The credit risk on financial assets of the Group and the parent recognised in the statement of financial position is generally the carrying amount, net of allowance for impairment loss.

Concentration of risk may exist when the volume of transactions limits the number of counterparties.

#### (i) Credit risk on other financial assets

Credit risk on other financial assets such as investments in floating rate notes, standard discount securities and unit trusts is managed through strategic asset allocations with creditworthy counterparties and the on-going monitoring of the credit quality of investments, including the use of credit ratings issued by well-known rating agencies. The exposure of credit risk in respect of financial assets is minimal.

The Group does not have any significant credit risk exposure to any single entity in other financial assets or any group of counterparties having similar characteristics.

### (e) Liquidity risk

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities.

The liquidity risk is managed for the Group at a corporate level. Bank account balances across all entities, current and future commitments, and expected cash inflows are reviewed in detail when the monthly cash flow projection is prepared for management purposes and presented to the Board at its regular monthly meetings. By comparing the projected cash flows with the assets and liabilities shown in the individual and consolidated statements of financial position, which are also prepared on a monthly basis for management purposes and presented to the Board, liquidity requirements for the Group can be determined. Based on this review, if it is considered that the expected cash inflows plus liquidity on hand, may not be sufficient in the near term to meet cash outflow requirements, including repayment of borrowings, a decision can be made to carry out one or more of the following:

- renegotiate the repayment terms of the borrowings;
- sell assets that are held on the statement of financial position; and/or
- undertake an equity raising.

This, combined with a profitable business going forward, should ensure that the Group continues to meet its commitments, including repayments of borrowings, as and when required.

The following table summarises the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the parent can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.



**F1 Financial instruments (continued)****(e) Liquidity risk (continued)**

	On Demand	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivative financial liabilities</b>						
<b>Consolidated</b>						
<b>2018</b>						
Borrowings	-	37,902	89,340	140,600	-	267,842
Other payables	-	18,437	-	-	-	18,437
Liability payable to 360 Capital Group	-	-	41,161	-	-	41,161
<b>Total</b>	-	56,339	130,501	140,600	-	327,440

<b>2017</b>						
Borrowings	-	619	68,124	194,109	-	262,852
Other payables	-	18,327	-	-	-	18,327
Liability payable to 360 Capital Group	-	-	-	56,456	-	56,456
<b>Total</b>	-	18,946	68,124	250,565	-	337,635

The following table summarises the maturing profile of derivative financial liabilities. The table has been drawn up based on the undiscounted net cash flows on the derivative instruments that settle on a net basis.

	On Demand	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Derivative financial liabilities</b>						
<b>Consolidated</b>						
<b>2018</b>						
Interest rate swaps	-	-	268	216	-	484
<b>Total</b>	-	-	268	216	-	484
<b>2017</b>						
Interest rate swaps	-	9	376	838	78	1,301
<b>Total</b>	-	9	376	838	78	1,301

## F1 Financial instruments (continued)

### (f) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk and price risk. Due to the nature of assets held by the Group, there is an asset and liability management process which determines the interest rate sensitivity of the statement of financial position and the implementation of risk management practices to hedge the potential effects of interest rate changes.

#### (i) Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. Management of this risk is evaluated regularly and interest rate swaps are used accordingly.

The tables below detail the Group's interest bearing financial assets and liabilities.

	Weighted average effective interest rate	Variable rate \$'000	Fixed rate \$'000	Total \$'000
<b>2018</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1.41%	16,909	-	16,909
Related party loan	7.50%	97,799	-	97,799
Total financial assets		114,708	-	114,708
<b>Financial liabilities</b>				
Borrowings	5.28%	(154,310)	(85,000)	(239,310)
Total financial liabilities		(154,310)	(85,000)	(239,310)
Net interest bearing financial assets/(liabilities)		(39,602)	(85,000)	(124,602)
<b>2017</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1.28%	36,675	100	36,776
Total financial assets		36,675	100	36,776
<b>Financial liabilities</b>				
Borrowings	4.70%	(166,962)	(60,000)	(226,957)
Total financial liabilities		(166,962)	(60,000)	(226,957)
Net interest bearing financial assets/(liabilities)		(130,287)	(59,900)	(190,181)

## F1 Financial instruments (continued)

### (f) Market risk (continued)

#### (ii) Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of fixed rate financial assets held and the cash flow exposures on the issued variable rate debt.

The following table details the notional principal amounts and remaining expiry of the Group's outstanding interest rate swap contracts as at reporting date. These swaps are at fair value through profit and loss.

	Average contracted rate		National principal amount		Fair value	
Pay fixed for floating contracts designated as effective in fair value hedge	2018	2017	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Interest rate swaps	2.33%	2.73%	99,600	106,100	(472)	(1,133)
			99,600	106,100	(472)	(1,133)

#### (iii) Interest rate sensitivity

The sensitivity analysis below has been determined based on the parent and the Group's exposure to interest rates at the balance date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of financial assets and financial liabilities that have variable interest rates. A 100 basis point (1%) increase or decrease represents management's assessment of the reasonably possible change in interest rate.

At reporting date, if variable interest rates had been 100 basis points higher or lower and all other variables were held constant, the impact to the Group would have been as follows:

	Change in variable		Effect on profit	
	2018	2017	2018 \$'000	2017 \$'000
<b>Consolidated</b>				
Interest rate risk	+1%	+1%	2,272	(267)
<b>Consolidated</b>				
Interest rate risk	-1%	-1%	(2,337)	267

The methods and assumptions used to prepare the sensitivity analysis have not changed in the year. The sensitivity analysis takes into account interest-earning assets and interest-bearing liabilities attributable to the shareholders only, and does not take into account the bank bill facility margin changes.

## F2 Remuneration of auditors

Amounts received or due and receivable by KPMG:

	2018 \$	2017 \$
Audit and review of the financial report	14,863	33,000

## F3 New Accounting Standards and Interpretations effective 1 July 2018

AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* are new standards which are effective for annual periods beginning after 1 July 2018. Whilst earlier application was permitted, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The Group is required to adopt AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018 and has assessed the estimated impact that the initial application of these standards will have on its consolidated financial statements.

Based on the Group's assessment, the Group does not believe that these new accounting standards will have a material impact on the Group's equity as at 1 July 2018. This impact is assessed based on analysis performed to date. The actual impacts of adopting the standard at 1 July 2018 may vary because the new accounting policies are subject to change until the Group presents its first financial statements at the date of initial application.

### (a) AASB 9 Financial Instruments

AASB 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

#### (i) Classification – Financial assets

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for all receivables and financial assets (which are already carried at fair value).

#### (ii) Impairment – Receivables

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to the Group's receivables which continue to be measured at amortised cost.

Based on its assessment, the Group does not believe that the new impairment model will have a material impact on its equity upon transition as at 1 July 2018.

#### (iii) Classification – Financial liabilities

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 1139 *Financial Instruments: Recognition and Measurement* and have not been changed.

### F3 New Accounting Standards and Interpretations effective 1 July 2018 (continued)

#### (a) AASB 9 Financial Instruments (continued)

##### (iv) Hedge accounting

The new hedge accounting rules generally allow for more hedge relationships to be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not expect a significant impact as a result of the hedging changes on transition on 1 July 2018.

##### (v) Transition

Changes in accounting policies resulting from the adoption of AASB 9 will generally be applied retrospectively, however as there are no expected material impact on carrying amounts of financial assets and financial liabilities, there will be no transitional implications on the Group's equity at 1 July 2018 nor its comparatives.

#### (b) AASB 15 Revenue from Contracts with Customers

The new revenue standard, AASB 15 Revenue from customers applies to all contracts with customers to deliver goods or services as part of the entity's ordinary course of business excluding insurance contracts, financial instruments and leases which are addressed by other standards. It replaces existing revenue recognition guidance, including AASB 118 Revenue and AASB 111 Construction Contracts.

AASB 15 replaces the considerations of risks and rewards under AASB 118 to the concept of when control passes to the customer as the trigger point for the recognition of revenue.

Rental income, interest income, distribution and dividend income and fair value movements in investment properties are excluded from the scope of this standard.

Based on its assessment, the Group does not believe that the new standard will have a material transitional impact on the Group's equity as at 1 July 2018.

### F4 Other new Accounting Standards and Interpretations

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

#### (a) AASB 16 Leases

##### (i) Nature of change

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

##### (ii) Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments as outlined in note C7(a). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

## **F4 Other new Accounting Standards and Interpretations (continued)**

### **(a) AASB 16 Leases (continued)**

#### **(iii) Mandatory application date**

Mandatory for financial years commencing on or after 1 January 2019, but available for early adoption. Therefore mandatory application to the Group would be year ending 30 June 2020.

The Group does not intend to adopt AASB 16 before its mandatory date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## **F5 Events subsequent to the reporting date**

There has not arisen in the interval between 30 June 2018 and the date hereof any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Fund, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## Directors' declaration

In the opinion of the Directors' of Centuria Funds Management Limited as the Responsible Entity of Centuria Capital Fund:

- (a) the consolidated financial statements and notes set out on pages 7 to 36, 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 Group'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 the Group will be able to pay its debts as and when they become due and payable.

Note A1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 Directors.



Mr Garry S Charny  
Director



Mr Peter J. Done  
Director

Sydney  
14 August 2018

# Independent Auditor's Report

To the unitholders of Centuria Capital Fund

## Opinion

We have audited the **Financial Report** of Centuria Capital Fund (the Fund).

In our opinion, the accompanying Financial Report of the Fund is in accordance with the *Corporations Act 2001*, including:

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

The **Financial Report** of the Fund comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration

The **Fund** consists of Centuria Capital Fund and the entities it controlled at the year-end or from time to time during the financial year.

## Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Fund and Centuria Funds Management Limited (the Responsible Entity) in accordance with 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 fulfilled our other ethical responsibilities in accordance with the Code.

## Other Information

Other Information is financial and non-financial information in Centuria Capital Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of the Responsible Entity are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.



We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Fund's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). This description forms part of our Auditor's Report.



KPMG



Nigel Virgo

Partner

Sydney

14 August 2018

## Additional stock exchange information

The unitholder information set out below was applicable as at 31 July 2018.

### Distribution of units

Analysis of numbers of unitholders by size of holding:

Holding	Total holders	Units
1 - 1000	857	427,820
1,001 - 5,000	4,212	10,360,747
5,001 - 10,000	849	5,896,641
10,001 - 100,000	897	24,987,635
100,001 and over	143	263,120,331
	6,958	304,793,174

There were 311 holders of less than a marketable parcel of units holding 62,724 units.

### Top 20 unitholders

The names of the twenty largest unitholders are listed below:

	Number held	Percentage of issued units
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 12 A/C>	45,405,404	14.90
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	41,376,869	13.58
PERSHING AUSTRALIA NOMINEES PTY LTD <NOMINEE A/C>	38,415,438	13.60
J P MORGAN NOMINEES AUSTRALIA LIMITED	29,554,574	9.70
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	24,349,842	7.99
CITICORP NOMINEES PTY LIMITED	10,140,483	3.33
GH 2016 PTY LIMITED <HARVEY 2006 OPTION A/C>	9,536,034	3.13
RESOLUTE FUNDS MANAGEMENT PTY LTD <HANOVER PROPERTY S/F A/C>	3,977,679	1.31
CICERONE CAPITAL PTY LTD <MELBURGP A/C>	3,512,057	1.15
BUTTONWOOD NOMINEES PTY LTD	3,166,791	1.04
BRYSHAW MANAGEMENT PTY LTD <BRYSHAW A/C>	2,725,002	0.89
PARITAI PTY LIMITED <PARITAI A/C>	2,544,293	0.83
AVANTEOS INVESTMENTS LIMITED <2412987 JRSWJH A/C>	2,408,164	0.79
UBS NOMINEES PTY LTD	2,252,901	0.74
PARSONAGE PROVIDENT P/L <PARSONAGE PROVIDENT FUND A/C>	2,200,830	0.72
HWM (NZ) HOLDINGS LIMITED	2,052,745	0.67
NATIONAL NOMINEES LIMITED	1,607,512	0.53
NATIONAL EXCHANGE PTY LTD <CORP A/C>	1,401,563	0.46
ERSKINE IMPORT PTY LTD	1,370,000	0.45
MR ROGER WILLIAM DOBSON <DOBSON SUPER FUND A/C>	1,318,062	0.43
	229,316,243	76.24

## Unitholder

### Substantial holders

Substantial holders in the Group are set out below:

	Number held	Percentage of units held
ESR CAYMAN LTD	45,405,404	14.90%
MAGIC TT PTY LTD	42,677,495	14.00%
ELLERSTON CAPITAL LIMITED	26,425,800	8.67%
	<u>114,508,699</u>	<u>37.57%</u>

### Voting rights

All ordinary units carry one vote per security without restriction.