

Centuria Capital Group Interim Financial Report for the half year ended 31 December 2019

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.

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These consolidated interim financial statements are the interim financial statements of the consolidated entity consisting of Centuria Capital Limited and its subsidiaries. The interim 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 41, Chifley Tower, 2 Chifley Square
Sydney NSW 2000

The consolidated interim financial statements were authorised for issue by the Directors on 12 February 2020.

Directors' report

The Directors of Centuria Capital Limited (the 'Company') present their interim report together with the interim financial statements of the Company and its controlled entities (the 'Group') for the half year ended 31 December 2019 and the auditor's review 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 are a single security under the ticker code 'CNI'.

Directors

The following persons were Directors of the Company during the whole of the half year and up to the date of this report:

Director	Role	Appointment Date
Mr Garry S. Charny	Independent Non-Executive Director and Chairman	23 February 2016
Mr Peter J. Done	Independent Non-Executive Director	28 November 2007
Mr John R. Slater	Independent Non-Executive Director	22 May 2013
Ms Susan Wheeldon-Steele	Independent Non-Executive Director	31 August 2016
Mr Nicholas R. Collishaw	Non-Executive Director	27 August 2013
Mr John E. McBain	Executive Director and Joint Chief Executive Officer	10 July 2006
Mr Jason C. Huljich	Executive Director and Joint Chief Executive Officer	28 November 2007

Operating and financial review

The Group recorded a consolidated statutory net profit after tax for the half year of \$77,993,000 (half year ended 31 December 2018: \$22,224,000). Statutory net profit after tax has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards.

The Group recorded an operating profit after tax for the half year of \$33,406,000 (half year ended 31 December 2018: \$21,701,000). Operating profit after tax excludes non-operating items such as transaction costs and fair value movements and share of net profit of equity accounted investments in excess of distributions received.

On 5 September 2019, the Group settled a 63.06% economic interest in Heathley Limited's property funds management platform, forming a specialist healthcare property funds manager Centuria Heathley.

The statutory net profit after tax includes a number of items that are not operating in nature. The Segment profit or loss in Note B1 has a detailed breakdown of the composition of operating profit and statutory profit. The Segment summary disclosure in Note A5 provides a detailed summary of the Group's segments and further detail of what is considered operating and non-operating segments.

Eliminations between the operating and non-operating segment largely relate to elimination of inter-group revenues and expenses between the benefit funds, controlled property funds and the Group. Fair value movements of financial instruments and property are also eliminated which relate to movements in fair value of underlying properties in the controlled property funds to appropriately reflect the consolidated results of the controlled property funds.

The table below provides a summarised reconciliation from Statutory Profit after tax to Operating Profit after tax.

	31 December 2019 \$'000	31 December 2018 \$'000
Reconciliation of statutory profit to operating profit		
Statutory profit after tax	77,993	22,224
<i>Statutory earnings per Centuria Capital Group security (EPS) (cents)</i>	18.6	6.4
Less non-operating items:		
Unrealised loss/(gain) on fair value movements in derivatives, property and investments	(38,316)	(879)
Corporate restructure, transaction and other costs	2,110	5,346
Profit attributable to controlled property funds	(645)	(1,019)
Eliminations between the operating and non-operating segment	(1,940)	35
Equity accounting adjustments	128	(2,736)
Tax impact of above non-operating adjustments	(5,924)	(1,270)
Operating profit after tax	33,406	21,701
<i>Operating EPS (cents)</i>	8.1	6.5

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 divisions were as follows:

Segment	Operating profit after tax for the half year \$'000		Increase/Decrease	%	Highlights
	31 December 2019	31 December 2018			
Property Funds Management	26,856	14,142	12,714	90	(a)
Investment Bonds	881	1,215	(334)	(27)	(b)
Co-Investments	8,013	9,201	(1,188)	(13)	(c)

(a) Property Funds Management

For the half year ended 31 December 2019, Property Funds Management operating profit after tax of \$26,856,000 was higher than the prior half year ending 31 December 2018 by \$12,714,000 primarily due to the reasons below

The impact of performance fees of \$21,529,000 recognised in the current half year compared to \$9,557,000 of performance fees in the half year ended 31 December 2018 mainly due to the sale of 8 Central Avenue and 2 Wentworth Street.

Excluding the post tax impact of performance fees, the Property Funds Management segment profit increased by \$4,334,000, reflecting the growth in assets under management (AUM) and higher acquisition fees. Recurring Property Funds Management segment revenue increased by \$15,544,000 or 77% from \$20,256,000 for the half year ended 31 December 2018 to \$35,800,000 for the half year ended 31 December 2019 largely due to an increase in management fees and acquisition fees:

- \$6,301,000 increase in management fees is due to an increase in Listed AUM from \$2.7 billion as at 30 June 2019 to \$3.7 billion as at 31 December 2019. Acquisitions for the half year ended 31 December 2019 included Williams Square, Northbridge (\$190,000,000), 8 Central Avenue (\$190,000,000) and 40-54 Kaurana Avenue (\$19,500,000).
- Acquisition fees of \$6,193,000 due to unlisted acquisitions during the half year ended 31 December 2019 including 80 Flinders Street (\$127,500,000), 348 Edward Street (\$89,000,000) and 25 Montpelier Road (\$65,500,000). Overall Unlisted AUM increased from \$0.1 billion from year ended 30 June 2019 to \$2.7 billion as at 31 December 2019.

(b) Investment Bonds Management

For the half year ended 31 December 2019, the Investment Bond Management segment's operating profit after tax decreased by \$334,000 to \$881,000. The lower prevailing level of interest rates have contributed to a decline in the earnings of Capital Guaranteed products which has necessitated the rebating of a portion of the segments management fees to ensure the continued viability and capital adequacy of these products.

(c) Co-Investments

For the half year ended 31 December 2019, the Co-Investments segment operating profit after tax decreased by \$1,188,000. This was primarily due to reallocation and recycling of capital previously invested in PropertyLink Group into supporting Centuria's unlisted property funds as required meaning there are periods outside of this where the excess cash is only generating low levels of interest returns.

During the current half year, the Group's ownership stakes in Centuria Office REIT (COF) and Centuria Industrial REIT (CIP) decreased to 17.08% and 19.93% respectively due to the Group not fully participating in all equity raises/rights issue despite additional units purchased in the funds. As a result, the Group's accounting treatment of these investments changed from being recognised as equity accounted investments to financial assets held at fair value.

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

Operating and financial review (continued)

Earnings per security (EPS)

	31 December 2019		31 December 2018	
	Operating	Statutory	Operating	Statutory
Basic EPS (cents/security)	8.1	18.6	6.5	6.4
Diluted EPS (cents/security)	7.8	18.0	6.1	6.0

Dividends and Distributions

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

Dividends/distributions paid during the half year	Cents per security	Total amount \$'000	Date paid/payable
Final 2019 dividend (100% franked)	0.50	1,918	16 August 2019
Final 2019 Trust distribution	4.50	17,262	16 August 2019
Dividends/distributions declared during the half year			
Interim 2020 dividend (100% franked)	1.70	7,630	31 January 2020
Interim 2020 Trust distribution	2.80	12,567	31 January 2020
Total amount	9.50	39,377	


Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

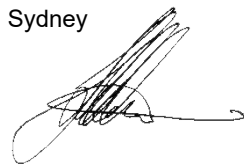
Rounding of amounts

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 interim financial statements. Amounts in the Directors' Report and interim financial statements 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
Sydney



Mr John R. Slater
Director
Sydney

Sydney
12 February 2020



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 review of Centuria Capital Limited for the half-year ended 31 December 2019 there have been:

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

KPMG

Nigel Virgo

Partner

Sydney

12 February 2020

Centuria Capital Group

Interim financial report - 31 December 2019

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Consolidated interim statement of comprehensive income

For the half year ended 31 December 2019

		31 December 2019 \$'000	31 December 2018 \$'000
Revenue	B1, B2	79,538	55,058
Share of net profit of equity accounted investments	E2	9,396	11,817
Net movement in policyholder liability		7,648	15,824
Fair value movements of financial instruments and property		44,112	(7,841)
Expenses	B3	(47,473)	(42,960)
Finance costs	B4	(9,556)	(9,757)
Profit before tax		83,665	22,141
Income tax (expense)/benefit		(5,672)	83
Profit after tax		77,993	22,224
Profit after tax is attributable to:			
Centuria Capital Limited		8,338	5,277
Centuria Capital Fund (non-controlling interests)		68,707	16,141
External non-controlling interests		948	806
Profit after tax		77,993	22,224
Other comprehensive income		-	-
Total comprehensive income for the period		77,993	22,224
Total comprehensive income for the period is attributable to:			
Centuria Capital Limited		8,338	5,277
Centuria Capital Fund (non-controlling interests)		68,707	16,141
External non-controlling interests		948	806
Total comprehensive income		77,993	22,224
Total comprehensive income for the period is attributable to:			
Centuria Capital Limited		8,338	5,277
Centuria Capital Fund (non-controlling interests)		68,707	16,141
Total comprehensive income for the period is attributable to Centuria Capital Group securityholders		77,045	21,418
		Cents	Cents
Earnings per Centuria Capital Group security			
Basic (cents per stapled security)		18.6	6.4
Diluted (cents per stapled security)		18.0	6.0
Earnings per Centuria Capital Limited share			
Basic (cents per share)		2.1	1.6
Diluted (cents per share)		2.0	1.5

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

Consolidated interim statement of financial position

As at 31 December 2019

	Notes	31 December 2019 \$'000	30 June 2019 \$'000
Cash and cash equivalents		127,712	124,673
Receivables	C2	74,948	69,862
Financial assets	C3	857,792	356,114
Other assets		6,556	5,741
Investment properties held for sale	C4	23,500	-
Equity accounted investments	E2	-	386,713
Investment properties	C5	163,201	177,500
Right of use asset	C7	18,868	-
Intangible assets	C6	191,678	157,663
Total assets		1,464,255	1,278,266
Liabilities			
Payables	C8	52,695	42,232
Provisions		2,329	1,878
Borrowings	C9	268,937	303,110
Interest rate swaps at fair value		29,100	28,814
Benefit Funds policyholder's liability		334,731	339,557
Provision for income tax		8,427	813
Deferred tax liabilities		274	10,494
Call/Put option liability	E1	16,356	-
Lease liability	C7	19,247	-
Total liabilities		732,096	726,898
Net assets		732,159	551,368
Equity			
Equity attributable to Centuria Capital Limited			
Contributed equity	C10	157,784	128,164
Reserves		2,219	2,101
Retained earnings		13,146	12,438
Total equity attributable to Centuria Capital Limited		173,149	142,703
Equity attributable to Centuria Capital Fund (non-controlling interests)			
Contributed equity	C10	438,342	343,438
Retained earnings		75,207	19,067
Total equity attributable to Centuria Capital Fund (non-controlling interests)		513,549	362,505
Total equity attributable to Centuria Capital Group securityholders		686,698	505,208
Equity attributable to external non-controlling interests			
Contributed equity		32,927	32,927
Retained earnings		12,534	13,233
Total equity attributable to external non-controlling interests		45,461	46,160
Total equity		732,159	551,368

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

Consolidated interim statement of changes in equity

For the half year ended
31 December 2019

	Centuria Capital Limited			Centuria Capital Fund (non-controlling interests)			Total attributable to Centuria Capital Group Securityholders	External non-controlling interests			Total equity	
	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
Balance at 1 July 2019	128,164	2,101	12,438	142,703	343,438	19,067	362,505	505,208	32,927	13,233	46,160	551,368
Profit for the period	-	-	8,338	8,338	-	68,707	68,707	77,045	-	948	948	77,993
Total comprehensive income for the period	-	-	8,338	8,338	-	68,707	68,707	77,045	-	948	948	77,993
Equity settled share based payments expense	795	118	-	913	-	-	-	913	-	-	-	913
Dividends and distributions paid/accrued	-	-	(7,630)	(7,630)	-	(12,567)	(12,567)	(20,197)	-	(1,647)	(1,647)	(21,844)
Stapled securities issued	29,419	-	-	29,419	96,439	-	96,439	125,858	-	-	-	125,858
Cost of equity raising	(594)	-	-	(594)	(1,535)	-	(1,535)	(2,129)	-	-	-	(2,129)
Balance at 31 December 2019	157,784	2,219	13,146	173,149	438,342	75,207	513,549	686,698	32,927	12,534	45,461	732,159

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

Consolidated interim statement of changes in equity

For the half year ended
31 December 2018

	Centuria Capital Limited			Centuria Capital Fund (non-controlling interests)			Total attributable to Centuria Capital Group securityholders	External non-controlling interests			Total equity \$'000	
	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Contributed Total equity \$'000	Retained earnings \$'000	Total \$'000		Contributed equity \$'000	Retained earnings \$'000	Total \$'000		
Balance at 1 July 2018	98,770	1,896	28,005	128,671	244,930	18,183	263,113	391,784	32,927	16,450	49,377	441,161
Profit for the period	-	-	5,277	5,277	-	16,141	16,141	21,418	-	806	806	22,224
Total comprehensive income for the period	-	-	5,277	5,277	-	16,141	16,141	21,418	-	806	806	22,224
Equity settled share based payments expense	966	(236)	-	730	-	-	-	730	-	-	-	730
Dividends and distributions paid/accrued	-	-	(3,260)	(3,260)	-	(13,038)	(13,038)	(16,298)	-	(1,797)	(1,797)	(18,095)
Stapled securities issued	29,425	-	-	29,425	70,694	-	70,694	100,119	-	-	-	100,119
Cost of equity raising	(947)	-	-	(947)	(2,128)	-	(2,128)	(3,075)	-	-	-	(3,075)
Balance at 31 December 2018	128,214	1,660	30,022	159,896	313,496	21,286	334,782	494,678	32,927	15,459	48,386	543,064

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

Consolidated interim statement of cash flows

For the half year ended 31 December 2019

	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities		
Management fees received	38,936	16,823
Performance fees received	27,092	-
Rent received	10,219	10,468
Distributions received	16,713	19,989
Interest received	1,677	3,506
Other income	-	647
Interest paid	(5,975)	(7,887)
Income taxes paid	(5,019)	(1,076)
Payments to suppliers and employees	(42,889)	(34,192)
Applications - Benefits Funds	7,122	6,935
Redemptions - Benefits Funds	(17,532)	(16,822)
Net cash provided by/(used in) operating activities	30,344	(1,609)
Cash flows from investing activities		
Proceeds from sale of related party investments	31,573	1,783
Purchase of investments in related parties	(94,235)	(119,280)
Loans to related parties for purchase of properties	(11,800)	-
Cash on acquisition of Heathley Limited	4,140	-
Acquisition of Heathley Limited	(20,429)	-
Repayment of loans by related parties	11,800	-
Collections from reverse mortgage holders	893	411
Payments for property, plant and equipment	(1,545)	(402)
Payments in relation to investment properties	(12,481)	-
Purchase of other investments	(124)	(69,462)
Benefit Funds disposals of investments in financial assets	17,348	7,926
Cash contribution to related party	-	(20,000)
Purchase of equity accounted investments	(20,477)	(21,046)
Loans repaid by other parties	-	5,865
Proceeds from sale of investment property	-	22,600
Net cash used in investing activities	(95,337)	(191,605)
Cash flows from financing activities		
Proceeds from borrowings	732	100,400
Repayment of borrowings	(35,602)	(21,557)
Proceeds from issue of securities to securityholders of Centuria Capital Group	125,858	100,119
Equity raising costs paid	(2,129)	(3,070)
Capitalised borrowing costs paid	-	(1,730)
Distributions paid to securityholders of Centuria Capital Group	(19,180)	(12,497)
Distributions paid to external non-controlling interests	(1,647)	(3,279)
Net cash provided by financing activities	68,032	158,386
Net increase/(decrease) in cash and cash equivalents	3,039	(34,828)
Cash and cash equivalents at the beginning of the period	124,673	101,914
Cash and cash equivalents at end of period	127,712	67,086

The above consolidated interim 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 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-investments in property investment funds.

Statement of compliance

The consolidated interim financial statements for the half year ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial statements do not include all the notes of the type normally included in the annual financial report. Accordingly, this report should be read in conjunction with the annual consolidated financial statements for the year ended 30 June 2019 and any public announcements made by the Group during the half year reporting period in accordance with continuous disclosure requirements of the *Corporations Act 2001*.

Basis of preparation

The consolidated interim 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 investment property held for sale 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 consolidated interim financial statements. Amounts in the Directors' Report and consolidated interim 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 interim financial statements are consistent with those adopted in the previous financial year ended 30 June 2019 with the exception of the adoption of new accounting standards outlined below or in the relevant notes to the consolidated interim financial statements.

When the presentation or classification of items in the consolidated interim 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.

The Group has now accounted for its investments in Centuria Office REIT (COF) and Centuria Industrial REIT (CIP) as financial assets at fair value as the Group's ownership in these entities decreased below 20% during the period and significant influence was de-established. These investments were previously accounted for as equity accounted investments. Further details are included in Note E2.

The Group has applied new accounting standards and their impact is disclosed in Note A3.

A3 Adoption of new accounting standards and interpretations

New and amended accounting standards relevant to the Group as well as their impact on the Group's consolidated financial statements that are effective for the period are as follows:

(a) AASB 16 Leases

(i) Nature of change

AASB 16 was issued in February 2016. It will result in 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 lease liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

(ii) Impact as a lessee

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has two operating lease commitments, office leases at Level 41 Chifley Square, Sydney NSW and Level 32, 120 Collins Street, Melbourne VIC. The application of the new standard results in the recognition of a right of use asset along with a lease liability in the consolidated statement of financial position.

The adoption of the new standard required reclassifications on the consolidated statement of profit or loss and other comprehensive income with the lease repayments expense associated with this lease replaced with depreciation expense on the leased asset and an interest charge with respect to the lease liability. The changes on first time adoption of the new standard do not have a material impact on retained earnings, and the consolidated statement of profit or loss and other comprehensive income in future periods. Upon adoption of the new leasing standard effective 1 July 2019, lease assets increased by \$19,723,779 offset by a corresponding increase in lease liabilities of \$19,723,779 with no impact to net profit

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The average discount rate applied is 5.36%.

(iii) Impact as a lessor

The Group leases out its investment property and has classified these leases as operating leases. The Group is not required to make any adjustment on transition to AASB 16 for leases in which it acts as a lessor.

A4 Use of judgements and estimates

In preparing these consolidated interim 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.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those applied in the consolidated financial statements as at and for the year ended 30 June 2019.

A5 Segment summary

As at 31 December 2019 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 and rendering of services in social affordable housing developments.
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

In addition, the Group 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 financial assets, property and derivative financial instruments, share of equity accounted net profit in excess of distributions received 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 managed by the Group and consolidated under accounting standards. The Group's principal activities do not include direct ownership of these funds for the purpose of control and deriving rental income. Therefore the results attributable to the controlled property funds are excluded from operating profit. However, the performance management of the controlled property funds is included in operating profit, aligned with how performance of the business is assessed by management of the Group.
Eliminations	Elimination of transactions between the operating segments and the other three non-operating segments above, including transactions between the operating entities within the Group and the property funds controlled by the Group and the benefit funds.

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 half year 31 December 2019		Property Funds Management	Investment Bonds Management	Co- Investments	Corporate	Operating profit	Non operating items	Benefits Funds	Controlled Property Funds	Eliminations	Statutory profit
Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Management fees	25,636	5,010	-	-	30,646	-	-	-	-	(3,086)	27,560
Property acquisition fees	6,193	-	-	-	6,193	-	-	-	-	-	6,193
Property performance fees	21,529	-	-	-	21,529	-	-	-	-	-	21,529
Property sales fees	1,398	-	-	-	1,398	-	-	-	-	-	1,398
Interest revenue	56	31	263	1,507	1,857	-	1,494	16	(59)	3,308	
Development revenue	1,967	-	-	-	1,967	-	-	-	-	1,967	
Rental income	-	-	-	276	276	-	-	6,924	-	7,200	
Recoverable outgoings	-	-	-	-	-	-	-	2,115	-	2,115	
Distribution/dividend revenue	-	-	15,391	-	15,391	(9,063)	1,562	-	(1,409)	6,481	
Premiums - discretionary participation features	-	-	-	-	-	-	1,019	-	-	1,019	
Other income	550	114	-	5	669	-	64	35	-	768	
Total Revenue	B2	57,329	5,155	15,654	1,788	79,926	(9,063)	4,139	9,090	(4,554)	79,538
Share of profit from associates and joint venture partnership	E2	-	-	-	-	-	8,935	461	-	-	9,396
Net movement in policyholder liabilities		-	-	-	-	-	-	7,648	-	-	7,648
Fair value movements of financial instruments and property		-	-	-	-	-	38,316	4,945	(2,498)	3,349	44,112
Expenses	B3	(18,246)	(3,829)	(330)	(6,564)	(28,969)	(1,659)	(15,460)	(4,471)	3,086	(47,473)
Finance costs	B4	(7)	(2)	(6,886)	(791)	(7,686)	(451)	(2)	(1,476)	59	(9,556)
Profit/(Loss) before tax		39,076	1,324	8,438	(5,567)	43,271	36,078	1,731	645	1,940	83,665
Income tax benefit/(expense)		(12,220)	(443)	(425)	3,223	(9,865)	5,924	(1,731)	-	-	(5,672)
Profit/(Loss) after tax		26,856	881	8,013	(2,344)	33,406	42,002	-	645	1,940	77,993
Profit/(Loss) after tax attributable to:											
Centuria Capital Limited		26,856	881	368	(7,391)	20,714	(12,376)	-	-	-	8,338
Centuria Capital Fund		-	-	7,645	5,047	12,692	54,378	-	-	1,637	68,707
Profit/(Loss) after tax attributable to Centuria Capital Group Securityholders		26,856	881	8,013	(2,344)	33,406	42,002	-	-	1,637	77,045
Non-controlling interests		-	-	-	-	-	-	-	645	303	948
Profit/(Loss) after tax		26,856	881	8,013	(2,344)	33,406	42,002	-	645	1,940	77,993

Business performance

B1 Segment profit and loss (continued)

For the half year 31 December 2018	Notes	Property Funds Management \$'000	Investment Bonds Management \$'000	Co- Investments \$'000	Corporate \$'000	Operating profit \$'000	Non operating items \$'000	Controlled Benefits Funds \$'000	Property Funds \$'000	Eliminations \$'000	Statutory profit \$'000
Management fees		19,335	5,067	-	-	24,402	-	-	-	(3,904)	20,498
Property acquisition fees		40	-	-	-	40	-	-	-	-	40
Property performance fees		9,557	-	-	-	9,557	-	-	-	-	9,557
Property sales fees		226	-	-	-	226	-	-	(226)	-	-
Interest revenue		250	44	82	1,415	1,791	-	3,024	21	(71)	4,765
Rental income		-	-	-	-	-	-	-	8,028	-	8,028
Recoverable outgoings		-	-	-	-	-	-	-	2,108	-	2,108
Distribution/dividend revenue		-	-	14,696	-	14,696	(8,296)	1,761	-	(277)	7,884
Premiums - discretionary participation features		-	-	-	-	-	-	921	-	-	921
Other income		405	79	646	11	1,141	-	34	82	-	1,257
Total revenue	B2	29,813	5,190	15,424	1,426	51,853	(8,296)	5,740	10,013	(4,252)	55,058
Share of net profit of equity accounted investments	E2	-	-	-	-	-	11,032	785	-	-	11,817
Net movement in policyholder liabilities		-	-	-	-	-	-	15,824	-	-	15,824
Fair value movements of financial instruments and property		-	-	-	-	-	879	(8,940)	(22)	242	(7,841)
Expenses	B3	(9,348)	(3,431)	(29)	(6,498)	(19,306)	(5,346)	(15,946)	(6,266)	3,904	(42,960)
Finance costs	B4	-	-	(6,156)	(964)	(7,120)	-	(2)	(2,706)	71	(9,757)
Profit/(Loss) before tax		20,465	1,759	9,239	(6,036)	25,427	(1,731)	(2,539)	1,019	(35)	22,141
Income tax benefit/(expense)		(6,323)	(544)	(38)	3,179	(3,726)	1,270	2,539	-	-	83
Profit/(Loss) after tax		14,142	1,215	9,201	(2,857)	21,701	(461)	-	1,019	(35)	22,224
Profit/(loss) after tax attributable to:											
Centuria Capital Limited		14,142	1,215	139	(7,136)	8,360	(3,083)	-	-	-	5,277
Centuria Capital Fund		-	-	9,062	4,279	13,341	2,622	-	213	(35)	16,141
Profit/(loss) after tax attributable to Centuria Capital Group securityholders		14,142	1,215	9,201	(2,857)	21,701	(461)	-	213	(35)	21,418
Non-controlling interests		-	-	-	-	-	-	-	806	-	806
Profit/(loss) after tax		14,142	1,215	9,201	(2,857)	21,701	(461)	-	1,019	(35)	22,224

Business performance

B2 Revenue

Revenue has been disaggregated in the segment profit and loss in Note B1.

(a) Performance fees

The Group receives a performance fee for providing management services where the property fund outperforms a set IRR benchmark at the time the property is sold.

Consideration is due upon successful sale of the investment property if the performance hurdles are satisfied.

In assessing the timing and measurement of performance fees to be recognised, consideration is 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 are only 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.

The Group's performance fees are recognised over-time under AASB 15 Revenue from Contracts with Customers.

The key assumptions made in estimating the amount of performance fee revenue that is highly probable include:

2 years from forecast fund end date: Management's model assumes that the highly probable threshold is only met when the forecast end date of the fund is within two years from balance date. The forecast end date is based on the PDS end date or a revised fund end date in the event that an alternative strategy is being undertaken by the Group.

Probability thresholds for sensitivity to property valuations: The level of constraint applied to performance fee revenue is adjusted depending on remaining fund tenure. Specifically, a discount in property values between 10.0% to 20.0% is applied, depending on when in the two-year window the fund is expected to wind up.

Fair value of investment properties: The fair value of investment properties is based on the latest available valuation of the underlying property from the published financial statements or board approved valuations.

(i) Transaction price allocated to remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	Recognised in half-year ended 31 December 2019 \$'000	Balance of unrecognised performance obligations \$'000
Property performance fee*	21,529	2,425
Development revenue	1,967	69,107
Management fees**	7,944	31,162

* The underlying property funds managed by the Group have accrued total performance fees of \$51,715,000 as at 31 December 2019. Based on the assumptions outlined in B2(a), the total estimated amount of performance fees available to the Group to recognise is \$35,345,000 (constrained amount) of which \$32,920,000 has been recognised life to date and \$21,529,000 was recognised during the half year ended 31 December 2019 leaving a balance of unrecognised performance fees of \$2,425,000.

** Only relates to unlisted property funds management fees which have defined fund terms.

Business performance

B2 Revenue (continued)

(b) Transactions with related parties

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

	31 December 2019	31 December 2018
	\$	\$
Management fees from Property Funds managed by Centuria	25,119,968	18,702,520
Distributions from Property Funds managed by Centuria	4,190,094	1,772,316
Property acquisition fees from Property Funds managed by Centuria	6,193,114	40,398
Performance fees from Property Funds managed by Centuria	21,528,921	9,557,000
Management fees from Over Fifty Guardian Friendly Society	2,307,374	1,795,415
Sales fees from Property Funds managed by Centuria	1,398,193	-
Interest income on loans to Property Funds managed by Centuria	229,297	36,958
Fees from Debt funds managed by Centuria	408,358	403,836
Distributions and interest from Debt Funds managed by Centuria	-	78,000
Sub-underwriting fees in relation to listed Property funds managed by Centuria	-	647,400
	61,375,319	33,033,843

B3 Expenses

	31 December 2019	31 December 2018
	\$'000	\$'000
Employee benefits expense	17,254	12,854
Consulting and professional fees	2,355	1,873
Property outgoings and fund expenses	3,431	4,786
Transaction costs	1,035	5,138
Administration fees	1,896	943
Cost of sales - development	1,330	-
Claims - discretionary participation features	12,890	12,724
Property management fees paid	1,053	150
Depreciation Expense	1,332	235
Other expenses	4,897	4,257
	47,473	42,960

(a) 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 half 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 \$363,000 (inclusive of GST) (31 December 2018: \$390,500) for corporate advisory fees.
- Tailwind Consulting Pty Ltd, a related party of Mr John R. Slater, was paid \$137,498 (inclusive of GST) (31 December 2018: \$137,496) for consultancy services. In addition, Tailwind Consulting paid the Group \$2,640 (inclusive of GST) (31 December 2018: \$2,640) for rental of office space.

Business performance

B4 Finance costs

	31 December 2019 \$'000	31 December 2018 \$'000
Operating interest charges	6,188	5,806
Bank loans in Controlled Property Funds interest charges	1,477	2,706
Reverse mortgage facility interest charges	1,029	950
Fair value loss on derivatives	1,588	302
Fair value gain on financial assets	(1,588)	(302)
Finance lease interest	451	-
Other finance costs	411	295
	9,556	9,757

B5 Dividends and distributions

	31 December 2019		31 December 2018	
	Cents per security	Total \$'000	Cents per security	Total \$'000
Dividends/distributions paid during the half year				
Final year-end dividend (fully franked)	0.50	1,918	1.00	3,048
Final year-end distribution	4.50	17,262	3.10	9,449
Dividends/distributions declared during the half year				
Interim dividend (fully franked) ⁽ⁱ⁾	1.70	7,630	0.85	3,260
Interim distribution ⁽ⁱ⁾	2.80	12,567	3.40	13,038
Dividends and distributions paid/declared to Centuria Capital Group securityholders ⁽ⁱⁱ⁾	9.50	39,377	8.35	28,795

⁽ⁱ⁾ The Group declared a dividend/distribution in respect of the half year ended 31 December 2019 of 4.50 cents per stapled security which included a dividend of 1.70 cents per share and a distribution of 2.80 cents per security. The final dividend/distribution had a record date of 31 December 2019 and was paid on 31 January 2020. The total amount payable of \$20,197,000 has been provided as a liability in these financial statements.

⁽ⁱⁱ⁾ In addition to the dividends and distributions paid to Centuria Capital Group securityholders, the Group paid distributions of \$1,647,000 to external non-controlling Interests.

C Assets and liabilities

C1 Segment balance sheet

As at 31 December 2019	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
Assets										
Cash and cash equivalents		37,781	6,354	29,790	10,878	84,803	39,168	3,741	-	127,712
Receivables	C2	43,625	1,666	22,281	1,312	68,884	6,450	(56)	(330)	74,948
Financial assets	C3	-	-	549,565	54,485	604,050	298,950	-	(45,208)	857,792
Other assets		163	215	124	6,023	6,525	-	31	-	6,556
Investment properties	C5	-	-	-	-	-	-	163,201	-	163,201
Right of use asset		-	-	-	18,868	18,868	-	-	-	18,868
Intangible assets	C6	191,678	-	-	-	191,678	-	-	-	191,678
Investment properties held for sale		-	-	-	-	-	-	23,500	-	23,500
Total assets		273,247	8,235	601,760	91,566	974,808	344,568	190,417	(45,538)	1,464,255
Liabilities										
Payables	C8	10,885	1,206	15,402	15,656	43,149	3,275	6,601	(330)	52,695
Provisions		1,171	-	-	1,158	2,329	-	-	-	2,329
Borrowings	C9	-	-	168,304	7,592	175,896	-	95,041	(2,000)	268,937
Interest rate swap at fair value		-	-	-	28,337	28,337	-	763	-	29,100
Benefit Funds policy holders' liability		-	-	-	-	-	334,731	-	-	334,731
Provision for income tax		2,420	-	-	2,610	5,030	3,397	-	-	8,427
Deferred tax liability		(2,001)	(110)	-	(780)	(2,891)	3,165	-	-	274
Call/Put option liability		-	-	-	16,356	16,356	-	-	-	16,356
Lease liability		-	-	-	19,247	19,247	-	-	-	19,247
Total liabilities		12,475	1,096	183,706	90,176	287,453	344,568	102,405	(2,330)	732,096
Net assets		260,772	7,139	418,054	1,390	687,355	-	88,012	(43,208)	732,159

Assets and liabilities

C1 Segment balance sheet (continued)

As at 30 June 2019	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
Assets										
Cash and cash equivalents		13,193	6,289	62,817	5,460	87,759	32,123	4,791	-	124,673
Receivables	C2	37,940	947	22,181	4,658	65,726	5,979	(460)	(1,383)	69,862
Other assets		46	248	-	5,447	5,741	-	-	-	5,741
Financial assets	C3	-	-	58,540	53,720	112,260	283,794	-	(39,940)	356,114
Equity accounted investments		-	-	360,400	-	360,400	26,313	-	-	386,713
Investment properties	C5	-	-	-	-	-	-	177,500	-	177,500
Intangible assets	C6	157,663	-	-	-	157,663	-	-	-	157,663
Total assets		208,842	7,484	503,938	69,285	789,549	348,209	181,831	(41,323)	1,278,266
Liabilities										
Payables	C8	2,540	469	20,060	12,599	35,668	2,962	4,985	(1,383)	42,232
Provisions		858	-	-	1,020	1,878	-	-	-	1,878
Borrowings	C9	-	-	202,607	8,194	210,801	-	94,309	(2,000)	303,110
Interest rate swap at fair value		-	-	-	28,083	28,083	-	731	-	28,814
Benefit Funds policy holders' liability		-	-	-	-	-	339,557	-	-	339,557
Provision for income tax		2,420	-	-	(2,345)	75	738	-	-	813
Deferred tax liability		7,817	(204)	5,615	(7,686)	5,542	4,952	-	-	10,494
Total liabilities		13,635	265	228,282	39,865	282,047	348,209	100,025	(3,383)	726,898
Net assets		195,207	7,219	275,656	29,420	507,502	-	81,806	(37,940)	551,368

Assets and liabilities

C2 Receivables

	31 December	30 June
	2019	2019
	\$'000	\$'000
Receivables from related parties (refer to note C2(a))	49,740	51,708
Other receivables	11,451	10,846
Contract assets	13,757	7,308
	74,948	69,862

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 period:

	31 December	30 June
	2019	2019
	\$	\$
Recoverable expenses owing from property funds managed by Centuria	1,683,621	1,404,810
Management fees owing from property funds managed by Centuria	4,934,737	4,324,197
Performance fees owing from property funds managed by Centuria	18,690,138	22,296,386
Acquisition fee receivable from Centuria Diversified Property Fund	1,438,800	-
Receivable from Over Fifty Guardian Friendly Society	962,192	435,035
Receivables from debt funds managed by Centuria	-	378,571
Sales fees owing from property funds managed by Centuria	-	985,000
Redemption funds receivable from related party funds	15,083,264	16,000,000
Distribution receivable from related party funds	6,946,829	5,884,154
	49,739,581	51,708,153

C3 Financial assets

	31 December	30 June
	2019	2019
	\$'000	\$'000
Investments in trusts, shares and other financial instruments at fair value	265,199	281,757
Investment in related party unit trusts at fair value (refer to Note C3(a))	531,731	14,571
Loans receivable from other parties	6,378	6,066
Reverse mortgage receivables ⁽ⁱ⁾	54,484	53,720
	857,792	356,114

⁽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.

	31 December 2019			30 June 2019		
	Fair value \$	Units held	Ownership %	Fair value \$	Units held	Ownership %
Financial assets held by the Group						
Centuria Industrial REIT*	227,382,731	68,078,662	19.6	-	-	-
Centuria Office REIT*	227,050,761	78,293,366	15.3	-	-	-
Centuria Diversified Property Fund	17,866,257	12,401,095	15.8	11,591,312	8,060,718	14.9
Centuria Scarborough House Fund	102,826	102,826	0.2	102,826	102,826	0.2
Centuria 348 Edward Street Fund	4,925,258	4,925,258	8.6	-	-	-
Centuria Heathley Aged Care Property Fund No.1	5,590,749	5,513,559	9.2	-	-	-
Centuria Heathley Direct Medical Fund No.2	12,320,257	11,886,701	8.1	-	-	-
Nexus Property Unit Trust	2,230,000	2,230,000	59.0	-	-	-
Australian Diversified Health Fund	2,336,252	2,685,347	6.0	-	-	-
	<u>499,805,091</u>			<u>11,694,138</u>		
Financial assets held by the Benefit Funds						
Centuria SOP Fund	1,080,000	1,000,000	3.3	1,026,800	1,000,000	3.3
Centuria Office REIT*	27,214,754	9,384,398	1.8	-	-	-
Centuria Industrial REIT*	3,631,335	1,087,226	0.3	-	-	-
Centuria Iskia Development Fund	-	-	-	1,850,000	1,850,000	15.8
	<u>31,926,089</u>			<u>2,876,800</u>		
	<u>531,731,180</u>			<u>14,570,938</u>		

* These investments which were previously equity accounted are now held as related party investments for the half year ended 31 December 2019. See Note E2 for details. Also, see below for a movement of the related party unit trusts during the half year.

Assets and liabilities

C3 Financial assets (continued)

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

	31 December 2019 \$	30 June 2019 \$
Related party unit trusts carried at fair value through profit and loss		
Opening balance	14,571	228,109
Investment purchases	93,749	139,424
Return of investment	(13,573)	(5,895)
Disposal	(18,933)	(16,000)
Fair value (loss)/gain	(8,889)	2,693
Transfer from non-related party financial assets	2,800	-
Carrying value transferred from/(to) equity accounted investments	407,003	(333,760)
Fair value gain on discontinuing equity accounted investments	55,003	-
	531,731	14,571

C4 Investment properties held for sale

During the period, the Group decided to sell the investment property within Centuria Retail Fund and therefore City Centre Plaza, Rockhampton has been classified as held for sale as at 31 December 2019. This property was subsequently sold on 15 January 2020.

	31 December 2019 \$'000	30 June 2019 \$'000
Property		
City Centre Plaza, Rockhampton Qld	23,500	-
	23,500	-

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).

C5 Investment properties

	31 December 2019 \$'000	30 June 2019 \$'000
Opening balance	177,500	147,100
Acquisition of investment properties	8,201	-
Capital improvements and associated costs	3,535	1,726
Loss on fair value	(2,466)	(10,705)
Change in deferred rent and lease incentives	(69)	(621)
Transfer (to)/from investment properties held for sale	(23,500)	40,000
	163,201	177,500

The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$9,402,000 (30 June 2019: \$12,000,000).

Assets and liabilities

C5 Investment properties (continued)

Property	31 December 2019 \$'000	30 June 2019 \$'000	31 December 2019 Capitalisation rate %	31 December 2019 Discount rate %	31 December 2019 valuer
111 St George Terrace, Perth WA	155,000	150,000	6.8	7.0	Directors
City Centre Plaza, Rockhampton Qld	-	27,500	-	-	-
120 and 122 Spencer St, South Bunbury WA*	8,201	-	5.5	-	Colliers
	<u>163,201</u>	<u>177,500</u>			

* No discount rate applicable as only capitalisation approach adopted for 120 and 122 Spencer St, South Bunbury valuation.

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 valuation company 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.

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.

The most significant unobservable input used in the above valuation techniques and its relationship with fair value measurement is the capitalisation rate. The higher/lower the rate, the lower/higher fair value.

(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).

Assets and liabilities

C6 Intangible assets

	31 December 2019 \$'000	30 June 2019 \$'000
Goodwill	99,550	65,535
Indefinite life management rights	92,128	92,128
	191,678	157,663
	31 December 2019 \$'000	30 June 2019 \$'000
Opening balance	157,663	157,663
Acquired goodwill	34,015	-
	191,678	157,663

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.

C7 Right of use asset/Lease liability

The Group has two operating lease commitments, office leases at Level 41 Chifley Square, Sydney NSW and Level 32, 120 Collins Street, Melbourne VIC. The application of the new standard results in the recognition of a right of use asset along with a lease liability in the consolidated statement of financial position.

The Chifley Square lease has a contract length of 10 years with a 5 year extension option and lease payments increasing at an annual rate of 4.00%.

The Collins Street lease has a contract length of 5 year with fixed annual rent increases of 3.75%.

Information about leases for which the Group is a lessee is presented below.

Right of use asset

	31 December 2019 \$'000	30 June 2019 \$'000
Opening balance	19,724	-
Depreciation on right of use asset	(856)	-
	18,868	-

Lease liability

Total interest on lease liabilities and cash outflow for the half year ended 31 December 2019 was \$451,000 and \$928,000 respectively.

	31 December 2019 \$'000	30 June 2019 \$'000
Opening balance	19,724	-
Cash lease payments	(928)	-
Finance lease interest	451	-
	19,247	-

Assets and liabilities

C8 Payables

	31 December 2019 \$'000	30 June 2019 \$'000
Sundry creditors ⁽ⁱ⁾	21,051	13,869
Dividend/distribution payable	20,197	19,180
Accrued expenses	11,447	9,183
	52,695	42,232

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

C9 Borrowings

	31 December 2019 \$'000	30 June 2019 \$'000	
Fixed rate secured notes	93,000	128,000	C9(a)
Floating rate secured notes	75,000	75,000	C9(a)
Reverse mortgage bill facilities and notes	7,592	8,194	C9(b)
Bank loans in Controlled Property Funds	95,041	94,309	C9(c)
Borrowing costs capitalised	(1,696)	(2,393)	
	268,937	303,110	

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 Centuria Capital Fund. \$35,000,000 of the 7% fixed corporate notes were repaid in October 2019.

The Group issued Tranche 3 of secured corporate notes to the value of \$80,000,000 on 22 October 2018. This consisted of an issue of \$35,000,000 floating rate secured notes and \$45,000,000 6.5% fixed rate secured notes. These notes mature on 21 April 2023 and are secured against assets within certain subsidiaries of Centuria Capital Fund.

(b) Reverse mortgage bill facilities and notes (secured)

As at 31 December 2019, the Group had \$7,592,307 (30 June 2019: \$8,193,858) 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) currently due to mature on 30 September 2020.

The facility limit is \$9,100,000 (30 June 2019: \$9,100,000) and is reassessed every 6 to 12 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.

	31 December 2019 \$'000	30 June 2019 \$'000
Facility	9,100	9,100
Amount used at reporting date	(7,592)	(8,194)
Amount unused at reporting date	1,508	906

Assets and liabilities

C9 Borrowings (continued)

(c) 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	Total \$'000
31 December 2019							
Centuria 111 St Georges Terrace Fund	Non-current	30 June 2022 31 December	90,000	9,681	80,319	(216)	80,103
Centuria Retail Fund	Current	2019*	14,938	-	14,938	-	14,938
							95,041
30 June 2019							
Centuria 111 St Georges Terrace Fund	Non-current	30 June 2022 31 December	90,000	10,521	79,479	(107)	79,372
Centuria Retail Fund	Current	2019	14,938	-	14,938	(1)	14,937
							94,309

* The debt facility for Centuria Retail Fund matured on 31 December 2019 however, with the sale of City Centre Plaza, Rockhampton, QLD, the facility was extended to 15 January 2020.

C10 Contributed equity

Centuria Capital Limited	31 December 2019		30 June 2019	
	No. of securities	\$'000	No. of securities	\$'000
Opening balance	383,557,332	128,164	304,793,174	98,770
Equity settled share based payments expense	1,579,430	795	1,747,653	966
Stapled securities issued	63,702,265	29,419	77,016,505	29,425
Cost of equity raising	-	(594)	-	(997)
	448,839,027	157,784	383,557,332	128,164
Centuria Capital Fund (non-controlling interests)	31 December 2019		30 June 2019	
	No. of securities	\$'000	No. of securities	\$'000
Opening balance	383,557,332	343,438	304,793,174	244,930
Equity settled share based payments expense	1,579,430	-	1,747,653	-
Stapled securities issued	63,702,265	96,439	77,016,505	70,694
Special non-cash dividend/capital reallocation ⁽ⁱ⁾	-	-	-	30,000
Cost of equity raising	-	(1,535)	-	(2,186)
	448,839,027	438,342	383,557,332	343,438

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. During the half year ended 31 December 2019 10,049,235 of these options were exercised.

⁽ⁱ⁾ On 29 June 2019, a non-cash dividend was paid by Centuria Capital Limited of \$30,000,000 which was reinvested as capital into Centuria Capital Fund.

C11 Commitments and contingencies

(a) Contingencies

The Group has provided bank guarantees of \$3,279,301 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.

At 31 December 2019, the Group was committed to expenditure of \$8,946,478 (excluding GST) in relation to development authority.

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 at the date of completion of this report.

D Cash flows

D1 Operating segment cash flows ⁽ⁱ⁾

For the half year ended 31 December 2019

	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities		
Management fees received	45,661	24,850
Performance fees received	27,092	-
Distributions received	14,350	11,536
Interest received	226	531
Other income received	276	647
Payments to suppliers and employees	(41,916)	(29,279)
Income tax paid	(4,160)	(555)
Interest paid	(4,589)	(5,145)
Net cash provided by operating activities	36,940	2,585
Cash flows from investing activities		
Repayment of loans by related parties	11,800	5,865
Collections from reverse mortgage holders	893	411
Purchase of investments in related parties	(102,874)	(113,579)
Purchase of other investments	(124)	(69,462)
Payments for plant and equipment	(1,545)	(402)
Loans to related parties for purchase of properties	(11,800)	-
Cash contribution to related party	-	(20,000)
Purchase of equity accounted investments	(20,477)	(20,838)
Proceeds from sale of related party investments	31,573	1,783
Acquisition of Heathley	(20,429)	-
Cash on acquisition of Heathley	4,140	-
Net cash used in investing activities	(108,843)	(216,222)
Cash flows from financing activities		
Proceeds from issue of securities	125,858	100,119
Proceeds from borrowings	-	100,400
Repayment of borrowings	(35,602)	(87)
Equity raising costs paid	(2,129)	(3,070)
Distributions paid	(19,180)	(12,497)
Capitalised borrowing costs paid	-	(1,724)
Net cash provided by financing activities	68,947	183,141
Net (decrease) in operating cash and cash equivalents	(2,956)	(30,496)
Cash and cash equivalents at the beginning of the period	87,759	76,389
Cash and cash equivalents at the end of the period	84,803	45,893

(i) The operating segment cash flows support the segment note disclosures of the Centuria Capital Limited 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 10 of the consolidated interim financial statements for the full statutory cash flow statement of the Group.

E Group Structure

E1 Business combination

(a) Current period

On 20 May 2019, the Group announced the purchase of a 63% economic interest and 50% voting interest in Centuria Heathley Limited (formerly Heathley Limited) for \$24.4m. The completion of the transaction was subject to Centuria Heathley shareholders convening a meeting and voting to approve the transaction in addition to other items. This vote was passed during the meeting held on 19 July 2019 and settlement was completed 5 September 2019.

The Group is assessed to have control over Centuria Heathley from the time the shareholder vote was passed and on the basis of materiality and ease of determining definite periods, the Group has consolidated Centuria Heathley from 1 July 2019. As a result, impacts of the acquisition have been recognised in the Group's financial statements as at 31 December 2019.

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

	31 December 2019 \$'000
Purchase consideration	
Cash consideration for 63% paid on 4 September 2019	24,439
Contingent consideration - Present value of call/ put option liability(ii)	16,356
Total purchase consideration	40,795
Less: Balances acquired	
Fair value of net assets as at 30 June 2019	6,780
Goodwill	34,015

The acquired goodwill represents the knowledge and experience of Centuria Heathley management and access to growth opportunities in the healthcare property sector.

(i) Transaction related costs

Transaction related costs of \$546,000 were incurred of which \$500,000 were accrued in the profit and loss for the year ended 30 June 2019 and an additional \$46,000 were expensed in the profit and loss for the half year ending 31 December 2019.

(ii) Contingent consideration

The contingent consideration relates to a put and call option over remaining stakes in Centuria Heathley held by management shareholders to be exercised and settled in cash five years from the date of completion of the acquisition. The sale price will be calculated on a valuation of 10x EBIT plus NTA at the time of exercise.

As a result of this option, the Group will apply the anticipated-acquisition method as it has the right and the obligation to purchase any remaining non-controlling interest (so-called put/call arrangement). Under the anticipated acquisition method, the interests of the non-controlling shareholder are recognised as a financial liability relating to the purchase of its shares. The recognition of the financial liability implies that the interests subject to the purchase are deemed to have been acquired already (meaning no non-controlling or outside equity interests are recognised). Therefore, the corresponding interests are presented as already owned by the entity even though legally they are still non-controlling interests. The initial measurement of the fair value of the financial liability recognised by the entity forms part of the contingent consideration for the acquisition.

Group Structure

E2 Interests in associates

During the half year, the Group's investment in Centuria Office REIT (COF) and Centuria Industrial REIT (CIP) dropped below 20% and the Group no longer has significant influence over COF and CIP. As a result, these investments which were previously accounted for the equity method, are now recognised as financial assets at fair value as at 31 December 2019.

Set out below are the associates of the Group as at 30 June 2019 which, in the opinion of the Directors, were material to the Group and were accounted for using the equity method. The entities listed below have share capital consisting solely of ordinary units, which are held directly by the Group. The country of incorporation or registration is Australia which is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

	% of ownership interest 30 June 2019 %	Principal activity	Quoted fair value 30 June 2019 \$'000	Carrying amount 30 June 2019 \$'000
Centuria Office REIT	20.8	Property investment	207,104	203,435
Centuria Industrial REIT	24.2	Property investment	200,138	183,278
			407,242	386,713

The below table shows the movement in carrying amounts of equity accounted investments from 1 July 2019 to 31 December 2019.

	Centuria Office REIT \$'000	Centuria Industrial REIT \$'000	Total \$'000
Movements in carrying amounts of equity accounted investments			
Opening balance	203,435	183,278	386,713
Investment	7,500	12,976	20,476
Share of net profit after tax	2,785	6,611	9,396
Distributions received/receivable	(3,291)	(6,291)	(9,582)
Carrying value transferred from/ (to) financial assets	(210,429)	(196,574)	(407,003)
	-	-	-

The below table shows the movement in carrying amounts of equity accounted investments from 1 July 2018 to 30 June 2019.

	Centuria Office REIT \$'000	Centuria Industrial REIT \$'000	Total \$'000
Movements in carrying amounts of equity accounted investments			
Opening balance	-	-	-
Carrying value transferred from/ (to) financial assets	179,736	154,024	333,760
Investment	20,000	23,960	43,960
Share of net profit after tax	13,369	16,844	30,213
Distributions received/receivable	(9,670)	(11,550)	(21,220)
	203,435	183,278	386,713

(a) Summarised financial information for associates

The tables below provide summarised financial information for those associates that were material to the Group. The information disclosed reflects the amounts presented in the consolidated interim financial statements of the relevant associates and not the Group share of those amounts.

Group Structure

E2 Interests in associates (continued)

(a) Summarised financial information for associates (continued)

	Centuria Office REIT	Centuria Industrial REIT	Total
	30 June 2019 \$'000	30 June 2019 \$'000	30 June 2019 \$'000
Summarised balance sheet			
Cash and cash equivalents	17,546	9,348	26,894
Other current assets	5,544	9,144	14,688
Investment properties held for sale	78,500	11,400	89,900
Total current assets	101,590	29,892	131,482
Investment properties	1,321,475	1,209,850	2,531,325
Total tangible non-current assets	1,321,475	1,209,850	2,531,325
Other current liabilities	30,451	28,724	59,175
Total current liabilities	30,451	28,724	59,175
Borrowings	497,222	468,431	965,653
Other non-current liabilities	7,180	3,541	10,721
Total non-current liabilities	504,402	471,972	976,374
Net tangible assets	888,212	739,046	1,627,258
Group share in %	20.76%	24.15%	
Group share	184,392	178,544	362,936
Goodwill	19,043	4,734	23,777
Carrying amount	203,435	183,278	386,713

Group Structure

E2 Interests in associates (continued)

(a) Summarised financial information for associates (continued)

	Centuria Office REIT	Centuria Industrial REIT	Total
	30 June 2019 \$'000	30 June 2019 \$'000	30 June 2019 \$'000
Summarised statement of comprehensive income			
Revenue	108,859	93,863	202,722
Interest income	334	195	529
Net gain on fair value of investment properties	7,143	53,808	60,951
Finance costs	(22,110)	(21,496)	(43,606)
Other expenses	(33,910)	(34,563)	(68,473)
Other income	8	602	610
Loss on fair value of derivative financial instruments	(6,752)	(3,581)	(10,333)
Profit from continuing operations	53,572	88,828	142,400
Profit for the period	53,572	88,828	142,400
Other comprehensive income	-	-	-
Total comprehensive income	53,572	88,828	142,400

F Other

F1 Fair value of financial instruments

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.

31 December 2019	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash and cash equivalents	Amortised cost	Not applicable	127,712	127,712
Receivables	Amortised cost	Not applicable	74,948	74,948
Financial assets	Fair value	Level 1	726,486	726,486
Financial assets	Fair value	Level 2	75,627	75,627
Financial assets - mortgage backed assets	Fair value	Level 3	1,195	1,195
Reverse mortgages receivables	Fair value	Level 3	54,484	54,484
			<u>1,060,452</u>	<u>1,060,452</u>

Financial liabilities

Payables	Amortised cost	Not applicable	52,695	52,695
Benefit Funds policy holders' liability	Amortised cost	Not applicable	334,731	334,731
Borrowings (net of borrowing costs)	Amortised cost	Not applicable	268,937	272,114
Interest rate swaps - controlled property funds	Fair value	Level 2	484	484
Interest rate swaps - reverse mortgage fixed-for-life	Fair value	Level 3	28,616	28,616
			<u>685,463</u>	<u>688,640</u>

30 June 2019	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash and cash equivalents	Amortised cost	Not applicable	124,673	124,673
Receivables	Amortised cost	Not applicable	69,862	69,862
Financial assets	Fair value	Level 1	252,883	252,883
Financial assets	Fair value	Level 2	48,296	48,296
Financial assets - mortgage backed assets	Fair value	Level 3	1,215	1,215
Reverse mortgages receivables	Fair value	Level 3	53,720	53,720
			<u>550,649</u>	<u>550,649</u>

F1 Fair value of financial instruments (continued)

30 June 2019	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
Financial liabilities				
Payables	Amortised cost	Not applicable	42,232	42,232
Benefit Funds policy holders' liability	Amortised cost	Not applicable	339,557	339,557
Borrowings (net of borrowing costs)	Amortised cost	Not applicable	303,110	309,624
Interest rate swaps - controlled property funds	Fair value	Level 2	731	731
Interest rate swaps - reverse mortgage fixed-for-life	Fair value	Level 3	28,083	28,083
			<u>713,713</u>	<u>720,227</u>

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.

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

Half year ended 31 December 2019	Other mortgage backed assets at fair value \$'000	Reverse mortgages fair value \$'000	Fixed-for-life interest rate swaps \$'000	Total \$'000
Opening balance	1,215	53,720	(28,083)	26,852
Loan repaid	(20)	(1,111)	260	(871)
Accrued interest	-	1,534	(857)	677
Attributable to interest rate and other risk	-	534	1,588	2,122
Attributable to credit risk	-	(193)	(1,524)	(1,717)
	<u>1,195</u>	<u>54,484</u>	<u>(28,616)</u>	<u>27,063</u>

Year ended 30 June 2019	Other mortgage backed assets at fair value \$'000	Reverse mortgages fair value \$'000	Fixed-for-life interest rate swaps \$'000	Total \$'000
Opening balance	1,215	48,059	(22,939)	26,335
Loan repaid	-	(1,379)	227	(1,152)
Accrued interest	-	2,956	(1,495)	1,461
Attributable to interest rate and other risk	-	5,061	(7,211)	(2,150)
Attributable to credit risk	-	(977)	3,335	2,358
	<u>1,215</u>	<u>53,720</u>	<u>(28,083)</u>	<u>26,852</u>

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. A discounted cash flow model is used for fair valuation using expected net cash flows and a discount factor derived from a 20-year yield curve, with the yield curve rates at 20 years employed as the best proxy over the remaining life expectancy of the borrowers.

F1 Fair value of financial instruments (continued)

Key estimates and judgements (continued)

Assumptions and inputs used for valuation of reverse mortgage loan receivables:

- The loan interest compounding period is the expected remaining life of the borrower;
- Mortality rates for males and females have been assumed to be consistent with 2013-2015 Life Tables;
- The compound interest rate is the fixed interest rate of the loan applied from commencement of the loan to the point in time where the loan carrying value including accrued interest equals the expected recoverable value of the secured property. After that point in time, the loan compounding rate is reduced to equal the estimated long term residential property growth rate on the grounds that any excess fixed interest accrued over and above the expected value of the property will not be recoverable;
- For 31 December 2019 valuation, the assumed property growth rates are 0% p.a for calendar year 2020, 1% p.a for calendar year 2021, which revert to an assumed flat 3% long term growth rate from calendar year 2022 onwards;
- Discount factors are calculated based on the market quoted long term rates on 31 December 2019;
- A 1% flat credit risk premium, reflecting the portfolio default profile as at 31 December 2019, is added to the cash flow discount factor.

Assumptions and inputs used for valuation of the 50-year interest rate swaps:

- Mortality rates for males and females have been assumed to be consistent with 2013-2015 Life Tables. The improvement factor tapers down to 1% p.a. at age, 90 and then zero at age 100;
- Joint life mortality is calculated based on last death for loans with joint borrowers;
- 46% of the residential mortgage loan portfolio consists of joint lives;
- Discount factors are calculated based on the market quoted long term rates on 31 December 2019;
- The 1.674% flat credit risk premium, reflecting the business default profile on 31 December 2019, is added to the monthly cash flow discount factors to discount future cash flows generated by the reverse mortgage loans.

F2 Events subsequent to the reporting date

The Group entered into a bid implementation agreement on 29 January 2020 that outlines a proposal to acquire Augusta Capital Limited (Augusta), one of New Zealand's largest listed real estate funds management companies, for NZ\$180 million (A\$174 million).

On 29 January 2020, the Group successfully completed a fully underwritten institutional placement which was announced on 29 January 2020. The placement resulted in the issue of approximately 34.2 million securities at an issue price of \$2.34 per New Security. The \$80,000,000 of New Securities settled on 3 February 2020.

The investment property held for sale as at 31 December 2019, City Centre Plaza, Rockhampton QLD was sold on 15 January 2020 for \$23,500,000.

Other than the above, there has not arisen in the interval between 31 December 2019 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

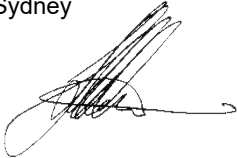
In the opinion of the Directors' of Centuria Capital Limited:

- (a) the consolidated interim financial statements and notes set out on pages 5 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 consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Mr Garry S. Charny
Director
Sydney



Mr John R. Slater
Director
Sydney

Sydney
12 February 2020



Independent Auditor's Review Report

To the stapled security holders of Centuria Capital Group

Conclusion

We have reviewed the accompanying **Interim 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).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Centuria Capital Group is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Stapled Group's** financial position as at 31 December 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated interim statement of financial position as at 31 December 2019.
- Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the Half-year ended on that date.
- Notes A1 to F2 comprising a summary of significant accounting policies and other explanatory information.
- The Directors' Declaration.

The **Stapled Group** comprises Centuria Capital Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year and Centuria Capital Fund and the entities it controlled at the Half-year end or from time to time during the Half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*.
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Stapled Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Centuria Capital Group, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Nigel Virgo
Partner
Sydney
12 February 2020

Centuria

Centuria Capital Fund Interim Financial Report for the half year ended 31 December 2019

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.

**Centuria Capital Fund
Interim Financial Report - 31 December 2019**

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These consolidated interim financial statements are the interim financial statements of the consolidated entity consisting of Centuria Capital Fund and its subsidiaries. The interim financial statements are presented in the Australian currency.

Centuria Capital Fund is a trust, registered and domiciled in Australia. Its registered office and principal place of business is:

Centuria Capital Fund
Level 41, Chifley Tower 2 Chifley Square
Sydney NSW 2000

The consolidated interim financial statements were authorised for issue by the Directors of the Responsible Entity on 12 February 2020.

Directors' report

The directors of Centuria Funds Management Limited (the 'Company') as the Responsible Entity for Centuria Capital Fund (the 'Fund') present their interim report together with the consolidated interim financial statements of the Fund and its controlled entities (the 'Group') for the half year ended 31 December 2019 and the auditor's review report thereon.

Directors

The following persons were directors of the Company during the whole of the half year and up to the date of this report:

Director	Role	Appointment Date
Mr Garry S Charny	Independent Non-Executive Director and Chairman	8 August 2016
Mr Peter J. Done	Independent Non-Executive Director	8 August 2016
Mr John R. Slater	Independent Non-Executive Director	8 August 2016
Ms Susan Wheeldon-Steele	Independent Non-Executive Director	31 August 2016
Mr John E. McBain	Executive Director and Chief Executive Officer	8 August 2016
Mr Jason C. Huljich	Executive Director	8 August 2016
Mr Nicholas R. Collishaw	Non-Executive Director	8 August 2016

Operating and financial review

The Group's profit from continuing operations for the half year ended 31 December 2019 was \$69,653,000 (half year ended 31 December 2018: profit of \$17,915,000).

Earnings per security (EPS)

	31 December 2019	31 December 2018
Basic earnings per unit (cents/unit)	16.6	5.1
Diluted earnings per unit (cents/unit)	16.1	4.8

Distributions

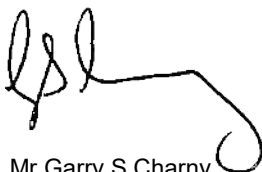
Distributions paid or declared by the Group during the current half year were:

Distributions paid during the half year	Cents per security	Total amount \$'000	Date paid/payable
Final 2019 distribution	4.50	17,262	16 August 2019
Distributions declared during the half year			
Interim 2020 distribution	2.80	12,567	31 January 2020
Total amount	7.30	29,829	

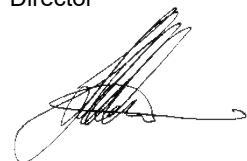
Rounding of amounts

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 interim financial statements. Amounts in the Directors' Report and interim financial statements 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 John R. Slater
Director

Sydney
12 February 2020



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 review for the half-year ended
31 December 2019 there have been:

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

KPMG

Nigel Virgo

Partner

Sydney

12 February 2020

Centuria Capital Fund

Interim financial report 31 December 2019

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Consolidated interim statement of comprehensive income

For the half year ended 31 December 2019

		31 December 2019 \$'000	31 December 2018 \$'000
	Notes		
Revenue	B1	19,030	21,367
Share of net profit of equity accounted investments	D1	8,634	11,634
Expenses	B2	(4,718)	(9,639)
Fair value movements of financial instruments and property		55,069	3,415
Finance costs	B3	(8,362)	(8,862)
Profit after tax		69,653	17,915
Profit is attributable to:			
Centuria Capital Fund		68,707	17,109
Non-controlling interests		946	806
Profit after tax		69,653	17,915
Other comprehensive income		-	-
Total comprehensive income for the period		69,653	17,915
Total comprehensive income for the period is attributable to:			
Centuria Capital Fund		68,707	17,109
Non-controlling interests		946	806
Total comprehensive income		69,653	17,915
Total comprehensive income for the period is attributable to unitholders of Centuria Capital Fund		68,707	17,109
		Cents	Cents
Earnings per Centuria Capital Fund unit:			
Basic (cents per unit)		16.6	5.1
Diluted (cents per unit)		16.1	4.8

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

Consolidated interim balance sheet

As at 31 December 2019

		31 December	30 June
		2019	2019
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		33,940	68,018
Receivables	C1	21,934	27,580
Other assets		155	-
Financial assets at fair value	C2	589,373	116,537
Investment properties held for sale	C3	23,500	-
Investment properties	C4	163,201	177,500
Equity accounted investments	D1	-	329,572
Total assets		832,103	719,207
Liabilities			
Payables	C5	21,732	25,640
Borrowings	C6	263,345	296,916
Interest rate swaps at fair value		763	731
Total liabilities		285,840	323,287
Net assets		546,263	395,920
Equity			
Equity attributable to Centuria Capital Fund			
Contributed equity	C7	438,342	343,438
Retained earnings		62,539	6,399
Total equity attributable to Centuria Capital Fund		500,881	349,837
Equity attributable to external non-controlling interests			
Contributed equity		32,927	32,927
Retained earnings		12,455	13,156
Total equity attributable to external non-controlling interests		45,382	46,083
Total equity		546,263	395,920

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

Consolidated interim statement of changes in equity

For the half year ended 31 December 2019

	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
Balance at 1 July 2019	343,438	6,399	349,837	32,927	13,156	46,083	395,920
Profit for the period	-	68,707	68,707	-	946	946	69,653
Total comprehensive income for the period	-	68,707	68,707	-	946	946	69,653
Dividends and distributions paid/accrued	-	(12,567)	(12,567)	-	(1,647)	(1,647)	(14,214)
Cost of equity raising	(1,535)	-	(1,535)	-	-	-	(1,535)
Stapled securities issued	96,439	-	96,439	-	-	-	96,439
Balance at 31 December 2019	438,342	62,539	500,881	32,927	12,455	45,382	546,263

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

Consolidated interim statement of changes in equity

For the period ended 31 December 2018

	Centuria Capital Fund			Non-controlling interests			Total equity \$'000
	Contributed equity \$'000	Retained earnings \$'000	Equity attributable to Centuria Capital Fund unitholders \$'000	Contributed equity \$'000	Retained earnings \$'000	Total \$'000	
Balance at 1 July 2018	244,930	5,518	250,448	32,927	16,373	49,300	299,748
Profit for the period	-	17,109	17,109	-	806	806	17,915
Total comprehensive income for the period	-	17,109	17,109	-	806	806	17,915
Dividends and distributions paid/accrued	-	(13,038)	(13,038)	-	(1,797)	(1,797)	(14,835)
Cost of equity raising	(2,127)	-	(2,127)	-	-	-	(2,127)
Stapled securities issued	70,696	-	70,696	-	-	-	70,696
Balance at 31 December 2018	313,499	9,589	323,088	32,927	15,382	48,309	371,397

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

Consolidated interim statement of cash flows

For the half year ended 31 December 2019

	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities		
Rent received	9,537	11,138
Distributions received	12,302	9,604
Interest received	-	9,873
Other income	35	582
Payments to suppliers	(7,634)	(9,035)
Interest paid	(5,585)	(7,628)
Net cash provided by operating activities	8,655	14,534
Cash flows from investing activities		
Payments in relation to investment properties	(9,981)	-
Repayment of loans by related parties	46,988	5,865
Loans to related parties	(37,800)	-
Purchase of other investments	(124)	(69,462)
Purchase of investments in related parties	(94,639)	(113,389)
Proceeds from sale of related party investments	31,573	7,283
Sale of investment property	-	22,600
Purchase of equity accounted investments	(20,477)	(20,428)
Loans from related parties	-	12,784
Proceeds from the sale of equity accounted investments	-	5,500
Net cash used in investing activities	(84,460)	(149,247)
Cash flows from financing activities		
Proceeds from borrowings	732	100,400
Repayment of borrowings	(35,000)	(21,470)
Capitalised borrowing costs paid	-	(1,730)
Distributions paid to unitholders of Centuria Capital Fund	(17,262)	(9,449)
Distributions paid to non-controlling interests	(1,647)	(3,269)
Proceeds from issues of units to unitholders of Centuria Capital Fund	96,439	70,696
Equity raising costs paid	(1,535)	(2,127)
Net cash provided by financing activities	41,727	133,051
Net (decrease) in cash and cash equivalents	(34,078)	(1,662)
Cash and cash equivalents at the beginning of the financial period	68,018	16,909
Cash and cash equivalents at end of period	33,940	15,247

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

A About the report

A1 General information

The units in the Centuria Capital Fund (the 'Fund') and the shares in Centuria Capital Limited ('CCL') are stapled to trade together as a single stapled security ('Stapled Security') on the ASX as 'Centuria Capital Group' under the ticker code, '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 interim financial statements for the half year ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should read in conjunction with the Group's annual consolidated financial statements for the year ended 30 June 2019 and any public announcements made by the Centuria Capital Group during the half year reporting period in accordance with continuous disclosure requirements of the *Corporations Act 2001*.

Basis of preparation

The consolidated interim 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 investment property held for sale 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 consolidated interim financial statements. Amounts in the Directors' Report and consolidated interim 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 interim financial statements are consistent with those adopted in the previous financial year ended 30 June 2019 with the exception of the adoption of AASB 16 *Leases*.

The Fund has adopted AASB 16 as at 1 July 2019. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. Refer to note A3 for further details.

When the presentation or classification of items in the consolidated interim 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.

The Group has now accounted its investments in Centuria Office REIT (COF) and Centuria Industrial REIT (CIP) as financial assets at fair value as the Group's ownership in these entities decreased below 20% during the period and significant influence was de-established. These investments were previously accounted for as equity accounted investments. Further details are included in Note D1.

The Group has applied new accounting standards and their impact is disclosed in Note A3.

A3 Adoption of new accounting standards and interpretations

New and amended accounting standards relevant to the Group as well as their impact on the Group's consolidated financial statements that are effective for the period are as follows:

(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.

(ii) *Impact as lessee*

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Trust does not have non-cancellable operating lease commitments. Accordingly, the standard has no impact on the Group's profit and classification of cash flows.

(iii) *Impact as lessor*

The Group leases out its investment property and has classified these leases as operating leases. The Group is not required to make any adjustment on transition to AASB 16 for leases in which it acts as lessor.

A4 Use of judgements and estimates

In preparing these consolidated interim 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.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those applied in the consolidated financial statements as at and for the year ended 30 June 2019.

B Business performance

B1 Revenue

	31 December 2019 \$'000	31 December 2018 \$'000
Rent	6,924	8,028
Recoverable outgoings	2,115	2,108
Distribution revenue	4,630	6,121
Interest revenue	5,326	4,381
Other income	35	729
	<u>19,030</u>	<u>21,367</u>

(a) Transactions with related parties

	31 December 2019 \$	31 December 2018 \$
Distributions from Property Funds managed by Centuria and Centuria Heathley	4,190,094	1,969,768
Interest income on loan to Centuria Finance Pty Limited	5,048,087	4,278,824
Interest income on loans to Property Funds managed by Centuria	229,297	36,958
Distributions and interest from Debt Funds managed by Centuria	-	78,000
Sub-underwriting fees in relation to listed Property funds managed by Centuria	-	647,400
	<u>9,467,478</u>	<u>7,010,950</u>

B2 Expenses

	31 December 2019 \$'000	31 December 2018 \$'000
Consulting and professional fees	83	88
Property outgoings and fund expenses	4,616	6,611
Corporate restructure and transaction costs	-	2,917
Other expenses	19	23
	<u>4,718</u>	<u>9,639</u>

(a) Transactions with related parties

	31 December 2019 \$	31 December 2018 \$
Management and custodian fees paid to Centuria Property Funds No. 2 Limited	92,254	686,800
Management and custodian fees paid to Centuria Property Funds Limited	424,819	66,420
Management fees paid to Centuria Funds Management Limited	100,000	100,000
	<u>617,073</u>	<u>853,220</u>

Business performance

B3 Finance costs

	31 December 2019 \$'000	31 December 2018 \$'000
Operating interest charges	6,885	6,156
Bank loans in Property Funds interest charges	1,477	2,706
	8,362	8,862

B4 Distributions

	31 December 2019		31 December 2018	
	Cents per unit	Total \$'000	Cents per unit	Total \$'000
Distributions paid during the half year				
Final year-end distribution	4.50	17,262	3.10	9,449
Distributions declared during the half year				
Interim distribution ⁽ⁱ⁾	2.80	12,567	3.40	13,038
Total distributions paid/declared to Centuria Capital Fund unitholders ⁽ⁱⁱ⁾	7.30	29,829	6.50	22,487

⁽ⁱ⁾ The Group declared a distribution in respect of the half year ended 31 December 2019 of 2.80 cents per unit. The interim distribution had a record date of 31 December 2019 and was paid on 31 January 2019. The total amount payable of \$12,567,000 has been provided as a liability in these financial statements.

⁽ⁱⁱ⁾ In addition to the dividends and distributions paid to Centuria Capital Fund unitholders, the Group paid distributions of \$1,647,000 to external non-controlling Interests.

C Assets and liabilities

C1 Receivables

	31 December	30 June
	2019	2019
	\$'000	\$'000
Receivables from related parties (refer to note C1(a))	21,827	26,952
Other receivables	107	628
	21,934	27,580

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 other related parties of the Group at the end of the financial period:

	31 December	30 June
	2019	2019
	\$	\$
Distribution receivable from Centuria Industrial REIT	3,080,712	2,858,271
Distribution receivable from Centuria Office REIT	3,383,335	2,715,823
Distribution receivable from Centuria Scarborough House Fund	721	699
Receivables from Debt Funds managed by Centuria	-	78,571
Redemption funds receivable from Centuria Diversified Property Fund	14,933,264	16,000,000
Intercompany receivable from Corporate entities within Centuria Capital Group	-	5,188,638
Distribution receivable from Centuria Diversified Property Fund	146,783	110,393
Redemption funds receivable from Centuria Diversified Fund	150,000	-
Distribution receivable from Centuria Heathley Aged Care Fund No. 1	87,592	-
Distribution receivable from Centuria Heathley Direct Medical Fund No. 2	45,000	-
	21,827,407	26,952,395

C2 Financial assets at fair value

	31 December	30 June
	2019	2019
	\$'000	\$'000
Investments in trusts and other financial assets	54	2,840
Loans receivable from other parties	6,378	6,066
Investment in related party unit trusts (refer to Note C2(a))	485,956	11,694
Loans receivable from related parties (refer to Note C2(b))	96,985	95,937
	589,373	116,537

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.

	31 December 2019			30 June 2019		
	Fair value	Units held	Ownership %	Fair value	Units held	Ownership %
Financial assets held by the Group						
Centuria Industrial REIT*	220,097,904	65,897,576	18.99%	-	-	0%
Centuria Office REIT*	220,486,974	76,029,991	14.81%	-	-	0%
Centuria Diversified Property Fund	17,866,257	12,401,095	15.79%	11,591,312	8,060,718	14.92%
Centuria Heathley Aged Care Property Fund No. 1	5,590,749	5,513,559	9.21%	-	-	0%
Centuria 348 Edward Street Fund	4,925,258	4,925,258	8.61%	-	-	0%
Centuria Heathley Direct Medical Fund No. 2	12,320,257	11,886,701	8.07%	-	-	0%
Australian Diversified Health Fund	2,336,252	2,685,347	6.00%	-	-	0%
Nexus Property Unit Trust	2,230,000	2,230,000	58.98%	-	-	0%
Centuria Scarborough House Fund	102,826	102,826	0.22%	102,826	102,826	0.22%
	<u>485,956,477</u>			<u>11,694,138</u>		

* These investments which were previously equity accounted are now held as related party investments for the half year ended 31 December 2019. See Note D1 for details. Also, see below for a movement of the related party unit trusts during the half year.

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 (continued)

	31 December 2019 \$'000	30 June 2019 \$'000
Related party unit trusts carried at fair value through profit and loss		
Opening balance	11,694	203,091
Investment purchases	93,749	133,460
Return of investment	(11,723)	(3,470)
Disposal	(18,933)	(16,000)
Fair value gain/(loss)	(8,517)	(2,673)
Transfer from related party financial assets	2,800	-
Carrying value transferred from equity accounted investments	349,924	(302,714)
Fair value gain on discontinuation of equity accounting	66,963	-
	485,957	11,694

(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 period:

	31 December 2019 \$	30 June 2019 \$
Centuria Finance Pty Limited	96,984,674	95,936,587
	96,984,674	95,936,587

C3 Investment properties held for sale

During this period, the Group decided to sell the investment property within Centuria Retail Fund and therefore City Centre Plaza, Rockhampton has been classified as held for sale as at 31 December 2019. This property was subsequently sold on 15 January 2020.

	31 December 2019 \$'000	30 June 2019 \$'000
Property		
City Centre Plaza, Rockhampton Qld	23,500	-
	23,500	-

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

	31 December 2019 \$'000	30 June 2019 \$'000
Opening Balance	177,500	147,100
Acquisition of investment properties	8,201	-
Capital improvements and associated costs	3,535	1,726
Loss on fair value	(2,466)	(10,705)
Change in deferred rent and lease incentives	(69)	(621)
Transfer (to)/from investment properties held for sale	(23,500)	40,000
	<u>163,201</u>	<u>177,500</u>

The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$9,402,000 (30 June 2019: \$12,000,000).

Property	31 December 2019 \$'000	30 June 2019 \$'000	31 December 2019 Cap rate %	31 December 2019 Discount rate %	31 December 2019 valuer
	111 St George Terrace, Perth WA	155,000	150,000	6.8	7.0
City Centre Plaza, Rockhampton Qld	-	27,500	-	-	
120 and 122 Spencer St, South Bunbury WA*	8,201	-	5.5	-	Colliers
	<u>163,201</u>	<u>177,500</u>			

*No discount rate applicable as only a capitalisation approach was adopted for 120 and 122 Spencer St, South Bunbury, WA valuation.

Key estimates 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 valuation company 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.

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.

Assets and liabilities

C4 Investment properties (continued)

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

The most significant unobservable input used in the above valuation techniques and its relationship with fair value measurement is the capitalisation rate. The higher/lower the rate, the lower/higher fair value.

(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 Payables

	31 December 2019 \$'000	30 June 2019 \$'000
Sundry creditors ⁽ⁱ⁾	8,791	8,012
Distribution Payable	12,567	17,262
Accrued expenses	374	366
	<u>21,732</u>	<u>25,640</u>

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

C6 Borrowings

	31 December 2019 \$'000	30 June 2019 \$'000
	Notes	
Fixed rate secured notes	C6(a) 95,000	130,000
Floating rate secured notes	C6(a) 75,000	75,000
Bank loans in Property Funds	C6(b) 95,041	94,309
Borrowing costs capitalised	(1,696)	(2,393)
	<u>263,345</u>	<u>296,916</u>

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. \$35,000,000 of the 7% fixed corporate notes were repaid in October 2019.

The Group issued Tranche 3 of secured corporate notes to the value of \$80,000,000 on 22 October 2018. This consisted of an issue of \$35,000,000 floating rate secured notes and \$45,000,000 6.5% fixed rate secured notes. These notes mature on 21 April 2023 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:

Assets and liabilities

C6 Borrowings (continued)

(b) Bank loans - Property Funds (secured) (continued)

Fund	Current/non-current classification	Maturity date	Facility limit \$'000	Funds available \$'000	Draw down \$'000	Borrowing costs \$'000	Total \$'000
31 December 2019							
Centuria 111 St Georges Terrace Fund	Non-Current	30 June 2022 31 December	90,000	9,681	80,319	(216)	80,103
Centuria Retail Fund	Current	2019*	14,938	-	14,938	-	14,938
							<u>95,041</u>
30 June 2019							
Centuria 111 St Georges Terrace Fund	Non-current	30 June 2022 31 December	90,000	10,521	79,479	(107)	79,372
Centuria Retail Fund	Current	2019	14,938	-	14,938	(1)	14,937
							<u>94,309</u>

* The debt facility for Centuria Retail Fund matured on 31 December 2019 however, with the sale of City Centre Plaza, Rockhampton, QLD, the facility was extended to 15 January 2020.

C7 Contributed equity

	31 December 2019		30 June 2019	
	No. of securities	\$'000	No. of securities	\$'000
Opening balance	383,557,332	343,438	304,793,174	244,930
Equity settled share based payment expense	1,579,430	-	1,747,653	-
Units issued	63,702,265	96,439	77,016,505	70,696
Cost of equity raising	-	(1,535)	-	(2,188)
Special non-cash dividend/ capital reallocation ⁽ⁱ⁾	-	-	-	30,000
	<u>448,839,027</u>	<u>438,342</u>	<u>383,557,332</u>	<u>343,438</u>

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. During the half year ended 31 December 2019 10,049,235 of these options were exercised.

⁽ⁱ⁾ On 29 June 2019, a non-cash dividend was paid by Centuria Capital Limited of \$30,000,000 which was reinvested as capital into Centuria Capital Fund.

D Group Structure

D1 Interests in associates

During the half year, the Group's investment in Centuria Office REIT (COF) and Centuria Industrial REIT (CIP) dropped below 20% and the Group no longer has significant influence over COF and CIP. As a result, these investments which were previously accounted for using the equity method, are now recognised as financial assets at fair value as at 31 December 2019. Refer to note C2 for further details.

Set out below are the associates of the Group as at 30 June 2019 which, in the opinion of the Directors, were material to the Group and were accounted for using the equity method. The entities listed below have share capital consisting solely of ordinary units, which are held directly by the Group. The country of incorporation or registration is Australia which is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

	% of ownership interest	Principal activity	Quoted fair value 30 June 2019 \$'000	Carrying amount 30 June 2019 \$'000
Centuria Office REIT	30 June 2019 %	17.5 Property investments	180,828	155,355
Centuria Industrial REIT		22.9 Property investments	187,266	174,217
Total equity accounted investments			368,094	329,572

The below table shows the movement in carrying amounts of equity accounted investments from 30 June 2019 to 31 December 2019.

Movement in carrying amount of equity accounted investments	COF	CIP	Total
Opening balance	155,355	174,217	329,572
Investment/ (Disposal)	7,500	12,977	20,477
Share of net profit after tax	2,347	6,287	8,634
Distributions received/receivable	(2,773)	(5,986)	(8,759)
Carrying value transferred from/ (to) financial assets	(162,429)	(187,495)	(349,924)
Closing balance	-	-	-

The below table shows the movement in carrying amounts of equity accounted investments for the year ended 30 June 2019.

	COF	CIP	Total
Carrying value transferred from financial assets	151,433	151,281	302,714
Disposal	-	(5,420)	(5,420)
Investment	-	23,243	23,243
Share of net profit after tax	12,069	16,169	28,238
Distributions received/ receivable	(8,147)	(11,056)	(19,203)
	155,355	174,217	329,572

Group Structure

D1 Interests in associates (continued)

(a) Summarised financial information for associates

The tables below provide summarised financial information for those associates that were material to the Group for the year ended 30 June 2019. The information disclosed reflects the amounts presented in the consolidated interim financial statements of the relevant associates and not the Group's share of those amounts.

	Centuria Office REIT	Centuria Industrial REIT	Total
	30 June 2019 \$000	30 June 2019 \$000	30 June 2019 \$000
Summarised balance sheet			
Cash and other cash equivalents	17,546	9,348	26,894
Investment properties held for sale	78,500	11,400	89,900
Other current assets	5,544	9,144	14,688
Total current assets	101,590	29,892	131,482
Investment properties	1,321,475	1,209,850	2,531,325
Total tangible non-current assets	1,321,475	1,209,850	2,531,325
Other current liabilities	30,451	28,724	59,175
Total current liabilities	30,451	28,724	59,175
Borrowings	497,222	468,431	965,653
Other non-current liabilities	7,180	3,541	10,721
Total non-current liabilities	504,402	471,972	976,374
Net tangible assets	888,212	739,046	1,627,258
Group share in %	17.49	22.94	
Group's share	155,355	169,609	324,964
Goodwill	-	4,608	4,608
Carrying amount	155,355	174,217	329,572

Group Structure

D1 Interests in associates (continued)

(a) Summarised financial information for associates (continued)

	Centuria Office REIT	Centuria Industrial REIT	Total
	30 June 2019 \$'000	30 June 2019 \$'000	30 June 2019 \$'000
Summarised statement of comprehensive income			
Revenue	108,859	93,863	202,722
Interest income	334	195	529
Other income	8	602	610
Net gain on fair value of investment properties	7,143	53,808	60,951
Finance costs	(22,110)	(21,496)	(43,606)
Loss on fair value of derivative financial instruments	(6,752)	(3,581)	(10,333)
Other expenses	(33,910)	(34,563)	(68,473)
Profit for the period	53,572	88,828	142,400
Other comprehensive income	-	-	-
Total comprehensive income	53,572	88,828	142,400

E Other

E1 Fair value of financial instruments

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.

31 December 2019	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash and cash equivalents	Amortised cost	Not applicable	33,940	33,940
Receivables	Amortised cost	Not applicable	21,934	21,934
Financial assets	Fair value	Level 2	589,373	589,373
			<u>645,247</u>	<u>645,247</u>

Financial liabilities				
Payables	Amortised cost	Not applicable	(21,732)	(21,732)
Borrowings (net of borrowing costs)	Amortised cost	Not applicable	(263,345)	(266,552)
Interest rate swaps at fair value	Fair value	Level 2	(763)	(763)
			<u>(285,840)</u>	<u>(289,047)</u>

30 June 2019	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash and cash equivalents	Amortised cost	Not applicable	68,018	68,018
Receivables	Amortised cost	Not applicable	27,580	27,580
Financial assets	Fair value	Level 2	116,537	116,537
			<u>212,135</u>	<u>212,135</u>

Financial liabilities				
Payables	Amortised cost	Not applicable	25,640	25,640
Borrowings (net of borrowing costs)	Amortised cost	Not applicable	296,916	303,429
Interest rate swaps at fair value	Fair value	Level 2	731	731
Total			<u>323,287</u>	<u>329,800</u>

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.

E2 Events subsequent to the reporting date

On 30 January 2020, Centuria Capital Group successfully completed a fully underwritten institutional placement which was announced on 29 January 2020. The placement will result in the issue of approximately 34.2 million securities, at an issue price of \$2.34 per new security, raising \$80,000,000 of which 84.25% was allocated to the Fund. The new securities settled on 3 February 2020.

The investment property held for sale at 31 December 2019, City Centre Plaza, Rockhampton QLD was sold on 15 January 2020 for \$23,500,000.

Other than the above, there has not arisen in the interval between 31 December 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 Fund 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 interim financial statements and notes set out on pages 4 to 24 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date, and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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



Mr Garry S Charny
Director



Mr John R. Slater
Director

Sydney
12 February 2020



Independent Auditor's Review Report

To the unitholders of Centuria Capital Fund

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Centuria Capital Fund (the Fund).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Centuria Capital Fund is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Fund's** financial position as at 31 December 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2019
- Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the Half-year ended on that date
- Notes A1 to E2 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Fund** comprises Centuria Capital Fund and the entities it controlled at the Half year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Centuria Funds Management Limited (the Responsible Entity) are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as 31 December 2019 and its performance for the Half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Centuria Capital Fund, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Nigel Virgo

Partner

Sydney

12 February 2020