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Centuria Capital Group
Financial Report
for the year ended 30 June 2017

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

**Centuria Capital Group
Financial Report - 30 June 2017**

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

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

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

The consolidated financial statements were authorised for issue by the Directors on 23 August 2017. The Directors have the power to amend and reissue the consolidated financial statements.

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Directors' report

The directors of Centuria Capital Limited (the 'Company') present their report together with the consolidated financial statements of the Company and its controlled entities (the 'Group') for the financial year ended 30 June 2017 and the auditor's report thereon.

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

Directors and directors' interests

Mr Garry S. Charny, BA. LL.B. <i>Independent Non-Executive Director and Chairman</i>		
Experience and expertise	<p>Garry was appointed to the Board on 23 February 2016 and appointed Chairman on 30 March 2016.</p> <p>He is Managing Director and founding principal of Wolseley Corporate, an Australian based corporate advisory and investment house which transacts both domestically and internationally.</p> <p>He has had a broad range experience in both listed and unlisted companies across a diverse range of sectors including property, retail, technology and media. He formerly practised as a barrister in the fields of commercial and equity.</p>	
Other directorships	<p>Garry is Chairman of Wolseley Corporate. He is also Chairman of Spotted Turquoise Films, an international Film and Television company based in Sydney and Los Angeles. He is Chairman of Shero Investments, a Sydney based investment company.</p>	
Special responsibilities	<p>Chairman of the Board Chairman of the Conflicts Committee Chairman of the Nomination and Remuneration Committee Member of the Audit, Risk Management and Compliance Committee</p>	
Interests in CNI	Ordinary stapled securities	196,573
Mr Peter J. Done, B.Comm, FCA. <i>Independent Non-Executive Director</i>		
Experience and expertise	<p>Peter was appointed to the Board on 28 November 2007. Peter was a partner of KPMG for 27 years until his retirement in June 2006.</p> <p>He has extensive knowledge in accounting, audit and financial management in the property development and financial services industries, corporate governance, regulatory issues and Board processes through his many senior roles.</p>	
Other directorships	<p>None.</p>	
Special responsibilities	<p>Chairman of the Audit, Risk Management and Compliance Committee Member of the Nomination and Remuneration Committee Member of the Investment Committee</p>	
Interests in CNI	Ordinary stapled securities	900,000

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Directors and directors' interests (continued)

Mr John R. Slater , Dip.FS (FP), F Fin. <i>Independent Non-Executive Director</i>		
Experience and expertise	<p>John was appointed to the Board on 22 May 2013 having been an adviser to the Centuria Life Friendly Society Investment Committees since 2011.</p> <p>John was a senior executive in the KPMG Financial Services practice from 1989 to 1999 and acted as State director of the Brisbane practice. He has also served on the Investment Committees of KPMG Financial Services, Berkley Group and Byron Capital.</p> <p>In 2008, John founded boutique Financial Advisory firm Riviera Capital, subsequently sold in 2016 and has a wealth of financial services experience.</p>	
Other directorships	None.	
Special responsibilities	<p>Member of the Audit, Risk Management and Compliance Committee</p> <p>Member of the Nomination and Remuneration Committee</p>	
Interests in CNI	Ordinary stapled securities	2,400,000

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

Mr John E. McBain , Dip. Urban Valuation, <i>Executive Director and Chief Executive Officer</i>		
Experience and expertise	<p>John was a founding director and major shareholder in boutique property funds manager Century Funds Management, which was established in 1999 and was acquired by Over Fifty Group in July 2006. He joined the Over Fifty Group Board on 10 July 2006 and was appointed Chief Executive Officer in 2008. In 2011 the company was renamed Centuria Capital.</p> <p>Prior to forming Century, in 1990 John founded Hanover Group, a specialist property investment consultancy and in 1995 he formed Waltus Investments Australia, a dedicated property fund manager. John formerly held senior positions in a number of property development and property investment companies in Australia, New Zealand and the United Kingdom.</p>	
Other directorships	John is also a director of QV Equities Limited, a licensed investment company listed on the ASX.	
Special responsibilities	Chief Executive Officer	
Interests in CNI	Ordinary stapled securities	5,035,745
	Performance rights granted	1,473,568

Directors and directors' interests (continued)

Mr Jason C. Huljich , B. Comm. <i>Executive Director and CEO- Unlisted Property Funds</i>		
Experience and expertise	<p>Jason was appointed to the Board on 28 November 2007.</p> <p>As CEO - Unlisted Property Funds, Jason is responsible for providing strategic leadership and ensuring the effective operation and growth of Centuria's unlisted property portfolio. Jason has been involved in the unlisted property sector in Australia since 1996 and has considerable expertise in investment property selection, fund feasibility, funds management and management of property services teams.</p> <p>Jason is the President of the National Executive Committee of the Property Funds Association of Australia, the peak industry body representing the \$125 billion direct property investment industry.</p>	
Other directorships	None.	
Special responsibilities	CEO - Unlisted Property Funds	
Interests in CNI	Ordinary stapled securities	4,499,054
	Performance rights granted	856,250

Mr Nicholas R. Collishaw , SAFin, FAAPI, FRICS. <i>Executive Director and CEO- Listed Property Funds</i>		
Experience and expertise	<p>Nicholas was appointed CEO - Listed Property Funds at Centuria Property Funds on 1 May 2013 and to the Board on 27 August 2013.</p> <p>Prior to this role, Nicholas held the position of CEO and Managing Director at the Mirvac Group. During his time at Mirvac (2005-2012), Nicholas was responsible for successfully guiding the business through the GFC and implementing a strategy of sustained growth for the real estate development and investment company. During Nicholas' 30 year career, he has held senior positions with James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management. He has extensive experience in all major real estate markets in Australia and investment markets in the United States, United Kingdom and the Middle East.</p> <p>Nicholas is Deputy Chair of the UNSW Built Environment Advisory Council.</p>	
Other directorships	None.	
Special responsibilities	CEO - Listed Property Funds	
Interests in CNI	Ordinary stapled securities	2,263,136
	Performance rights granted	856,250

Directors' meetings

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

Director	Board Meetings		Audit, Risk, Management & Compliance Committee Meetings		Nomination & Remuneration Committee Meetings		Conflicts Committee meetings	
	A	B	A	B	A	B	A	B
Mr Garry S. Charny	27	27	5	5	4	4	2	2
Mr Peter J. Done	26	27	5	5	3	4	#	#
Mr John R. Slater	25	27	5	5	4	4	#	#
Ms Susan Wheeldon-Steele	18	20	#	#	#	#	2	2
Mr John E. McBain	27	27	#	#	#	#	#	#
Mr Jason C. Huljich	25	27	#	#	#	#	#	#
Mr Nicholas R. Collishaw	27	27	#	#	#	#	#	#

A = Number of meetings attended

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

= Not a member of committee

Company secretary

The Company Secretary, Mr James Lonie was appointed to the position of Company Secretary on 14 August 2015 and resigned on 30 March 2017. He was reappointed to the position of Company Secretary on 16 June 2017.

James is a partner in the Sydney office of HWL Ebsworth Lawyers and has extensive financial services experience with a particular focus on:

- funds management including advising on licensing issues;
- general securities/corporate transactions and advice; and
- mergers and acquisitions including off-market takeover bids, schemes, capital reductions and buy-backs and in preparing and negotiating offer, disclosure and shareholder meeting documentation.

James' experience includes addressing regulatory and compliance issues relating to, and documenting transactions and investment vehicles regulated by, the Corporations Act. James graduated from Sydney University and holds a Bachelor of Arts, a Bachelor of Laws and a Masters of Laws.

Ms Charisse Nortje held the position of Company Secretary from 30 March 2017 to 16 June 2017.

Principal activities

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

Significant changes and state of affairs

Stapling

The stapling of the Company and CCF was approved at an Extraordinary General Meeting of the shareholders of the Company on 10 October 2016. Following approval of the stapling, shares in the Company and units in CCF were stapled on 17 October 2016 and commenced trading as a single security on the ASX. For further details on the stapling, refer to Note E1(a) of the consolidated financial statements.

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Significant changes and state of affairs (continued)

360 Capital acquisition

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

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

The Transaction also included a call option and a put option over stakes in the four unlisted property investment funds managed by CPF2L with a maximum option period of 2 years following completion of the Transaction. Since the completion of the Transaction and before 30 June 2017, the Group has fully exercised the option in relation to Centuria 441 Murray Street Property Trust and partially exercised the option in relation to Centuria Havelock House Property Trust.

The impacts of the Transaction have been recognised in the Group's consolidated financial statements.

Corporate notes issue

On 21 April 2017, the Group issued secured notes to the value of \$100,000,000. This consisted of an issue of \$40,000,000 floating rate secured notes and \$60,000,000 7% fixed rate secured notes due 2021 by Centuria Funds Management Limited as trustee of the Centuria Capital No. 2 Fund.

The proceeds from the secured notes were partially used to repay the vendor loan to 360 Capital of \$50,000,000.

Operating and financial review

The Group recorded a consolidated statutory net profit after tax for the year of \$26,295,000 (2016: \$12,123,000). Statutory net profit after tax has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards, which comply with International Financial Reporting Standards.

The Group recorded an operating profit after tax of \$15,489,000 (2016: \$11,344,000). Operating profit after tax excludes non-operating items such as transaction costs with respect to the acquisition of property funds management platform of 360 Capital Group Limited.

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

	2017 \$'000	2016 \$'000
Reconciliation of statutory profit to operating profit		
Statutory profit after tax	26,295	12,123
Less non-operating items:		
Unrealised loss/(gain) on fair value movements in derivatives, property and investments	(4,434)	(7,700)
Corporate restructure & transaction costs	2,749	1,217
Impairment charges in relation to seed capital valuations	190	2,779
Profit attributable to controlled property funds	(10,934)	(42)
Eliminations between the operating and non-operating segment	2,643	969
Tax impact of above non-operating adjustments	(1,020)	1,998
Operating profit after tax	15,489	11,344

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Operating and financial review (continued)

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

Operational highlights for the key segments were as follows:

Segment	Operating profit after tax \$'000		Increase/ (Decrease) \$'000	Increase/ (Decrease) %	Highlights
	2017	2016			
Property Funds Management	11,041	12,765	(1,724)	(14)	(a)
Investment Bonds Division	2,648	2,516	132	5	(b)
Co-Investments	5,423	1,078	4,345	403	(c)

(a) Property Funds Management

For the year ended 30 June 2017, Property Funds Management operating profit after tax of \$11,041,000 was lower than the prior year ending 30 June 2016 by \$1,724,000 primarily due to the impact of non-recurring performance fees of \$15,813,000 earned in the prior year.

Excluding the after tax impact of non-recurring performance fees the Property Funds Management segment profit increased by \$8,061,000, reflecting the growth in FUM in addition to the contribution arising from the 360 Capital transaction.

Operational highlights for the year included:

- Increase in recurring Property Funds Management fees of \$8,936,000 or 87% from \$10,329,000 for the year ended 30 June 2016 to \$19,265,000 for the year ended 30 June 2017
- 104% increase in Unlisted FUM from \$0.8 billion as at 30 June 2016 to \$1.6 billion as at 30 June 2017
- 327% increase in Listed FUM from \$0.4 billion as at 30 June 2016 to \$1.8 billion as at 30 June 2017
- Full integration of four unlisted and two listed funds following the 360 Capital transaction
- Successful merger of Centuria Metropolitan REIT with Centuria Urban REIT creating one of the largest metropolitan office focused A-REITs listed on ASX
- Successful completion of agreements to acquire three properties with a total value of \$150 million by Centuria Metropolitan REIT
- Successful post balance date settlement of a \$37 million industrial property at Noble Park in Victoria and exchange of contracts to acquire an \$11.2 million industrial property at Belmont in WA by Centuria Industrial REIT
- Acquisition of three high-quality assets worth \$457 million in Unlisted Property Funds:
 - July 2016: Zenith, Chatswood (\$279m), co-investment with Blackrock
 - March 2017: Scarborough House, Woden, Canberra (\$72.3 million)
 - July 2017: 1821 Sandgate Road, Nundah, Brisbane (\$106.25 million)
- Completion of Centuria's first development fund, with all 62 residences in the Belmont Road Development Fund settled and generating a return to investors of circa 19.4% pa

Operating and financial review (continued)

(b) Investment Bonds Management

For the year ended 30 June 2017, the Investment Bonds Management segment increased its operating profit after tax to \$2,648,000 by \$132,000 or 5%.

The Investment Bonds Management business delivered net overall FUM growth of \$78 million across its product range representing a 11% increase in FUM from prior year.

The Investment Bonds Management business is the fourth largest friendly society/insurance bond issuer in Australia with a 10.4% market share. The Investment Bonds Management business is well positioned with the Independent Financial Advisers market to target niche opportunities with tax favourable ways to create, transfer and protect wealth. Centuria Life's product suite has been rated "Investment Grade" by Lonsec.

(c) Co-Investments

For the year ended 30 June 2017, the Co-Investments segment operating profit after tax increased by \$4,345,000 reflecting a \$130 million increase in co-investment holdings across listed and unlisted stakes in various Funds managed by the Group.

With an increase in recurring investment revenue from \$1,748,000 for the year ended 30 June 2016 to \$6,038,000 for the year ended 30 June 2017 the Co-investments segment has contributed to the noted improvement in the Group's overall recurring revenue percentage which has increased from 55% to 75% for the corresponding periods.

The Co-investments of \$151.3 million as at 30 June 2017 included a \$81.9 million or a 15.6% stake in Centuria Industrial REIT as well as we as a \$15.5 million or 8.7% stake in the Centuria Metropolitan REIT.

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

Earnings per security (EPS)

	2017		2016	
	Operating	Statutory	Operating	Statutory
Basic EPS (cents/security)	10.3	11.5	14.8	15.8
Diluted EPS (cents/security)	10.1	11.4	14.2	15.1

Dividends and Distributions

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

Dividends/distributions paid during the year	Cents per security	Total amount \$'000	Date paid/payable
Final 2016 dividend (100% franked)	3.0	2,316	14 September 2016
Stapling dividend (100% franked)	17.3	13,331	17 October 2016
Interim 2017 dividend (100% franked)	1.5	1,158	24 February 2017
Interim 2017 Trust distribution (66% tax deferred)	0.8	618	24 February 2017
Dividends/distributions declared during the year			
Final 2017 dividend (100% franked)	2.4	5,453	24 August 2017
Final 2017 Trust distribution (66% tax deferred)	2.8	6,361	24 August 2017
Total amount	27.8	29,237	

Events subsequent to the reporting date

(i) Units purchased in Centuria Metropolitan REIT

On 27 July 2017, the Group acquired 4,127,265 units in Centuria Metropolitan REIT for \$2.35 per unit.

(ii) Settlement of Centuria Sandgate Road Fund

The Group acquired 37,932,023 of acquisition units in Centuria Sandgate Road Fund on 7 July 2017 for \$1 per unit upon settlement of the property in the fund. As at 14 August 2017, the Group had sold down 18,950,249 of these acquisition units.

Other than the matters discussed above, there has not arisen in the interval between 30 June 2017 and the date hereof any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, that would affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely developments

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

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

Environmental regulation

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

Indemnification of officers and auditors

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

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

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

Non-audit services

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

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

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

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and

Non-audit services (continued)

- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20.

Rounding of amounts

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

Audited remuneration report

The remuneration report provides information about the remuneration arrangements for key management personnel (KMP), which includes Non-executive Directors and the Group's most senior management, for the year to 30 June 2017.

The report is structured as follows:

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

Details of KMP covered in this report

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

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

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

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Audited remuneration report (continued)

Remuneration policy and link to performance

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

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

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

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

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

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

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

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

Remuneration of senior management

Objective

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

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

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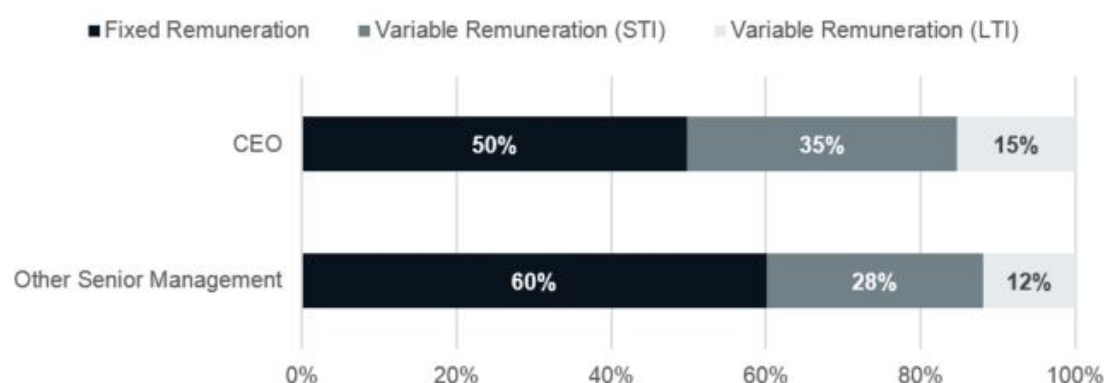
Audited remuneration report (continued)

Remuneration of senior management (continued)

Structure

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

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



(a) Fixed Remuneration

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

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

(b) Variable Remuneration

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

(i) Short-term Incentives (STI)

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

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

During the current financial year, the Group issued Nil (2016: Nil) ordinary securities to employees in addition to cash bonuses provided to employees.

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Audited remuneration report (continued)

Remuneration of senior management (continued)

Structure (continued)

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

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

The primary objectives of the Plan include:

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

Rights issued under the LTI Plan are issued in accordance with the thresholds approved at the 2016 Annual General Meeting (AGM).

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

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

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

Tranche	Grant Date	Performance Period
2	1 February 2015	1 July 2014 to 30 June 2017
3	1 February 2016	1 July 2015 to 30 June 2018
4	1 January 2017	1 July 2016 to 30 June 2019

Audited remuneration report (continued)

Remuneration of senior management (continued)

EPS Hurdle

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

	Compound annual growth Rate	Portion of Rights that vest	Compound annual growth rate	Portion of Rights that vest
	Tranche 2 and 3 (45% of rights granted)		Tranche 4 (30% of rights granted)	
Maximum % or above	10% or greater	100%	10% or greater	100%
Between threshold % and maximum %	More than 6%, less than 10%	Pro-rata between 50% and 100%	More than 6%, less than 10%	Pro-rata between 50% and 100%
	More than 4%, less than 6%	Pro-rata between 25% and 50%	More than 4%, less than 6%	Pro-rata between 25% and 50%
Threshold %	4%	25%	4%	25%
Less than the threshold %	Less than 4%	0%	Less than 4%	0%

The Board has discretion to adjust the EPS performance hurdle to ensure that participants are neither advantaged nor disadvantaged by matters outside managements' control that affect EPS (for example, by excluding one-off non-recurrent items or the impact of significant acquisitions or disposals).

FUM Hurdle

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

	Compound annual growth Rate	Portion of Rights that vest	Compound annual growth Rate	Portion of Rights that vest
	Tranche 2 and 3 (15% of rights granted)		Tranche 4 (20% of rights granted)	
Maximum % or above	18% or greater	100%	15% or greater	100%
Between threshold % and maximum %	More than 14% less than 18%	Pro-rata between 50% and 100%	More than 12%, less than 15%	Pro-rata vesting between 50% to 100%
	More than 10%, less than 14%	Pro-rata between 25% and 50%	More than 10%, less than 12%	Pro-rata vesting between 25% to 50%
Threshold %	10%	25%	10%	25%
Less than the threshold %	Less than 10%	0%	Less than 10%	0%

Audited remuneration report (continued)

Remuneration of senior management (continued)

Absolute TSR Hurdle

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

	Compound annual growth Rate	Portion of Rights that vest	Compound annual growth Rate	Portion of Rights that vest
	Tranche 2 and 3 (40% of rights granted)		Tranche 4 (50% of rights granted)	
Maximum % or above	18% or greater	100%	18% or greater	100%
Between threshold % and maximum %	More than 15% less than 18%	Pro-rata between 50% and 100%	More than 15% less than 18%	Pro-rata vesting between 50% to 100%
	More than 12%, less than 15%	Pro-rata between 25% and 50%	More than 12%, less than 15%	Pro-rata vesting between 25% to 50%
Threshold %	12%	25%	12%	25%
Less than the threshold %	Less than 12%	0%	Less than 12%	0%

Rights Granted

The following Rights were granted to senior management:

Key management personnel	No. of Rights granted	Vesting conditions	Fair value at Grant Date
Tranche 2 (grant date of 1 February 2015) (i)			
Mr John E. McBain	216,496	EPS Hurdle	\$0.81
	72,165	FUM Growth Hurdle	\$0.81
	192,441	Absolute TSR Growth Hurdle	\$0.28
Mr Jason C. Huljich	135,000	EPS Hurdle	\$0.81
	45,000	FUM Growth Hurdle	\$0.81
	120,000	Absolute TSR Growth Hurdle	\$0.28
Mr Nicholas R. Collishaw	135,000	EPS Hurdle	\$0.81
	45,000	FUM Growth Hurdle	\$0.81
	120,000	Absolute TSR Growth Hurdle	\$0.28
Total	1,081,102		

(i) The performance objectives for performance rights granted under Tranche 2 were met in full by 30 June 2017. As a result, these rights will vest on 31 August 2017.

Tranche 3 (grant date of 1 February 2016)

Mr John E. McBain	216,496	EPS Hurdle	\$0.87
	72,165	FUM Growth Hurdle	\$0.87
	192,441	Absolute TSR Growth Hurdle	\$0.19
Mr Jason C. Huljich	135,000	EPS Hurdle	\$0.87
	45,000	FUM Growth Hurdle	\$0.87
	120,000	Absolute TSR Growth Hurdle	\$0.19
Mr Nicholas R. Collishaw	135,000	EPS Hurdle	\$0.87
	45,000	FUM Growth Hurdle	\$0.87
	120,000	Absolute TSR Growth Hurdle	\$0.19
Total	1,081,102		

Audited remuneration report (continued)

Remuneration of senior management (continued)

Rights Granted (continued)

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

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

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

5 year summary	30 June 2017	30 June 2016	30 June 2015	30 June 2014	30 June 2013
Statutory profit after tax attributable to Centuria Capital Group securityholders (\$'000)	17,323	12,303	8,566	9,078	7,338
Operating profit after tax (\$'000)	15,489	11,344	6,280	5,904	5,337
Share price at start of year	\$1.05	\$0.93	\$0.80	\$0.82	\$0.42
Share price at end of year	\$1.23	\$1.05	\$0.93	\$0.80	\$0.82
Interim dividend	2.3cps	2.25cps	2.0cps	1.25cps	1.25cps
Final dividend	5.2cps	3.00cps	2.75cps	1.50cps	-
Statutory basic earnings per Centuria Capital Group security	11.5cps	15.8cps	11.0cps	11.6cps	9.4cps
Operating basic earnings per Centuria Capital Group security	10.3cps	14.8cps	8.1cps	7.6cps	6.8cps

Rights vested

1,020,702 performance rights granted on 1 January 2014 under Tranche 1 to senior management vested during the year. There were 180,123 performance rights under Tranche 1 that lapsed during the year.

Audited remuneration report (continued)

Remuneration of senior management (continued)

Statutory remuneration table

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

	Year	Short-term employee benefits	Post employment benefits	Other long-term benefits	Share-based payments	Total	
		Salaries (\$)	Bonus (\$)	Superannuation (\$)	Long service leave (\$)	\$	\$
Mr John E. McBain	2017	725,999	775,000	24,000	37,052	246,618	1,808,669
Note (i)	2016	621,000	375,000	24,000	30,947	257,668	1,308,615
Mr Jason C. Huljich	2017	544,134	282,000	19,616	12,264	149,358	1,007,372
	2016	530,692	250,000	19,308	17,763	159,857	977,620
Mr Nicholas R. Collishaw	2017	544,134	782,000	19,616	-	149,358	1,495,108
Note (ii)	2016	530,692	110,000	19,308	-	159,857	819,857
Mr Simon W. Holt	2017	416,009	210,750	19,616	-	8,396	654,771
Note (iii)	2016	66,576	20,000	3,218	-	-	89,794
Total	2017	2,230,276	2,049,750	82,848	49,316	553,730	4,965,920
	2016	1,748,960	755,000	65,834	48,710	577,382	3,195,886

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

Note (ii) Mr Collishaw's bonus for the year ended 30 June 2017 includes a one-off \$500,000 incentive payment which he was entitled to receive as part of his employment contract upon successful listing of a listed property fund once the fund reaches \$500 million of assets under management. This incentive became payable for the year ended 30 June 2017.

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

Audited remuneration report (continued)

Key terms of employment contracts

Chief Executive Officer

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

- Fixed Compensation plus superannuation contributions;
- Car parking within close proximity to the Company's office;
- Eligible to participate in the bonus program determined at the discretion of the Board;
- The Group may terminate this employment contract by providing 6 months written notice or provide payment in lieu of the notice period. Any payment in lieu of notice will be based on the total fixed compensation package; and
- The Group may terminate the employment contract at any time without notice if serious misconduct has occurred. When termination with cause occurs the CEO is only entitled to remuneration up to the date of termination.

Other senior management (standard contracts)

All senior management are employed under contract. The Group may terminate their employment agreement by providing between 1 and 6 months written notice or providing payment in lieu of the notice period (based on the total fixed compensation package).

Non-executive director remuneration

Objective

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

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the aggregate amount determined is then divided between the directors as agreed. Clause 63.2 of the Constitution provides an aggregate maximum amount of not more than \$750,000 per year.

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Audited remuneration report (continued)**Non-executive director remuneration (continued)***Directors' Fees*

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

	Year	Shot-term benefits	Post-employment benefits	Total
		Board fees \$	Superannuation \$	
Mr Garry S. Charny	2017	190,000	15,675	205,675
	2016	53,308	5,064	58,372
Mr Peter J. Done	2017	156,000	11,308	167,308
	2016	129,600	12,312	141,912
Mr John R. Slater	2017	142,000	10,070	152,070
	2016	97,200	9,005	106,205
Ms Susan Wheeldon-Steele	2017	71,160	6,760	77,920
	2016	-	-	-
Mr. Roger W. Dobson	2017	-	-	-
	2016	113,400	10,773	124,173
Total	2017	559,160	43,813	602,973
	2016	393,508	37,154	430,662

Director and senior management equity holdings and other transactions*Director and senior management equity holdings*

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

Name	Balance at 1 July 2016	Movement	Balance at 30 June 2017	Changes prior to signing	Balance at signing date
Mr Garry S. Charny	1,627	194,946	196,573	-	196,573
Mr Peter J. Done	500,000	400,000	900,000	-	900,000
Mr John R. Slater	1,700,000	700,000	2,400,000	-	2,400,000
Ms Susan Wheeldon-Steele	-	-	-	-	-
Mr John E. McBain	4,604,549	431,196	5,035,745	-	5,035,745
Mr Jason C. Huljich	2,342,715	2,156,339	4,499,054	-	4,499,054
Mr Nicholas R. Collishaw	850,051	1,413,085	2,263,136	-	2,263,136
Mr Simon W. Holt	-	250,000	250,000	-	250,000

Audited remuneration report (continued)

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

Transactions with key management personnel

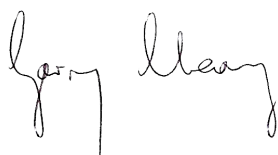
As a matter of Board policy, all transactions with directors and director-related entities are conducted on arms-length commercial or employment terms.

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

- Wolseley Corporate Pty Ltd, a related party of Mr Garry S. Charny, was paid \$478,500 (inclusive of GST) (2016: \$88,000) for corporate advisory fees.
- Mr John R. Slater (personally), Riviera Capital Pty Ltd and Tailwind Consulting Pty Ltd, related parties of Mr. Slater, were paid a total of \$198,985 (inclusive of GST) (2016: \$141,840) for consultancy services. In addition, Tailwind Consulting paid the Group \$2,200 for rental of office space.

For the year 30 June 2016, Henry Davis York, a related party of R. Dobson, was paid \$16,374 (inclusive of GST) for legal consultancy fees.

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



Mr Garry S. Charny
Director
Sydney



Mr Peter J. Done
Director
Sydney

Sydney
23 August 2017

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

To the Directors of Centuria Capital Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Centuria Capital Group for the financial year ended 30 June 2017 there have been:

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

KPMG

Nigel Virgo

Partner

Sydney

23 August 2017

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Centuria Capital Group

ABN 22 095 454 336

Financial report 30 June 2017

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Consolidated statement of comprehensive income

For the year ended 30 June 2017

	Notes	2017 \$'000	2016 ⁽¹⁾ \$'000
Revenue	B2	127,429	53,406
Expenses	B3	(120,327)	(71,058)
Fair value movements of financial instruments and property		15,394	11,712
Finance costs	B4	(7,366)	(2,707)
Net movement in policyholder liability		16,589	29,539
Profit before tax		31,719	20,892
Income tax expense	B5	(5,424)	(8,769)
Profit after tax		26,295	12,123
Profit after tax is attributable to:			
Centuria Capital Limited		5,500	12,303
Centuria Capital Fund (non-controlling interests)		11,823	-
External non-controlling interests		8,972	(180)
Profit after tax		26,295	12,123
Other comprehensive income		-	-
Total comprehensive income for the year		26,295	12,123
Total comprehensive income for the year is attributable to:			
Centuria Capital Limited		5,500	12,303
Centuria Capital Fund (non-controlling interests)		11,823	-
External non-controlling interests		8,972	(180)
Total comprehensive income/(loss)		26,295	12,123
Profit after tax attributable to:			
Centuria Capital Limited		5,500	12,303
Centuria Capital Fund (non-controlling interests)		11,823	-
Profit after tax attributable to Centuria Capital Group securityholders		17,323	12,303
		Cents	Cents
Earning per Centuria Capital Group security			
Basic (cents per stapled security)	B6	11.5	15.8
Diluted (cents per stapled security)	B6	11.4	15.1
Earnings per Centuria Capital Limited share			
Basic (cents per share)		10.3	15.8
Diluted (cents per share)		10.2	15.1

(1) The previously disclosed revenue and expenses attributable to Benefit Funds of \$20,927,000 and \$19,578,000, respectively, have been split and reclassified on a line by line basis. The previously disclosed income tax expense relating to Benefit Funds of \$1,349,000 and income tax expense relating to shareholders of \$7,420,000 have been reclassified to income tax expense of \$8,769,000. Refer to Note A2 for further details.

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

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Consolidated statement of financial position

As at 30 June 2017

	Notes	2017 \$'000	2016 ⁽¹⁾ \$'000
Assets			
Cash and cash equivalents	D2	74,382	84,323
Receivables	C2	16,380	17,450
Financial assets	C3	535,459	383,375
Property held for development		-	35,716
Investment properties	C4	257,100	-
Other assets		1,551	1,917
Intangible assets	C5	157,663	53,025
Total assets		1,042,535	575,806
Liabilities			
Payables	C6	33,895	9,269
Liability to 360 Capital Group		56,456	-
Provisions		1,301	1,155
Borrowings	C7	236,103	59,951
Interest rate swaps at fair value		19,324	20,778
Benefit Funds policyholder's liability		348,014	349,878
Provision for income tax	B5(b)	3,171	985
Deferred tax liabilities	B5(c)	2,320	6,123
Total liabilities		700,584	448,139
Net assets		341,951	127,667
Equity			
Equity attributable to Centuria Capital Limited			
Contributed equity	C9	77,323	88,058
Reserves		1,551	1,459
Retained earnings		11,694	28,452
Total equity attributable to Centuria Capital Limited		90,568	117,969
Equity attributable to Centuria Capital Fund (non-controlling interests)			
Contributed equity	C9	170,672	-
Retained earnings		4,844	-
Total equity attributable to Centuria Capital Fund (non-controlling interests)		175,516	-
Total equity attributable to Centuria Capital Group securityholders		266,084	117,969
Equity attributable to external non-controlling interests			
Contributed equity		45,367	9,883
Retained earnings		30,500	(185)
Total equity attributable to external non-controlling interests		75,867	9,698
Total equity		341,951	127,667

(1) The previously disclosed asset and liabilities in respect of benefit fund policy holders of \$353,528,000 and \$353,528,000, respectively, have been split and reclassified on a line by line basis. Refer to Note A2 for further details.

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

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Consolidated statement of changes in equity

For the year ended 30 June 2017

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

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

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Centuria Capital Limited			Centuria Capital Fund (non-controlling interests)			External non-controlling interests					
	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Contributed equity \$'000	Retained earnings \$'000	Total \$'000	Total attributable to Centuria Capital Group securityholders \$'000	Contributed equity \$'000	Retained earnings \$'000	Total \$'000	Total equity \$'000
Balance at 1 July 2015	88,112	784	19,982	108,878	-	-	-	108,878	9,978	(5)	9,973	118,851
Profit/(loss) for the year	-	-	12,303	12,303	-	-	-	12,303	-	(180)	(180)	12,123
Total comprehensive income for the year	-	-	12,303	12,303	-	-	-	12,303	-	(180)	(180)	12,123
Equity based payment	57	675	-	732	-	-	-	732	-	-	-	732
Dividends and distributions paid/accrued	-	-	(3,833)	(3,833)	-	-	-	(3,833)	-	-	-	(3,833)
Share buy-back	(111)	-	-	(111)	-	-	-	(111)	-	-	-	(111)
Fund establishment costs	-	-	-	-	-	-	-	-	(95)	-	(95)	(95)
Balance at 30 June 2016	88,058	1,459	28,452	117,969	-	-	-	117,969	9,883	(185)	9,698	127,667

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

Consolidated statement of cash flows

For the year ended 30 June 2017

	2017 \$'000	2016 \$'000
Cash flows from operating activities		
Management fees received	35,422	24,429
Rent received	16,440	-
Interest received	10,146	4,217
Distributions received	7,976	13,311
Interest paid	(5,918)	(2,236)
Income taxes paid	(7,042)	(2,424)
Payments to suppliers and employees	(45,008)	(21,908)
Proceeds from sale of property held for development	65,175	-
Payments for property held for development	(12,844)	(12,710)
Applications - Benefits Funds	27,711	27,517
Redemptions - Benefits Funds	(40,561)	(66,956)
Net cash provided by/(used in) operating activities	51,497	(36,760)
Cash flows from investing activities		
Proceeds from sale of investments	40,387	-
Proceeds from sale of related party investments	20,763	-
Cash balance on acquisition of subsidiaries	10,619	-
Cash balance on consolidation of property funds	6,937	-
Repayment of loans by related parties	7,072	-
Collections from reverse mortgage holders	1,209	3,446
Payments for property, plant and equipment	(115)	(59)
Purchase of investments in related parties	(150,138)	-
Purchase of subsidiaries	(104,419)	-
Loans to related parties for purchase of properties	(13,669)	-
Payments in relation to investment properties	(1,300)	-
Purchase of other investments	(1,186)	(38,567)
Benefit Funds (acquisitions)/disposals of investments in financial assets	(55,021)	79,843
Net cash (used in)/provided by investing activities	(238,861)	44,663
Cash flows from financing activities		
Proceeds from borrowings	163,604	40,542
Repayment of borrowings	(114,108)	(1,503)
Proceeds from issues of securities to securityholders of Centuria Capital Group	153,000	-
Equity raising costs paid	(6,750)	-
Capitalised borrowing costs paid	(1,937)	-
Payment for shares buy-back	-	(111)
Distributions paid to securityholders of Centuria Capital Group	(4,092)	(3,833)
Proceeds from issues of securities to external non-controlling interests	5,526	-
Distributions paid to external non-controlling interests	(17,820)	-
Net cash provided by financing activities	177,423	35,095
Net (decrease)/increase in cash and cash equivalents	(9,941)	42,998
Cash and cash equivalents at the beginning of the financial year	84,323	41,325
Cash and cash equivalents at end of year	74,382	84,323

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

A About the report

A1 General information

At an Extraordinary General Meeting on 10 October 2016, the shareholders of Centuria Capital Limited ABN 22 095 454 336 (the 'Company'), incorporated and listed on the Australian Securities Exchange ('ASX') trading under the ticker code 'CNI', approved the proposal to establish the Centuria Capital Group (the 'Group') by amending the Company's Constitution to allow the stapling of units in the trust, Centuria Capital Fund ('CCF') ARSN 613 856 358, to their shares.

Under the stapling, the Company's existing business was split into two parts. The Company continues to be the operating entity, carrying on its property funds management, active asset management and investment bond management business, with the Company's property investments transferred to CCF.

The shares in the Company and the units in CCF are stapled to trade together as a single stapled security ('Stapled Security') on the ASX as 'Centuria Capital Group' under an unchanged ASX ticker code. The Stapled Securities commenced trading on the day after the stapling which occurred on 17 October 2016.

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

Statement of compliance

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

The consolidated financial statements of the Group comprising the Company (as 'Parent') and its controlled entities for the year ended 30 June 2017 were authorised for issue by the Group's Board of Directors on 23 August 2017.

Basis of preparation

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

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

Rounding of amounts

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

A2 Significant accounting policies

The accounting policies and methods of computation in the preparation of the consolidated financial statements are consistent with those adopted in the previous financial year ended 30 June 2016 unless specifically outlined below or in the relevant notes to the consolidated financial statements.

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

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

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

Consolidation of Benefit Funds

A subsidiary of the Company, Centuria Life Limited ('CLL'), is a friendly society in accordance with the *Life Insurance Act 1995* (the 'Act'). The funds operated by CLL, and any trusts controlled by those Funds, are treated as statutory funds in accordance with the Act. These statutory funds are required to be consolidated in accordance with accounting standards.

For the year ended 30 June 2017 and going forward, the assets, liabilities, income and expenses of these statutory funds have been included on a line by line basis on the primary financial statements and disclosure notes. Where relevant, comparative primary financial statements and disclosures have been restated to ensure consistency in presentation of financial information across the applicable comparative periods. This change has been made as it provides more relevant and comparable information.

The table below shows how the comparative balances of these statutory funds have been reclassified:

	Actual 2016 \$'000	Restated 2016 \$'000	Movement
Profit & Loss			
Revenue	66,936	53,406	(13,530)
Expenses attributable to Benefit Funds	(19,578)	-	19,578
Other expenses	(29,252)	(71,058)	(41,806)
Fair value movement of financial instruments	5,493	11,712	6,219
Finance costs	(2,707)	(2,707)	-
Net movement in policy holder liabilities	-	29,539	29,539
Profit before tax	<u>20,892</u>	<u>20,892</u>	-
Income tax expense	(7,420)	(8,769)	(1,349)
Income tax expense related to the Benefit Funds	(1,349)	-	1,349
Profit after tax	<u>12,123</u>	<u>12,123</u>	-

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A2 Significant accounting policies (continued)

Consolidation of Benefit Funds (continued)

Balance Sheet	Actual 2016 \$'000	Restated 2016 \$'000	Movement
Cash & cash equivalents	13,157	84,323	71,166
Trade & other receivables	19,656	24,522	4,866
Financial assets at fair value	47,194	324,742	277,548
Other assets	1,917	1,917	-
Property held for development	35,716	35,716	-
Reverse mortgages at fair value	51,561	51,561	-
Intangible assets	53,025	53,025	-
Assets in respect of Benefit Funds	353,528	-	(353,528)
Total assets	575,754	575,806	52
Trade & other payables	9,190	9,269	79
Provisions	1,155	1,155	-
Borrowings	59,951	59,951	-
Interest rate swap at fair value	20,778	20,778	-
Income tax payable	985	985	-
Liabilities in respect of Benefit Funds	353,528	349,878	(3,650)
Deferred tax liability	2,500	6,123	3,623
Total liabilities	448,087	448,139	52
Net assets	127,667	127,667	-

A3 Use of judgements and estimates

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

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

- Note C4 Investment properties
- Note C5 Intangible assets
- Note F3 Financial instruments

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A4 Segment summary

As at 30 June 2017 the Group has five reportable operating segments including a new Co-Investments operating segment. These reportable operating segments are the divisions which report to the Group's Chief Executive Officer and Board of Directors for the purpose of resource allocation and assessment of performance.

The reportable operating segments are:

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

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

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

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

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

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

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

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B Business performance

B1 Segment profit and loss

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

Business performance

B1 Segment profit and loss (continued)

For the year ended 30 June 2016	Notes	Property Funds Management \$'000	Investment Bonds Management \$'000	Co- Investments \$'000	Reverse Mortgages \$'000	Corporate \$'000	Operating profit \$'000	Non operating items \$'000	Benefits Funds \$'000	Controlled Property Funds \$'000	Eliminations \$'000	Statutory profit \$'000
Revenue	B2	30,511	9,719	1,748	2,336	421	44,735	-	16,915	19	(8,263)	53,406
Expenses	B3	(12,258)	(5,264)	-	(646)	(6,695)	(24,863)	(3,996)	(49,117)	(376)	7,294	(71,058)
Fair value movements of financial instruments and property		-	-	-	-	-	-	7,700	4,012	-	-	11,712
Finance costs	B4	-	-	(146)	(1,949)	(612)	(2,707)	-	-	-	-	(2,707)
Net movement in policyholder liabilities		-	-	-	-	-	-	-	29,539	-	-	29,539
Profit/(Loss) before tax		18,253	4,455	1,602	(259)	(6,886)	17,165	3,704	1,349	(357)	(969)	20,892
Income tax expense	B5	(5,488)	(1,939)	(524)	78	2,052	(5,821)	(1,998)	(1,349)	399	-	(8,769)
Profit/(Loss) after tax		12,765	2,516	1,078	(181)	(4,834)	11,344	1,706	-	42	(969)	12,123
Profit/(loss) after tax attributable to:												
Centuria Capital Limited		12,765	2,516	1,078	(181)	(4,834)	11,344	1,706	-	222	(969)	12,303
Profit/(loss) after tax attributable to Centuria Capital Group securityholders		12,765	2,516	1,078	(181)	(4,834)	11,344	1,706	-	222	(969)	12,303
Non-controlling interests		-	-	-	-	-	-	-	-	(180)	-	(180)
Profit/(loss) after tax		12,765	2,516	1,078	(181)	(4,834)	11,344	1,706	-	42	(969)	12,123

Business performance

B2 Revenue

	2017 \$'000	2016 \$'000
Management fees from property funds	18,294	9,616
Property transaction fees	6,948	3,041
Property performance fees	1,239	15,813
Property sales fees	966	1,143
Management fees from Benefit Funds	2,992	2,219
Proceeds from sale of property held for development	59,250	-
Interest revenue	12,871	7,246
Rent and recoverable outgoings	11,098	51
Distribution/dividend revenue	9,633	8,362
Premiums - discretionary participation features only	3,961	5,762
Other income	177	153
	127,429	53,406

Recognition and measurement

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

(i) Management fees

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

(ii) Property transaction fees, sale fees and performance fees

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

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

(iii) Sale of development properties

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

(iv) Interest revenue

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

(v) Rent and recoverable outgoings

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

Recoverable outgoings are recognised on an accrual basis.

(vi) Distribution/dividend revenue

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

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Business performance

B2 Revenue (continued)

(a) Transactions with related parties

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

	2017	2016
	\$	\$
Management fees from Property Funds managed by Centuria	18,293,876	9,616,361
Property transaction fees from Property Funds managed by Centuria	6,947,527	3,040,500
Distributions from Property Funds managed by Centuria	5,452,630	1,082,754
Performance fees from Property Funds managed by Centuria	1,239,839	15,813,264
Management fees from Over Fifty Guardian Friendly Society	2,991,534	2,219,025
Sales fees from Property Funds managed by Centuria	966,160	1,142,500
	<u>35,891,566</u>	<u>32,914,404</u>

(i) Terms and conditions of transactions with related parties

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

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

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

B3 Expenses

	2017	2016
	\$'000	\$'000
Employee benefits expense	17,468	14,855
Consulting and professional fees	2,819	2,161
Property outgoings and fund expenses	5,787	-
Corporate restructure and transaction costs	2,749	1,217
Administration fees	2,570	2,437
Impairment of seed capital	190	2,779
Cost of property held for development sold	50,670	-
Claims - discretionary participation features only	31,708	41,705
Other expenses	6,366	5,904
	<u>120,327</u>	<u>71,058</u>

Business performance

B3 Expenses (continued)

(a) Transactions with key management personnel

(i) Transactions with directors

For transactions with directors, refer to details included in the Audited remuneration report on page 19.

(ii) Key management personnel compensation

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

	2017	2016
	\$	\$
Short-term employee benefits	4,803,187	2,897,468
Post-employment benefits	126,660	102,988
Other long-term employment benefits	49,316	48,710
Share-based payments	553,731	577,382
	<u>5,532,894</u>	<u>3,626,548</u>

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

B4 Finance costs

	2017	2016
	\$'000	\$'000
Operating interest charges	2,871	730
Bank loans in Controlled Property Funds interest charges	2,616	-
Reverse mortgage facility interest charges	1,832	1,949
(Gain)/loss on derivatives on fair value hedges	(6,566)	7,738
Loss/(gain) on financial assets fair value hedges	6,566	(7,738)
Other finance costs	47	28
	<u>7,366</u>	<u>2,707</u>

Recognition and measurement

The Group's finance costs include:

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

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Business performance

B5 Taxation

Current tax expense in respect of the current year	9,227	5,313
	<u>9,227</u>	<u>5,313</u>
Deferred tax expense relating to the origination and reversal of temporary differences	(4,126)	3,456
Deferred tax charged directly to equity	323	-
Income tax expense	<u>5,424</u>	<u>8,769</u>

(a) Reconciliation of income tax expense

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

	2017 \$'000	2016 \$'000
Profit before tax	31,719	20,892
Less: profit not subject to income tax	<u>(10,863)</u>	<u>-</u>
	20,856	20,892
Income tax expense calculated at 30%	6,257	6,268
Add/(deduct) tax effect of amounts which are not deductible/(assessable)		
Tax offset for franked dividends	(313)	-
Non-allowable expenses - seed capital impairment	57	834
Non-allowable expenses - other	706	1,667
Recognition of previously unbooked capital losses	(1,193)	-
Adjustments to current tax in relation to prior years	<u>(90)</u>	<u>-</u>
Income tax expense	<u>5,424</u>	<u>8,769</u>

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

(b) Current tax assets and liabilities

	2017 \$'000	2016 \$'000
Current tax assets/(liabilities) attributable to:		
Benefit Funds	(387)	841
Securityholders	<u>(2,784)</u>	<u>(1,826)</u>
	<u>(3,171)</u>	<u>(985)</u>

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Business performance

B5 Taxation (continued)

(c) Movement of deferred tax balances

	Opening balance \$'000	Movement \$'000	Closing balance \$'000
Financial year ended 30 June 2017			
Deferred tax assets			
Provisions	1,795	412	2,207
Financial derivatives	2,730	1,290	4,020
Capital losses	203	27,437	27,640
Transaction costs	-	374	374
Deferred tax liabilities			
Indefinite life management rights	-	(27,638)	(27,638)
Accrued income	(2,509)	2,219	(290)
Unrealised gain/(loss) on financial assets	(4,316)	(711)	(5,027)
Prepayments	(6)	-	(6)
Fair value measurements in mortgage assets	(4,020)	420	(3,600)
	(6,123)	3,803	(2,320)
Financial year ended 30 June 2016			
Deferred tax assets			
Provisions	1,211	584	1,795
Financial derivatives	3,396	(666)	2,730
Deferred loss on financial assets	50	24	74
Capital losses	92	111	203
Deferred tax liabilities			
Accrued income	(525)	(1,984)	(2,509)
Unrealised gain/(loss) on financial assets	(3,561)	(829)	(4,390)
Prepayments	(75)	69	(6)
Fair value measurements in mortgage assets	(3,255)	(765)	(4,020)
	(2,667)	(3,456)	(6,123)

(d) Capital tax losses

At 30 June 2017, the Group has approximately \$373,750 of tax effected unrecognised capital tax losses.

Recognition and measurement

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

(i) Current tax

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

(ii) Deferred tax

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

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

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B5 Taxation (continued)

Recognition and measurement (continued)

(ii) *Deferred tax (continued)*

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

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

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

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

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

(iii) *Tax consolidation*

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

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

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

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

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

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Business performance

B6 Earnings per security

	2017 Cents	2016 Cents
Basic earnings per security	11.5	15.8
Diluted earnings per security	11.4	15.1

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

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

	2017	2016
Weighted average number of ordinary securities (basic)	150,835,465	76,649,506
Weighted average number of ordinary securities (diluted) ⁽ⁱ⁾	152,619,939	80,115,310

- (i) The weighted average number of ordinary securities used in the calculation of diluted earnings per security is determined as if 30 June 2017 was the end of the performance period of the grants of Rights under the LTI plan. All Rights that would have vested if 30 June 2017 was the end of the performance period are deemed to have been issued at the start of the financial year in accordance with the applicable accounting standard.

B7 Dividends and distributions

	2017		2016	
	Cents per security	Total \$'000	Cents per share	Total \$'000
Dividends/distributions paid during the year				
Final year-end dividend (fully franked)	3.00	2,316	2.75	2,109
Stapling dividend (fully franked)	17.27	13,331	-	-
Interim dividend (fully franked)	1.50	1,158	2.25	1,724
Interim distribution	0.80	618	-	-
Dividends/distributions declared during the year				
Final dividend (fully franked) ⁽ⁱ⁾	2.40	5,453	-	-
Final distribution ⁽ⁱ⁾	2.80	6,361	-	-
Dividends and distributions paid to Centuria Capital Group securityholders ⁽ⁱⁱ⁾	27.77	29,237	5.00	3,833

⁽ⁱ⁾ The Group declared a final dividend/distribution in respect of the year ended 30 June 2017 of 5.2 cents per stapled security which included a dividend of 2.40 cents per share and a distribution of 2.80 cents per security. The final dividend had a record date of 28 June 2017 is payable on 24 August 2017. The total amount payable of \$11,814,126 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 \$8,121,633 to external non-controlling Interests.

(a) Franking credits

	2017 \$'000	2016 \$'000
Amount of franking credits available to shareholders of the Company for subsequent financial years ⁽ⁱ⁾	5,919	8,417

- (i) Before taking into account the impact of the final dividend payable on 24 August 2017.

C Assets and liabilities

C1 Segment balance sheet

Financial year ended 30 June 2017	Notes	Property Funds Management \$'000	Investment Bonds Management \$'000	Co-Investments \$'000	Reverse Mortgages \$'000	Corporate \$'000	Operating balance sheet \$'000	Benefits Funds \$'000	Controlled Property Funds \$'000	Eliminations \$'000	Statutory balance sheet \$'000
Assets											
Cash and cash equivalents	D2	11,403	4,451	29,211	1,252	9,417	55,734	9,869	8,779	-	74,382
Receivables	C2	8,809	1,117	2,766	(25)	675	13,342	2,924	889	(775)	16,380
Financial assets	C3	-	-	151,354	46,186	-	197,540	340,271	10,460	(12,812)	535,459
Property investments	C4	-	-	-	-	-	-	-	257,100	-	257,100
Other assets		124	38	-	-	1,389	1,551	-	-	-	1,551
Intangible assets	C5	157,663	-	-	-	-	157,663	-	-	-	157,663
Total assets		177,999	5,606	183,331	47,413	11,481	425,830	353,064	277,228	(13,587)	1,042,535
Liabilities											
Payables	C6	922	957	8,167	1,235	12,542	23,823	22	10,825	(775)	33,895
Liability to 360 Capital Group		-	-	7,938	-	-	7,938	-	48,518	-	56,456
Provisions		624	-	-	-	677	1,301	-	-	-	1,301
Borrowings	C7	(6)	-	98,125	9,147	-	107,266	-	131,487	(2,650)	236,103
Interest rate swap at fair value		-	-	-	18,190	-	18,190	-	1,134	-	19,324
Benefit Funds policy holders' liability		-	-	-	-	-	-	348,014	-	-	348,014
Provision for income tax	B5(b)	3,485	199	(123)	1,720	(2,497)	2,784	387	-	-	3,171
Deferred tax liability	B5(c)	422	(18)	-	(1)	(2,724)	(2,321)	4,641	-	-	2,320
Total liabilities		5,447	1,138	114,107	30,291	7,998	158,981	353,064	191,964	(3,425)	700,584
Net assets		172,552	4,468	69,224	17,122	3,483	266,849	-	85,264	(10,162)	341,951

Assets and liabilities

C1 Segment balance sheet (continued)

Financial year ended 30 June 2016	Notes	Property Funds Management \$'000	Investment Bonds Management \$'000	Co- Investments \$'000	Reverse Mortgages \$'000	Corporate \$'000	Operating balance sheet \$'000	Benefits Funds \$'000	Controlled Property Funds \$'000	Eliminations \$'000	Statutory balance sheet \$'000
Assets											
Cash and cash equivalents	D2	5,161	6,153	-	1,054	580	12,948	71,166	209	-	84,323
Receivables	C2	10,766	1,147	734	-	878	13,525	3,971	-	(46)	17,450
Financial assets	C3	-	-	57,930	51,561	86	109,577	277,548	-	(3,750)	383,375
Property held for development		-	-	-	-	-	-	-	36,726	(1,010)	35,716
Other assets		154	38	-	58	1,130	1,380	-	537	-	1,917
Intangible assets	C5	53,025	-	-	-	-	53,025	-	-	-	53,025
Total assets		69,106	7,338	58,664	52,673	2,674	190,455	352,685	37,472	(4,806)	575,806
Liabilities											
Payables	C6	3,082	508	146	834	3,941	8,511	25	779	(46)	9,269
Provisions		619	-	-	-	536	1,155	-	-	-	1,155
Borrowings	C7	-	-	26,750	9,800	-	36,550	-	23,401	-	59,951
Interest rate swap at fair value		-	-	-	20,753	-	20,753	-	25	-	20,778
Benefit Funds policy holders' liability		-	-	-	-	-	-	349,878	-	-	349,878
Provision for income tax	B5(b)	23	4	-	-	1,799	1,826	(841)	-	-	985
Deferred tax liability	B5(c)	2,612	-	-	1,296	(1,008)	2,900	3,623	(109)	(291)	6,123
Total liabilities		6,336	512	26,896	32,683	5,268	71,695	352,685	24,096	(337)	448,139
Net assets		62,770	6,826	31,768	19,990	(2,594)	118,760	-	13,376	(4,469)	127,667

Assets and liabilities

C2 Receivables

	2017 \$'000	2016 \$'000
Receivables from related parties (refer to note C2(a))	8,896	10,849
Other receivables	7,484	6,601
	<u>16,380</u>	<u>17,450</u>

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

(a) Receivables from related parties

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

	2017 \$	2016 \$
Monthly management fees owing from property funds	2,627,836	923,441
Acquisition fee receivable from Centuria Sandgate Road Fund	2,125,000	-
Distribution receivable from Centuria Industrial REIT	1,607,724	-
Recoverable expenses owing from property funds	1,016,155	-
Distribution receivable from Centuria Metropolitan REIT	662,672	110,111
Receivable from Over Fifty Guardian Friendly Society Limited	524,360	216,343
Sales fee receivable from Centuria Opportunity Fund No.2	-	9,600,000
Interest receivable from Centuria Sandgate Road Fund	305,933	-
Distribution receivable from Centuria Scarborough House Fund	26,455	-
	<u>8,896,135</u>	<u>10,849,895</u>

Recognition and measurement

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

C3 Financial assets

	2017 \$'000	2016 \$'000
Investments in trusts, shares and other financial instruments at fair value	324,497	305,831
Investment in related party unit trusts at fair value (refer to Note C3(a))	153,807	18,911
Loans receivable from related parties (refer to note C3(b))	10,969	7,072
Reverse mortgage receivables ⁽ⁱ⁾	27,675	26,507
Reverse mortgages - hedged item fair value adjustment	18,511	25,054
	<u>535,459</u>	<u>383,375</u>

(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.

	Fair value \$	2017 Units held	Ownership %	Fair value \$	2016 Units held	Ownership %
Financial assets held by the Group						
Centuria Industrial REIT	81,877,894	33,148,975	15.64%	-	-	0%
Centuria Metropolitan REIT	38,858,876	15,481,624	8.68%	5,544,391	2,590,837	2.17%
Centuria Zenith Fund	6,050,000	5,000,000	6.35%	-	-	0%
Centuria Scarborough House Fund	4,365,826	4,622,826	10.03%	-	-	0%
Centuria SOP Fund	3,198,461	3,204,061	10.52%	-	-	0%
Centuria Woden Green Estate Development Fund	1,252,500	1,252,500	20.53%	-	-	0%
Centuria ATP Fund	650,000	500,000	0.81%	500,000	500,000	0.81%
Centuria 203 Pacific Highway Fund	104,000	100,000	0.33%	-	-	0%
Centuria 19 Corporate Drive Fund	90,213	76,452	0.48%	74,000	75,452	0.48%
Centuria 2 Wentworth Street Fund	65,000	50,000	0.18%	-	-	0%
Centuria 8 Central Avenue Fund 2	31,500	25,000	0.04%	-	-	0%
Centuria Australian Shares Bond	24,260	10,000	0.18%	21,866	10,000	0.22%
Centuria Balanced Bond	19,254	9,821	0.09%	16,794	9,821	0.11%
Centuria High Growth Bond	18,785	10,000	0.27%	17,530	10,000	0.27%
Centuria Opportunity Fund 2	-	-	0%	502,775	141,531	0.69%
Centuria Australian Property and Mortgage Bond Fund	-	-	0%	-	18	0%
	<u>136,606,569</u>			<u>6,677,356</u>		
Financial assets held by the Benefit Funds						
Centuria 8 Australia Avenue Fund	1,562,198	1,458,635	7.69%	1,327,358	1,458,635	7.69%
Centuria Metropolitan REIT	13,168,321	5,246,343	2.94%	10,906,175	5,096,343	4.27%
Centuria Industrial REIT	2,470,000	1,000,000	0.48%	-	-	0%
	<u>17,200,519</u>			<u>12,233,533</u>		
	<u>153,807,088</u>			<u>18,910,889</u>		

Assets and liabilities

C3 Financial assets (continued)

(b) Loans receivable from related parties

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

	2017	2016
	\$	\$
Centuria Sandgate Road Fund	10,968,500	-
Centuria Zenith Fund	-	7,072,069
	<u>10,968,500</u>	<u>7,072,069</u>

Recognition and measurement

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

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

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

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

C4 Investment properties

Property	Fair Value 2017 \$'000	Capitalisation rate (%)	Most recent independent valuer cap rate (%)	Last independent valuation date	Independent valuer firm
111 St George Terrace, Perth WA	142,500	7.25%	7.25%	Dec-16	Savills
City Centre Plaza, Rockhampton Qld	46,000	7.00%	7.00%	Dec-16	CBRE
Havelock House, West Perth WA	28,000	7.00%	7.00%	Dec-16	Colliers
Windsor Marketplace, Windsor NSW	22,100	6.50%	6.50%	Jun-17	Savills
441 Murray Street, Perth WA	18,500	8.00%	8.00%	Dec-16	Savills
Total fair value	<u>257,100</u>				

Recognition and measurement

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

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

C4 Investment properties (continued)

Key estimate and judgements

(a) Valuation techniques and significant unobservable inputs

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

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 the 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

C5 Intangible assets

	2017 \$'000	2016 \$'000
Indefinite life management rights	92,128	-
Goodwill	65,535	53,025
	<u>157,663</u>	<u>53,025</u>

	2017 \$'000	2016 \$'000
Balance at the beginning of the period	53,025	53,025
Acquired goodwill (refer to Note E1(b))	12,510	-
Acquired management rights (refer to Note E1(b))	92,128	-
	<u>157,663</u>	<u>53,025</u>

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.

Recognition and measurement

(i) Indefinite life management rights

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

(ii) Goodwill

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

(iii) Impairment

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units or CGUs). Non-financial assets other than goodwill that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

Key estimates and judgements

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

Revenue

Revenues in 2018 are based on the Board approved budget for 2018 and are assumed to increase at a rate of 7.5% (2016: 7.5%) per annum for years 2019-2021. The directors believe this is a prudent and achievable growth rate based on past experience.

Expenses

Expenses in 2018 are based on the budget for 2018 and are assumed to increase at a rate of 5.0% (2016: 5.0%) per annum for the years 2019-2021. The directors believe this is an appropriate growth rate based on past experience.

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Assets and liabilities

C5 Intangible assets (continued)

Discount rate

Discount rates are determined to calculate the present value of future cash flows. A pre-tax rate of 10.59% (2016: 10.68%) is applied to cash flow projections. In determining the appropriate discount rate, regard has been given to relevant market data as well as Company specific inputs.

Terminal growth rate

Beyond 2021, a growth rate of 3% (2016: 3%), in line with long term economic growth, has been applied to determine the terminal value of the asset.

Sensitivity to changes in assumptions

As at 30 June 2017, the estimated recoverable amount of goodwill relating to the Property Funds Management cash-generating unit exceeded its carrying amount by \$76.8 million (2016: \$49.7 million). The table below shows the key assumptions used in the value in use calculation and the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value:

	Revenue growth rate (average)	Pre-tax discount rate	Expenses growth rate
Assumptions used in value in use calculation	7.50%	10.59%	5.00%
Rate required for recoverable amount to equal carrying value	2.30%	14.50%	11.15%

C6 Payables

	2017 \$'000	2016 \$'000
Sundry creditors ⁽ⁱ⁾	15,322	4,285
Dividend/distribution payable	12,351	-
Accrued expenses	6,222	4,984
	33,895	9,269

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

Recognition and measurement

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

Assets and liabilities

C7 Borrowings

	2017 \$'000	2016 \$'000
Fixed rate secured notes (refer to Note C7(a))	60,000	-
Floating rate secured notes (refer to Note C7(a))	40,000	-
Corporate Facility (refer to Note C7(b))	-	26,750
Reverse mortgage bill facilities and notes (refer to Note C7(c))	9,147	9,800
Bank loans in Controlled Property Funds (refer to Note C7(d))	128,837	-
Development facility	-	23,401
Borrowing costs capitalised	(1,881)	-
	236,103	59,951

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

(a) Secured notes

On 21 April 2017, the Group issued secured notes to the value of \$100,000,000. This consisted of an issue of \$40,000,000 floating rate secured notes and \$60,000,000 7% fixed rate secured notes, maturing on 21 April 2021. These notes are secured against assets within certain subsidiaries of the Centuria Capital Fund Group.

(b) Corporate facility (secured)

The Company has a multi option facility with National Australia Bank. The facility limit is \$30,500,000, maturing 28 February 2018.

	2017 \$'000	2016 \$'000
Total facility available	30,500	30,000
Amount drawn down	-	(26,750)
Bank guarantee utilised ¹	(8,032)	(3,001)
Unused facility available at the end of the period	22,468	249

¹ Bank guarantee is not included in the borrowings note above

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

As at 30 June 2017, the Group had \$9,146,855 (2016: \$9,799,980) 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 2018.

The facility limit is \$15,000,000 (2016: \$15,000,000) and is reassessed every 6 months with a view to reducing the facility in line with the reduction in the reverse mortgage book. Under the facility agreement, surplus funds (being mortgages repaid (including interest) less taxes, administration expenses and any hedge payments) are required to be applied against the facility each month.

	2017 \$'000	2016 \$'000
Reverse mortgage bill facilities and notes	15,000	15,000
Amount used at reporting date	(9,147)	(9,800)
Amount unused at reporting date	5,853	5,200

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Assets and liabilities

C7 Borrowings (continued)

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

Effective 31 December 2016, the Group gained control over four unlisted property funds. Each fund has debt facilities secured by first mortgage over each of the fund's investment property and a first ranking fixed and floating charge over all assets of each of the funds. Details of the amounts drawn and the maturity of each facility are as follows:

Fund	Current/non-current classification	Maturity date	Facility limit \$'000	Funds available \$'000	Draw down \$'000	Borrowing costs \$'000	Draw down \$'000
Centuria 111 St Georges Terrace Fund	Non-current	30 June 2019	81,500	10,839	70,661	(128)	70,533
Centuria Retail Fund	Current	30 June 2018	37,400	1,823	35,577	(76)	35,501
Centuria Havelock House Fund	Current	31 May 2018	13,000	1,000	12,000	(14)	11,986
Centuria 441 Murray Street Fund	Current	30 June 2018	12,000	1,159	10,841	(24)	10,817
							128,837

Recognition and measurement

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

C8 Commitments and contingencies

(a) Operating leases

(i) Group as a lessee

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

Future minimum rentals payable under operating leases are as follows:

	2017 \$'000	2016 \$'000
Not longer than 1 year	831	770
Longer than 1 year and not longer than 5 years	1,023	1,769
	1,854	2,539

(ii) Group as a lessor

The Group leases out its investment properties under operating leases.

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

	2017 \$'000	2016 \$'000
Not longer than 1 year	16,212	-
Longer than 1 year and not longer than 5 years	48,310	-
Longer than 5 years	45,432	-
	109,954	-

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Assets and liabilities

C8 Commitments and contingencies (continued)

(b) Contingencies

The Group has bank guarantees of \$8,032,204, comprising \$7,500,000 held to comply with the terms of the Australian Financial Services Licences (AFSL) and \$532,304 for commercial leases with respect to its Sydney and Melbourne office premises.

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

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

Recognition and measurement

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

(i) Group as a lessee

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

(ii) Group as a lessor

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

C9 Contributed equity

	2017		2016	
	No. of securities	\$'000	No. of securities	\$'000
Centuria Capital Limited				
Balance at beginning of the period	76,631,699	88,058	76,756,929	88,112
Share buy-back/shares cancelled	-	-	(125,230)	(111)
Equity based payment	563,034	356	-	57
Return of capital reinvested in CCF	-	(39,205)	-	-
Stapled securities issued	152,621,003	28,826	-	-
Cost of equity raising	-	(712)	-	-
Balance at end of period	229,815,736	77,323	76,631,699	88,058

	2017		2016	
	No. of securities	\$'000	No. of securities	\$'000
Centuria Capital Fund (non-controlling interests)				
Balance at beginning of the period	-	-	-	-
Stapling dividend and return of capital reinvested	77,194,733	52,536	-	-
Stapled securities issued	152,621,003	124,174	-	-
Cost of equity raising	-	(6,038)	-	-
Balance at end of the period	229,815,736	170,672	-	-

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

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

Recognition and measurement

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

D Cash flows

D1 Operating segment cash flows ⁽ⁱ⁾

For the year ended 30 June 2017

	2017 \$'000	2016 \$'000
Cash flows from operating activities		
Management fees received	43,589	25,458
Distributions received	5,301	1,275
Interest received	665	1,089
Payments to suppliers and employees	(33,061)	(20,512)
Income tax paid	(6,084)	(2,799)
Interest paid	(3,343)	(2,261)
Net cash provided by operating activities	7,067	2,250
Cash flows from investing activities		
Proceeds from sale of investments	47,757	-
Proceeds from sale of related party investments	20,763	-
Cash balance on acquisition of subsidiaries	10,619	-
Repayment of loans by related parties	7,072	-
Collections from reverse mortgage holders	1,209	3,446
Purchase of investments in related parties	(145,697)	-
Purchase of subsidiaries	(104,419)	-
Loans to related parties for purchase of properties	(13,669)	-
Purchase of other investments	(620)	(38,475)
Payments for plant and equipment	(115)	(54)
Net cash used in investing activities	(177,100)	(35,083)
Cash flows from financing activities		
Proceeds from borrowings	155,000	26,750
Proceeds from issue of securities	153,000	-
Repayment of borrowings	(82,403)	(1,503)
Equity raising costs paid	(6,750)	-
Distributions paid	(4,092)	(3,833)
Capitalised borrowing costs paid	(1,936)	-
Payment for share buy-back	-	(111)
Net cash provided by financing activities	212,819	21,303
Net increase/(decrease) in operating cash and cash equivalents	42,786	(11,530)
Cash and cash equivalents at the beginning of the period	12,948	24,478
Cash and cash equivalents at the end of the period	55,734	12,948

(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 26 of the consolidated financial statements for the full statutory cash flow statement of the Group.

Cash flows

D2 Cash and cash equivalents

Included in cash and cash equivalents attributable to shareholders is \$15,572,198 (2016: \$78,373,000) relating to amounts held by Centuria Life Limited, Senex Warehouse Trust No.1 and the Benefit Funds which is not readily available for use by the Group.

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

	2017 \$'000	2016 \$'000
Profit for the year	26,295	12,123
Add (deduct) non-cash items:		
Depreciation and amortisation	365	330
Impairment of related party receivable	-	2,779
Share-based payment expense	447	732
Amortisation of borrowing costs	167	-
Fair value movement of financial assets	(4,171)	(8,006)
Interest revenue from reverse mortgages	(2,377)	(2,300)
Unrealised foreign exchange loss	-	28
Unrealised gain on investment properties	(3,631)	-
Amortisation of lease incentives	3,423	-
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Receivables	5,762	(7,498)
Prepayments	117	(256)
Property held for development	35,716	(12,706)
Increase/(decrease) in liabilities:		
Other payables	(11,009)	4,084
Tax provision	2,186	(172)
Deferred tax liability	(3,803)	7,247
Provisions	146	(109)
Policyholder liability	1,864	(33,036)
Net cash flows provided by/(used in) operating activities	51,497	(36,760)

Recognition and measurement

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

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E Group Structure

E1 Business combination

(a) Stapling

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

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

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

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

(b) 360 Capital acquisition

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

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

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

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

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

Group Structure

E1 Business combination (continued)

(b) 360 Capital acquisition (continued)

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

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

As at 30 June 2017, the call and put option liability balance is \$54,693,069 and the contingent consideration balance is \$1,763,236.

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

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

(i) Transaction related costs

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

(ii) Contingent consideration

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

Recognition and measurement

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

Group Structure

E2 Interests in material subsidiaries

The Group's principal subsidiaries at 30 June 2017 are set out below. Unless otherwise stated, they have issued capital consisting solely of ordinary shares or units that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The subsidiaries of the Group were incorporated in Australia which is also their principal place of business. The parent entity of the Group is Centuria Capital Limited.

Name of subsidiary	Ownership interest %	
	2017	2016
Centuria Capital Fund	0% (100% NCI)	n/a
Centuria Life Limited	100%	100%
Over Fifty Seniors Equity Release Pty Ltd	100%	100%
Senex Warehouse Trust No. 1	100%	100%
Centuria Property Funds Limited	100%	100%
Centuria Property Funds No. 2 Limited	100%	n/a
Centuria Properties No. 3 Limited	100%	n/a
Centuria Institutional Investments No. 3 Pty Limited	100%	n/a
A.C.N. 062 671 872 Pty Limited	100%	n/a
Centuria Strategic Property Limited	100%	100%
Centuria Funds Management Limited	100%	n/a
Centuria Investment Holdings Pty Limited	100%	100%
Centuria Finance Pty Ltd	100%	100%
Centuria Property Services Pty Limited	100%	100%
Belmont Road Management Pty Limited	100%	100%
Belmont Road Development Pty Limited	100%	100%
Centuria Capital No. 2 Fund	100%	100%
Centuria Capital No. 2 Office Fund	100%	n/a
Centuria Capital No. 2 Industrial Fund	100%	n/a
Centuria Capital No. 3 Fund	100%	n/a
Centuria Belmont Road Development Fund	27%	27%
Centuria Diversified Property Fund	54%	100%

During the year, as part of the 360 Capital Transaction, the Group gained control over four unlisted property funds including Centuria 111 St Georges Terrace Fund, Centuria Retail Fund, Centuria Havelock House Fund and Centuria 441 Muarry Street Fund. These funds have been consolidated in these financial statements.

Recognition and measurement

(i) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

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

Group Structure

E3 Parent entity disclosure

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

	2017	2016
	\$'000	\$'000
Result of parent entity		
Profit or loss for the year	15,557	3,399
Total comprehensive income for the year	15,557	3,399
Financial position of parent entity at year end		
Total assets	76,921	117,350
Total liabilities	(11,128)	(34,213)
Net assets	65,793	83,137

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

Total equity of the parent entity comprising of:

Share capital	77,323	88,033
Share-based incentive reserve	1,551	1,459
Retained earnings/(loss)	(13,081)	(6,380)
Total equity	65,793	83,112

(a) Guarantees entered into by the parent entity

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

(b) Commitments and contingent liabilities of the parent entity

The parent entity has bank guarantees of \$8,032,204, comprising \$7,500,000 held on behalf of its subsidiaries to comply with the terms of the Australian Financial Services Licences (AFSL) and \$532,304 for commercial leases with respect to its Sydney and Melbourne office premises.

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

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

F Other

F1 Share-based payment arrangements

(a) LTI Plan details

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

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

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

Further details of the LTI Plan are included in the Audited remuneration report from page 12 to page 14.

(b) Measurement of fair values

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

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

	Tranche 2	Tranche 3	Tranche 4
Expected vesting date	31 August 2017	31 August 2018	31 August 2019
Share price at the grant date	\$0.91	\$0.96	\$1.02
Expected life	2.6 years	2.6 years	2.7 years
Volatility	25%	20%	20%
Risk free interest rate	1.94%	1.85%	1.94%
Dividend yield	4.3%	5.4%	5.7%

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

Performance Condition	Tranche 2	Tranche 3	Tranche 4
EPS	\$0.81	\$0.87	\$0.88
Growth in FUM	\$0.81	\$0.87	\$0.88
Absolute TSR	\$0.28	\$0.19	\$0.16

During the year, share based payment expenses were recognised of \$448,247 (2016: \$675,000).

Recognition and measurement

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

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

F2 Guarantees to Benefit Fund policyholders

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

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

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

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

F3 Financial instruments

(a) Management of financial instruments

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

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

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

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

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

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

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

F3 Financial instruments (continued)

(b) Capital risk management

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

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

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

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

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

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

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

(c) Fair value of financial instruments

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

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

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

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

- the weighted average reverse mortgage holders' age is 79 years;
- the future cash flows calculation is related to borrowers' mortality rates and mortality improvements. The data is sourced from mortality tables provided by the actuary;
- fixed or variable interest rates charged to borrowers are used to project future cash flows;
- a redemption rate, which is based on historical loan redemption experience, applies to future cash flow forecast; and
- year-end yield curve is used to discount future cash flows back to 30 June 2017 to determine the fair value.

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F3 Financial instruments (continued)

(c) Fair value of financial instruments (continued)

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

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

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

- the weighted average reverse mortgage holders' age is 79 years;
- the expected future cash flows in relation to the swaps are based on reverse mortgage borrowers' expected life expectancy sourced from mortality tables provided by the actuary; and the difference between the fixed swap pay rates and forward rates as of 30 June 2017 is used to calculate the future cash flows in relation to the swaps; and year-end yield curve plus a credit margin is used to discount future cash flows back to 30 June 2017 to determine the fair value.

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

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

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

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

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

30 June 2017	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash and cash equivalents	Amortised cost	Level 1	74,382	74,382
Financial assets at fair value	Fair value	Level 1	142,894	142,894
Receivables	Amortised cost	Level 2	16,380	16,380
Financial assets at fair value	Fair value	Level 2	345,164	345,164
Financial assets at fair value	Fair value	Level 3	1,215	1,215
Reverse mortgages	Fair value	Level 3	46,186	46,186
			<u>626,221</u>	<u>626,221</u>
Financial liabilities				
Payables	Amortised cost	Level 2	(33,895)	(33,895)
Liability to 360 Capital Group	Amortised cost	Level 2	(56,456)	(56,456)
Benefit Funds policy holders' liability	Amortised cost	Level 2	(348,014)	(348,014)
Borrowings	Amortised cost	Level 2	(236,103)	(237,019)
Interest rate swaps at fair value	Fair value	Level 2	(1,134)	(1,134)
Interest rate swaps at fair value	Fair value	Level 3	(18,190)	(18,190)
			<u>(693,792)</u>	<u>(694,708)</u>

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

30 June 2016	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash and cash equivalents	Amortised cost	Level 1	84,323	84,323
Receivables	Amortised cost	Level 2	17,450	17,450
Financial assets at fair value	Fair value	Level 1	162,966	162,966
Financial assets at fair value	Fair value	Level 2	167,634	167,634
Financial assets at fair value	Fair value	Level 3	1,214	1,214
Reverse mortgages	Fair value	Level 3	51,561	51,561
			<u>485,148</u>	<u>485,148</u>
Financial liabilities				
Payables	Amortised cost	Level 2	9,269	9,269
Benefit Funds policy holders' liability	Amortised cost	Level 2	349,878	349,878
Borrowings	Amortised cost	Level 2	59,951	59,951
Interest rate swaps at fair value	Fair value	Level 2	25	25
Interest rate swaps at fair value	Fair value	Level 3	20,753	20,753
Total			<u>439,876</u>	<u>439,876</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.

F3 Financial instruments (continued)**(c) Fair value of financial instruments (continued)****(iv) Reconciliation of Level 3 fair value measurements of financial assets and liabilities**

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

Year ended 30 June 2016	Other mortgage backed assets at fair value \$'000	Reverse mortgages fair value \$'000	Fixed-for-life interest rate swaps \$'000	Total \$'000
Balance at 1 July 2015	7,926	43,754	(17,576)	34,104
Loan repaid	(6,712)	(2,231)	285	(8,658)
Accrued interest	-	2,300	(1,217)	1,083
Attributable to interest rate risk	-	7,738	(7,738)	-
Attributable to credit risk	-	-	5,493	5,493
Balance at 30 June 2016	1,214	51,561	(20,753)	32,022

Key estimates and judgements

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

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

Recognition and measurement

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

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

F3 Financial instruments (continued)

(d) Credit risk

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

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

(i) Credit risk of reverse mortgages

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

Individual property valuations are conducted at least every 3 years in accordance with financier's requirements. At 30 June 2017, the highest loan to value ratio (LVR) of a loan in the reverse mortgage loan book is 113% (2016: 82%), and there are 52 out of 232 (2016: 41 out of 247) reverse mortgage loans where the LVR is higher than 50%.

(ii) Credit risk on other financial assets

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

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

(e) Liquidity risk

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

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

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

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

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

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

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

F3 Financial instruments (continued)**(e) Liquidity risk (continued)**

	On demand	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivative financial liabilities						
Consolidated 2017						
Borrowings	-	898	69,004	202,788	-	272,690
Payables	-	33,454	-	-	-	33,454
Liability to 360 Capital Group	-	-	-	56,456	-	56,456
Benefit Funds policyholder's liability	348,014	-	-	-	-	348,014
Total	348,014	34,352	69,004	259,244	-	710,614
2016						
Borrowings	-	26,850	23,851	9,250	-	59,951
Payables	-	8,349	-	-	-	8,349
Benefit Funds policyholder's liability	349,878	-	-	-	-	349,878
Total	349,878	35,199	23,851	9,250	-	418,178

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

	On demand	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Derivative financial liabilities						
Consolidated 2017						
Interest rate swaps	-	9	376	838	45,990	47,213
Total	-	9	376	838	45,990	47,213
2016						
Interest rate swaps	-	-	-	-	48,405	48,405
Total	-	-	-	-	48,405	48,405

(f) Market risk

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

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

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

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

	Weighted average effective interest rate %	Variable rate \$'000	Fixed rate \$'000	Total \$'000
2017				
Financial assets				
Cash and cash equivalents	1.23%	61,286	13,396	74,682
Other financial assets held by Benefit Funds	3.67%	238,443	1,515	239,958
Reverse mortgage receivables	8.75%	1,124	26,551	27,675
Total financial assets		<u>300,853</u>	<u>41,462</u>	<u>342,315</u>
Financial liabilities				
Borrowings	4.67%	(176,103)	(60,000)	(236,103)
Total financial liabilities		<u>(176,103)</u>	<u>(60,000)</u>	<u>(236,103)</u>
Net interest bearing financial assets/(liabilities)		<u>124,750</u>	<u>(18,538)</u>	<u>106,212</u>
	Weighted average effective interest rate %	Variable rate \$'000	Fixed rate \$'000	Total \$'000
2016				
Financial assets				
Cash and cash equivalents	1.19%	82,970	1,348	84,318
Other financial assets held by Benefit Funds	3.39%	358,693	105,106	463,799
Reverse mortgage receivables	8.75%	1,130	25,377	26,507
Total financial assets		<u>442,793</u>	<u>131,831</u>	<u>574,624</u>
Financial liabilities				
Borrowings	4.12%	(59,951)	-	(59,951)
Total financial liabilities		<u>(59,951)</u>	-	<u>(59,951)</u>
Net interest bearing financial assets		<u>382,842</u>	<u>131,831</u>	<u>514,673</u>

F3 Financial instruments (continued)

(f) Market risk (continued)

(ii) Interest rate swap contracts

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

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

	Average contracted rate		Notional principal amount		Fair value	
	2017 %	2016 %	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Pay fixed for floating contracts designated as effective in fair value hedge						
Controlled property funds interest rate swaps	2.73%	-%	106,100	-	(1,133)	-
Benefit funds interest rate swaps	2.94%	2.94%	20,000	20,000	(79)	(302)
50 years swaps contracts	7.47%	7.47%	11,373	11,913	(18,910)	(20,753)
			137,473	31,913	(20,122)	(21,055)

(iii) Interest rate sensitivity

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

At reporting date, if variable interest rates had been 100 (2016: 100) basis points higher or lower and all other variables were held constant, the impact to the Group would have been as follows:

	Change in variable	Effect on profit after tax	
		2017 \$'000	2016 \$'000
Consolidated			
Interest rate risk	+1%	(1,574)	(2,196)
Consolidated			
Interest rate risk	-1%	1,908	2,647

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

F4 Remuneration of auditors

Amounts received or due and receivable by KPMG:

	2017 \$'000	2016 \$'000
Audit and review of the financial report	308	381
Other services including AFSL and compliance plan audits	77	93
Taxation services	30	96
	415	570

F5 New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

(a) AASB 9 Financial Instruments

(i) Nature of change

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

(ii) Impact

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the likely impact on the Group's financial assets is as follows:

- equity investments currently measured at fair value through profit or loss which would likely continue to be measured on the same basis under AASB 9
- debt instruments (with the exception of reverse mortgage receivables) currently classified as held-to-maturity and measured at amortised cost which appear to meet the conditions for classification at amortised cost under AASB 9.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets, however the analysis for whether the reverse mortgage receivables is yet to be performed and therefore the classification of these receivables could be impacted.

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

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under AASB 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

F5 New Accounting Standards and Interpretations (continued)

(a) AASB 9 Financial Instruments (continued)

(iii) Mandatory application date

Must be applied for financial years commencing on or after 1 January 2018, but available for early adoption. Therefore mandatory application to the Group would be year ending 30 June 2019.

The Group does not intend to adopt AASB 9 before its mandatory date.

(b) AASB 15 Revenue from Contracts with Customers

(i) Nature of change

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

(ii) Impact

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- Performance fees are currently recognised upon satisfaction of all conditions precedent to the sale of an investment property and when significant risks and rewards have transferred. Under the new standard, the Group will need to consider whether a minimum amount of consideration should be recognised at an earlier point in time. This will include an assessment of the facts and circumstances as to whether it is highly probable that the amount of the performance fees would not result in a significant reversal of cumulative revenue recognised when the uncertainty is resolved.

Other than performance fees, the Group has not yet made an assessment of all other fees and management contracts but timing and classification of fees could be impacted.

At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will continue to assess the effects of the new standard in more detail over the next twelve months.

(iii) Mandatory application date

Mandatory for financial years commencing on or after 1 January 2018, but available for early adoption. Therefore mandatory application to the Group would be year ending 30 June 2019.

The Group does not intend to adopt AASB 15 before its mandatory date.

(c) AASB 16 Leases

(i) Nature of change

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

The accounting for lessors will not significantly change.

(ii) Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments as outlined in note C8(a). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

F5 New Accounting Standards and Interpretations (continued)

(c) AASB 16 Leases (continued)

(iii) Mandatory application date

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

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

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

F6 Events subsequent to the reporting date

(i) Units purchased in Centuria Metropolitan REIT

On 27 July 2017, the Group acquired 4,127,265 units in Centuria Metropolitan REIT for \$2.35 per unit.

(ii) Settlement of Centuria Sandgate Road Fund

The Group acquired 37,932,023 of acquisition units in Centuria Sandgate Road Fund on 7 July 2017 for \$1 per unit upon settlement of the property in the fund. As at 14 August 2017, the Group had sold down 18,950,249 of these acquisition units.

Other than the matters discussed above, there has not arisen in the interval between 30 June 2017 and the date hereof any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Directors' declaration

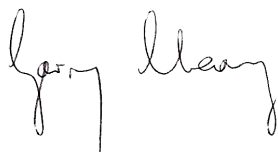
In the opinion of the Directors' of Centuria Capital Limited:

- (a) the consolidated financial statements and notes set out on pages 21 to 69 and the Remuneration Report set out on pages 9 to 19 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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

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



Mr Garry S. Charny
Director
Sydney



Mr Peter J. Done
Director
Sydney

Sydney
23 August 2017

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Independent Auditor's Report

To the stapled security holders of Centuria Capital Group

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Stapled Group's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** of the Stapled Group comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Stapled Group and the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

The **Key Audit Matters** we identified for the Stapled Group are:

- Acquisition accounting of 360 Capital transaction
- Impairment of Goodwill and Indefinite Life Intangible Assets
- Valuation of Property Assets
- Hedge Accounting and Valuation of Derivatives

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

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

Acquisition accounting of 360 Capital transaction

Refer to Note E1 to the Financial Report

The key audit matter

During the year, the Stapled Group acquired all of the shares in Centuria Property Funds No. 2 Limited (formerly 360 Capital Investment Management Limited) ('CPF2L') and the associated management rights for listed and unlisted property investment funds for which CPF2L is the responsible entity, from 360 Capital Group Limited. Additionally, as part of the acquisition, the Stapled Group agreed to acquire various stakes in those listed and unlisted funds.

The acquisition accounting was identified as a key audit matter given the significance to the audit and the judgment required to assess:

- The fair value of acquired assets and liabilities including the value of identifiable intangible assets such as management rights;
- The recognition of goodwill arising from the acquisition;
- The accounting treatment and consolidation of the listed and unlisted funds purchased;
- The accounting treatment and valuation of put and call options over the unlisted funds;

How the matter was addressed in our audit

Our procedures included:

- Reading the sales and purchase agreements and transaction documents to gain an understanding of the acquisition;
- Assessing the accounting treatments for the acquisition, including the calculation of goodwill, for adherence with the Australian Accounting Standards;
- Assessing the estimated fair value of the acquired assets and liabilities. In particular, we focused on the management rights and investment properties acquired. Our work on these matters is further set out in the Impairment of Goodwill and Identifiable Life Intangible Assets and Valuation of Property Assets key audit matters;
- Evaluating the Stapled Group's rationale for the accounting treatment of the purchased listed funds as investments and the unlisted funds as consolidated funds by comparing the features of their acquisition and ownership, from the purchase and sale agreement, against the criteria in the Australian Accounting Standards;

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<ul style="list-style-type: none"> • The valuation of contingent consideration relating to the purchase of the unlisted funds. We assessed the terms of the contingent consideration arrangement regarding the Stapled Group’s guarantee of the distribution yield on co-investment stakes in the unlisted funds subject to put and call options.; and • The effective date of the transaction based on the evidence of satisfaction of all substantive conditions. 	<ul style="list-style-type: none"> • Evaluating the Stapled Group’s recognition of the put and call options as liabilities in accordance with the Australian Accounting Standards; • Assessing the Stapled Group’s estimate of contingent consideration by comparing the key assumptions in the discounted cash flow to historical returns and the guaranteed distribution yields in the agreement; • Assessing the Stapled Group’s determination of the date the substantive conditions were met by considering each significant condition of the transaction and the date on which this occurred; and • Assessing the appropriateness of the relevant disclosures in the Financial Report for compliance with Australian Accounting Standards.
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Recoverable amount of Goodwill and Indefinite Life Intangible Assets (\$157.7m)

Refer to Note C5 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>At 30 June 2017, the Stapled Group’s intangible assets comprise goodwill and management rights. A key audit matter for us was the Stapled Group’s annual testing of goodwill and management rights for impairment. We focused on the significant forward-looking assumptions the Stapled Group applied in their value in use model including:</p> <ul style="list-style-type: none"> • Forecast operating cash flows, growth rates and terminal growth rates – the Stapled Group acquired CPF2L as explained in the key audit matter above which increases the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider; • In addition to the uncertainties described above, the Stapled Group’s model is sensitive to changes in these assumptions which may reduce available headroom. This drives additional audit effort specific to their feasibility and consistency of application to the Stapled Group’s strategy; and 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Assessing the appropriateness of the value in use method applied by the Stapled Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards; • Assessing the Stapled Group’s determination of their CGUs based on our understanding of the operations of the Stapled Group’s business, impact of 360 acquisition, and how independent cash flows were generated, against the requirements of the accounting standards; • Comparing the forecast cash flows contained in the value in use model to Board approved forecasts; • Assessing the Stapled Group’s ability to accurately forecast by comparing historical forecasts to actual results;

<ul style="list-style-type: none"> Discount rate - these are complicated in nature and vary according to the conditions and environment the specific cash generating unit (“CGU”) is subject to from time to time. The Stapled Group’s model is sensitive to changes in the discount rate. Accordingly, we involve our valuation specialist with the assessment. <p>The Stapled Group made a significant acquisition of CPF2L during the year necessitating our consideration of the Stapled Group’s allocation of goodwill and management rights and costs to the CGU’s to which they relate based on the impact to management’s monitoring of the business.</p>	<ul style="list-style-type: none"> Evaluating the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures; Assessed the consistency of the forecasts and growth rates to the Stapled Group’s stated plan and strategy and past performance of the Group, based on our experience regarding the feasibility of these in the economic environment in which they operate; and Involving our valuation specialists, we analysed the Stapled Group’s discount rate against publicly available data of a group of comparable entities and assessed the reasonableness of the valuation approach and methodology against market and industry practices and accounting standards.
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Valuation of Investment Properties (\$257.1m)

Refer to Note C4 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The valuation of investment properties is a key audit matter as they are significant in value to the Stapled Group and significant judgment is required by us in assessing the Stapled Group’s inputs into the valuation methodology used to estimate their value.</p> <p>Investment properties are valued at fair value and the fair value is determined by the Stapled Group using internal methodologies or through the use of external valuation experts.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> Understanding the Stapled Group’s process regarding the preparation, review and approval of the internal and external valuation of property assets; Assessing the methodologies used in the valuations of property assets for consistency with accounting standards and Stapled Group policies; Assessing the scope, competence and objectivity of external independent experts engaged by the Stapled Group and internal valuers; and

<p>The valuation methodology for investment properties require significant judgments on the following inputs used:</p> <ul style="list-style-type: none"> - capitalisation rates; - discount rates; - market rental yield; - growth rates; - vacancy levels; - projections of capital expenditure; and - leasing incentives. 	<ul style="list-style-type: none"> • Challenging key assumptions including capitalisation rates, discount rates, market rental yields, growth rates, vacancy levels, projections of capital expenditure and leasing incentives by comparing to publicly available data and historical performance of the assets.
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Hedge Accounting and Valuation of derivatives (\$18.2m)

Refer to Note F3(c)(iv) to the Financial Report

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

Other Information

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

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

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Stapled Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Stapled Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Centuria Capital Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

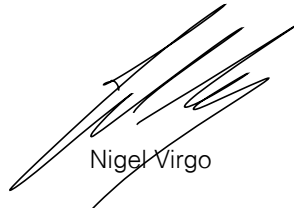
Our responsibilities

We have audited the Remuneration Report included in pages 9 to 19 of the Directors' report for the year ended 30 June 2017.

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



KPMG



Nigel Virgo

Partner

Sydney

23 August 2017

Additional stock exchange information

The securityholder information set out below was applicable as at 11 August 2017.

Distribution of securities

Analysis of numbers of securityholders by size of holding:

Holding	Number of holders	Number of securities
1 - 1000	824	421,309
1,001 - 5,000	4,444	10,933,794
5,001 - 10,000	872	6,075,842
10,001 - 100,000	849	24,543,219
100,001 and over	119	187,841,572
	<u>7,108</u>	<u>229,815,736</u>

There were 361 holders of less than a marketable parcel of securities holding 92,014 securities.

Top 20 Securityholders

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

	Number held	Percentage of issued securities
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	39,734,410	17.29
PERSHING AUSTRALIA NOMINEES PTY LTD <NOMINEE A/C>	25,318,108	11.02
J P MORGAN NOMINEES AUSTRALIA LIMITED	20,672,719	9.00
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	14,824,760	6.45
NATIONAL NOMINEES LIMITED	12,478,210	5.43
CITICORP NOMINEES PTY LIMITED	5,555,144	2.42
GH 2016 PTY LIMITED <HARVEY 2006 OPTION A/C>	5,000,000	2.18
RESOLUTE FUNDS MANAGEMENT PTY LTD <HANOVER PROPERTY S/F A/C>	3,977,679	1.73
CICERONE CAPITAL PTY LTD <MELBURGP A/C>	3,512,057	1.53
BNP PARIBAS NOMS PTY LTD <DRP>	3,435,618	1.49
BUTTONWOOD NOMINEES PTY LTD	2,806,531	1.22
AVANTEOS INVESTMENTS LIMITED <1259738 PARSONS A/C>	2,700,000	1.17
PAUL LEDERER PTY LIMITED <LEDERER SUPER FUND A/C>	2,621,003	1.14
AVANTEOS INVESTMENTS LIMITED <1703553 JOHNSON A/C>	2,500,000	1.09
PARITAI PTY LIMITED <PARITAI A/C>	2,044,266	0.89
AVANTEOS INVESTMENTS LIMITED <2412987 JRSWJH A/C>	2,000,000	0.87
HWM (NZ) HOLDINGS LIMITED	1,704,822	0.74
UBS NOMINEES PTY LTD	1,600,000	0.70
PARSONAGE PROVIDENT P/L <PARSONAGE PROVIDENT FUND A/C>	1,500,000	0.65
NATIONAL EXCHANGE PTY LTD <CORP A/C>	1,401,563	0.61
	<u>155,386,890</u>	<u>67.62</u>

Substantial holders

Substantial holders in the Group are set out below.

	Number held	Percentage
MOELIS AUSTRALIA ASSET MANAGEMENT LTD	25,318,108	11.14%
ELLERSTON CAPITAL LIMITED	15,664,197	6.89%
INVESTORS MUTUAL LIMITED (i)	5,233,237	6.78%
	46,215,542	24.81%

(i) This was based on the last notice received prior to the capital raising on 6 January 2017.

Voting rights

All ordinary securities carry one vote per security without restriction.

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Centuria Capital Fund Financial Report for the year ended 30 June 2017¹

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.

¹ The Fund was established on 20 July 2016. This financial report reflects the results of operations and financial affairs of the Fund from its inception to 30 June 2017.

**Centuria Capital Fund
Financial Report - 30 June 2017**

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

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

Its registered office is:

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

The consolidated financial statements were authorised for issue by the Directors of the Responsible Entity on 23 August 2017. The Directors have the power to amend and reissue the consolidated financial statements.

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Directors' Report

The directors of Centuria Funds Management Limited (the 'Company') as the Responsible Entity for Centuria Capital Fund (the 'Fund') present their report together with the consolidated financial statements of the Fund and its controlled entities (the 'Group') for the financial year ended 30 June 2017 and the auditor's report thereon.

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

Directors and directors' interests

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

Mr Garry S Charny, BA. LL.B. <i>Independent Non-Executive Director and Chairman</i>		
Experience and expertise	<p>Garry was appointed to the Board on 8 August 2016, and appointed as Chairman of the Board on the same date.</p> <p>He is Managing Director and founding principal of Wolseley Corporate, an Australian based corporate advisory and investment house which transacts both domestically and internationally.</p> <p>He has had a broad range experience in both listed and unlisted companies across a diverse range of sectors including property, retail, technology and media. He formerly practised as a barrister in the fields of commercial and equity.</p>	
Other directorships	<p>Garry is Chairman of Wolseley Corporate. He is also Chairman of Spotted Turquoise Films, an international Film and Television company based in Sydney and Los Angeles. He is Chairman of Shero Investments, a Sydney based investment company.</p>	
Special responsibilities	<p>Chairman of the Board Member of the Audit, Risk Management and Compliance Committee</p>	
Interests in CNI	Ordinary stapled securities	196,573

Mr Peter J. Done, B.Comm, FCA. <i>Independent Non-Executive Director</i>		
Experience and expertise	<p>Peter was appointed to the Board on 8 August 2016. Peter was a partner of KPMG for 27 years until his retirement in June 2006.</p> <p>He has extensive knowledge in accounting, audit and financial management in the property development and financial services industries, corporate governance, regulatory issues and Board processes through his many senior roles.</p>	
Other directorships	<p>None.</p>	
Special responsibilities	<p>Chairman of the Audit, Risk Management and Compliance Committee</p>	
Interests in CNI	Ordinary stapled securities	900,000

Directors and directors' interests (continued)

Mr John R. Slater , Dip.FS (FP), F Fin. <i>Independent Non-Executive Director</i>		
Experience and expertise	<p>John was appointed to the Board on 8 August 2016.</p> <p>John was a senior executive in the KPMG Financial Services practice from 1989 to 1999 and acted as State director of the Brisbane practice. He has also served on the Investment Committees of KPMG Financial Services, Berkley Group and Byron Capital.</p> <p>In 2008, John founded boutique Financial Advisory firm Riviera Capital and has a wealth of financial services experience.</p>	
Other directorships	None.	
Special responsibilities	Member of the Audit, Risk Management and Compliance Committee	
Interests in CNI	Ordinary stapled securities	2,400,000

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

Mr John E. McBain , Dip. Urban Valuation. <i>Executive Director and Chief Executive Officer</i>		
Experience and expertise	<p>John was appointed to the Board and Chief Executive Officer on 8 August 2016.</p> <p>John was a founding director and major shareholder in boutique property funds manager Century Funds Management, which was established in 1999 and was acquired by Over Fifty Group in July, 2006. He joined the Over Fifty Group Board on 10 July, 2006 and was appointed Chief Executive Officer in 2008. In 2011 the company was renamed Centuria Capital.</p> <p>Prior to forming Century, in 1990 John founded Hanover Group, a specialist property investment consultancy and in 1995 he formed Waltus Investments Australia, a dedicated property fund manager. John formerly held senior positions in a number of property development and property investment companies in Australia, New Zealand and the United Kingdom.</p>	
Other directorships	John is also a director of QV Equities Limited, a licensed investment company listed on the ASX.	
Special responsibilities	Chief Executive Officer	
Interests in CNI	Ordinary stapled securities	5,035,745
	Performance rights granted	1,473,568

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Directors and directors' interests (continued)

Mr Jason C. Huljich , B. Comm. <i>Executive Director</i>		
Experience and expertise	<p>Jason was appointed to the Board on 8 August 2016.</p> <p>As CEO - Unlisted Property Funds, Jason is responsible for providing strategic leadership and ensuring the effective operation and growth of Centuria's unlisted property portfolio. Jason has been involved in the unlisted property sector in Australia since 1996 and has considerable expertise in investment property selection, fund feasibility, funds management and management of property services teams.</p> <p>Jason is the President of the National Executive Committee of the Property Funds Association of Australia, the peak industry body representing the \$125 billion direct property investment industry.</p>	
Other directorships	None.	
Special responsibilities	CEO - Unlisted Property Funds	
Interests in CNI	Ordinary stapled securities	4,499,054
	Performance rights granted	856,250

Mr Nicholas R. Collishaw , SAFin, FAAPI, FRICS. <i>Executive Director</i>		
Experience and expertise	<p>Nicholas was appointed to the Board on 8 August 2016.</p> <p>Nicholas was appointed CEO - Listed Property Funds at Centuria Property Funds on 1 May, 2013.</p> <p>Prior to this role, Nicholas held the position of CEO and Managing Director at the Mirvac Group. During his time at Mirvac (2005-2012), Nicholas was responsible for successfully guiding the business through the GFC and implementing a strategy of sustained growth for the real estate development and investment company. During Nicholas' 30 year career, he has held senior positions with James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management. He has extensive experience in all major real estate markets in Australia and investment markets in the United States, United Kingdom and the Middle East.</p> <p>Nicholas is Deputy Chair of the UNSW Built Environment Advisory Council.</p>	
Other directorships	None.	
Special responsibilities	CEO - Listed Property Funds	
Interests in CNI	Ordinary stapled securities	2,263,136
	Performance rights granted	856,250

The following directors of Centuria Funds Management Limited were in office from 20 July 2016 until their resignation on 8 August 2016:

Mr Brendan R. Howell
 Mr James T. McNally
 Mr P. A. Theodore

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Company secretary

The Company Secretary of Centuria Funds Management Limited, Mr James Lonie was appointed to the position of Company Secretary on 8 August 2016 and resigned on 30 March 2017. He was reappointed to the position of Company Secretary on 16 June 2017.

James is a partner in the Sydney office of HWL Ebsworth Lawyers and has extensive financial services experience with a particular focus on:

- funds management including advising on licensing issues;
- general securities/corporate transactions and advice; and
- mergers and acquisitions including off-market takeover bids, schemes, capital reductions and buy-backs and in preparing and negotiating offer, disclosure and shareholder meeting documentation.

James' experience includes addressing regulatory and compliance issues relating to, and documenting transactions and investment vehicles regulated by, the Corporations Act. James graduated from Sydney University and holds a Bachelor of Arts, a Bachelor of Laws and a Masters of Laws.

Mr Brendan Howell held the position of Company Secretary from 20 July 2016 to 8 August 2016.

Ms Charisse Nortje held the position of Company Secretary from 30 March 2017 to 16 June 2017.

Principal activities

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

Significant changes and state of affairs

Stapling

The stapling of the Fund and CCL was approved at an Extraordinary General Meeting of the shareholders of the CCL on 10 October 2016. Following approval of the stapling, shares in CCL and units in Fund were stapled on 17 October 2016 and commenced trading as a single security on the ASX. For further details on the stapling, refer to Note E1(a) of the consolidated financial statements.

360 Capital acquisition

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

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

The Transaction also included a call option and a put option over stakes in the four unlisted property investment funds managed by CPF2L with a maximum option period of 2 years following completion of the Transaction. Since the completion of the Transaction and before 30 June 2017, the Group has fully exercised the option in relation to Centuria 441 Murray Street Property Trust and partially exercised the option in relation to Centuria Havelock House Property Trust.

Secured notes issue

On 21 April 2017, the Group issued secured corporate notes to the value of \$100,000,000. This consisted of an issue of \$40,000,000 floating rate secured notes and \$60,000,000 7% fixed rate secured notes due 2021 by Centuria Funds Management Limited as trustee of the Centuria Capital No. 2 Fund.

The proceeds from the secured notes were partially used to repay the vendor loan to 360 Capital of \$50,000,000.

Results of operations

The Group's profit from continuing operations for the year ended 30 June 2017 was \$15,935,987.

Earnings per unit

	2017
	<u>Statutory</u>
Basic EPS (cents/security)	8.60
Diluted EPS (cents/security)	8.50

Distributions

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

Distributions paid during the year	Cents per security	Total amount \$'000	Date paid/payable
Interim 2017 Trust distribution	0.80	618	24 February 2017
Distributions declared during the year			
Final 2017 Trust distribution	2.80	6,361	24 August 2017
Total amount (66% tax deferred)	3.60	6,979	

Responsible Entity interests

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

	2017
	\$
Management and custodian fees paid to Centuria Property Funds No. 2 Limited	766,113
Management fees paid to Centuria Funds Management Limited	189,589
	<u>955,702</u>

Events subsequent to the reporting date

(i) Units purchased in Centuria Metropolitan REIT

On 27 July 2017, the Group acquired 4,127,265 units in Centuria Metropolitan REIT for \$2.35 per unit.

(ii) Settlement of Centuria Sandgate Road Fund

The Group acquired 37,932,023 of acquisition units in Centuria Sandgate Road Fund on 7 July 2017 for \$1 per unit upon settlement of the Property. As at 14 August 2017, the Group had sold down 18,950,249 of these acquisition units.

Other than the matters discussed above, there has not arisen in the interval between 30 June 2017 and the date hereof any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Fund, that would affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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Likely developments

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

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

Environmental regulation

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

Indemnification of officers and auditors

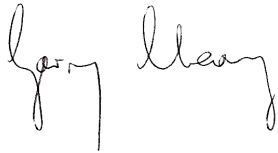
Under the Fund's constitution the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

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

Rounding of amounts

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

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



Mr Garry S Charny
Director



Mr Peter J. Done
Director

Sydney
23 August 2017

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

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

I declare that, to the best of my knowledge and belief, in relation to the audit of Centuria Capital Fund
for the financial year ended 30 June 2017 there have been:

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

KPMG

Nigel Virgo

Partner

Sydney

23 August 2017

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Centuria Capital Fund

Financial report 30 June 2017

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Consolidated statement of comprehensive income

For the year ended 30 June 2017

	Notes	2017 \$'000
Revenue	B1	20,657
Expenses	B2	(9,793)
Fair value movements of financial instruments and property		9,937
Finance costs	B3	(4,865)
Net Profit		15,936
Profit/(loss) is attributable to:		
Centuria Capital Fund		11,668
Non-controlling interests		4,268
Profit after tax		15,936
Other comprehensive income		-
Total comprehensive income for the year		15,936
Total comprehensive income/(loss) for the year is attributable to:		
Centuria Capital Fund		11,668
Non-controlling interests		4,268
Total comprehensive income/(loss)		15,936
Profit/(loss) attributable to:		
Unitholders of Centuria Capital Fund		11,668
		Cents
Earnings/(loss) per Centuria Capital Fund unit		
Basic (cents per unit)	B5	8.6
Diluted (cents per unit)	B5	8.5

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

Consolidated balance sheet

As at 30 June 2017

	Notes	2017 \$'000
Assets		
Cash and cash equivalents		36,775
Receivables	C1	7,798
Financial assets at fair value	C2	239,381
Investment properties	C3	257,100
Total assets		541,054
Liabilities		
Payables	C4	18,327
Liability to 360 Capital Group		56,456
Borrowings	C5	226,962
Interest rate swaps at fair value		1,134
Total liabilities		302,879
Net assets		238,175
Equity		
Equity attributable to Centuria Capital Fund		
Contributed equity	C7	170,672
Retained earnings		(7,821)
Total equity attributable to unitholders of Centuria Capital Fund		162,851
Equity attributable to non-controlling interests		
Contributed equity		45,367
Retained earnings		29,957
Total equity attributable to non-controlling interests		75,324
Total equity		238,175

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

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Consolidated statement of changes in equity

For the year ended 30 June 2017

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

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

Consolidated statement of cash flows

For the year ended 30 June 2017

	2017 \$'000
Cash flows from operating activities	
Interest received	740
Rent received	12,360
Distributions received	2,901
Payments to suppliers	(9,948)
Interest paid	(3,037)
Net cash provided by operating activities	<u>3,016</u>
Cash flows from investing activities	
Cash balance on acquisition of subsidiaries	21,556
Proceeds from sale of related party investments	15,763
Cash balance on consolidation of unlisted funds	6,937
Purchase of investments in related parties	(138,698)
Loans to related parties for purchase of properties	(13,669)
Payments in relation to investment properties	(1,300)
Purchase of other investments	(1,186)
Net cash used in investing activities	<u>(110,597)</u>
Cash flows from financing activities	
Proceeds from borrowings	150,300
Loan advanced to related party	(73,239)
Repayment of borrowings	(50,000)
Proceeds from issues of units to unitholders of Centuria Capital Fund	124,174
Equity raising costs paid	(6,038)
Capitalised borrowing costs paid	(1,931)
Distributions paid to unitholders of Centuria Capital Fund	(618)
Proceeds from issues of units to non-controlling interests	5,526
Distributions paid to non-controlling interests	(3,818)
Net cash provided by financing activities	<u>144,356</u>
Net increase in cash and cash equivalents	36,775
Cash and cash equivalents at 20 July 2017	-
Cash and cash equivalents at end of year	<u>36,775</u>

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

A About the report

A1 General information

At an Extraordinary General Meeting on 10 October 2016, the shareholders of Centuria Capital Limited ABN 22 095 454 336 ('CCL'), incorporated and listed on the Australian Securities Exchange ('ASX') trading under the ticker code 'CNI', approved the proposal to establish Centuria Capital Group by amending CCL's Constitution to allow the stapling of units in the trust, Centuria Capital Fund ARSN 613 856 358 (the 'Fund'), to their shares.

Under the stapling, CCL's existing business was split into two parts. CCL continues to be the operating entity, carrying on its property funds management, active asset management and investment bond management businesses, with CCL's property investments transferred to the Fund.

The units in the Fund and the shares in CCL are stapled to trade together as a single stapled security ('Stapled Security') on the ASX as 'Centuria Capital Group' under an unchanged ASX ticker code of CNI. The Stapled Securities commenced trading on the day after the stapling which occurred on 17 October 2016.

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

Statement of compliance

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

The consolidated financial statements of the Group comprising the Fund (as 'Parent') and its controlled entities for the year ended 30 June 2017 were authorised for issue by the Board of Directors of Centuria Funds Management Limited as the Responsible Entity on 23 August 2017.

This Fund was established on 20 July 2016. These consolidated financial statements reflect the results of operations and financial affairs of the Fund from its inception to 30 June 2017. As a result, this being the first year of operation, no comparative financial information is available.

Basis of preparation

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

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

Rounding of amounts

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

A2 Significant accounting policies

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

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

A3 Use of judgements and estimates

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

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

- Note C3 Investment properties
- Note F1 Financial instruments

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B Business performance

B1 Revenue

	2017 \$'000
Interest revenue	4,246
Rent and recoverable outgoings	11,073
Distribution revenue	5,337
Other income	1
	<u>20,657</u>

Recognition and measurement

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

(i) Interest revenue

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

(ii) Rent and recoverable outgoings

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

Recoverable outgoings are recognised on an accrual basis.

(iii) Distribution revenue

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

(a) Transactions with related parties

	2017 \$'000
Distributions from Property Funds managed by Centuria	5,337,362
Interest income on loan to Centuria Finance Pty Limited	3,505,718
Interest income on loans to Property Funds managed by Centuria	513,622
	<u>9,356,702</u>

B2 Expenses

	2017 \$'000
Consulting and professional fees	301
Property outgoings and fund expenses	8,293
Corporate restructure and transaction costs	1,177
Other expenses	22
	<u>9,793</u>

Business performance

B2 Expenses (continued)

(a) Transactions with related parties

	2017 \$
Management and custodian fees paid to Centuria Property Funds No. 2 Limited	766,113
Management fees paid to Centuria Funds Management Limited	189,589
	<u>955,702</u>

B3 Finance costs

	2017 \$'000
Operating interest charges	2,110
Bank loans in Property Funds interest charges	2,616
Other finance costs	139
	<u>4,865</u>

Recognition and measurement

The Group's finance costs include:

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

B4 Taxation

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

B5 Earnings per security

	2017 Cents
Basic earnings per unit	8.6
Diluted earnings per unit	8.5

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

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

	2017
Weighted average number of ordinary units (basic)	134,951,618
Weighted average number of ordinary units (diluted) ⁽ⁱ⁾	136,736,092

- (i) The weighted average number of ordinary securities used in the calculation of diluted earnings per security is determined as if 30 June 2017 was the end of the performance period of the grants of Rights under the LTI plan issued by Centuria Capital Group. All Rights that would have vested if 30 June 2017 was the end of the performance period are deemed to have been issued at the start of the financial year in accordance with the applicable accounting standard.

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Business performance

B6 Distributions

	2017	
	Cents per unit	Total \$'000
Interim distribution paid during the year	0.80	618
Final distribution declared during the year ⁽ⁱ⁾	2.80	6,361
Distributions paid to Centuria Capital Fund unitholders ⁽ⁱⁱ⁾	<u>3.60</u>	<u>6,979</u>

⁽ⁱ⁾ The Group declared a final distribution in respect of the year ended 30 June 2017 of 2.80 cents per security. The final distribution had a record date of 28 June 2017 is payable on 24 August 2017. The total amount payable of \$6,361,453 has been provided as a liability in these financial statements.

⁽ⁱⁱ⁾ In addition to the distributions paid to Centuria Capital Fund unitholders, the Group paid distributions of \$3,818,181 to non-controlling Interests.

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C Assets and liabilities

C1 Receivables

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

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

(a) Receivables from related parties

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

	2017 \$
Intercompany receivables from Corporate entities within Centuria Capital Group	4,020,101
Distribution receivable from Centuria Industrial REIT	1,607,724
Distribution receivable from Centuria Metropolitan REIT	662,672
Interest receivable from Centuria Sandgate Road Fund	305,933
Distribution receivable from Centuria Scarborough House Fund	26,455
	<u>6,622,885</u>

Recognition and measurement

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

C2 Financial assets at fair value

	2017 \$'000
Investments in trusts and other financial assets	1,152
Investment in related party unit trusts (refer to Note C2(a))	136,545
Loans receivable from related parties (refer to Note C2(b))	101,684
	<u>239,381</u>

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Assets and liabilities

C2 Financial assets at fair value (continued)

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

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

	Fair value \$	2017 Units held	Ownership %
Financial assets held by the Group			
Centuria Industrial REIT	81,877,894	33,148,945	15.54%
Centuria Metropolitan REIT	38,858,876	15,481,624	8.68%
Centuria Zenith Fund	6,050,000	5,000,000	6.35%
Centuria Scarborough House Fund	4,365,826	4,622,826	10.03%
Centuria SOP Fund	3,198,461	3,204,061	10.52%
Centuria Woden Green Estate Development Fund	1,252,500	1,252,500	20.53%
Centuria ATP Fund	650,000	500,000	0.81%
Centuria 203 Pacific Highway Fund	104,000	100,000	0.33%
Centuria 19 Corporate Drive Fund	90,213	76,452	0.48%
Centuria 2 Wentworth Street Fund	65,000	50,000	0.18%
Centuria 8 Central Avenue Fund 2	31,500	25,000	0.04%
	<u>136,544,270</u>		

(b) Loans receivable from related parties

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

	2017 \$
Centuria Finance Pty Limited	90,714,873
Centuria Sandgate Road Fund	10,968,500
	<u>101,683,373</u>

Recognition and measurement

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

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

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

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Assets and liabilities

C3 Investment properties

Property	Fair Value 2017 \$'000	Capitalisation rate (%)	Most recent independent valuer cap rate (%)	Last independent valuation date	Independent valuer firm
111 St George Terrace, Perth WA	142,500	7.25%	7.25%	Dec-16	Savills
City Centre Plaza, Rockhampton Qld	46,000	7.00%	7.00%	Dec-16	CBRE
Havelock House, West Perth WA	28,000	7.00%	7.00%	Dec-16	Colliers
Windsor Marketplace, Windsor NSW	22,100	6.50%	6.50%	Jun-17	Savills
441 Murray Street, Perth WA	18,500	8.00%	8.00%	Dec-16	Savills
Total fair value	<u>257,100</u>				

Recognition and measurement

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

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

Key estimate and judgements

(a) Valuation techniques and significant unobservable inputs

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

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.

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Assets and liabilities

C3 Investment properties (continued)

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

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 the 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).

C4 Trade and other payables

	2017 \$'000
Sundry creditors ⁽ⁱ⁾	10,467
Distribution Payable	6,898
Accrued expenses	962
	<u>18,327</u>

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

Recognition and measurement

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

C5 Borrowings

	2017 \$'000
Fixed rate secured notes (refer to Note C5(a))	60,000
Floating rate secured notes (refer to Note C5(a))	40,000
Bank loans in Property Funds (refer to Note C5(b))	128,837
Borrowing costs capitalised	(1,875)
	<u>226,962</u>

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

(a) Corporate notes (secured)

On 21 April 2017, the Group issued secured corporate notes to the value of \$100,000,000. This consisted of an issue of \$40,000,000 floating rate secured notes and \$60,000,000 7% fixed rate secured notes, maturing on 21 April 2021. These notes are secured against assets within certain subsidiaries of the Group.

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Assets and liabilities

C5 Borrowings (continued)

(b) Bank Loans - Property Funds (secured)

Effective 31 December 2016, the Group gained control over and has therefore consolidated four unlisted property funds. Each fund has debt facilities secured by first mortgage over each of the fund's investment property and a first ranking fixed and floating charge over all assets of each of the funds. Details of the amounts drawn and the maturity of each facility are as follows:

Fund	Current/non-current classification	Maturity date	Facility limit \$'000	Funds available \$'000	Draw down \$'000	Borrowing costs \$'000	Draw down \$'000
Centuria 111 St							
Georges Terrace Fund	Non-current	30 June 2019	81,500	10,839	70,661	(128)	70,533
Centuria Retail Fund	Current	30 June 2018	37,400	1,823	35,577	(76)	35,501
Centuria Havelock House Fund	Current	31 May 2018	13,000	1,000	12,000	(14)	11,986
Centuria 441 Murray Street Fund	Current	30 June 2018	12,000	1,159	10,841	(24)	10,817
							128,837

Recognition and measurement

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

C6 Commitments and contingencies

(a) Operating leases

(i) Group as a lessor

The Group leases out its investment properties under operating leases.

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

	2017
	\$'000
Not longer than 1 year	16,212
Longer than 1 year and not longer than 5 years	48,310
Longer than 5 years	45,432
	109,954

(b) Contingencies

The Group had no contingent liabilities at 30 June 2017.

Recognition and measurement

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

(i) Group as a lessor

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

Assets and liabilities

C7 Contributed equity

	2017 No. of securities	\$'000
Balance at beginning of the period	-	-
Stapling dividend and return of capital reinvested	77,194,733	52,536
Stapled securities issued	152,621,003	124,174
Cost of equity raising	-	(6,038)
Balance at end of the period	<u>229,815,736</u>	<u>170,672</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 units. The options have an exercise price of \$1.30 per unit and expire on 29 June 2022.

Recognition and measurement

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

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D Cash flows

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

	2017 \$'000
Profit for the year	15,936
Add (deduct) non-cash items:	
Unrealised gain on investment property	(3,631)
Fair value loss on acquisition	(12,510)
Fair value movement of financial instruments	6,204
Amortisation of borrowing costs	167
Amortisation of lease incentives	3,058
Changes in net assets and liabilities:	
(Increase)/decrease in assets:	
Decrease/(Increase) in Receivables	(2,345)
Increase/(decrease) in liabilities:	
Increase/(Decrease) in Other Payables	(3,863)
Net cash flows provided by operating activities	<u>3,016</u>

Recognition and measurement

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

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E Group Structure

E1 Business combination

(a) Stapling

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

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

(b) 360 Capital acquisition

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

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

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

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

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

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

As at 30 June 2017, the call and put option liability is \$54,693,069 and the contingent consideration is \$1,763,236.

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

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

E1 Business combination (continued)

(b) 360 Capital acquisition (continued)

(i) Transaction related costs

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

(ii) Contingent consideration

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

Recognition and measurement

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

E2 Interests in subsidiaries

The Group's principal subsidiaries at 2017 are set out below. Unless otherwise stated, they have issued capital consisting solely of ordinary units that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The subsidiaries are incorporated in Australia which is also their principal place of business.

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

During the year, as part of the 360 Capital Transaction, the Group gained control over four unlisted property funds including Centuria 111 St Georges Terrace Fund, Centuria Retail Fund, Centuria Havelock House Fund and Centuria 441 Muarry Street Fund. These funds have been consolidated in these financial statements.

Recognition and measurement

(i) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund (subsidiaries). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

Group Structure

E3 Parent entity disclosure

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

	2017
	\$'000
Result of parent entity	
Profit or loss for the year	3,894
Financial position of parent entity at year end	
Total assets	174,049
Total liabilities	<u>(6,461)</u>
Net assets	<u>167,588</u>

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

Total equity of the parent entity comprising of:

Share capital	170,672
Retained earnings/(loss)	<u>(3,085)</u>
Total equity	<u>167,587</u>

(a) Guarantees entered into by the parent entity

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

(b) Commitments and contingent liabilities of the parent entity

The parent entity had no commitments for acquisition of property, plant and equipment nor any contingent liabilities as at 30 June 2017.

F Other

F1 Financial instruments

(a) Management of financial instruments

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

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

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

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

(b) Capital risk management

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

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

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

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

(c) Fair value of financial instruments

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

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

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

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

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

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

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

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

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

F1 Financial instruments (continued)**(c) Fair value of financial instruments (continued)****(iii) Fair value measurements recognised in the statement of financial position (continued)**

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

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

30 June 2017	Measurement basis	Fair value hierarchy	Carrying amount \$'000	Fair value \$'000
Financial assets				
Cash and cash equivalents	Amortised cost	Level 1	36,775	36,775
Financial assets at fair value	Fair value	Level 1	120,737	120,737
Receivables	Amortised cost	Level 2	7,798	7,798
Financial assets at fair value	Fair value	Level 2	118,644	118,644
			283,954	283,954
Financial liabilities				
Payables	Amortised cost	Level 2	(18,327)	(18,327)
Liability to 360 Capital Group	Amortised cost	Level 2	(56,456)	(56,456)
Borrowings	Amortised cost	Level 2	(226,962)	(227,878)
Interest rate swaps at fair value	Fair value	Level 2	(1,134)	(1,134)
			(302,879)	(303,795)

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

Recognition and measurement

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

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

(d) Credit risk

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

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

(i) Credit risk on other financial assets

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

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

F1 Financial instruments (continued)

(e) Liquidity risk

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

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

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

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

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

	On Demand	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
Non-derivative financial liabilities	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated 2017						
Borrowings	-	619	68,124	194,109	-	262,852
Other payables	-	18,327	-	-	-	18,327
Liability payable to 360 Capital Group	-	-	-	56,456	-	56,456
Total	-	18,946	68,124	250,565	-	337,635

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

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

F1 Financial instruments (continued)

(f) Market risk

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

(i) Interest rate risk management

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

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

	Weighted average effective interest rate	Variable rate \$'000	Fixed rate \$'000	Total \$'000
2017				
Financial assets				
Cash and cash equivalents	1.28%	36,675	100	36,775
Total financial assets		<u>36,675</u>	<u>100</u>	<u>36,775</u>
Financial liabilities				
Borrowings	4.70%	(166,962)	(60,000)	(226,962)
Total financial liabilities		<u>(166,962)</u>	<u>(60,000)</u>	<u>(226,962)</u>
Net interest bearing financial assets/(liabilities)		<u>(130,287)</u>	<u>(59,900)</u>	<u>(190,187)</u>

(ii) Interest rate swap contracts

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

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

	Average contracted rate	National principal amount	Fair value
Pay fixed for floating contracts designated as effective in fair value hedge			
	2017	2017 \$'000	2017 \$'000
Interest rate swaps	2.73%	106,100	(1,133)
		<u>106,100</u>	<u>(1,133)</u>

F1 Financial instruments (continued)

(f) Market risk (continued)

(iii) Interest rate sensitivity

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

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

	Change in variable	Effect on profit 2017 \$'000
Consolidated		
Interest rate risk	+1%	<u>(267)</u>
Consolidated		
Interest rate risk	-1%	<u>267</u>

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

F2 Remuneration of auditors

Amounts received or due and receivable by KPMG:

	2017 \$'000
Audit and review of the financial report	<u>33</u>

F3 New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

(a) AASB 9 Financial Instruments

(i) Nature of change

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

(ii) Impact

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the likely impact on the Group's financial assets is as follows:

- equity investments currently measured at fair value through profit or loss which would likely continue to be measured on the same basis under AASB 9
- debt instruments currently classified as held-to-maturity and measured at amortised cost which appear to meet the conditions for classification at amortised cost under AASB 9.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

F3 New Accounting Standards and Interpretations (continued)

(a) AASB 9 Financial Instruments (continued)

(ii) Impact (continued)

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

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under AASB 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

(iii) Mandatory application date

Must be applied for financial years commencing on or after 1 January 2018, but available for early adoption. therefore mandatory application to the Group would be year ending 30 June 2019.

The Group does not intend to adopt AASB 9 before its mandatory date.

(b) AASB 15 Revenue from Contracts with Customers

(i) Nature of change

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

(ii) Impact

The Group has not yet made an assessment of its revenues, other fees and management contracts but timing and classification of fees could be impacted.

At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will continue to assess the effects of the new standard in more detail over the next twelve months.

(iii) Mandatory application date

Mandatory for financial years commencing on or after 1 January 2018, but available for early adoption. Therefore mandatory application to the Group would be year ending 30 June 2019.

The Group does not intend to adopt AASB 15 before its mandatory date.

F3 New Accounting Standards and Interpretations (continued)

(c) AASB 16 Leases

(i) Nature of change

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

The accounting for lessors will not significantly change.

(ii) Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments as outlined in note C6(a). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

(iii) Mandatory application date

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

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

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

F4 Events subsequent to the reporting date

(i) Units purchased in Centuria Metropolitan REIT

On 27 July 2017, the Group acquired 4,127,265 units in Centuria Metropolitan REIT for \$2.35 per unit.

(ii) Settlement of Centuria Sandgate Road Fund

The Group acquired 37,932,023 of acquisition units in Centuria Sandgate Road Fund on 7 July 2017 for \$1 per unit upon settlement of the Property. As at 14 August 2017, the Group had sold down 18,950,249 of these acquisition units.

Other than the matters discussed above, there has not arisen in the interval between 30 June 2017 and the date hereof any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Fund, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Directors' declaration

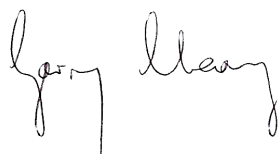
In the opinion of the Directors' of Centuria Funds Management Limited as the Responsible Entity of Centuria Capital Fund:

- (a) the consolidated financial statements and notes set out on pages 8 to 34, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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

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



Mr Garry S Charry
Director



Mr Peter J. Done
Director

Sydney
23 August 2017

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Independent Auditor's Report

To the unitholders of Centuria Capital Fund

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Fund's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** of the Fund comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated Statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Responsible Entity's Directors' Declaration.

The **Fund** consists of Centuria Capital Fund and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Fund and Centuria Funds Management Limited (the Responsible Entity) in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

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

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Fund's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

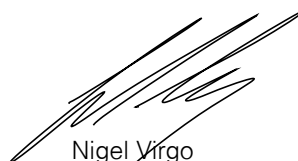
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar7.pdf. This description forms part of our Auditor's Report.



KPMG



Nigel Virgo

Partner

Sydney

23 August 2017

Additional stock exchange information

The unitholder information set out below was applicable as at 11 August 2017.

Distribution of units

Analysis of numbers of unitholders by size of holding:

Holding	Total holders	Units
1 - 1000	824	421,309
1,001 - 5,000	4,444	10,933,794
5,001 - 10,000	872	6,075,842
10,001 - 100,000	849	25,543,219
100,001 and over	119	187,841,572
	<u>7,108</u>	<u>230,815,736</u>

There were 361 holders of less than a marketable parcel of units holding 92,014 units.

Top 20 unitholders

The names of the twenty largest unitholders are listed below:

	Number held	Percentage of issued units
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	39,734,410	17.29
PERSHING AUSTRALIA NOMINEES PTY LTD <NOMINEE A/C>	25,318,108	11.02
J P MORGAN NOMINEES AUSTRALIA LIMITED	20,672,719	9.00
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	14,824,760	6.45
NATIONAL NOMINEES LIMITED	12,478,210	5.43
CITICORP NOMINEES PTY LIMITED	5,555,144	2.42
GH 2016 PTY LIMITED <HARVEY 2006 OPTION A/C>	5,000,000	2.18
RESOLUTE FUNDS MANAGEMENT PTY LTD <HANOVER PROPERTY S/F A/C>	3,977,679	1.73
CICERONE CAPITAL PTY LTD <MELBURGP A/C>	3,512,057	1.53
BNP PARIBAS NOMS PTY LTD <DRP>	3,435,618	1.49
BUTTONWOOD NOMINEES PTY LTD	2,806,531	1.22
AVANTEOS INVESTMENTS LIMITED <1259738 PARSONS A/C>	2,700,000	1.17
PAUL LEDERER PTY LIMITED <LEDERER SUPER FUND A/C>	2,621,003	1.14
AVANTEOS INVESTMENTS LIMITED <1703553 JOHNSON A/C>	2,500,000	1.09
PARITAI PTY LIMITED <PARITAI A/C>	2,044,266	0.89
AVANTEOS INVESTMENTS LIMITED <2412987 JRSWJH A/C>	2,000,000	0.87
HWM (NZ) HOLDINGS LIMITED	1,704,822	0.74
UBS NOMINEES PTY LTD	1,600,000	0.70
PARSONAGE PROVIDENT P/L <PARSONAGE PROVIDENT FUND A/C>	1,500,000	0.65
NATIONAL EXCHANGE PTY LTD <CORP A/C>	1,401,563	0.61
	<u>155,386,890</u>	<u>67.62</u>

Substantial holders

Substantial holders in the Group are set out below:

	Number held	Percentage of units held
MOELIS AUSTRALIA ASSET MANAGEMENT LTD	25,318,108	11.14%
ELLERSTON CAPITAL LIMITED	15,664,197	6.89%
INVESTORS MUTUAL LIMITED (i)	5,233,237	6.78%
	46,215,542	24.81%

(i) This was based on the last notice received prior to the capital raising on 6 January 2017.

Voting rights

All ordinary units carry one vote per security without restriction.

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