

Ethical Property Commercial Fund

ABN 82 940 891 053

Annual report for the financial year ended 30 June 2018

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Directors' Report

The directors of One Funds Management Limited (ACN 117 797 403; AFSL 300 337) ("ONE" or the "Trustee"), the Trustee of Ethical Property Commercial Fund (the "Fund"), submit herewith the financial report of the Fund for the year ended 30 June 2018. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Trustee

The registered office and principal place of business of the Trustee is Level 11, 20 Hunter Street, Sydney NSW 2000.

Information about the Directors and Senior Management

The names of the directors and company secretaries of the Trustee are:

Name	Title
Elizabeth Reddy	Non-Executive Director
Frank Tearle	Executive Director and Company Secretary
Justin Epstein	Executive Director
Sarah Wiesener	Company Secretary
Carolyn Su-Jun Tsung	Company Secretary

Principal Activities

The Fund is an unlisted unregistered property investment trust, incorporated and domiciled in Australia.

The principal activity of the Fund is to accumulate investment properties to generate rental income.

The Fund did not have any employees during the period.

Distributions

In respect of the financial period ended 30 June 2018, a final distribution of 1.1465 cents per unit was payable to unitholders in respect of the June quarter.

For details of distributions paid and payable during the period, refer to note 12 of the financial statements.

Value of Assets and Units Issued

The total value of the Fund's assets as at 30 June 2018 was \$36,058,256 (2017: \$27,391,983). The total number of units on issue as at 30 June 2018 was 19,100,100 (2017: 19,100,100).

Directors' Report (continued)

Review of Operations

Results

The performance of the Fund, as represented by the results of its operations for the period, was as follows:

	Year Ended 30 Jun 18	Year Ended 30 Jun 17
Rental and other property income	2,247,603	1,913,571
Operating income	2,247,603	1,913,570
Rental property expenses	-907,569	-826,111
Administration and other expenses	-211,403	-166,069
Operating expenses	-1,118,972	-992,179
Earnings before interest and tax	2,076,440	3,293,468
Interest income	-	393
Finance costs	-348,625	-283,228
Net interest expense	-348,625	-282,834
Operating earnings attributable to unitholders	780,005	638,557
Non-operating items		
Unrealised fair value gain on investment property	1,448,762	905,801
Unrealised fair value gain on financial instruments	-	-
Transaction costs	-	-
Capital Allowance	-211,496	-201,235
Reimbursements from National Trust	326,400	
Reimbursed heritage restoration costs	-326,400	-
Total non-operating items	1,237,266	704,567
Net profit attributable to unitholders	2,017,271	1,343,124

The inclusion of operating earnings as a measure of the Fund's profitability provides financial information that is used internally for evaluating performance, making strategic decisions and determining distributions during the period.

Fees Paid To and Interests Held in the Fund by the Trustee or its Associates

Fees paid to the Trustee and its associates during the period are disclosed in note 13 of the financial statements.

The fees were paid out of the Fund's property during the period.

The number of interests in the Fund held by the Trustee or its associates as at the end of the financial period are disclosed in note 13 of the financial statements.

Significant Changes in State of Affairs

The Fund acquired a commercial property, being 16-20 Thistlethwaite Street, South Melbourne for \$5,500,000 in February 2018 with settlement occurring on 24 April 2018. In the opinion of the directors, other than the matters identified in this report, there were no other significant changes in the state of affairs of the Fund that occurred during the financial period.

Directors' Report (continued)

Subsequent Events

Subsequent to the end of the financial year on 1 July 2018 Ethical Property Commercial Limited retired as trustee of the Fund and appointed the Trustee to the position.

There has been no other matters or circumstances occurring subsequent to the year ended 30 June 2018 that has significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Future Developments

The Fund will be managed in accordance with the Amended Constitution dated 18th December 2015. The Fund has no intention of winding up in the foreseeable future and will continue to acquire, develop and lease commercial property in future. These acquisitions will be made with a long-term hold in mind, for the purposes of generating rental revenue for investors.

Environmental Regulation and Performance

The operations of the Fund are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Fund. The Fund has opted to report on a triple bottom line basis to ensure transparency and reporting of the Fund's environmental impact. Details of this voluntary reporting can be found on the website following year end.

Indemnification of Directors, Officers and Auditors

During the financial year ended 30 June 2018, the Trustee paid a premium in respect of a contract insuring the directors of the Trustee against a liability incurred as a director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Trustee has not otherwise, during or since the end of the financial period, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Trustee or of any related body corporate against a liability of such an officer or auditor.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 4.

On behalf of the directors of One Funds Management Limited.


Justin Epstein
Director


~~September~~ 2018

2 October

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS LAW 2001
TO THE TRUSTEE OF ETHICAL PROPERTY COMMERCIAL FUND

I declare that to the best of my knowledge and belief during the year ended 30 June 2018 there have been:

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



David Penman
Chartered Accountant 26812
Registered Company Auditor 15485
Level 1, 448 St Kilda Road
Melbourne VIC 3004
19 September 2018

Statement of Profit or Loss and Other Comprehensive Income for the period ended 30 June 2018

	Note	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Revenue			
Rental and other property income	4	2,247,603	1,913,571
Interest income		-	393
Unrealised fair value gain on investment property	9	1,448,762	905,801
Unrealised fair value gain on financial instruments			
Reimbursements from National Trust		326,400	-
Total revenue		4,022,765	2,819,765
Expenses			
Transaction costs		-	-
Finance costs	5	348,625	283,228
Administration fees	6	142,224	124,975
Audit fees	8	4,000	8,000
Capital Allowance		211,496	201,235
Insurance expense		65,180	33,093
Rental property expenses	7	907,569	826,111
Reimbursed heritage restoration costs		326,400	-
Total expenses		2,005,494	1,476,642
Net income/(loss) attributable to unitholders		2,017,271	1,343,124
Net income/(loss) for the year/period		2,017,271	1,343,124
Other comprehensive income		-	-
Total comprehensive income/(loss) attributable to unitholders		2,017,271	1,343,124

The accompanying notes to the financial statements should be read in conjunction with this statement.

Statement of Financial Position as at 30 June 2018

	Notes	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<u>Assets</u>			
Current assets			
Cash and cash equivalents	15(a)	100,341	141,388
Trade and other receivables		211,451	51,429
Derivatives financial instruments		-	-
Prepayments		53,236	-
Total current assets		365,028	192,818
Non-current assets			
Investment property	9	35,156,790	26,950,000
Fixed Assets		31,067	1,658
Formation and Capital Raising		505,371	247,507
Total non-current assets		35,693,228	27,199,165
Total assets		36,058,256	27,391,983
<u>Liabilities</u>			
Current liabilities			
Trade and other payables	10	697,758	298,840
Total current liabilities		697,758	298,840
Non-current liabilities			
Interest bearing liabilities	16	13,905,835	7,087,242
Total non-current liabilities		13,905,835	7,087,242
Total liabilities (excluding net assets attributable to unitholders)		14,603,593	7,386,082
Net assets attributable to unitholders	11	21,454,663	20,005,901

The accompanying notes to the financial statements should be read in conjunction with this statement.

Statement of Changes in Net Assets Attributable to Unitholders for the period ended 30 June 2018

	Note	30 June 2018 \$	30 June 2017 \$
Opening balance		20,005,901	19,100,100
Units issued during the year		-	-
Total comprehensive income/(loss)		2,017,271	1,343,124
Redemptions for the year		-	-
Distributions for the year	12	-568,509	-437,322
Net assets attributable to unitholders	11	21,454,663	20,005,901

The accompanying notes to the financial statements should be read in conjunction with this statement.

Statement of Cash Flows for the period ended 30 June 2018

	Note	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Cash flows from operating activities			
Rent received		2,048,634	1,999,209
Rental guarantee received		-	-
Interest received		-	-
Finance costs paid		-345,013	-280,227
Payments to suppliers		-886,927	-959,832
Net cash provided by operating activities	15(b)	816,694	759,149
Cash flows from investing activities			
Payments for the purchase of investment property		-5,500,000	-
Payments for the purchase of Fixtures & Fittings		-344,791	-99,253
Payments of acquisition costs		-319,664	-
Payment for capital improvements		-1,097,063	-2,296,349
Net cash used in investing activities		-7,261,518	-2,395,602
Cash flows from financing activities			
Proceeds from loans		6,818,593	1,817,242
Payment of loans		-	-
Proceeds from issuance of units		-	-
Redemption of units		-	-
Distributions paid to unitholders		-414,816	-440,171
Net cash (used in)/provided by financing activities		6,403,777	1,377,071
Net (decrease)/increase in cash and cash equivalents		-41,047	-259,382
Cash and cash equivalents at the beginning of the year/period		141,388	400,770
Cash and cash equivalents at the end of the year/period	15(a)	100,341	141,388

The accompanying notes to the financial statements should be read in conjunction with this statement.

Notes to the Financial Statements

1. General Information

This financial report covers Ethical Property Commercial Fund (ABN 82 940 891 053) (the “Fund”) which is an unlisted unregistered property investment trust.

The trustee of the Fund is One Funds Management Limited (ACN 117 797 403; AFSL 300 337) (“ONE” or the “Trustee”). The Trustee’s registered office and principal place of business is Level 11, 20 Hunter Street, Sydney NSW 2000.

The investment manager of the Fund is Ethical Property Australia Pty Ltd (ACN 163 828 617) (the “Manager”).

The financial statements were authorised for issue by the directors of the Trustee on the date the Directors’ Declaration was signed. The directors of the Trustee have the power to amend and reissue the financial statements.

2. Adoption of New and Revised Accounting Standards and Interpretations

The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) that are relevant to their operations and are effective for the current financial reporting period ended 30 June 2018.

New and relevant Standards and amendments thereof and Interpretations effective for the current period that are relevant to the Fund included:

- AASB 9 ‘Financial Instruments’, and the relevant amending standards
- AASB 15 ‘Revenue from Contracts with Customers’
- AASB 2014-5 ‘Amendments to Australian Accounting Standards arising from AASB 15’
- AASB 2016-3 ‘Amendments to Australian Accounting Standards-Clarification to AASB 15’

The adoption of the above Standards did not have a material impact on the Fund.

Standards and Interpretations in issue not yet adopted

Standards and Interpretations that are not expected to have a material impact on the Fund have not been included.

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting years beginning on or after	Expected to be initially applied in the financial year ending
AASB 2016-8 ‘Amendments to Australian Accounting Standards—Effective Date of AASB 15’	1 January 2019	30 June 2019
AASB 16 ‘Leases’	1 January 2019	30 June 2019

The Fund has not yet assessed the potential impact and applicability of the above new Standards and Interpretations.

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

3. Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

Notes to the Financial Statements

(a) Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements and Interpretations of the Australian Accounting Standard Board and the Fund's Constitution and Corporations Act 2001 in Australia. The directors have elected to prepare the financial statements on this basis to provide greater transparency and consistency to users and the wider public as to the operations and financial performance of the Fund.

Compliance with Australian Accounting Standards, as issued by the AASB ensures that the financial statements and notes thereto comply with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

(b) Basis of Preparation

This general purpose financial report is presented in Australian dollars and has been prepared using historical cost convention except for the investment property, which is measured at fair value and discussed in (m) below.

For simplicity, the first full year of operations for the Fund, being the 2016/17 financial period, was reported on a tax basis. For the current financial year, accounting estimates have been incorporated in accordance with relevant Accounting Standards. The prior year has not been restated and remains represented on a tax basis.

(c) Going Concern Basis

This general purpose financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

(d) Revenue and Income Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured.

Rental income is brought to account on a straight-line basis over the lease term for leases with fixed rent review increases. In all other circumstances, rental income is brought to account on an accrual basis. Initial direct costs incurred in negotiating and arranging an operating lease have historically been immaterial amounts in comparison to the value and length of the lease agreement. Given the social impact structure of the Fund a number of leases are for shorter terms than a standard commercial fund. It is therefore appropriate for indirect costs to be expensed in the period they are incurred.

When the Fund provides lease incentives to tenants, the costs of the incentives are recognised over the lease term, on a straight-line basis, as a reduction in rental income.

Interest income is recognised as the interest accrues using the effective interest rate method.

Other income is recognised when the right to receive the revenue has been established.

All income is stated net of goods and services tax ("GST").

(e) Expenses

All expenses, including Trustee's fees and custodian fees, are recognised in profit or loss on an accrual basis.

(f) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the Statement of Financial Position.

Notes to the Financial Statements

3. Significant Accounting Policies (continued)

(g) Taxation

Under the current tax legislation, the Fund is not subject to income tax provided that the unitholders are presently entitled to the income of the Fund and that the Fund entirely distributes its taxable income.

There is no income of the Fund to which the unitholders are not currently entitled. As a result, deferred taxes have not been recognised in the financial statements in relation to the differences between carrying amounts of assets and liabilities and their respective tax bases. This includes taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that the taxable gains are realised by the Fund, these gains would be included in the taxable income and assessable in the hands of the unitholders.

(h) Distributions

The Fund distributes its distributable income, calculated in accordance with the Fund's Amended Constitution dated 18th December 2015, Information Memorandum (the "IM") and applicable tax legislation, to unitholders who are presently entitled to the income under the Fund's Amended Constitution. In accordance with the IM, distributions will be paid in line with the distribution policy of the Fund. Refer to operating income presented in the Directors Report.

(i) Payables

Trade and other payables are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services.

(j) Receivables

Trade receivables that have less than 90 day terms are recognised and carried at original cost less an allowance (provision for impairment of trade receivables) for any uncollectible amounts.

An assessment of recoverability of trade and other receivables is performed by the Manager on an ongoing basis. The Manager considers various factors to determine the recoverability of receivables including factors such as existence of bank guarantees, deposits held, recent payment patterns and correspondence with tenants.

The movements in allowance accounts are recognised in the Statement of Profit or Loss and Other Comprehensive Income, either as gain or loss. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account.

(k) Interest Bearing Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received.

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

Borrowing expenses including interest, issue and other transaction costs are expensed in the Statement of Profit or Loss and Other Comprehensive Income as incurred unless they relate to qualifying assets or new facility applications. Costs incurred in establishing a new facility are capitalised and amortised on a straight-line basis over the term of the loan or the period in which the facility is expected to be retained, whichever is more applicable.

Borrowing costs directly attributed to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Notes to the Financial Statements

3. Significant Accounting Policies (continued)

(l) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

(m) Investment Property

Investment properties principally comprise of freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the Fund. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the 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.

The reported fair value of investment property reflects market conditions at the reporting date. While this represents the best estimates as at the reporting date, actual sale prices achieved may be higher or lower than the most recent valuation. This is particularly relevant in years of market illiquidity or uncertainty.

(n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST") except:

- where the amount of GST is not recoverable from the taxation authority, it is recognised as part of the acquisition of an asset or part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is recognised as a receivable or payable on the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis.

The GST component of cash flows arising from financing activities which is recoverable from or payable to the taxation authority is classified as operating cash flow.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

GST is not payable in respect of the acquisition, disposal or withdrawal of units, nor in respect of any distributions paid by the Fund.

The ultimate GST treatment of the subsequent disposal of the property may differ from the treatment at acquisition and may depend upon the relevant circumstances at the time.

(o) Critical Accounting Estimates and Judgments

The directors of the Trustee evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Fund.

Key estimate - fair value of investment property

The Fund carries its investment property at fair value with changes in the fair value recognised in profit or loss in the period in which they arise

In accordance with the IM of the Fund, the investment property will be independently revalued at least once every three years. It will also be revalued by an independent valuer in the intervening years if it is likely that there has been a material change in the value of the Property.

Notes to the Financial Statements

3. Significant Accounting Policies (continued)

At the end of each reporting period, the directors of the Trustee update their assessment of the fair value of the property, considering the most recent independent valuations and any changes to the key presumptions that underpin that assessment. The key factors used in this determination are set out in notes 3(m) and 9. If there are any material changes in the key assumptions due to changes in economic conditions, the fair value of the investment property may differ and may need to be re-estimated.

4. Rental and Other Property Income

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Rent received	2,013,266	1,644,307
Outgoings received	234,336	269,263
Rental guarantee	-	-
	<u>2,247,603</u>	<u>1,913,571</u>

5. Finance Costs

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Interest on borrowings	343,832	278,723
Establishment fee	4,794	4,505
	<u>348,625</u>	<u>283,228</u>

Notes to the Financial Statements

6. Administration Expenses

	Year ended 30 June 2018	Year ended 30 June 2017
	\$	\$
Asset Management fees	97,544	60,484
Trustee fees	25,475	34,794
Registry fees	0	0
Accounting and tax fees	18,004	28,345
Custody fees	0	0
ASIC and APIR Fees	1,201	1,353
	<u>142,224</u>	<u>124,975</u>

7. Rental Property Expenses

	Year ended 30 June 2018	Year ended 30 June 2017
	\$	\$
Leasing fees	39,036	15,590
Energy Costs	78,331	57,786
Cleaning	126,870	112,857
Land tax	13,533	10,454
Repairs and maintenance	70,144	97,112
Council rates	136,786	138,139
Water rates and charges	25,084	28,562
Fire levy	5,792	100
Fire and safety	25,409	26,132
Lift maintenance	13,988	15,413
Facilities management & Personnel fees	227,774	228,306
Security fee	13,635	14,404
Other property expenses	131,188	81,256
	<u>907,569</u>	<u>826,111</u>

Notes to the Financial Statements

8. Remuneration of Auditor

The auditors named below earned the following remuneration:

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Audit services – David Penman	4,000	8,000
Other assurance services – Other unrelated firms	-	-
	<u>4,000</u>	<u>8,000</u>

9. Investment Property

As per Note 3d, leasing fees are not recognised as assets but rather expensed as and when incurred. If leasing fees become material and relate to extended leases, they will be included in the Investment Property Asset.

Donkey Wheel House

	30 June 2018 \$	30 June 2017 \$
Opening balance	18,200,000	15,153,370
Purchase price	-	-
Unrealised fair value gain/(loss) on investment property	1,559,040	2,789,337
Capital improvements	595,610	295,173
Capital Allowance	(104,650)	(37,880)
Deferred lease asset	-	-
Leasing fees	-	-
	<u>20,250,000</u>	<u>18,200,000</u>

The investment property was valued on 6 December 2017 at \$19,900,000 by Charter Keck Cramer, an accredited and independent valuer. The valuation was arrived at by considering relevant sales and rental data of comparable properties as well as using the Capitalisation Approach and Discounted Cash Flow as valuation methods. The independent valuer has applied a passing capitalisation rate of 4.5% in assessing the valuation of the investment property.

As at 30 June 2018, the directors considered this valuation and a number of events that have improved factors limiting the valuation in December. These include a deduction of \$200,000 for the revitalisation of the façade, which has now been complete. An allowance of \$173,558 was made for costs to re-sign leases expiring in the 12 months after the valuation have been confirmed to be \$24,000.

In July 2018 a letter of appraisal was received valuing the property at \$21-22m.

The directors have determined the fair value as at 30 June 2018 to be \$20,250,000

Notes to the Financial Statements

Endeavour House

	30 June 2018 \$	30 June 2017 \$
Opening balance	8,750,000	8,743,423
Purchase price	-	-
Unrealised fair value gain/(loss) on investment property	(110,278)	(1,883,536)
Capital improvements	344,777	1,907,876
Capital Allowance	(34,500)	(17,763)
Deferred lease asset	-	-
Leasing fees	-	-
	<u>8,950,000</u>	<u>8,750,000</u>

The investment property was valued on 8 December 2017 at \$8,500,000 by Jones Lang LaSalle, an accredited and independent valuer. The valuation was arrived at by considering relevant sales and rental data of comparable properties as well as using the Capitalisation Approach and Discounted Cash Flow as valuation methods. The independent valuer has applied a passing capitalisation rate of 8.25% in assessing the valuation of the investment property.

As at 30 June 2018, the directors considered this valuation and a number of events that have improved factors limiting the valuation in December. These include a deduction of \$282,008 being the present value of vacant space. This has reduced from 334m2 to 214m2, which applied pro rata would indicate that the allowance can be reduced to \$180,688. An allowance was also made in the valuation for planned Capital Improvements in 17-18 of \$350,000, which were all completed as at 30 June 2018.

In July 2018 a letter of appraisal was received valuing the property at \$9,200,000.

The directors have determined the fair value as at 30 June 2018 to be \$8,950,000

Thistlethwaite Street

	30 June 2018 \$	30 June 2017 \$
Opening balance	-	-
Purchase price	5,500,000	-
Acquisition Costs	319,664	-
Unrealised fair value loss on investment property	-	-
Capital improvements	156,676	-
Capital Allowance	(19,550)	-
Deferred lease asset	-	-
Leasing fees	-	-
	<u>5,956,790</u>	<u>-</u>

The investment property was purchased on 23 February 2018 for \$5,500,000 by the Fund, at arm's length on an open market. As at 30 June 2018, the carrying value of the investment property has been left at the historical cost as per the directors Accounting Policy and given the proximity of the purchase to the end of the financial year.

Notes to the Financial Statements

The property was valued by an accredited and independent valuer, Charter Keck Cramer, at \$5,250,000. Since this valuation a lease for 50% of the space has been signed with Think HQ and \$156k has been incurred to improve the value of the property in the last few months of the financial year.

10. Trade and Other Payables

	30 June 2018 \$	30 June 2017 \$
Accounts payable	401,202	75,471
Accrued charges	-	-
GST and WHT payable	-	1,341
Rental guarantee	7,500	7,500
Income in advance	-	79,167
	<u>408,702</u>	<u>163,479</u>
Plus: Unit holder payables		
Distribution payable	289,054	135,361
	<u>697,756</u>	<u>298,840</u>

11. Net Assets Attributable to Unitholders

(a) Movements in Ordinary Units

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

	30 June 2018		30 June 2017	
	No of Units	\$	No of Units	\$
Opening balance	19,100,100	20,005,901	19,100,100	19,100,100
Applications for units by unitholders	-	-	-	-
Redemptions of units by unitholders	-	-	-	-
Distributions paid to unitholders	-	(568,509)	-	(437,322)
Total comprehensive income/(loss)	-	2,017,271	-	1,343,124
Closing balance	<u>19,100,100</u>	<u>21,454,663</u>	<u>19,100,100</u>	<u>20,005,901</u>

The Net Tangible Assets ("NTA") per Unit as at 30 June 2018 is \$1.123 (2017: \$1.0474), \$1.096 (2017: \$1.035) adjusted for estimated carrying value of amortised assets.

Notes to the Financial Statements

11. Net Assets Attributable to Unitholders (continued)

(b) Capital Management

The Fund aims to invest to meet its investment objectives while maintaining sufficient liquidity to meet its commitments. The Trustee regularly reviews the performance of the Fund, including asset allocation strategies, investment and operational management strategies, investment opportunities, performance review and risk management.

The Fund monitors capital through the analysis of a number of financial ratios, including the gearing ratio. The gearing ratio indicates the extent to which the Fund's assets are funded by borrowings. It gives an indication of the potential risks the Fund faces in terms of its level of borrowings due to an increase in interest rates or a reduction in asset values.

Gearing Ratio

	30 June 2018 \$	30 June 2017 \$
Interest bearing liabilities	13,905,835	7,087,242
Total assets	36,058,256	27,391,983
Gearing Ratio	38.56%	25.87%

12. Distributions Paid and Payable

Each unit represents a right to an individual share in the Fund per the Amended Constitution. During the period, there was only one class of units.

	30 June 2018		30 June 2017	
	Cents per unit	\$	Cents per unit	\$
Distribution paid during the period	1.4631	279,454	1.5809	301,961
Distributions payable	1.5134	289,055	0.7087	135,361
Closing balance	2.9765	568,509	2.2896	437,322

13. Related Party Transactions

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

(a) Transactions with Trustee and its Associated Entities

The Trustee of the Fund is One Funds Management Limited (ACN 117 797 403; AFSL 330 337)

The key management personnel of the Trustee for the financial period ended 30 June 2018 are:

Name	Title
Elizabeth Reddy	Non-Executive Director
Frank Tearle	Executive Director and Company Secretary
Justin Epstein	Executive Director

Notes to the Financial Statements

13. Related Party Transactions (continued)

(a) Transactions with Trustee and its Associated Entities (continued)

No units were held by the Trustee's key management personnel and its associated entities as at 30 June 2018 and 30 June 2017.

No fees or remuneration was paid directly to the key management personnel from the Fund during the financial period ended 30 June 2018 (2017: \$nil).

Trustee fees

Trustee fees of \$25,475 plus GST were incurred for the period ended 30 June 2018 (2017: \$34,794) of which \$nil (2017: \$nil) was payable to Ethical Property Commercial Limited at the end of the period. Refer to note 6.

Registry fees

Only minor Registry fees were incurred for the period ended 30 June 2018, these are included in Accounting and administration fees paid to Platform Advisors.

Custody fees

No custody fees were incurred for the period ended 30 June 2018.

Accounting and administration fees

Accounting and administration fees of \$18,004 plus GST were incurred for the period ended 30 June 2018 (2017: \$28,345) of which \$nil (2017: \$nil) was payable to Platform Advisors at the end of the period. Refer to note 6.

There were no other fees paid / payable to the Trustee for the financial period ended 30 June 2018.

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(b) Transactions with Manager and its Associated Entities

Ethical Property Australia Property Limited, the Manager, provided investment management, facilities management, acquisition and development services to the Fund for the year ended 30 June 2018.

Notes to the Financial Statements

13. Related Party Transactions (continued)

(b) Transactions with Manager and its Associated Entities (continued)

The key management personnel of the Manager for the financial year ended 30 June 2018 were:

Name	Title
Peter Allen	Chief Executive Officer
Vetty Duncan	Operations Manager

No units were held by the Manager's key management personnel or its associated entities as at 30 June 2018 or at 30 June 2017.

No fees or remuneration was paid directly to the key management personnel from the Fund during the financial year ended 30 June 2018 (2017: \$nil).

The Manager charges various fees depending on the service it is providing to the Fund, these totalled \$495,241 plus personnel reimbursements of \$127,322. These are as detailed below:

Asset management fees

Asset management fees of \$97,544 plus GST were incurred for the financial period ended 30 June 2018 (2017: \$60,484), of which \$nil was payable to the Manager at the end of the year.

Facilities Management Fees

Facilities management fees of \$100,452 plus GST were incurred for the financial period ended 30 June 2018 (2017: \$137,393), of which \$2,100 (2017: \$21,378) was payable to the Manager at the end of the year.

Acquisition and Development Fees

- Acquisition fees of \$55,000 plus GST (2017: \$nil) were incurred during the 2018 financial year, of which \$55,000 was payable to the Manager at the end of the year.
- Development fees of \$242,245 plus GST (2017: \$191,013) were incurred during the 2018 financial year, of which \$16,846 was payable to the Manager at the end of the year.

Reimbursement Charges - personnel

Reimbursements for personnel employed by the Manager to work directly in the investment properties totalled \$127,322 for the financial period ended 30 June 2018 (2017: \$90,560), of which \$nil (2017: \$nil) was payable to the Manager at the end of the year.

There were no other facilities management, development and acquisition fees payable to the Manager for the financial period as at 30 June 2018.

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial period and there were no material contracts involving key management personnel's interests existing at the end of the reporting period.

Notes to the Financial Statements

14. Financial Risk Management and Fair Value Measurement

The most important types of financial risk to which the Fund is exposed are market risk, credit risk and liquidity risk. The exposure to each of these risks, as well as the Fund's policies and processes for managing these risks are described below.

(a) Market Risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and other price risk. The Fund's strategy on the management of market risk is driven by the Fund's investment objective. The Fund's market risk is managed as required by the Trustee in accordance with the investment guidelines as outlined in the Fund's Information Memorandum.

Property Market Risk

The Fund is exposed to property market risk which effects both net rental income as well as property values. This is managed in line with the Fund's investment policy and strategy as per the Information Memorandum.

Cash flow and fair value interest rate risk

The Fund's cash and cash equivalents and floating rate borrowings expose it to a risk of change in the fair value or future cash flows due to changes in interest rates.

The Fund's exposure to interest rate risk at reporting date, including its sensitivity to changes in market interest rates that were reasonably possible, is as follows:

	30 June 2018 \$	30 June 2017 \$
Financial assets		
Cash and cash equivalents – floating interest rate	100,341	141,388
Derivative financial instruments	-	-
Financial liabilities		
Interest bearing liabilities – floating interest rate	13,905,835	7,087,242
Net exposure to interest rate risk	14,006,176	7,228,630

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future because of changes in values, but best represents the current maximum exposure at reporting date.

Notes to the Financial Statements

14. Financial Risk Management and Fair Value Measurement (continued)

(b) Credit Risk (continued)

	30 June 2018 \$	30 June 2017 \$
Trade and other receivables	211,451	51,429
Derivative financial instruments	-	-
Cash at bank	<u>100,341</u>	<u>141,388</u>
Maximum exposure to credit risk	<u>311,792</u>	<u>192,818</u>

The Fund manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of appropriate credit rating, or do not show a history of defaults. Financial assets such as cash at bank are held with high credit quality financial institutions (rated equivalent A or higher by the major rating agencies). Prospective tenants are assessed for creditworthiness before commencing a lease, and bank guarantees or rental bonds are always sought before a tenancy is approved. Loans from third parties are secured against investment property. The Trustee also performs a detailed review of both related and other parties before approving advancement of funds. This is performed to ensure that they will be able to meet interest and principal repayments.

All receivables are monitored by the Trustee. If any amounts owing are overdue these are followed up and if necessary, allowances are made for debts that are doubtful.

At the end of the reporting year, there are no issues with the credit quality of financial assets that are either past due or impaired, and all amounts are expected to be received in full.

(c) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund monitors its exposure to liquidity risk by ensuring that as required there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due. The Trustee sets budgets to monitor cash flows.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting year. The amounts in the table are the contractual undiscounted cash flows.

30 June 2018	Less than 12 months \$	1-2 years \$	2-5 years \$
Trade and other payables	408,703	-	-
Interest bearing liabilities	-	13,905,835	-
Contractual cash flows	<u>408,703</u>	<u>13,905,835</u>	-
30 June 2017	Less than 12 months \$	1-2 years \$	2-5 years \$
Trade and other payables	163,479	-	-
Interest bearing liabilities	<u>7,087,242</u>	-	-
Contractual cash flows	<u>7,087,242</u>	-	-

Notes to the Financial Statements

14. Financial Risk Management and Fair Value Measurement (continued)

(d) Fair Value Estimation

The financial instruments carried at fair value can be valued using different levels of valuation methods. The different levels have been defined as follows:

□ Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

□ Level 2

Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices). Valuation techniques are used to determine the value. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. All significant inputs required to fair value an instrument have to be observable.

□ Level 3

Inputs for asset or liability that are not based on observable market data (unobservable inputs).

The Fund does not have financial instruments that qualify for Level 1 category.

Interest rate swaps will be measured at Level 2 fair value category where applicable.

Investment properties are measured as Level 3 financial instruments.

The directors consider that the carrying amount of investment properties recognised in the financial statements approximate their fair values.

15. Cash and Cash Equivalents

- (a) Cash and cash equivalents include cash on hand and cash at bank. Cash at the end of the period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	30 June 2018 \$	30 June 2017 \$
Cash at bank	100,341	141,388
	100,341	141,388

Notes to the Financial Statements

15. Cash and Cash Equivalents (continued)

(b) Reconciliation of total comprehensive income for the period to net cash flows provided by operating activities:

	30 June 2018 \$	30 June 2017 \$
Total comprehensive profit/(loss)	2,017,271	1,343,124
Adjustments for:		
Depreciation	164,095	153,833
Amortisation	47,401	47,401
Amortisation - Borrowing	4,722	3,460
Unrealised fair value gain on investment property	(1,448,762)	(905,801)
Changes in assets and liabilities:		
Decrease/(Increase) in other current assets	(197,812)	24,673
(Decrease)/Increase in trade and other payables	229,779	92,459
Net cash provided by operating activities	816,694	759,149

All amounts are presented in Australian dollars.

16. Interest Bearing Liabilities

	30 June 2018 \$	30 June 2017 \$
Secured loan facility	13,905,835	7,087,242
	14,500,000	8,000,000

The loan facility will terminate on 20 February 2020.

Assets pledged as security

The loan facility is secured by a registered first mortgage over the investment properties, non-recourse to investors, and currently interest only with amortisation to be agreed in the 2019 calendar year.

All borrowings of the Fund will be on a limited recourse basis. A lender's recourse will be limited to the Fund and its assets and will not have recourse to Investors and their personal assets.

Loan facility covenants

The financial covenants required on the secured loan facility with NAB are an interest cover ratio ICR of at least 2.0 times net property income and a loan to market value of investment properties ratio ("LVR") of less than or equal to 45%. The Fund was in compliance with its covenants throughout the financial period ended 30 June 2018 with an ICR of 3 times and LVR of 41% as at 30 June 2018.



Notes to the Financial Statements

17. Subsequent Events

Subsequent to the end of the financial year on 1 July 2018, Ethical Property Commercial Limited retired as trustee of the Fund and appointed the Trustee to the position.

There has been no other matters or circumstances occurring subsequent to the period ended 30 June 2018 that has significantly affected, or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

18. Commitments and Contingencies

There were no other contingent assets and liabilities or commitments as at 30 June 2018.

19. Approval of Financial Reports

The financial reports were approved by the board of directors and authorised for issue on the date the Directors' Declaration was signed.



Directors' Declaration

The directors of the Trustee declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3(a) to the financial statements; and
- (c) in the directors' opinion, the attached financial statements and notes there to are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund.

Signed in accordance with a resolution of the directors of the Trustee made pursuant to Section 303(5) of the Corporations Act 2001.

On behalf of the directors of One Funds Management Limited.



Justin Epstein

Director

~~September~~ 2018

2 October

Ethical Property Commercial Fund

Independent Auditor's Report

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Ethical Property Commercial Fund (the Fund), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unitholders, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Ethical Property Commercial Fund:

- (i) gives a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the year then ended;
- (ii) complies with Australian Accounting Standards (including Australian Accounting Interpretations); and
- (iii) complies with International Financial Reporting Standards as disclosed in Note 1.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Fund in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We confirm that the independence declaration which has been given to the trustee would be in the same terms if given to the trustee as at the time of this auditor's report.

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

The trustee is responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Trustee for the Financial Report

The trustee is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and for such internal control as the trustee determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Ethical Property Commercial Fund

Independent Auditor's Report

In preparing the financial report, the trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee.
- Conclude on the appropriateness of trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Fund audit. We remain solely responsible for our audit opinion.

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

Signed on :

2 October 2018

David Penman, Chartered Accountant 26812 Registered Company Auditor 15485
D.Penman & Co
Level 1 448 St Kilda Road Melbourne VIC 3004