Financial report for the half year ended 31 December 2020

Auckland Real Estate is the trading name of Quattro RE Limited, as responsible entity for Auckland Real Estate Trust, an Australian registered managed investment scheme (ARSN 114 494 503)

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 30 June 2020 and in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Directors' report

The Directors of Quattro RE Limited (**"Quattro"** or "**Responsible Entity**"), the Responsible Entity for Auckland Real Estate Trust ("AKL" or "**the Trust**" - ASX: AKL) (formally Quattro Plus Real Estate - ASX: QPR) present their report together with the interim financial statements of the Consolidated Entity for the half-year reporting period of six months ended 31 December 2020 and the independent auditor's review report thereon.

The Consolidated Entity comprises of the Trust and the entities it controlled during the financial period. The Trust became a registered managed investment scheme under the *Corporations Act 2001* on 26 May 2005.

On 4 December 2020, the Trust changed its name to Auckland Real Estate Trust, from Quattro Plus Real Estate, to better reflect the portfolio of the Trust as well as its strategic focus in the short to medium term. It also changed the composition of the Board of Directors on 4 December 2020.

On 9 December 2020, the Trust, listed as a Foreign Exempt Issuer on the New Zealand Exchange ("NZX ") under the NZX code: AKL.

Responsible entity and Investment Management

The Responsible Entity has carried out the investment management function relevant to the assets of the Trust and engaged consultants and other managers, where appropriate, to assist in the review of strategy, its implementation, and the day-to-day management of the Trust.

Directors

The Directors of the Responsible Entity during the period and up to the date of this report, unless otherwise stated are as follows:

Peter Chai (retired 4 December 2020)
Greg Dyer (appointed 4 December 2020)
Nicholas Hargreaves
Barry Mann (appointed 4 December 2020)
Andrew Saunders
Antony Wood (retired 4 December 2020)

The Directors consider that because the majority of Directors during or since the end of the half-year reporting period were non-executive and independent, an adequate segregation of responsibilities has applied during the half-year reporting period between the investment management functions and corporate governance functions of the Trust.

Principal activities

The Trust is a registered managed investment scheme domiciled in Australia. The principal activity of the Trust is investment in office property with a strategy to add value. The Trust currently owns six properties, five of which are in the Auckland CBD, New Zealand and one in Chicago, USA.

Results for the half year ended 31 December 2020

The results of the operations of the Trust are disclosed in the consolidated statement of profit or loss and other comprehensive income of the financial statements. The Trust's profit from continuing operations for the half year ended 31 December 2020 was $8,022,000 (2019: $1,041,000 loss).

As of 31 December 2020, the Trust's net tangible assets ("**NTA**") was $1.19 per unit (30 June 2020: $1.11).

Distributions

No distributions have been paid or are payable in respect of the current or immediately preceding corresponding period and the Directors of the Responsible Entity do not recommend the payment of a distribution.

Foreign exchange movements

The Trust's assets and liabilities as well as earnings are predominately in US$ and NZ$. Movements in the US$/A$ and NZ$/A$ exchange rate have a material impact on the Trust's Net Tangible Assets ("**NTA**") and its earnings.

The Trust's statement of financial position is prepared using predominately the spot rate at 31 December 2020.

The Trust's statement of profit or loss and other comprehensive income is prepared using the average exchange rates over the period.

Investment property

The total value of the Trust's property portfolio at 31 December 2020 was $182,527,000 (30 June 2020: $165,543,000). The Trust owns five office buildings in Auckland CBD, New Zealand and one office building in Chicago, USA.

The increase in the value of the property portfolio was attributable to the change in fair values and the refurbishment and upgrade works spent during the period across the Auckland property portfolio.

COVID-19

As of 31 December 2020, there were no rent relief agreements in place relating to COVID-19 and collections are currently running in line with pre COVID-19 levels.

Portfolio Update

The overall property investment strategy is to focus on buildings that suit the SME tenant market and add value through an activated management and leasing strategy. The SME tenant market in Auckland is the most active leasing sector, comprising 55% of total lettable area leased in 2019 and 75% of all leasing transactions. With leases ranging from 100sqm up to 1,000sqm in size, the ideal building floorplate for the SME market is between 400sqm to 800sqm.

The Trust launched a leasing brand, Alberts (www.alberts.nz), in November with a focus on the SME market. The launch of Alberts coincided with the completion of a number of levels at 1 Albert Street. Alberts offers tenants three workspace options;

- Private Suites, which are fully fitted and walk in ready to use. Users include Match Realty, Williams Corporation, NEC.
- Bespoke, which are workspaces tailored to the client's specification and are fully fitted out, ready to walk in. Tenants include NZ Finance, Ray White and Bolton Equities.
- Traditional, which are traditional market leases based on a base rent and tenant incentive.

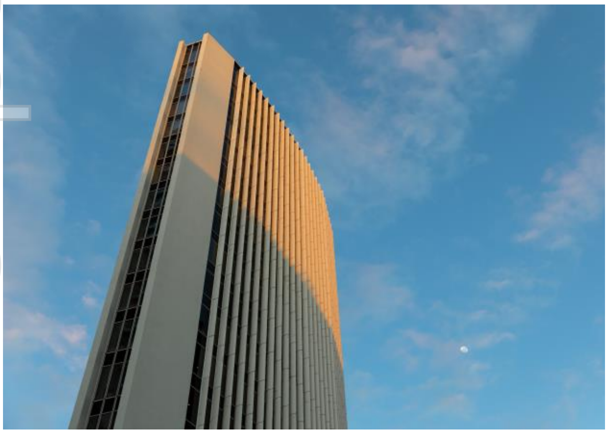
Across portfolio, over 2,000sqm was leased during the period generating additional revenue in excess of $1.80m, with initial rent payments in 2020 and 2021 as tenancies are completed and occupied. Entering 2021, Alberts has maintained leasing momentum with positive enquiry and transactions.

1 Albert Street, Auckland CBD

The property is located in the core CBD adjacent to several major developments and projects.

The building works, which comprise the re-development of the ground and mezzanine levels to create a new office entrance, lobby and retail outlets have been timed to complete in phases between January and May 2021. The timing allows the leasing of the building to gain the full benefit from the opening of the adjacent NZ$1bn Commercial Bay development, which is located across the road and the CRL works on Albert Street.

The new office entry and lobby was completed in January, allowing a focus on leasing the refurbished office space in the building. During the period, 1,814sqm were leased at an average gross rent of $725sqm. Since period end, and reflecting the completion of the new lobby, a further 1,200sqm has been leased or are in advanced discussions. The focus is on completing the re-development by 30 June 2021.



The Viaduct Harbour properties;

1. **110 Custom Street West, Auckland CBD**
2. **10 Viaduct Harbour, Auckland CBD**
3. **12 Viaduct Harbour, Auckland CBD**

Together the three properties provide 8,500sqm of lettable area fronting Viaduct Harbour. With floor plates ranging from 400sqm to 600 sqm, plentiful parking and views across the harbour, the properties suit high end SME tenants.

At the time of acquisition, the properties had been owned by an offshore investor who also owned 8 Viaduct Harbour, an 8,000sqm office property that was converted to a QT hotel, which opened in late 2020. This conversion to hotel use effectively removed 50% of the supply of this style of office space on the Viaduct Harbour. Whilst the adjoining Wynyard Quarter is home to large scale office developments, all of these have floor plates in excess of 1,000sqm and are not a direct competitor to the subject properties for SME tenants.

One level of 10 Viaduct Harbour was converted to the Private Suites model and this has been fully leased. The level of demand for high quality workspaces has been strong and as floors become available, they may be converted to Private Suites.

110 Custom Street West office space is fully leased. The building will have one floor vacant in March which will be converted into Private Suites.

10 Viaduct Harbour is currently 78% leased. The 5-level property has one vacancy, a whole floor, where a tenant exited a lease after making a surrender payment to the Trust. This floor is also under negotiation to a new tenant.

12 Viaduct Harbour is fully leased. The ground floor renovation has been completed, providing new end of trip facilities, a new café called “Lawn” and a F45 gym. This activation of the property’s amenities has had a positive impact on leasing for both 10 and 12 Viaduct Harbour.

The properties were acquired in late 2018 for NZ$28m and have been valued at NZ$39m. On the basis of current conditions, we expect these values to firm as new leasing occurs at improved rents over the next year.

The Fusion Office complex

Fusion is the project name for the redevelopment of three adjoining buildings; 87 Albert Street, 60 Federal Street and 16 Kingston Street into approximately 14,000sqm A grade office complex.

During the period, resource consent was received for the Fusion project. Designed by Ignite Architects and CTRL Space, the project will provide over 14,000sqm of office space linked by a new building at ground level. At completion in 2022, Fusion has a forecast end value in excess of $150m.

Fusion will provide office plates between 400sqm to 800 sqm for the SME tenant market. The main entrance is within 20 metres of the new Aotea CRL station entrance and Sky City is less than a two-minute walk.

87 Albert Street, Auckland CBD

The property was acquired in October 2019 for $33.00m with a key motivation being its strategic location adjacent to the new Aotea CRL Station and Sky City.

87 Albert Street is a 13-level office building comprising of 10 levels of office accommodation, ground level retail and 2 levels of basement parking. The property is currently being re-positioned, with a lift modernisation programme underway, a new entrance lobby and two office levels being updated. The office levels will provide Private Suite workspaces designed by Coco Republic.

87 Albert Street is held in the books at $33.99m.

16 Kingston St and 60 Federal St, Auckland CBD

During the prior period, a contract to acquire the properties was executed and conditional upon;

- Securing a resource consent for the Fusion project by 4 December. The resource consent was received and the condition waived. A credit approved term sheet has been executed with the senior lenders.
- Funding the purchase and project. This condition was waived on 12 February 2021, at which time a revised price of $58m was agreed, inclusive of income underwrites and other provisions.

A non-refundable deposit has been paid and the acquisition is due to settle on 31 March 2021.

1700 W. Higgins Road, Chicago

The property is held for sale. COVID-19 limited the ability to advance the Trusts plans to exit the property. During the period, property occupancy increased to 72% and a number of value add initiatives were advanced.

The Trust expects to appoint a broker to sell the asset in the first quarter of 2021, with completion in the second half of the year.

1700 W.Higgins

Interest of the Responsible Entity

Mr Andrew Saunders and his associates hold 449,357 units in the Trust. Alceon Group Pty Limited hold 77,061,048 units in the Trust.

Except as disclosed in this report or in the notes to the consolidated financial statements, no Director of the Responsible Entity has received or become entitled to receive any benefit because of a contract made by the Responsible Entity or a related entity with a Director or with a firm of which a Director is a member or with an entity of which a Director of the Responsible Entity has a substantial interest. Directors of the Responsible Entity are paid Directors fees by the Responsible Entity from its own resources.

All transactions with related parties are conducted on commercial terms and conditions.

Costs incurred by the Responsible Entity in managing the Trust include the cost of advisors to provide the fund management, assets management, legal, accounting and other services. These costs are included in expense recoveries.

	Note	31-Dec-20 $'000	31-Dec-19 $'000
Transactions with related parties - Consolidated			
Charged by the Responsible Entity and related parties:			
Responsible Entity/Management fees	see i below	**614**	459
Acquisition fees		**-**	478
Capital arrangement fees		**-**	252
Expense recoveries		**112**	89
Loan interest – Alceon Group Pty Limited		**113**	624
Total charges by the Responsible Entity and related parties		**839**	1,902
Balances outstanding with related parties - Consolidated			
To the Responsible Entity (included in payables)			
Responsible Entity fees		**-**	190
Total balances outstanding with related parties		**-**	190
Unsecured loan receivable - Consolidated			
Quattro RE Limited		**440**	150
Total unsecured loan receivable		**440**	150

i. Responsible Entity fees are calculated on the following basis:

- 0.75% p.a. of the gross carrying value of the Assets, calculated as at the end of each calendar month
- Quattro Management No 2 Pty Limited was appointed to act as the Trust's investment manager under a delegated authority by the Responsible Entity. Quattro Management No 2 Pty Limited is owned equally by a related entity of Andrew Saunders and a related entity of Alceon Group Pty Limited

Events subsequent to the end of the half-year reporting period

There has not arisen in the interval between 31 December 2020 and the date of this report, any other matter or circumstances that has significantly affected or may significantly affect the operations of the Trust.

Going concern

The consolidated interim financial report of the Trust has been prepared on a going concern basis which contemplates continuity of normal business activities and the realization of assets and the settlement of liabilities in the ordinary course of business.

The available cash and cash equivalents at 31 December 2020 were $1,165,000 (30 June 2020: $1,107,000). Undrawn borrowings total approximately $17.1m.

The Responsible Entity has prepared cashflow budgets through to 31 March 2022 which indicates that the Trust will have sufficient funds and funding in place to meet its short-term working capital, committed repositioning and capex works, and financing requirements.

Significant changes in state of affairs

In the opinion of the Directors of the Responsible Entity there have been no other significant changes in the state-of-affairs of the Trust which occurred during the financial period not otherwise disclosed in this Directors' report or the attached financial report.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the year period 31 December 2020.

Rounding off

The Trust and Consolidated Entity are of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report and the Directors' Report have been rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the Responsible Entity:

Andrew Saunders

Director

Sydney, 26 February 2021

PITCHER PARTNERS

Level 16, Tower 2 Darling Park
201 Sussex Street
Sydney NSW 2000

Postal Address
GPO Box 1615
Sydney NSW 2001

p. +612 9221 2099
e. sydneypartners@pitcher.com.au

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF QUATTRO RE LIMITED
AS RESPONSIBLE ENTITY OF AUCKLAND REAL ESTATE TRUST

I declare that, to the best of my knowledge and belief there has been:

(i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

ROD SHANLEY
Partner

PITCHER PARTNERS
Sydney

26 February 2021

Statement of Profit or Loss and Other Comprehensive Income (Consolidated)

for the half year ended 31 December 2020

	Note	31-Dec-20 $'000	31-Dec-19 $'000
Revenue and other income			
Rental income from investment properties		4,087	3,790
Recoverable outgoings from investment properties		1,403	1,293
Interest income		25	-
Other income		(27)	125
Net gain/(loss) on financial instruments		1,191	-
Net (loss)/gain on foreign exchange		(15)	(6)
Total revenue and other income		**6,664**	**5,202**
Expenses			
Property expenses		2,837	2,559
Lease liability interest		700	791
Responsible Entity management fees		614	459
Custodian fees		8	8
Borrowing costs		1,493	1,586
Provision for expected credit loss		92	74
Legal fees		87	79
Property general and administrative		898	394
Other operating expenses		338	281
Total expenses		**7,067**	**6,231**
Change in fair value of investment property		8,425	(12)
Profit/(Loss) for the half year before income tax		**8,022**	**(1,041)**
Income tax		-	-
Profit/(Loss) for the half year		**8,022**	**(1,041)**

Continued on page 11

The consolidated interim statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Profit or Loss and Other Comprehensive Income (Consolidated)

for the half year ended 31 December 2020

	Note	31-Dec-20 $'000	31-Dec-19 $'000
Profit/(Loss) for the period		**8,022**	**(1,041)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Unrealised Foreign currency translation differences - foreign operations		(1,186)	523
Total other comprehensive income/(loss)		**(1,186)**	**523**
Total comprehensive profit/(loss) for the period		**6,836**	**(518)**
Total comprehensive profit/(loss) for the period attributable to unitholders		**6,836**	**(518)**
Earnings per unit for profit/(loss) attributable to the ordinary equity holders of the Trust		**Cents**	**Cents**
Basic and diluted earnings/(loss) per unit	8	**9.98**	**(1.74)**

The consolidated interim statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Changes in Equity (Consolidated)

as of 31 December 2020

Consolidated Entity	**Issued capital $'000**	**Translation reserve $'000**	**Accumulated losses $'000**	**Total equity $'000**
2019				
Balance at 30 June 2019	261,706	5,301	(210,352)	56,655
Total comprehensive income/(loss) for the period				
Loss for the period	-	-	(1,041)	(1,041)
Translation of foreign operations	-	523	-	523
Total comprehensive income/(loss) for the period	**-**	**523**	**(1,041)**	**(518)**
Transactions with owners, recorded directly in equity				
Units issued	24,392	-	-	24,392
Total transactions with owners	24,392	-	-	24,392
Balance at 31 December 2019	**286,098**	**5,824**	**(211,393)**	**80,529**
2020				
Balance at 30 June 2020	286,058	3,867	(200,826)	89,099
Total comprehensive income/(loss) for the period				
Loss for the period	-	-	8,022	8,022
Translation of foreign operations	-	(1,186)	-	(1,186)
Total comprehensive income/(loss) for the period	**-**	**(1,186)**	**8,022**	**6,836**
Transactions with owners, recorded directly in equity				
Units issued	(10)	-	-	(10)
Total transactions with owners	(10)	-	-	(10)
Balance at 31 December 2020	**286,048**	**2,681**	**(192,804)**	**95,925**

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

Statement of Financial Position (Consolidated)

as at 31 December 2020

	Note	31-Dec-20 $'000	30-Jun-20 $'000
Current assets			
Cash and cash equivalents		1,165	1,107
Trade and other receivables	2	1,133	1,130
Other assets	3	2,417	1,172
Total current assets		**4,715**	**3,409**
Non-current assets			
Investment properties	5	182,527	165,543
Right of use assets and net investments in leases		19,564	19,495
Other assets	3	819	781
Total non-current assets		**202,910**	**185,819**
Total assets		**207,625**	**189,228**
Current liabilities			
Trade and other payables	4	3,873	5,100
Financial liabilities	6	72,989	-
Total current liabilities		**76,862**	**5,100**
Non-current liabilities			
Financial liabilities	6	15,274	75,534
Lease liabilities		19,564	19,495
Total non-current liabilities		**34,838**	**95,029**
Total liabilities		**111,700**	**100,129**
Net assets		**95,925**	**89,099**
Equity			
Issued capital	7	286,048	286,058
Reserves		2,681	3,867
Accumulated losses		(192,804)	(200,826)
Total equity		**95,925**	**89,099**

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

Cash Flow Statement (Consolidated)

for the half year ended 31 December 2020

	31-Dec-20 $'000	31-Dec-19 $'000
Cash flows from operating activities		
Receipts in the course of operations	6,585	6,010
Payments in the course of operations	(6,511)	(6,803)
Payments of lease liability	(780)	-
Payments of interest and other borrowing costs	(1,432)	(1,225)
Cash receipts from GST refunds	433	-
Net cash used in operating activities	**(1,705)**	**(2,018)**
Cash flows from investing activities		
Payment to acquire investment property	-	(32,286)
Payments for improvements to investment properties	(10,601)	(7,845)
Loans from/(to) other entities	339	619
Net cash used in investing activities	**(10,262)**	**(39,512)**
Cash flows from financing activities		
Proceeds from borrowings	12,088	41,272
Repayment of borrowings	-	(21,003)
Proceeds from issue of units	-	24,391
Transaction costs related to issues of shares, convertible notes or options	-	(20)
Transaction costs relating to borrowings	(30)	(99)
Net cash from financing activities	**12,058**	**44,541**
Net increase/(decrease) in cash and cash equivalents	**91**	**3,011**
Cash and cash equivalents at 1 July	**1,107**	**1,039**
Effect of exchange rate fluctuations on cash held	**(33)**	**37**
Cash and cash equivalents at 31 December	**1,165**	**4,087**

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

Notes to the consolidated interim financial statements

1. Statement of Significant Accounting Policies

Reporting entity

Auckland Real Estate Trust ("AKL" or "**the Trust**" - ASX: AKL) (formally Quattro Plus Real Estate - ASX: QPR), is a registered managed investment scheme under the *Corporations Act 2001*. The consolidated interim financial report of the Trust as at and for the half-year reporting period of six months ended 31 December 2020 comprises the Trust and its subsidiaries (together referred to as the **"Consolidated Entity"** and individually as **"Group entities"**). The Trust is a for-profit entity. The principal activities of the Consolidated Entity during the half-year reporting period was the derivation of rental income from investment properties located in the United States of America (**"USA"**) and New Zealand (**"NZ"**).

Basis of preparation

(a) Statement of compliance

The consolidated interim financial report is a general-purpose financial report which has been prepared for a for-profit entity for the half-year reporting period ended 31 December 2020 and which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial report does not include all the information required for an annual financial report,and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2020 and the ASX announcements released during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The financial statements are presented in Australian Dollars and all values are rounded to the nearest thousand dollars ($'000) except where otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.The financial report has also been prepared on a historical cost basis, except for investment properties and loans designated at fair value through profit and loss, which have been measured at fair value.

The financial statements were approved by the Directors of the Responsible Entity on 26 February 2021.

(b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant judgements, estimates and assumptions made by management in the preparation of these consolidated financial statements are outlined below:

- **Investment properties – Valuation**
  Investment properties are valued each reporting date to reflect their fair value according to the Trust's policy on valuing property (Refer to Note 5) for further details).

- **Financial liabilities – Valuation**
  The financial liability created by the loan modification agreement has been designated as a financial liability at fair value through profit and loss by Directors of the Responsible Entity (Refer to Note 6 for further details).

(b) Use of estimates and judgments (continued)

- **Lease assets and liabilities - Valuation**
  A right-of-use asset and a lease liability was recognised as at 1 July 2019. This was recognised as the present value at 7% discount rate of all expected future ground rent payments until the next ground lease renewal date then assumed the ground lease was renewed another 19/20 years and this period also included in the present value calculation.

- **Expected credit loss**
  The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, group based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent revenue collection, historical collection rates, the impact of COVID-19 and forward-looking information that is available. The allowance for expected credit losses is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

- **Forward foreign exchange contracts - Valuation**
  Derivate financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

- **Tax – non recognition of Deferred Tax Liability**
  The US deferred tax liability is adjusted to reflect the movement in the fair value of the properties and their tax cost base. To the extent that the fair value of the properties is lower than the tax cost base no deferred tax balance is recognised.

(c) Going concern

The consolidated interim financial report of the Trust has been prepared on a going concern basis which contemplates continuity of normal business activities and the realization of assets and the settlement of liabilities in the ordinary course of business.

The available cash and cash equivalents at 31 December 2020 were $1,165,000 (30 June 2020: $1,107,000). Undrawn borrowing facilities total approximately $17.1m.

The Responsible Entity has prepared cashflow budgets through to 31 March 2022 which indicates that the Trust will have sufficient funds and funding in place to meet its short-term working capital, committed repositioning and capex works, and financing requirements.

(d) Significant accounting policies

The accounting policies adopted in the preparation of the consolidated interim financial statements are consistent with those followed in the preparation of the Consolidated Entity's annual financial statements as at 30 June 2020.

The entity has adopted all new mandatory account standards and interpretations for the current period and there was no material impact.

2. Trade and other receivables

	31-Dec-20 $'000	30-Jun-20 $'000
Trade receivables and other receivables	1,187	1,435
Provision for expected credit loss	(54)	(305)
	1,133	**1,130**

3. Other assets

	31-Dec-20 $'000	30-Jun-20 $'000
Current		
Prepaid expenses and acquisition costs	190	425
Derivatives (fair value)	1,787	597
Loan to Responsible Entity**	440	150
	2,417	**1,172**
Non-current		
Property related deposits*	819	781
	819	**781**

* Property related deposits are comprised of tenant improvement reserves, capital replacement reserves, insurance escrows and real estate taxes escrows held in the United States and New Zealand.
** The loan to the Responsible Entity is unsecured and relates to the AFSL.

4. Trade and other payables

	31-Dec-20 $'000	30-Jun-20 $'000
Current		
Trade payables	2,319	3,637
Tenants' security deposits	328	241
Retentions held	149	156
Rent received in advance	116	163
CAM charges payable to tenants	-	143
Accrued real estate taxes	758	426
Accrued interest payable	203	334
	3,873	**5,100**

5. Investment Properties

	31-Dec-20* $'000	30-Jun-20** $'000
Non- current		
Investment properties – at fair value	182,527	165,543
	182,527	**165,543**
The movement in the carrying amount is reconciled as follows:		
Carrying amount at the beginning of the period	165,543	108,857
New acquisitions	1,369	34,198
Lease straight-lining	95	237
Improvements to investment properties (including tenant incentives)	8,533	12,733
Deferred rent receivable	1,995	1,330
Asset revaluation increments	8,425	10,968
Gain/(loss) due to foreign currency translation	(3,433)	(1,703)
Change in fair value of investment property	-	(1,077)
Carrying amount at the end of the period	**182,527**	**165,543**
Comprising of:		
Deferred rental income	1,995	1,330
Deferred leasing costs	-	2,139
Fair value of properties (excluding straight-lining)	180,532	162,074
	182,527	**165,543**

* Movement is for the current 6 months ending 31 December 2020
** Movement is for the 12-month period ending 30 June 2020

The fair value of investment property (including straight-lining) at 31 December 2020 is as set out in the following table.

	31-Dec-20 A$	30-Jun-20 A$
Property		
1700W Higgins, Chicago (Higgins)	30,857,000	30,873,000
1-3 Albert Street, Auckland	79,916,000	67,793,000
10 Viaduct Harbour, Auckland	11,956,000	11,905,000
12 Viaduct Harbour, Auckland	14,338,000	14,034,000
110 Customs St West, Auckland	11,250,000	11,036,000
87 Albert Street, Auckland	32,841,000	29,902,000
Initial deposit for 60 Kingston St and 16 Federal St, Auckland	1,369,000	-
	182,527,000	**165,543,000**

5. Investment Properties (continued)

Measurement of fair value

Investment properties are measured at fair value with any change therein recognised in profit or loss.

(i) Fair value hierarchy

The Trust has an internal valuation process for determining the fair value at each reporting date. An independent valuer, having an appropriate professional qualification and recent experience in the location and category of the property being valued, values individual properties annually or more regularly if considered appropriate. These external valuations are taken into consideration by the Directors of the Responsible Entity when determining the fair values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgably, prudently and without compulsion.

An Independent valuation for 1-3 Albert St, 10 & 12 Viaduct Harbour, 110 Customs St West and 87 Albert St, Auckland was conducted by Jones Lang LaSalle as at 30 June 2020.

The Higgins property value is based on two broker opinions as at 30 June 2020 and conditional contracts for the value of the billboards and a land parcel.

The fair value measurement for all six (6) investment properties, has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see Note 5(ii) below).

(ii)Level 3 fair value

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values.

	31-Dec-20 $'000	**30-Jun-20 $'000**
Balance at the beginning of the period	165,543	108,857
New acquisitions	1,369	34,198
Deferred rent receivable	1,995	1,330
Items included in profit and loss		
• Rental income (Lease straight lining)	95	237
• Change in fair value of investment property (unrealised)	8,425	9,891
Item included in other comprehensive income		
• Gain (loss) due to foreign currency translation	(3,433)	(1,703)
Improvements to investment properties	8,533	12,733
Balance at the end of the period	**182,527**	**165,543**

5. Investment Properties (continued)

Valuation technique and significant unobservable inputs

The following information shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique USA Property

Discounted cash flows: The valuation model considers the present value of the net cash flows to be generated from the property, taking into account expected rental growth rate, vacancy periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid for by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the determination of an appropriate discount rate takes into consideration the quality and location of the building, tenant credit quality and lease terms.

Valuation technique NZ Properties

Discounted cash flows: The valuation model considers the present value of the net cash flows to be generated from the property, taking into account expected rental growth rate, vacancy periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid for by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the determination of an appropriate discount rate takes into consideration the quality and location of the building, tenant credit quality and lease terms.

Significant unobservable inputs

USA Property

- 2 broker opinion of values and conditional contracts for the billboards and land
- Expected market rental growth: 3.0% p/a
- Current occupancy of 72%, and assumed stabilized occupancy of 70% in year 3
- Vacancy period between leases: 9 months
- Vacancy factor and credit loss: 8.0%
- Risk adjusted discount rate: 9.0%

NZ Properties

- Expected market rental growth: 2.5% p/a
- Occupancy has been assumed as 100%
- Stabilized occupancy for 1 Albert St is year 3 with risk, profit and letting up allowance
- Vacancy period between leases: 6-9 months
- Risk adjusted discount rate: 6.75% -7.75%
- Market ground rents have been estimated

5. Investment Properties (continued)

Valuation technique and significant unobservable inputs (continued)

Inter-relationship between key unobservable inputs and fair value measurement

USA Property

The estimated fair value would increase/(decrease) if:

- Expected market rental growth was higher/(lower)
- The current occupancy rate was higher/(lower)
- The lease up or absorption period of the vacant space was shorter/(longer)
- The vacancy periods between leases was shorter/(longer)
- The vacancy factor is lower/(higher)
- The stabilised occupancy is higher/(lower)
- The risk adjusted discount rate was lower/ (higher

NZ Properties

The estimated fair value would increase/(decrease) if:

- Expected market rental growth is higher/(lower)
- Occupancy is (lower)
- The lease up periods and letting up costs are higher/(lower)
- The vacancy periods between leases are shorter/(longer)
- The risk adjusted discount rate was lower/(higher)
- The actual ground rent reviews are higher/(lower)

6. Financial liabilities

	31-Dec-20 A$'000	30-Jun-20 A$'000
Current		
Financial liabilities Non-Bank Bridge loan – amortised cost	6,477	-
Bank loans – amortised cost	66,512	-
Total loans and borrowings	**72,989**	**-**
Non-current		
Bank loans – amortised cost	15,274	75,534
Total loans and borrowings	**15,274**	**75,534**

Bank Loans – terms and conditions

1700 Higgins Loan

On 25 January 2019 the Trust refinanced the Higgins loan with a new secured loan of US$9.7m and $US2.0m of equity which was funded from the proceeds of the capital raising which closed on 21 December 2018. The loan was refinanced with the maturity date of 1 February 2022 with options to extend. The interest rate is a 3.75% p.a. margin over LIBOR. Key terms of the new loan are:

Key details of the secured loan with the new lender are as follows:

	US$	A$
Loan limit:	$14.0m	$18.2m
Initial funding:	$9.7m	$12.6m
Funding drawn to date for IT/LC/Capex:	$2.1m	$2.7m
Undrawn future funding for TI/LC/Capex:	$2.2m	$2.9m
Maturity date:	1 February 2022 + extension options	

New Zealand Debt Facility

The facility is syndicated with Bank of New Zealand in NZ and Industrial and Commercial Bank of China (New Zealand) Limited (ICBC) and the terms are typical for a secured property loan of this nature with a maturity date of 22 October 2021. The interest rate is a 2.4% p.a. margin on BKBM rate. The loan is secured by charges over all the NZ properties.

Other borrowings (Non-bank bridge loan)

The keys terms (limit, repayment and interest rate) of the other loan, Non-bank subordinated bridge loan is as follows:

1. Other borrowings – Bridge loan limit of A$15,000,000 plus interest to repayment date

- Interest rate – up to 15% annualised, accrued monthly and capitalised
- Maturity date – 22 October 2021

7. Capital and reserves

Capital management

Trust gearing at 31 December 2020 (debt to total assets, excluding right of use assets) is 46.9% (30 June 2020: 44.5%). Undrawn borrowings total approximately $17.1m (30 June 2020: $30.8m). The undrawn borrowings are to fund re-positioning and capex works in NZ and USA as well as for working capital.

The Trust may hedge its interest rate exposure as it utilises its undrawn borrowings and also hedge its net asset US$ and NZ$ foreign exchange exposure.

Issued capital

The movement in the Trust's issued capital during the period is shown below:

	31-Dec-20		30-Jun-20	
	No. of units	$'000	No. of units	$'000
Opening balance	**80,342,150**	**286,058**	58,168,199	261,706
Pro-rata entitlement offer*	**-**	**(10)**	22,173,951	24,352
Closing balance	**80,342,150**	**286,048**	80,342,150	286,058

* 1 : 2.46 non-renounceable pro-rata entitlement offer

8. Earnings/(Loss) per unit

The calculation of basic earnings/(loss) per unit at 31 December 2020 was based on the profit from continuing operations of the Trust of $8,022,000 (31 December 2019 loss: $1,041,000) and a weighted average number of units outstanding of 80,342,150 (31 December 2019: 59,734,837), calculated as follows:

	As at 31-Dec-20 $'000	As at 31-Dec-19 $'000
Net earnings/(loss) attributable to unitholders of the Trust	**8,022**	**(1,041)**

	As at 31-Dec-20	As at 31-Dec-19
Weighted average number of units (basic)		
Issued units at 1 July	80,342,150	58,168,199
Impact of units issued during the period	-	1,566,638
Weighted average number of units at 31 December	**80,342,150**	**59,734,837**

Diluted earnings per unit

As there are no diluting factors in the half-year reporting period and comparative period, the diluted earnings/(loss) per unit is equal to the basic.

9. Operating segments

The main business of the Consolidated Entity is investment in properties located in the United States of America and New Zealand which is leased to third parties.

The Consolidated Entity has three reportable segments, based on the geographical location of each segment. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit or loss after income tax as included in the internal management reports that are reviewed by the Chief Executive Officer (**"CEO"**) of the Responsible Entity. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The amounts set out on the following page are expressed in AUD but represent amounts that are denominated in USD and NZD and converted to AUD on consolidation.

Consolidated Entity – 6 months ended 31-Dec-20	**USA $'000**	**Australia $'000**	**New Zealand $'000**	**Total $'000**
External revenues	1,545	-	3,945	5,490
Interest income	-	25	-	25
Net loss on foreign exchange	-	(11)	(4)	(15)
Net gain on financial instruments	-	1,191	-	1,191
Other income	(138)	111	-	(27)
Total income	1,407	1,316	3,941	6,664
Borrowing costs	452	116	925	1,493
Other operating expenses	1,326	986	3,262	5,574
Total expenses	1,778	1,102	4,187	7,067
Changes in fair value of investment properties	1,780	-	6,645	8,425
Profit before income tax	1,409	214	6,399	8,022
Income tax	-	-	-	-
Profit after income tax	**1,409**	**214**	**6,399**	**8,022**
Segment assets	**31,950**	**3,523**	**172,152**	**207,625**
Segment liabilities	**16,915**	**6,642**	**88,143**	**111,700**

9. Operating segments (continued)

Consolidated Entity – 6 months ended 31-Dec-19	USA $'000	Australia $'000	New Zealand $'000	Total $'000
External revenues	1,320	-	3,762	5,082
Interest income	-	1	-	1
Net gain on foreign exchange	-	(6)	-	(6)
Other income	125	-	-	125
Total income	1,445	(5)	3,762	5,202
Borrowing costs	454	142	990	1,586
Other operating expenses	1,416	799	2,430	4,645
Total expenses	1,870	941	3,420	6,231
Change in fair value of investment properties	-	-	(12)	(12)
(Loss)/Profit before income tax	(425)	(946)	330	(1,041)
Income tax	-	-	-	-
(Loss)/Profit after income tax	**(425)**	**(946)**	**330**	**(1,041)**
Segment assets	**26,952**	**4,044**	**140,037**	**171,033**
Segment liabilities	**17,178**	**294**	**73,032**	**90,504**

10. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or is part of the key management of the Trust. Related party transactions are transfers of resources, services or obligations between related parties and the Trust, regardless of whether a price has been charged.

Quattro RE Limited (the "Responsible Entity") and Alceon Group Pty Limited are considered to be related parties of the Trust. Alceon Group Pty Limited is considered a related party due to its significant ownership in the Trust.

Key management personnel

The Trust does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Trust and this is considered the Key Management Personnel ("KMP"). The Directors of the Responsible Entity at any time during the half-year reporting period were as follows:

Peter Chai (retired 4 December 2020)
Greg Dyer (appointed 4 December 2020)
Nicholas Hargreaves
Barry Mann (appointed 4 December 2020)
Andrew Saunders
Antony Wood (retired 4 December 2020)

Responsible Entity fees, related party fees and other transactions

Except as disclosed in these consolidated financial statements, no Director of the Responsible Entity has received or become entitled to receive any benefit because of a contract made by the Responsible Entity or a related entity with a Director or with a firm of which a Director is a member or with an entity of which a Director of the Responsible Entity has a substantial interest.

All transactions with related parties are conducted on normal commercial terms and conditions.

	Note	2020 $'000	2019 $'000
Transactions with related parties - Consolidated			
Charged by the Responsible Entity and related parties:			
Responsible Entity/Management fees	see i below	**614**	459
Acquisition fees		**-**	478
Capital arrangement fees		**-**	252
Expense recoveries		**112**	89
Loan interest – Alceon Group Pty Limited		**113**	624
Total charges by the Responsible Entity and related parties		**839**	1,902

10. Related parties (continued)

	Note	2020 $'000	2019 $'000
Balances outstanding with related parties - Consolidated			
To the Responsible Entity (included in payables)			
Responsible Entity fees		**-**	190
Total outstanding with related parties		**-**	190
Unsecured loan receivable - Consolidated			
Quattro RE Limited		**440**	150
Total unsecured loan receivable		**440**	150

i. Responsible Entity fees are calculated on the following basis:

- 0.75% of the asset value
- Quattro Management No 2 Pty Limited was appointed to act as the Trust's investment manager under a delegated authority by the Responsible Entity. Quattro Management No 2 Pty Limited is owned equally by a related entity of Andrew Saunders and a related entity of Alceon Group Pty Limited

Unit holdings of the Responsible Entity and its key management personnel

As at 31 December 2020 there were no units held by the Responsible Entity (31 December 2019: nil units) in the Trust.

Mr Andrew Saunders and his associates hold 449,357 units in the Trust. Alceon Group Pty Limited hold 77,061,048 units in the Trust.

Related party investments held by the Trust

As at 31 December 2020 the Trust held no investments in the Responsible Entity or their associates (31 December 2019: Nil).

11. Financial instruments

Financial risk management

The Consolidated Entity's financial risk management objectives and policies are consistent with those disclosed in the financial report as at and for the year ended 30 June 2020.

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31-Dec-20		Carrying amount				Fair value			
	Note	Designated at fair value $'000	Cash, Loans and receivables $'000	Other financial liabilities $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at amortised cost									
Trade and other receivables	2	-	1,133	-	1,133	-	-	-	-
Cash and cash equivalents		-	1,165	-	1,165	-	-	-	-
Financial assets measured at fair value*									
Other assets (Derivatives)	3	1,787	-	-	1,787	-	1,787	-	1,787
Financial liabilities measured at amortised cost									
Non-Bank loan	6	-	-	6,477	6,477	-	-	-	-
Financial liabilities not measured at amortised cost									
Trade payables	4	-	-	3,873	3,873	-	-	-	-
Lease liabilities		-	-	19,564	19,564	-	-	-	-
Bank Loans	6	-	-	81,786	81,786	-	-	-	-
30-Jun-20									
Financial assets measured at amortised cost									
Trade and other receivables	2	-	1,130	-	1,130	-	-	-	-
Cash and cash equivalents		-	1,107	-	1,107	-	-	-	-
Financial assets measured at fair value*									
Other assets (Derivatives)	3	597	-	-	597	-	597	-	597
Financial liabilities not measured at amortised cost									
Trade payables	4	-	-	5,100	5,100	-	-	-	-
Lease liabilities		-	-	19,456	19,456	-	-	-	-
Bank Loans	6	-	-	75,534	75,534	-	-	-	-

* For financial assets and liabilities not measured at fair value, the carrying amount is a reasonable approximation of fair value due to their short-term nature.

11. Financial instruments (continued)

The fair value of derivates that are no exchange-traded is estimated at the amount that the Consolidated Entity would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility, appropriate yield curve) and the current creditworthiness of the counterparties. Specifically, the fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates on the valuation date.

Capital management

Other than disclosed in this report and the 30 June 2020 Annual Report, there were no capital management initiatives for the six months ended 31 December 2020.

12. Contingent assets and liabilities and commitments

In December 2020, the Trust entered a Deed of Variation to acquire two further properties in the Auckland CBD at 60 Federal St and 16 Kingston St for NZ$58.0m. This acquisition is due to settle on 31 March 2021. The Trust has paid a NZ$5.0m non-refundable deposit. The balance of the purchase price of NZ$53.0m will be funded by the current NZ debt facility and non-bank bridge loan in the short term.

In the opinion of the Responsible Entity there are no other contingent assets, contingent liabilities or commitments subsisting at or arising since the reporting date not otherwise disclosed in this report.

13. Events subsequent to reporting date

There are no matters or circumstances that have arisen since 31 December 2020 that have significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Directors' declaration

1 In the opinion of the Directors of Quattro RE Limited ("Responsible Entity"), the Responsible Entity for the Auckland Real Estate Trust ("Trust"):

(a) the consolidated financial statements and notes, set out on pages 10 to 29, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2020 and of its performance for the six months ended on that date; and

(ii) complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

(b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Responsible Entity:

Andrew Saunders
Director

Sydney, 26 February 2021

Level 16, Tower 2 Darling Park
201 Sussex Street
Sydney NSW 2000

Postal Address
GPO Box 1615
Sydney NSW 2001

p. +61 2 9221 2099
e. sydneypartners@pitcher.com.au

Independent Auditor's Review Report
To the Members of Auckland Real Estate Trust
ARSN 114 494 503

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Auckland Real Estate Trust ("the Trust") which comprises the Consolidated Statement of Financial Position as at 31 December 2020, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

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

(a) giving a true and fair view of the Trust's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Trust in accordance with the auditor independence requirements of 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 (including Independence Standards)* ("the Code") that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Trust, would be in the same terms if given to the Directors as at the time of this auditor's review report.

Responsibility of the Directors for the Financial Report

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

Independent Auditor's Review Report
To the Members of Auckland Real Estate Trust
ARSN 114 494 503

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Trust's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

ROD SHANLEY
Partner

PITCHER PARTNERS
Sydney

26 February 2021