Thynne Street Property Fund

ARSN 639 590 604

Responsible entity
KM Property Funds Ltd

Financial report

For the period 5 February 2020 to 30 June 2020

KM Property Funds Ltd
ACN 164 635 885 | AFSL 442806 |
A KordaMentha group entity

KM Property Funds

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Directors' report

For the period 5 February 2020 to 30 June 2020

The directors of KM Property Funds Ltd, the responsible entity of Thynne Street Property Fund ('the Fund'), present the financial report on the Fund For the period 5 February 2020 to 30 June 2020.

Responsible entity

KM Property Funds Ltd ACN 164 635 885 ('the Responsible Entity') is an unlisted public company incorporated under the Corporations Act 2001 and holds an Australian Financial Services Licence.

Managed investment scheme

The Fund was constituted on 5 February 2020 and is a closed-end, unlisted, registered property trust with a single tenanted commercial office property at 1 Thynne Street, Bruce, Australian Capital Territory.

The Fund was registered with the Australian Securities and Investments Commission on 17 March 2020 and is a registered managed investment scheme domiciled in Australia (ARSN 639 590 604). The Responsible Entity issued a Product Disclosure Statement ('PDS') dated 6 April 2020 to raise $24,259,825 in equity.

Financial period

The financial period is 5 February 2020 to 30 June 2020. The financial report is the first annual financial report prepared by the Trust, as such there are no comparatives.

Directors

The following persons were directors of the Responsible Entity during the period and up to the date of this report.

Director	Role	Appointed during period	Qualifications, special responsibilities and experience
James Edmund Walsh	Chairman		Jim holds a Bachelor of Commerce from Deakin University, a Master of Business Administration from Melbourne Business School and is a graduate from the Australian Institute of Company Directors. Jim is a fellow of Chartered Accountants Australia and New Zealand. He has over 30 years' experience as a company director and is currently the Chairman of GMHBA Limited and Non-Executive Director of SECOS Group Ltd and a board advisor to A.G. Coombs Group Pty Ltd.
Janette Anne Kendall	Non-Executive Director		Janette holds a Bachelor of Business – Marketing and is a Fellow of the Australian Institute of Company Directors. She has more than 24 years' board experience across public, private and not-for profit organisations in industries including digital and technology, marketing and communications, media, retail, fast-moving consumer goods, hospitality, gaming, property and manufacturing. She is currently a Non-Executive Director of Vicinity Centres, Costa Group, Australian Venue Co, Melbourne Theatre Company Foundation and Visit Victoria.
Thomas Jepson Davis	Managing Director		Tom holds a Bachelor of Business (Property) with Distinction from RMIT and a Graduate Diploma of Applied Finance and Investment from the Financial Services Institute of Australasia. Tom is also a Licensed Real Estate Agent. Tom is a Partner with KordaMentha Real Estate with responsibilities including real estate advisory, principal investment and structured finance investment, transaction and asset management.
David Andrew Omond	Managing Director		David holds a Bachelor of Business (Property) from the University of South Australia. David has more than 25 years' experience in commercial property management, development, funds management and corporate finance. David is well versed in managed investment schemes and has specialised in unlisted property funds management.

Director	Role	Appointed during period	Qualifications, special responsibilities and experience
Mario Ross Papaleo	Managing Director		Mario holds a Bachelor of Business (Property) from RMIT and a Graduate Diploma of Applied Finance and Investment from the Securities Institute of Australia. Mario has more than 20 years' experience in direct real estate, listed and unlisted investment and funds management.

Principal activities

The principal activity of the Fund is to provide Unitholders with sustainable and tax deferred income with the potential for capital growth through an investment in a commercial office property located at 1 Thynne Street, Bruce, Australian Capital Territory.

Significant changes in the State of Affairs

During the financial period there were no significant changes in the state of affairs of the Fund other than those expected at inception.

Review of operations and results

The Fund was established to acquire the commercial office property located at 1 Thynne Street, Bruce, Australian Capital Territory for $39.3m on 31 March 2020.

The Fund recorded a total comprehensive loss for the period of ($2,010,003). The result was primarily due to rent received from tenants partly offset by property operating costs, interest expense and Responsible Entity fees and a fair value decrement on investment property including capitalised costs on acquisition. The performance of the fund is underpinned by a high-quality tenant in the Australian Institute of Health and Welfare, an independent Commonwealth statutory agency. The Fund's results have therefore proved resilient in the face of ongoing economic volatility, particularly during the COVID-19 pandemic.

The total comprehensive income for the period includes a number of items which are non-cash in nature, occur infrequently and/or relate to realised and unrealised changes in asset values and liabilities and in the opinion of the directors need to be adjusted for in order to allow for Unitholders' to gain a better understanding of the Fund's underlying profit from operations. Profit from operations is a key measure in determining distributions for the Fund.

A reconciliation of total profit attributable from operations, as assessed by the directors, to the reported total comprehensive income, is provided in the table following:

	For the period 5 February 2020 to 30 June 2020 $'000
Total comprehensive income for the period – refer page 6	(2,010)
Fair value adjustments	
• Investment property	2,511
Total fair value adjustments	2,511
Non-cash adjustments	
• Straight lining of rental income, non-cash	(106)
• Amortisation of borrowing costs, non-cash	17
Total non-cash adjustments	(89)
Total profit attributable from operations	412

	For the period 5 February 2020 to 30 June 2020
Key financial measures per unit	**Cents**
Loss per unit	(8.08)
Profit attributable from operations per unit	1.66
Distribution per unit – *refer to Note 9 for further details*	1.60
	$
Net tangible assets per unit	0.89

Review of operations and results (continued)

The Minimum Subscription amount of $7.384 million was reached on 7 May 2020. As a result, the following occurred:

- A success notice was served on the Custodian and Escrow Agent:
- A repayment notice was served on Commonwealth Bank as financier;
- KM Property Funds Ltd was paid its Transaction Fee a set out in the PDS.

Accordingly, all partly paid up units became fully paid. The Fund retired $7.074 million of debt on 14 May 2020 and Acquisition Units commenced being redeemed.

Events subsequent to the end of the reporting period

In accordance with the PDS, the Fund has continued to raise equity following the end of the reporting period. The remaining $1.1 million of Acquisition units were redeemed on 20 July 2020. As at the date of this report, 24,259,825 ordinary units are issued.

The future effects of the COVID-19 pandemic on the Fund are uncertain as the size and duration of any economic downturn and other adverse effects are currently unknown. Future economic conditions may be materially different from that anticipated by the Fund at 30 June 2020.

No other matters or circumstances have arisen since the end of the financial period that significantly affect 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.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines set out in its Product Disclosure Statement and in accordance with the provisions of its Constitution. Future results will accordingly depend on the performance of the property markets to which the Fund is exposed.

While the Fund has not been negatively affected by the COVID-19 pandemic, in these uncertain times, circumstances that are beyond our control may have an unforeseen impact on the Fund and its assets. Before the COVID-19 pandemic, the market had higher growth expectations, shorter re-leasing downtimes, and lower incentives. However, due to the uncertainty and volatility of investment markets as a result of COVID-19, valuers in general have now adopted more conservative forward-looking assumptions.

The directors will continue to monitor the effect of the COVID-19 pandemic on the Fund and will update the market as necessary. Other considerations in relation to the COVID-19 pandemic are included in Note 16: Fair value measurement.

Environmental regulation

To the best of the directors' knowledge, the operations of the Fund have been undertaken in compliance with the applicable environmental regulations that apply to the Fund's activities.

Fees to Responsible Entity

All fees payable to the Responsible Entity or its related parties are detailed in Note 14.

Options granted

No options over Ordinary or Acquisition Units have been issued since the Fund inception date to the date of this report.

Units held by the Responsible Entity

As at 30 June 2020 the Responsible Entity held no units in the Fund, however a related party of the Fund held units as set out in Note 14.

Directors' equity holdings

The number of units held by directors of the Responsible Entity in office at 30 June 2020 (directly or indirectly) is set out below.

	2020 **Units**
James Edmund Walsh	75,000
Mario Ross Papaleo	25,000

Indemnification of directors and officers

No indemnification has been given during or since the end of the financial period, for any person who is or has been an officer or auditor of the Fund. No insurance premiums have been paid out of the assets of the Fund in regard to insurance provided to the Responsible Entity.

Value of Fund assets

The total value of the Fund's assets at the end of the reporting period is $40,766,706.

The valuation methodology in valuing the assets is detailed in Notes 1, 7 and 16 to the financial statements.

Proceedings on behalf of Fund

No person has applied for leave of court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Responsible Entity is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the period.

Issued units

There are 1,100,000 acquisition units and 23,775,001 ordinary units issued units at 30 June 2020.

As ordinary units are issued, acquisition units are redeemed. During the capital raising period, total units may exceed the units offered in the PDS due to acquisition units yet to be redeemed.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 5. No officer or director of the Responsible Entity is or has been a partner or director of any auditor of the Fund.

Signed in accordance with a resolution of the directors of KM Property Funds Ltd.

Chairman James Edmund Walsh

Dated 15 September 2020

ShineWing AUSTRALIA
Advisors & Accountants

Take the lead

Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001* to the directors of KM Property Funds Ltd as Responsible Entity for Thynne Street Property Fund

I declare that, to the best of my knowledge and belief, during the period ended 30 June 2020 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.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Rami Eltchelebi
Partner

Melbourne, 15 September 2020

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Statement of profit and loss and other comprehensive income

For the period 5 February 2020 to 30 June 2020

	Note	$
Revenue		
Rental income	2	829,858
		829,858
Expenses		
Accounting, compliance and taxation fees		(29,181)
Administration and other expenses		(6,779)
Borrowing costs	3	(127,912)
Custodian fees		(4,374)
Fair value adjustment on investment property	7	(2,511,545)
Property operating and maintenance expenses		(118,322)
Responsible Entity's management fee expense		(41,748)
		(2,839,861)
Net loss for the period		(2,010,003)
Other comprehensive income		-
Total comprehensive loss for the period		(2,010,003)

The accompanying notes form part of these financial statements.

Statement of financial position

As at 30 June 2020

	Note	$
Assets		
Current assets		
Cash and cash equivalents	4	1,394,005
Trade and other receivables	5	51,367
Other assets	6	21,334
Total current assets		1,466,706
Non-current assets		
Investment property	7	39,300,000
Total non-current assets		39,300,000
Total assets		40,766,706
Liabilities		
Current liabilities		
Trade and other payables	8	129,750
Distribution payable	9	399,028
Total current liabilities		528,778
Non- current liabilities		
Secured borrowings	10	18,070,760
Total non-current liabilities		18,070,060
Total liabilities		18,599,538
Net assets		22,167,168
Net assets attributable to Unitholders		
Unitholders' funds	11	24,576,199
Accumulated losses	12	(2,409,031)
Net assets attributable to Unitholders		22,167,168

The accompanying notes form part of these financial statements.

Statement of changes in equity

For the period 5 February 2020 to 30 June 2020

	Note	Unitholders' funds $	Accumulated losses $	Total equity $
Opening balance		**-**	**-**	**-**
Net loss attributable to Unitholders		-	(2,010,003)	(2,010,003)
Total comprehensive income		**-**	**(2,010,003)**	**(2,010,003)**
Transactions with Unitholders				
Application for units – acquisition units		16,200,000	-	16,200,000
Redemption of units - acquisition units		(15,100,000)	-	(15,100,000)
Application for units – ordinary units		23,775,001	-	23,775,001
Capital raising costs		(298,802)	-	(298,802)
Distributions to Unitholders	9	-	(399,028)	(399,028)
Balance at 30 June 2020		**24,576,199**	**(2,409,031)**	**22,167,168**

The accompanying notes form part of these financial statements.

Statement of cash flows

For the period 5 February 2020 to 30 June 2020

	Note	$
Cash flows from operating activities		
Rental and outgoings received		795,462
Payments made to suppliers		(214,864)
Interest paid on finance and interest rate swap		(111,263)
Net cash provided by operating activities	13	**469,335**
Cash flows from investing activities		
Payments for investment property	7	(41,705,666)
Net cash used in investing activities		**(41,705,666)**
Cash flows from financing activities		
Proceeds from borrowings		25,545,000
Repayments of borrowings		(7,074,000)
Borrowing costs paid		(416,863)
Capital raising costs paid		(298,802)
Proceeds from application for units		39,975,001
Redemption of acquisition units		(15,100,000)
Net provided by financing activities		**42,630,336**
Net increase in cash held		1,394,005
Cash and cash equivalents at beginning of financial period		-
Cash and cash equivalents at end of financial period	4	**1,394,005**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For the period 5 February 2020 to 30 June 2020

Note 1: Summary of significant accounting policies

The financial statements and notes represent those of Thynne Street Property Fund ('the Fund') as an individual entity. The Thynne Street Property Fund is an unlisted registered managed investment scheme registered under the *Corporations Act 2001*, established and domiciled in Australia. KM Property Funds Ltd, which is the Responsible Entity of the Fund, is an unlisted public company incorporated under the *Corporations Act 2001*.

The financial statements were authorised for issue on 15 September 2020 by the directors of the Responsible Entity. This is the first financial report of the entity and therefore there is no comparative information.

Basis of preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board (AASB), and the Fund's Constitution. The Fund is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions.

The financial report also complies with International Financial Reporting Standards ('IFRS') as issued by the International Standards Board.

The financial statements, except for the cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The functional currency of the Fund is measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in Australian dollars which is the entity's functional and presentation currency and is rounded to the nearest dollar.

Accounting policies

a. Revenue recognition

Rental revenue

Property rental income represents income earned from the rental of Fund property (inclusive of outgoings recovered from tenants) and is recognised on a straight-line basis over the lease term. Rental revenue not received at reporting date is reflected in the statement of financial position as a receivable or if paid in advance, as rent in advance (unearned income). Lease incentives granted are considered an integral part of the total rental revenue and are recognised as a reduction in rental income over the term of the lease, on a straight-line basis. Contingent rents based on the future amount of a factor that changes other than with the passage of time, including turnover rents and CPI linked rental increases, are only recognised when contractually due.

Interest

Interest income is recognised using the effective interest rate method.
All revenue is stated net of the amount of Goods and Services Tax (GST).

b. Income tax

Under current tax legislation, the Fund is not liable to pay income tax as Unitholders are presently entitled to the income of the Fund and income of the Fund is fully distributable to Unitholders. See Note 1i for further details on distributions and income tax.

c. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at-call with banks, 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.

Note 1: Summary of significant accounting policies (continued)

d. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Receivables relating to operating leases of the investment property are due on the first day of each month, payable in advance. Other receivables are usually due for settlement no more than 60 days from the date of recognition.

Collectability of trade and other receivables is reviewed on an ongoing basis. Receivables which are known to be uncollectible are written off. A provision for impaired receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

e. Investment property and lease incentives

Investment property

The Property will be recognised at fair value (being the valuation price). Any changes resulting from revaluation will be recorded in the Statement of Profit and Loss and Other Comprehensive Income. The carrying value of the Property recorded in the Statement of Financial Position includes straight lining of rental income in respect of fixed increase in rentals in future periods. Refer to Note 16b for further details.

Lease Incentives

Prospective lessees may be offered incentives as an inducement to enter into non-cancellable operating leases. These incentives may take various forms including rent-free periods, upfront cash payments, or a contribution to certain lessee cost such as a fit-out contribution. Incentives are capitalised as an asset and amortised over the term of the lease as an adjustment to net rental income.

f. Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the Fund that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

g. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST component of financing and investing activities which is recoverable from, or payable to, the ATO is presented as operating cash flows included in receipts from customers or payments to suppliers.

h Borrowings

Borrowing are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statements over the period of the borrowings using the effective interest method.

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

i. Distribution paid and payable to Unitholders

The Fund's Constitution requires that the Fund distribute, at a minimum, the 'net income' (as defined in the *Income Tax Assessment Act 1936*) derived during the financial period. This means the net assessable income of the Fund is fully distributable to the Unitholders. Accordingly, the Fund does not pay income tax provided that the distributable income of the Fund is fully distributed to Unitholders.

A liability is recognised for the amount of any distribution declared by the Fund on or before the end of the reporting period but not distributed at balance date. A liability has been recognised in the financial statements at 30 June 2020 as the final distribution had been declared at the balance date.

Note 1: Summary of significant accounting policies (continued)

j. Impairment of assets

At each reporting date, and whenever events or changes in circumstances occur, the Fund assesses whether there is any indication that an asset may be impaired. When an indicator of impairment exists, the Fund makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

k. Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is determined using quoted market prices at the balance date. The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

l. Unitholders' funds

Units on issue are classified as equity and recognised at the fair value of the consideration received by the Fund. Transaction costs arising on the issue of equity are recognised directly in equity as a reduction in the proceeds of units to which the costs relate.

m. Significant accounting judgements

The preparation of 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. Actual results may differ from these estimates.

The areas involving significant estimates or judgments are:

- Investment properties – Note 1e
- Fair value estimation – Note 1k.

The directors and management have considered the financial impact of the COVID-19 pandemic on the valuation of the property at 30 June 2020. Due to the uncertainty and volatility of investment markets as a result of COVID-19, valuers in general have now adopted more conservative forward-looking assumptions for lease expiries in their Discounted Cash Flow analysis with longer downtimes, higher incentives and moderated market growth profiles. The valuation of the property is underpinned by a high-quality tenant in the Australian Institute of Health and Welfare, an independent Commonwealth statutory agency.

1 Thynne Street was the last recent significant commercial office transaction to occur in the Canberra market. Discussions with the valuer have confirmed that the transaction reflects the current market, and sentiment for Commonwealth leased office properties remains strong.

The directors will continue to monitor the effects of the COVID-19 pandemic on the Fund and will update current and potential investors as necessary.

n. New Accounting Standards for application in future periods

The Fund has adopted all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period which includes AASB 16: *Leases*. There was no material impact upon adoption.

There are no standards issued effective for future periods that are expected to have a material impact on the Fund.

Note 2: Revenue and other income

	For the period 5 February 2020 to 30 June 2020 $
Revenue	
Rental income and outgoings recovery	723,979
Straight lining of rental income	105,879
	829,858

The investment property, 1 Thynne Street, Bruce, Australian Capital Territory, is a modern, three level A-grade office building completed in 2014. The property includes 68 undercroft car parks and 142 ongrade car parks. The property is subject to a 15-year lease to the Australian Institute of Health and Welfare expiring in June 2029 with two further three-year options available.

The lease provides for recovery of increases in statutory charges over a defined base year amount.

The weighted average lease expiry is 9.5 years.

Note 3: Expenses

	For the period 5 February 2020 to 30 June 2020 $
Borrowing costs	
Bank fees	27
Borrowing costs amortised	16,622
Interest and line fees	111,263
Total	**127,912**

Auditors remuneration	
Remuneration paid and payable to the auditor of the Fund is as follows:	
Auditing or reviewing the period financial statements	11,250
Other services including compliance	3,700
	14,950

Note 4: Cash and cash equivalents

	2020 $
Current	
Cash at bank, interest bearing	1,394,005

Note 5: Trade and other receivables

	2020 $
Current	
Rent receivable	918
Sundry receivable	10
GST receivable	50,439
Total	**51,367**

	2020 $
Current	51,367
30 days	-
60 days	-
90 days +	-
Total	**51,367**

Trade and other receivables are usually non-interest bearing, unsecured and generally payable on no more than 30 day terms.

Past due but not impaired receivables	At balance date no trade and other receivables were past due but not impaired other than provided for.
Impaired receivables	At balance date no receivables have been determined to be impaired, other than provided for.
Credit risk	The Fund has no significant credit risks identified at 30 June 2020. The rent receivable balances outstanding are within the terms of the rental agreements and are considered to be of high credit quality.

Note 6: Other assets

	2020 $
Current	
Prepaid insurance	21,334

Note 7: Investment property

Non-current

As at 30 June 2020, the investment property has been valued as set out below.

Investment property at fair value

	Period end	Date of latest Valuation	Independent Valuation	Fair value
1 Thynne Street, Bruce, Australian Capital Territory	30 June 2020	8 January 2020	39,300,000	39,300,000

Note 16 illustrates key valuation assumptions used by Knight Frank Valuations, the valuer, in the determination of investment property fair value.

Reconciliation of the carrying amount of investment property at the beginning and end of the financial period is set out below:

	2020 $
Balance at beginning	-
Additions at cost:	
Property	39,300,000
Capitalised costs	2,405,666
Straight lining of rental income	105,879
Net gain/(loss) from fair value adjustment	(2,511,545)
Balance at end of the period	**39,300,000**

Leases as lessor

The investment property is subject to agreements to lease to tenants for long terms with rentals payable monthly. Minimum lease payments under the non-cancellable operating leases of the investment property not recognised in the financial statements are receivable as follows:

	2020 $
Within one year	3,357,426
Later than one year but not later than five years	16,843,629
Later than five years	10,153,817
Total leases as lessor	30,354,872

Note 8: Trade and other payables

	2020 $
Current	
Accrued expenses	129,750
	129,750
Financial liabilities at amortised cost classified as trade and other payables	
Trade and other payables – current	129,750
Financial liabilities as trade and other payables	**129,750**

Note 9: Distributions payable

	2020 $
Distribution payable	**399,028**

Distributions paid or accrued for period include:

Quarter ending	Paid date	Acquisition and Ordinary units	Total distribution $
30 Jun-20[1]	7 August 2020	7.0% gross pro-rata to period of ownership	399,028

[1] *The June 2020 quarter distribution is paid in the 2021 financial year.*

Note 10: Secured borrowings

	2020 $
Non-current	
Bank loan - drawn	18,471,000
Capitalised borrowing costs	(416,862)
Amortisation of borrowing costs	16,622
Total borrowings	**18,070,760**

The loan facility is secured by a fixed and floating charge over the assets of the Fund. Refer to Note 15c.

The interest only facility is for $18,666,000 maturing on 31 March 2025. The facility is drawn for $18,471,000.

	2020 $
Credit facility	
Cash advance facility	18,666,000
Drawn balance	(18,471,000)
Undrawn balance	**195,000**

Note 11: Unitholders' funds

	Units at 30 June 2020	2020 $
Units on Issue – acquisition units	1,100,000	1,100,000
Units on issue – ordinary units	23,775,001	23,775,001
Capital raising costs	-	(298,802)
Total Unitholders' funds	**24,875,001**	**24,576,199**

Capital management

The Fund regards net assets attributable to Unitholders as its capital. The objective of the Fund is to provide Unitholders with sustainable and tax deferred income with the potential for capital growth through an investment in a commercial office property located at 1 Thynne Street, Bruce, Australian Capital Territory.

In accordance with the PDS, the Fund has continued to raise equity following the end of the reporting period. As ordinary units are issued, acquisition units are redeemed. During the capital raising period, total units may exceed the units offered in the PDS due to acquisition units yet to be redeemed.

The remaining $1.1 million of Acquisition units were redeemed on 20 July 2020. As at the date of this report, 24,259,825 ordinary units are issued.

Note 12: Accumulated losses

	2020 $
Accumulated losses	**(2,409,031)**

Note 13: Cash flow information

	For the period 5 February 2020 to 30 June 2020 $
Reconciliation of cash flow from operating activities with profit for the period	
Net loss for the period	(2,010,003)
Non-cash flows in profit	
Straight lined rental income	(105,879)
Fair value adjustment on investment property	2,511,545
Amortisation of borrowings costs	16,622
Changes in assets and liabilities:	
Increase in trade and other receivables	(51,357)
Increase in prepayments	(21,344)
Increase in trade and other payables	129,751
Net cash provided by operating activities	**469,335**

Note 14: Related party disclosures

a. Responsible Entity, the Manager and KM Develop Trust

The Responsible Entity of the Fund is KM Property Funds Ltd, which has outsourced a number of the Fund's management functions to KordaMentha Real Estate Pty Ltd ('The Manager').

KM Property Funds Ltd and KordaMentha Real Estate Pty Ltd are related parties.

KM Develop Trust, as acquisition unitholder, is a related party.

b. Key management personnel and directors

The Fund and the Responsible Entity do not employ personnel in their own right. The Fund has appointed the Responsible Entity, KM Property Funds Ltd to manage the activities of the Fund. The directors of the Responsible Entity are listed below and were not paid director fees by the Fund or the Responsible Entity:

James Edmund Walsh	Non-Executive Chairman
Janette Anne Kendall	Non-Executive Director
Thomas Jepson Davis	Managing Director
David Andrew Omond	Managing Director
Mario Ross Papaleo	Managing Director

c. Other related parties

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively, with their close family members. Other related parties also include any entities controlled, jointly controlled or significantly influenced by the Responsible Entity, any of the Responsible Entity's parent entities and any entities that, together with the Responsible Entity, are subject to common control by another entity.

d. Transactions and outstanding balances with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties (i.e. at arm's length) unless the terms and conditions disclosed below specifically indicate otherwise. The following transactions occurred with related parties and are in accordance with the Product Disclosure Statement:

Transactions	**For the period 5 February 2020 to 30 June 2020 $**
Transactions with KM Property Funds Ltd	
Management fees	41,748
Transactions with KordaMentha Real Estate Pty Ltd	
Expenses reimbursement	105,093

There are no amounts payable to related parties at the end of the financial period.

e. Other related parties

There were no transactions or outstanding balances with any entities controlled, jointly controlled or significantly influenced by the Responsible Entity, any of its parent entities and any entities that are subject to common control by the Responsible Entity, or any other related party.

f. Compensation

No amount is paid by the Fund directly to the directors of the Responsible Entity. Accordingly, no compensation as defined in AASB 124: Related Party Disclosures is paid by the Fund to the directors as key management personnel.

g. Related party equity holdings

KM Develop Trust	Acquisition units	30 June 2020	1,100,000

Note 15: Financial risk management

The Fund's financial instruments consist primarily of cash and cash equivalents, accounts receivable and payable, derivative financial instruments and secured borrowings. The Fund is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, interest rate risk (market risk) and liquidity risk.

The Fund's risk management and investment policies, approved by the directors of the Responsible Entity, aim to assist the Fund in meeting its financial targets while minimising the potential adverse effects of these risks on the Fund's financial performance.

The Fund uses interest rate swaps to manage its financial risk as permitted under the financial risk management policy. Such instruments are used exclusively for hedging purposes i.e. not for trading for speculative purposes.

The Fund holds the following financial instruments:

	Note	2020 $
Financial assets		
Cash and cash equivalents	4	1,394,005
Trade and other receivables	5	51,367
		1,445,372
Financial liabilities		
Trade and other payables	8	129,750
Distribution payable	9	399,028
Secured borrowings	10	18,471,000
Financial liabilities		**18,999,778**

Specific financial risk exposures and management

a. Credit risk

Credit risk is managed by the Fund through maintaining procedures that ensure, to the extent possible, that clients and counterparties to transactions are of sound credit worthiness. To this end, the financial stability of clients and counterparties is monitored and assessed on a regular basis.

The Fund's maximum credit risk exposure at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position. Refer to Note 5 for further details on the Fund's exposure to credit risk arising from trade receivables.

Apart from the secured borrowings and trade receivables, the Fund has limited concentrations of credit risk with any single counterparty or group of counterparties. The property is single tenanted by a high-quality tenant in the Australian Institute of Health and Welfare, an independent Commonwealth statutory agency. Trade receivables that are neither past due nor impaired are considered to be of high credit quality.

b. Liquidity risk

Liquidity risk arises if the Fund has insufficient liquid assets to meet its short term obligations. Liquidity risk is managed by maintaining sufficient cash balances and adequate committed credit facilities. Prudent liquidity management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The instruments entered into by the Fund were selected to ensure sufficient funds would be available to meet the ongoing cash requirements of the Fund.

The table below reflects an undiscounted contractual maturity analysis for non-derivative financial liabilities. Cash flows realised from financial assets reflect management's expectations as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

The loan is anticipated to be refinanced unless repaid on settlement of the property.

Note 15: Financial risk management (continued)

b. Liquidity risk (continued)

Financial liability and financial asset maturity analysis

	Within 1 year $	1 to 5 years $	Total $
Financial liabilities due			
Trade and other payables	129,750	-	129,750
Distribution payable	399,028	-	399,028
Secured borrowings	-	18,471,000	18,471,000
Total expected outflows	**528,778**	**18,471,000**	**18,999,778**
Financial assets realisable			
Cash and cash equivalents	1,394,005	-	1,394,005
Trade and other receivables	51,367	-	51,367
Total anticipated inflows	**1,445,372**	**-**	**1,445,372**
Net inflows/(outflows)	**916,594**	**(18,471,000)**	**(17,554,406)**

c. Market risk

Interest rate risk

The Fund's interest-rate risk will primarily arise from borrowings. Borrowings issued at variable rates will expose the Fund to cash flow interest rate risk. Borrowings issued at fixed or capped rates will expose the Fund to fair value interest rate risk. The Fund's policy is to effectively maintain hedging arrangements of its borrowings where it is considered appropriate and cost effective to do so.

The Fund has entered into a fixed interest rate agreement over the debt facility to substantially fix the Fund's interest rate exposure at 2.18% for the term of the Debt Facility that matures on 31 March 2025. As the Capital Works Facility is undrawn its interest rate is not currently fixed.

The Fund has exposure to interest rate risk on its monetary assets and liabilities, as shown in the table below:

	2020 $
Floating rate	
Cash and cash equivalents	1,394,005
Fixed rate	
Secured borrowings	(18,471,000)
Net exposure	**(17,076,995)**

Sensitivity

As the fund has a fixed interest rate for the term of the secured borrowings there is no sensitivity to interest rate risk.

Note 16: Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition.

- Investment Property, refer to Note 7

a. Fair Value Hierarchy

AASB 13: *Fair Value Measurement* requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The following tables provide the fair values of the Fund's assets measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

		30 June 2020			
		Level 1	Level 2	Level 3	Total
	Note	$	$	$	$
Recurring fair value measurements					
Assets					
Investment Property	7	-	-	39,300,000	39,300,000

There were no transfers between levels of the fair value hierarchy during the financial period.

Disclosed fair values:

The fair value of investment property (Level 3) is disclosed in the statement of financial position.

The carrying amounts of trade and other receivables and other current assets, trade and other payables are assumed to approximate their fair values due to their short-term nature.

The Fund holds no Level 1 or 2 assets or liabilities.

b. Valuation Techniques and Inputs Used to Measure Level 3 Fair Values

Fair value of investment property

If one or more of the significant inputs is not based upon observable market data the asset or liability is included in Level 3. The Fund holds no Level 3 financial instruments. However, the Fund has investment property with a carrying amount of approximately $39,300,000, that is valued using techniques whereby at least one significant input is not observable market data, and hence they are considered to be Level 3 assets for the purposes of fair value measurement.

The highest and best use of investment Property is taken into consideration when determining fair values. The highest and best use of investment Property refers to the use of the investment Property by a market participant that would maximise the value of that Property. With respect to the Fund's investment Property, the current use is considered to be the highest and best use. Within this construct, fair value is determined within a range of reasonable estimates utilising both capitalisation of net market income and discounted future cash flow methodologies and comparing the results to market sales evidence.

Note 16: Fair value measurement (continued)

b. Valuation Techniques and Inputs Used to Measure Level 3 Fair Values (continued)

Fair value of investment property (continued)

The most appropriate evidence of fair value is given by current prices in an active market for similar Property in the same location and condition and subject to similar leases. Where sufficient market information is not available, or to supplement this information, management considers other relevant information including:

- Current prices for properties of a different nature, condition or location, adjusted to reflect those differences.
- Recent prices of similar properties in a less active market, with adjustments to reflect changes in economic conditions or other factors.
- Capitalised income calculations based on an assessment of current net market income for that property or other similar properties, a capitalisation rate taking into account market evidence for similar properties and adjustments for any differences between market rents and contracted rents over the term of existing leases and deductions for short term vacancy or lease expiries, incentive costs and capital expenditure requirements.
- Discounted cash flow forecasts including estimates of future cash flows based on current leases in place for that property, historical operating expenses, reasonable estimates of current and future rents and operating expenses based on external and internal assessments and using discount rates that appropriately reflect the degree of uncertainty and timing inherent in current and future cash flows.

The fair value adopted for investment property has been supported by an independent external valuation of that property at 8 January 2020 and confirmed at the acquisition date of the property on 31 March 2020, which is considered to reflect market conditions at 30 June 2020.

The directors and management have considered the financial impact of the COVID-19 pandemic on the valuation of the property at 30 June 2020. Due to the uncertainty and volatility of investment markets as a result of COVID-19, valuers in general have now adopted more conservative forward-looking assumptions for lease expiries in their Discounted Cash Flow analysis with longer downtimes, higher incentives and moderated market growth profiles. The valuation of the property is underpinned by a high-quality tenant in the Australian Institute of Health and Welfare, an independent Commonwealth statutory agency.

1 Thynne Street was the last recent significant commercial office transaction to occur in the Canberra market. Discussions with the valuer have confirmed that the transaction reflects the current market, and sentiment for Commonwealth leased office properties remains strong.

The directors will continue to monitor the effects of the COVID-19 pandemic on the Fund and will update current and potential investors as necessary.

The Board conducts investment property valuation process on a yearly basis, or on a more regular basis if considered appropriate and as determined by management in accordance with the valuation policy of the Fund. An independent professionally qualified external valuer undertakes the valuation. For 8 January 2020, the valuer undertaking the property valuation was Knight Frank Valuations.

Any change in estimates impacts the carrying value of investment property and the fair value adjustment is recognised in profit or loss.

The significant unobservable inputs associated with the valuation of the Fund's investment property (excluding property under construction) are as follows:

Class Property	Fair Value Hierarchy	Valuation Technique	Inputs used to measure Fair Value	Range of Unobservable Inputs
Office	Level 3	Discounted cash flow and Income capitalisation method	Net market rent (psm) p.a.	**$420**
			Adopted capitalisation rate	**6.125%**
			Adopted terminal yield	**6.75%**
			Adopted discount rate	**6.50%**

Note 16: Fair value measurement (continued)

b. Valuation Techniques and Inputs Used to Measure Level 3 Fair Values (continued)

Definitions

Discounted Cash Flow Method	A method in which a discount rate is applied to future expected income streams to estimate the present value.
Income Capitalisation Method	A valuation approach that provides an indication of value by converting future cash flows to a single current capital value.
Gross Market Rent	The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
Capitalisation Rate	The return represented by the income produced by an investment, expressed as a percentage.

Sensitivity analysis

Significant Impact	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Gross Office Market Rent (psm) pa.	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Increase	Decrease
Adopted discount rate	Decrease	Increase

The following table details the Fund's sensitivity to movements in the capitalisation rates, based on the investment property valuation at balance date with all other variables held constant.

Fair value of investment property	Profit/(loss) 2020 $	Equity 2020 $
Capitalisation rate increased by 12.5 basis points	(787,716)	(787,716)
Capitalisation rate decreased by 12.5 basis points	818,973	818,973

Note 17: Recurring and non-recurring contingent liabilities and assets

The Fund does not have any other contingent liabilities or contingent assets as at 30 June 2020.

Note 18: Events after the reporting period

In accordance with the PDS, the Fund has continued to raise equity following the end of the reporting period. The remaining $1.1 million of Acquisition units were redeemed on 20 July 2020. As at the date of this report, 23,775,001 ordinary units are issued.

The future effects of the COVID-19 pandemic on the Fund are uncertain as the size and duration of any economic downturn and other adverse effects are currently unknown. Future economic conditions may be materially different from that anticipated by the Fund at 30 June 2020.

The directors of the Responsible Entity are not aware of any other significant events since the end of the reporting period.

Note 19: Additional information

The registered office of the Responsible Entity is:

KM Property Funds Ltd
Rialto South Tower
Level 31, 525 Collins Street
Melbourne VIC 3000

The principal place of business of the Responsible Entity is:

KM Property Funds Ltd
Rialto South Tower
Level 31, 525 Collins Street
Melbourne VIC 3000

Directors' declaration

In accordance with a resolution of the directors, the directors of the Responsible Entity declare that:

1. The financial statements and notes of the Thynne Street Property Fund ('the Fund'), as set out on pages 6 to 23, are in accordance with the *Corporations Act 2001* and:
   a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards ('IFRS')
   b. give a true and fair view of the financial position as at 30 June 2020 and of the performance for the period ended on that date of the Fund.
2. 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.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s 295(5) of the *Corporations Act 2001.*

On behalf of the directors of the Responsible Entity.

Director

James Edmund Walsh

Dated 15 September 2020

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF THYNNE STREET PROPERTY FUND

Opinion

We have audited the financial report of Thynne Street Property Fund (the Fund) which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Responsible Entity directors' declaration.

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

a) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the period then ended, and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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 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 Responsible Entity of the Fund, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Valuation Uncertainty

We draw attention to Note 16 of the financial report which sets out that the investment property has been valued using estimates at a time of valuation uncertainty given COVID-19. Any change in estimates impacts the carrying value of the investment property and the fair value adjustment is recognised in profit or loss. Our opinion is not modified in respect of this matter.

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

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Fund's annual report for the period ended 30 June 2020, 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 Responsible Entity Directors for the Financial Report

The directors of the Responsible Entity of the Fund are responsible for the preparation of the 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 of the Responsible Entity determine 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

In preparing the financial report, the directors of the Responsible Entity are 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 directors of the Responsible Entity either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our 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 this financial report.

As part of an audit in accordance with the 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 directors of the Responsible Entity.

- conclude on the appropriateness of the Responsible Entity directors' 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.

We communicate with the directors of the Responsible Entity 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.

ShineWing Australia
Chartered Accountants

Rami Eltchelebi
Partner

Melbourne, 18 September 2020