SCA Unlisted Retail Fund 1

ARSN: 606 126 934

Financial Report
For the period 9 June 2015 to 30 June 2016

SCA Unlisted Retail Fund 1 (SURF 1) is a managed investment scheme. SCA Unlisted Retail Fund RE Limited (SURF RE or the Responsible Entity) (ABN 42 604 416 284, AFSL 473459) is the Responsible Entity of SURF 1 and is incorporated and domiciled in Australia. The registered office of SURF RE is Level 5, 50 Pitt Street, Sydney, New South Wales.

A description of the nature of SURF1 and its principal activities is included in the accompanying Directors' Report.

The financial statements were authorised for issue by the Directors on 21 July 2016. The Directors of the Responsible Entity have the power to amend and reissue the financial report.

Directors' Report

The directors of SCA Unlisted Retail Fund RE Limited (SURF RE or the Company), the Responsible Entity of SCA Unlisted Retail Fund 1 (SURF 1 or the Trust or the Fund), present their report together with the financial statements of SURF 1 for the period 9 June 2015 to 30 June 2016 (the period).

1. Directors

The Directors of SURF RE at any time during the period and up to the date of this report are:

Non-Executive Directors

Andrew Stevenson	Appointed 11 June 2015 (Chairman)
David Freiman	Appointed 11 June 2015

Executive Directors

Anthony Mellowes	Appointed 9 June 2015
Sarah Wiesener	Appointed 24 February 2015; ceased 9 June 2015
Gregory Inkson	Appointed 24 February 2015; ceased 11 June 2015
Mark Lamb	Appointed 24 February 2015; ceased 11 June 2015

Except as stated, these persons were Directors of SURF RE during the whole of the period and up to the date of this report.

Company Secretary

The Company Secretaries of SURF RE during the whole of the period and up to the date of this report are:

Mark Lamb	Appointed 24 February 2015
Sarah Wiesener	Appointed 24 February 2015; ceased 16 November 2015
Erica Rees	Appointed 9 June 2015

2. Principal Activities

SURF 1 was formed on 5 June 2015 and was registered as a Managed Investment Scheme by the Australian Securities & Investments Commission on 9 June 2015. SURF 1 is an unlisted closed end unit trust. On 1 October 2015 SURF 1 commenced activities with the acquisition of five retail properties in metropolitan and regional New South Wales. The principal activity of the Fund during the period was the management of these five retail properties. The five retail properties are anchored by Woolworths Limited (two properties), Dan Murphy's (two properties) and Big W (one property).

3. Financial and Operational Review

The Responsible Entity in relation to the Fund is focused on:

- **Property Occupancy**: Ensuring the Fund's properties occupancy is maximised and rent is collected on a timely basis; during the period ended 30 June 2016 the occupancy rate for all properties was 100% and during the period rent has been received on a timely basis.

- **Capital Management:** Ensuring the Fund's debt is appropriately managed. During the period the Fund remained in compliance with its secured debt obligations and was able to manage the level of debt drawn to reduce the financing costs to the Fund.

- **Distribution Yield:** Monitoring the distribution yield of the Fund. This includes consideration of the Product Disclosure Statement (dated 16 July 2015) (PDS) forecast annualised initial yield of 8.00% for the period ended 30 June 2016; the Fund's actual annualised yield for this period was 8.08%.

- **Net Tangible Assets (NTA) of the Fund:** Monitoring the NTA per unit of the Fund. The PDS forecast the NTA of the Fund at allotment to be $0.95. The NTA per unit of the Fund at 30 June 2016 was $1.01. The main contributing factor for the increase in the NTA per unit was the favourable revaluation of the Fund's properties.

A summary of the financial position of SURF 1 as at 30 June 2016 and financial performance for the period 9 June 2015 to 30 June 2016 is set out below:

	9 Jun 2015 to 30 Jun 2016 $'000
Net profit after income tax	2,465

Net profit after tax measures profit/loss under Australian Accounting Standards (AASBs) and also complies with the International Financial Reporting Standards (IFRS).

	30 Jun 2016
Total assets ($'000)	64,018
Net assets ($'000)	32,845
Net assets per unit ($ per unit)	$1.01

Distributable Earnings

The Responsible Entity considers Distributable Earnings, to be an important indicator of the underlying earnings of SURF 1. SURF RE intends over time to distribute the whole of SURF 1's distributable earnings. In doing so a portion of distributable earnings may be withheld to provide additional working capital for future periods. Distributable Earnings are detailed below.

	9 Jun 2015 to 30 Jun 2016 $'000
Net profit after tax (statutory)	2,465
Adjustments for items included in statutory loss or otherwise unavailable for distribution	
Transaction and establishment costs	1,346
Amortisation of borrowing costs	23
Straight-lining of rental income	(191)
Fair value adjustments on investment properties	(2,304)
Fair value adjustments on derivatives	717
Capital payments	(5)
Distributable Earnings	2,051
Less: distributions declared / paid	1,976
Distributable earnings amount available in future periods	75

Property Valuations

The properties of the Fund were acquired on 1 October 2015.

The total value of the Fund's investment properties as at 30 June 2016 was $63,400,000 which is an increase of $2,500,000 compared to the acquisition price of $60,900,000. The change in value of the properties was principally due to the firming of the weighted average cap rate used to value the properties by 24 bps to 6.93% (from 7.17%) which resulted in a $2,304,000 favourable unrealised fair value movement.

4. Distributions

Distributions to unitholders recognised in the financial period by SURF 1 are:

Quarter Ended	Distribution per unit	Total amount $'000	Declared date	Payment date
31 Dec 2015	2.02	659	15 Dec 2015	19 Jan 2016
31 Mar 2016	2.02	658	22 Mar 2016	19 Apr 2016
30 Jun 2016	2.02	659	21 Jun 2016	29 Jul 2016[1]
Total		**1,976**		

[1] This distribution was declared on 21 June 2016 and the proposed payment date is 29 July 2016.

The Fund's distributions for the period (paid and declared) of $1,976,000 were less than the Distributable Earnings available of $2,051,000 such that the excess of $75,000 is available to be carried forward into future years or to provide additional working capital or to be distributed at a future time. On an annualised basis the Fund's Distributable Earnings are slightly greater than the equivalent forecast in the Fund's Product Disclosure Statement (dated 16 July 2015) (PDS) mainly due to a lower debt balance contributing to cost savings.

5. Significant changes in the state of affairs

On 1 October 2015 SURF 1 acquired a portfolio of five retail properties in metropolitan and regional New South Wales from Shopping Centres Australasia Property Group RE Limited (ABN 47 158 809 851) as responsible entity of Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788) (Retail Trust) for $60,900,000.

The acquisition price and related costs of the five retail properties was funded by the raising of $32,600,000 in equity (by the issue and allotment of 32,600,000 units at $1.00 per unit). The remainder of the acquisition price and related costs was debt funded.

Other than the above there were no significant changes in the state of affairs in the Fund during the period.

6. Likely developments, key strategies and expected results of operations

At the date of this report, and to the best of the Directors knowledge and belief, there are no anticipated changes in the operations of SURF 1 which would have a material impact on the future results of SURF 1. Further information on likely developments in the operations and the expected results of operations has not been included in this report because the Directors believe it would result in unreasonable prejudice to SURF 1.

7. Units in the Fund

The movement in units on issue in the Fund is disclosed in Note 9 of the financial statements. The number of ordinary units issued on 1 October 2015 and on issue as at 30 June 2016 is 32,600,000.

8. Environmental regulations

The Directors are satisfied that adequate systems are in place for the management of the SURF 1's environmental responsibility and compliance with various license requirements and regulations.

Further, the Directors are not aware of any material breaches to these requirements and, to the best of their knowledge all activities have been undertaken in compliance with environmental requirements.

9. Indemnification and Insurance of Directors, Officers and Auditor

The constitution of SURF 1 requires it to indemnify all current and former officers of the Fund out of the property of the Fund against any liability incurred by the officer in or arising out of the conduct of the business of the Fund or arising out of the discharge of the duties of the officer.

A related party to SURF RE has paid insurance premiums in respect of Directors and Officers of SURF RE. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the liabilities covered by the insurance, the limit of the indemnity and the amount of the premium paid under the contract.

SURF 1's constitution provides that in addition to any indemnity under any law, but subject to the Corporations Act 2001, the Responsible Entity has a right of indemnity out of the assets of the Fund on a full indemnity basis, in respect of any liability incurred by the Responsible Entity in properly performing any of its powers or duties in relation to the Fund. The auditor of the Fund is not indemnified out of the assets of the Fund or the Responsible Entity.

10. Fees paid to and interest held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of the Fund property during the period are disclosed in Note 15 to the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the period. These fees are paid by a related party.

The number of units in the Fund issued to an associate of the Responsible Entity during the period are disclosed in Note 15 to the financial statements.

11. Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

12. Audit and non-audit fees

Details of the amounts paid or payable to the auditor for audit and non-audit services provided are detailed in Note 16 of the financial statements.

13. Matters subsequent to the end of the financial period

A final distribution for the quarter ended 30 June 2016 of 2.02 cents per unit was declared on 21 June 2016 and is expected to be paid on 29 July 2016.

The Directors are not aware of any other matters or circumstances that have arisen since 30 June 2016 that was significantly affected or may significantly affect the operations of SURF 1, the result of those operations, or state of affairs in future financial periods.

14. Rounding of amounts to the nearest thousand dollars

The Fund is a kind referred to in Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

This report is made in accordance with a resolution of the directors.

Chairman
Sydney
21 July 2016

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Australia

DECLARATION OF INDEPENDENCE BY IAN HOOPER TO THE DIRECTORS OF SCA UNLISTED RETAIL FUND RE LIMITED, AS RESPONSIBLE ENTITY FOR SCA UNLISTED RETAIL FUND 1

As lead auditor of SCA Unlisted Retail Fund 1 for the period 9 June 2015 to 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

Ian Hooper
Partner

BDO East Coast Partnership

Sydney, 21 July 2016

SCA Unlisted Retail Fund 1
Statement of Profit or Loss and Other Comprehensive Income
For the period 9 June 2015 to 30 June 2016

	Notes	9 Jun 2015 to 30 Jun 2016 $'000
Revenue		
Rental revenue		3,838
		3,838
Expenses		
Administration costs		(96)
Base management fees	15	(117)
Investment management fees	15	(211)
Property expenses		(357)
Transaction and establishment costs	4	(1,346)
		(2,127)
Unrealised fair value gain/(loss)		
- Investment properties	3	2,304
- Derivatives		(717)
Earnings before interest and tax (EBIT)		3,298
Interest income		37
Finance costs	5	(870)
		(833)
Profit before income tax		2,465
Income tax expense	2(e)	-
Profit after income tax expense for the period		2,465
Other comprehensive income		-
Total comprehensive income for the period		2,465

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2016

	Notes	30 Jun 2016 $'000
Current assets		
Cash and cash equivalents		463
Trade and other receivables	6	155
Total current assets		618
Non-current assets		
Investment properties	3	63,400
Total non-current assets		63,400
Total assets		64,018
Current liabilities		
Trade and other payables		326
Distribution payable	10	659
Derivative financial instrument	7	239
Total current liabilities		1,224
Non-current liabilities		
Derivative financial instrument	7	478
Borrowings	8	29,471
Total non-current liabilities		29,949
Total liabilities		31,173
Net assets		32,845
Equity		
Contributed equity	9	32,356
Retained earnings		489
Total equity		32,845

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the period 9 June 2015 to 30 June 2016

	Notes	Contributed equity $'000	Retained earnings $'000	Total equity $'000
Balance at 9 June 2015		-	-	-
Contributions of equity, net of transaction costs	9	32,356	-	32,356
Profit after income tax expense for the period		-	2,465	2,465
Other comprehensive income		-	-	-
Total comprehensive income for the period		-	2,465	2,465
Distributions paid / declared		-	(1,976)	(1,976)
Balance at 30 June 2016		32,356	489	32,845

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

SCA Unlisted Retail Fund 1
Statement of Cash Flows
For the period 9 June 2015 to 30 June 2016

	Notes	9 Jun 2015 to 30 Jun 2016 $'000
Cash flows used in operating activities		
Rental revenue received (inclusive of GST)		3,981
Property expenses paid (inclusive of GST)		(523)
Interest received		37
Finance and borrowing costs paid		(914)
Transaction and establishment costs paid (inclusive of GST)	4	(1,480)
Base Management Fee paid	15	(114)
Investment Management Fee paid	15	(206)
Administration costs paid (inclusive of GST)		(52)
Net cash flow from operating activities	12	729
Cash flow used in investing activities		
Payments for investment properties purchased and capital expenditure	3	(60,905)
Net cash flow from investing activities		(60,905)
Cash flow from financing activities		
Proceeds from borrowings	8	29,600
Proceeds from applications by unit holders	9	32,600
Distribution paid to unit holders	10	(1,317)
Equity raising costs	9	(244)
Net cash flow from financing activities		60,639
Net increase in cash and cash equivalents held		463
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period		463

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. Corporate Information

SURF 1 was formed on 5 June 2015 and was registered as a Managed Investment Scheme with the Australian Securities & Investments Commission on 9 June 2015. SURF 1 is an unlisted closed end unit trust constituted and domiciled in Australia. On 1 October 2015 SURF 1 commenced activities with the acquisition of five retail properties in metropolitan and regional New South Wales. There were no activities by SURF 1 prior to 1 October 2015.

The nature of its operations and principal activity are described in the Directors' Report.

The financial statements are presented in Australian dollars, which is SURF 1's functional and presentation currency.

SCA Unlisted Retail Fund RE Limited (SURF RE or the Responsible Entity) (ABN 42 604 416 284, AFSL 473459) is the Responsible Entity for SURF 1. SURF RE is a public company incorporated in Australia. The address of its registered office and principal place of business is:

Level 5
50 Pitt Street
Sydney NSW 2000

SURF RE is a wholly owned subsidiary of Shopping Centres Australasia (SCA Property Group). SCA Property Group is listed on the Australian Securities Exchange (ASX: SCP).

SURF RE has appointed The Trust Company (Australia) Limited to act as custodian of SURF 1's assets. The custodian must only act on instructions from the Responsible Entity.

The Directors of the Responsible Entity have authorised the financial statements for issue on 21 July 2016. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

The principal accounting policies which have been adopted in the preparation of these financial statements for the period 9 June 2015 to 30 June 2016 are set out below. These policies have been consistently applied during the period, unless otherwise stated. As these financial statements represent the Trust from registration date, there are no comparatives.

2. Significant Accounting Policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

SURF 1 is a for-profit unit trust for the purpose of preparing the financial statements. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared on the basis of historical cost, except for, where applicable, the revaluation of investment properties and derivative financial instruments.

Going concern

The financial statements have been prepared on the going concern basis.

New and revised Accounting Standards not yet effective

A number of Australian Accounting Standards and Interpretations are in issue but are not effective for the current period. The potential impact of these other Standards and interpretations has not yet been fully determined. The Fund does not intend to adopt any of these announcements before their effective dates. These include:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial period ending
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	1 January 2016	30 June 2017
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016	30 June 2017
AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	1 January 2016	30 June 2017
AASB 15 Revenue from Contracts with Customers	1 January 2018	30 June 2019
AASB 9 Financial Instruments	1 January 2018	30 June 2019
AASB 2016-2 Amendments to the Australian Accounting Standards – Disclosure Initiative – Amendments to AASB 107	1 January 2017	30 June 2018
AASB 16 Leases	1 January 2019	30 June 2020

At the date of report, there are no pronouncements approved by the IASB/IFRIC that have yet to be issued by the AASB.

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to SURF 1 and can be reliably measured. Rental income from operating leases is recognised as income on a straight line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned. If not received at the reporting date, revenue is reflected in statement of financial position as receivable and carried at its recoverable amount. Recoveries from tenants are recognised as income in the period the applicable costs are accrued.

Interest income is recognised using the effective interest rate method and, if not received at balance date, is reflected in the statement of financial position as a receivable.

All other revenues are recognised on an accrual basis.

(c) Expenses

All expenses are brought to account on an accruals basis.

Under the Constitution of SURF 1, all expenses reasonably and properly incurred by SURF RE as Responsible Entity in connection with the Trust or in performing its obligations under the Trust's Constitution are payable or can be reimbursed out of SURF 1.

(d) Finance costs

Finance costs include interest payable on bank overdrafts and short term and long term borrowings, payments on derivatives and amortisation of ancillary costs incurred in connection with arrangement borrowings.

Finance costs are expensed in the period in which they are incurred.

(e) Taxation

Under current income tax legislation, SURF 1 is not liable for income tax, provided that the taxable income is fully distributed to unitholders each year. SURF 1 fully distributes its taxable income, calculated in accordance with the Trust Constitution and applicable legislation, to unit holders who are presently entitled to income under the constitution.

(f) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST (or equivalent tax in overseas locations) except where the GST incurred on purchases of goods and services is not recoverable from the tax authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amounts of GST included. The net amount of GST receivable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short term deposits with an original maturity of 90 days or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Trade and other receivables

Trade and other receivables are carried at cost, less provision for doubtful debts, and are usually due within 30 days. Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are determined to be uncollectable are written off when identified.

(j) Investment properties

Investment properties comprise investment interest in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income.

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are stated at fair value. Gains and losses arising from changes in the fair values of investment properties are recognised in profit and loss in the period in in which they arise.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

At each reporting date, the carrying values of the investment properties are assessed by the Directors and where the carrying value differs materially from the Directors' assessment of fair value, an adjustment to the carrying value is recorded as appropriate.

The Directors' assessment of fair value of each investment property takes into account latest independent valuations, with updates taking into account any changes in estimated yield, underlying income and valuations of comparable properties. In determining the fair value, the capitalisation of net income method and / or the discounting of future net cash flows to their present value have been used, which are based upon assumptions and judgements in relation to future rental income, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties.

Incentives such as cash, rent-free periods, lessee or lessor owned fit outs may be provided to lessees to enter into an operating lease. Leasing fees may also be paid for the negotiation of leases. These incentives and lease fees are capitalised to the investment property and are amortised on a straight-line basis over the lesser of the term of the lease and the useful life of the fitout, as a reduction of rental income. The carrying amounts of the lease incentives and leasing fees are reflected in the fair value of investment properties.

(k) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. Changes in the fair value of any derivative instruments are recognised immediately in the statement of profit or loss and other comprehensive income.

(l) Recoverable amount of assets

At each reporting date, an assessment is made as to whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the recoverable amount is estimated and if the carrying amount of that asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(m) Trade and other payables

Trade and other payables are carried at amortised cost, and due to their short term nature, they are not discounted.

(n) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(o) Contributed equity

Applications received for units in the Trust are recognised as contributed equity at the fair value of the consideration received. Any transaction costs arising on the issue of ordinary units are recognised in equity as a reduction of the proceeds received.

(p) Distributions

The Trust distributes its distributable income, in accordance with the Trust's Constitution, to unitholders by cash or reinvestment. The distributions are recognised when declared during the financial period.

(q) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

(r) Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The critical accounting judgements and estimates used in the preparation of these financial statements are outlined below.

Valuation of property investments

Critical estimates are made by the Directors in respect of the fair value of investment properties. The fair value of these investments are reviewed regularly by Directors with reference to independent property valuations, recent transactions and market conditions existing at reporting date, using generally accepted market practices. The major critical assumptions underlying estimates of fair values are those relating to the capitalisation rate and to a lesser extent, the discount rate. Other assumptions of lesser importance include net passing rent, gross market rent, net market rent, average market rental growth, and terminal yield. If there is any change in these assumptions or economic conditions, the fair value of the investment properties may differ. See further disclosure regarding assumptions used in valuation of investment properties in Note 3.

Valuation of financial instrument

The fair value of derivatives are based on assumptions of future events and involve significant estimates. The basis of valuation for the Fund’s derivatives are set out in Note 8. The value of derivatives may differ in future reporting periods due to the passing of time and / or changes in market rates including interest rates and market volatility.

(s) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(t) Rounding of amounts

The Fund is a kind referred to in Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

3. Investment properties

	30 Jun 2016
	$'000
Investment properties	63,400

Movement in total investment properties	
Opening balance	-
Acquisitions	60,900
Straight-lining of rental income net of amortisation	191
Additions to investment properties	5
Fair value gain on investment properties	2,304
Closing balance	63,400

Property details	Acquisition date	Date of internal valuation	Cost [1]	Book value cap rate [2]	Director valuation amount 30 Jun 2016	Carrying value 30 Jun 2016
			$'000		$'000	$'000
Burwood, Sydney metropolitan	1 Oct 2015	30 Jun 2016	8,600	6.00%	9,100	9,100
Fairfield Heights, Sydney metropolitan	1 Oct 2015	30 Jun 2016	18,000	6.25%	19,200	19,200
Katoomba, regional NSW	1 Oct 2015	30 Jun 2016	6,700	6.50%	6,900	6,900
Griffith North, regional NSW	1 Oct 2015	30 Jun 2016	9,200	6.50%	9,800	9,800
Inverell, regional NSW	1 Oct 2015	30 Jun 2016	18,400	8.50%	18,400	18,400
Total Investment Properties			60,900			63,400

[1] The cost disclosed is the same as the external valuation of these properties as at June 2015.
[2] Capitalisation rate (or cap rate) is an approximation of the ratio between the net operating income produced by an investment property and its fair value. This excludes consideration of costs of acquisition or disposal.

Valuation process

All properties are required to be internally valued every six months with the exception of those valued externally. All properties are required to be externally valued at least every 3 years. The five properties were last valued by an independent valuer in June 2015.

The internal valuations are performed by utilising the information from a combination of asset plans and forecasting tools. Appropriate capitalisation rate, terminal yield and discount rates based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation based valuation and a discounted cash flow valuation. If there are any changes in these assumptions or economic conditions, the fair value of the investment properties may differ.

The internal valuations are prepared by the Investment Manager. The Investment Manager is Shopping Centres Australasia Property Operations Pty Ltd, a related party to the Responsible Entity. The Investment Manager recommends each property's valuation to the Directors in accordance with the Fund's internal valuation policy. The valuation of the investment properties are based on internal Directors valuations as at 30 June 2016.

Fair value measurement, valuation technique and inputs

The investment properties fair values presented are based on market values, which are derived using the capitalisation and / or the discounted cash flow methods.

Capitalisation method

Capitalisation rate (or cap rate) is an approximation of the ratio between the net operating income produced by an investment property and its fair value. This excludes consideration of costs of acquisition or disposal.

The net operating income is determined considering the estimated gross passing income after adjustment for anticipated operating costs, potential future income from existing vacancies and an on-going vacancy and bad debt allowance. This produces a net income on a fully leased basis which is capitalised in perpetuity from the valuation date at an appropriate investment yield. The adopted percentage rate investment yield reflects the capitalisation rate (cap rate) and includes consideration of the property type, location and tenancy profile together with market sales.

Discounted cash flows (DCF)

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate discount rate is applied to establish the present value of the income stream associated with the real property. The discount rate is the rate of return used to convert a monetary sum, payable or receivable in the future, into present value. The rate is determined with regards to market evidence and the prior independent valuation.

Fair value is assessed with reference to reliable estimates of future cash flows, status of the development and the associated risk profile.

The table below summarises the valuation techniques used and the key input including the range of key inputs used to measure fair value.

Category	Fair value hierarchy	Carrying value 30 Jun 2016 $'000	Valuation technique	Key inputs used to measure fair value	Range of unobservable inputs
Investment properties	Level 3	63,400	Capitalisation method and/or discounted cash flow	Capitalisation rate Discount rate	6.0% - 8.5% 6.7% - 8.5%

All property investments are categorised as level 3 in the fair value hierarchy (refer Note 13 for additional information in relation to the fair value hierarchy). There were no transfers between levels.

The primary reason for the change in the carrying value at 30 June 2016 compared to the last independent valuation as at June 2015 is as a result of the compression of capitalisation rates.

Sensitivity information

The key inputs to measure fair value of investment properties are disclosed below along with sensitivity to a significant increase or decrease. The following sensitivity to significant inputs applies to both classes of investment properties (refer note 2(s)).

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Capitalisation rate	Decrease	Increase
Discount rate	Decrease	Increase

Sensitivity analysis

When calculating the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. The impact on the fair value of an increase in the net market rent could potentially offset the impact of an increase (softening) in the adopted capitalisation rate. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate would magnify the impact to the fair value.

When assessing a discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate at which the terminal value is discounted to the present value. The impact on the fair value of an increase (softening) in the adopted discount rate could potentially offset the impact of a decrease (tightening) in the adopted terminal yield. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield would magnify the impact to the fair value.

Other inputs or factors also impact a valuation. These factors include:

- capitalisation rate
- discount rate
- rental growth rate
- market rental
- current rental
- turnover or percentage rent
- type of tenants
- lease terms
- level of vacancy
- lease expiry profile
- property expenses
- capital expenditure
- tenant incentives

Management have considered these factors and believes the most significant input to fair value of investment properties at balance date is the capitalisation rate as the capitalisation rate is in line with Management's understanding of the market practice at which the price is determined for similar properties. Notwithstanding Management's view that capitalisation rate is the most significant input, movements in one or more of other factors above may impact the valuation.

Sensitivity analysis – capitalisation rate

A sensitivity analysis of the impact on the investment property valuations of movements in the capitalisation rate is disclosed below as the capitalisation rate method is the primary method for conducting the valuation. While other factors do also impact a valuation, at the current time, the Group considers that the valuations are most sensitive to movements in the capitalisation rate.

The following sensitivity analysis shows the effect on profit/loss after tax and on equity of a 25 basis points (bps) increase/decrease in capitalisation rates at balance sheet date with all other variables held constant.

	Profit/loss after tax		Equity	
	25 bps increase $'000	25 bps decrease $'000	25 bps increase $'000	25 bps decrease $'000
30 June 2016				
Investment properties	(2,236)	2,403	(2,236)	2,403
	(2,236)	2,403	(2,236)	2,403

4. Transaction and establishment costs

	9 Jun 2015 to 30 Jun 2016 $'000
Advisory and consultants fees	432
Fund establishment fee (refer Note 15)	914
	1,346

Transaction and establishment costs relate to costs associated with the formation of SURF 1. Refer Note 15 for additional information on the fund establishment fee.

5. Finance costs

	9 Jun 2015 to 30 Jun 2016 $'000
Interest expense on borrowings	748
Amortisation of establishment fees	23
Other finance charges	99
	870

6. Trade and other receivables

Trade and other receivables relate predominantly to rent receivable. As at 30 June 2016 there was no significant rent receivable greater than 30 days past due.

7. Derivative Financial Instruments

During the period, SURF 1 entered into an interest rate swap to reduce the effect of fluctuating financing costs in respects to the borrowing facility. The interest rate swap ends on 30 June 2019 and has a notional face value of $28,000,000. This interest rate swap is a derivative.

The fair value of interest rate derivatives is determined using a generally accepted pricing model based on discounted cash flow analysis using assumptions supported by observable market rates.

The following table represents financial assets and liabilities that were measured and recognised at fair value at reporting date:

	30 Jun 2016
	$'000
Current liabilities	
Interest rate swap	239
Non-current liabilities	
Interest rate swap	478
	717

The interest rate swap is a financial instrument that is carried at fair value that uses a valuation technique with only observable market inputs. This is treated as a Level 2 approach where the different valuation approaches have been defined as follows:

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

8. Borrowings

	30 Jun 2016 $'000
Non-current liabilities	
Secured bank loan	29,600
Less: Unamortised establishment fees	(129)
Total non-current borrowings	29,471

Unrestricted access was available at the reporting date to the secured bank loan. Details of this loan are below:	30 Jun 2016 $'000
Total bank loan facility limit	30,450
Less: Amounts drawn at the reporting date	(29,600)
Net borrowing facility available	850

A major Australian bank has provided SURF 1 with a secured debt facility for the purpose of partially funding the acquisition of the property portfolio. The secured debt facility is revolving and multi-purpose. The loan is secured over the property of the Fund. The debt facility matures in July 2020.

Debt Covenants

The Fund is required to comply with certain financial covenants and obligation in respect of the secured debt facility. The major financial covenants and obligations can be summarised as follows:

(a) Interest Cover Ratio (ICR): is at least 1.75 times. ICR is defined as being EBITDA (excluding non-recurring amounts and non-cash amounts) to net interest expense.

(b) Loan to Value Ratio (LvR): is not more than 60%. LvR is defined as being based on the amounts drawn as a percentage of the most recent external valuation. The Fund's LvR as at 30 June 2016 was 48.6% based on debt drawn of $29,600,000 and the most recent external property valuations of $60,900,000.

The Fund was in compliance with its financial covenants and other obligations for the period ended and as at 30 June 2016.

9. Contributed equity

	30 June 2016 $'000
Units fully paid	32,600
Less: Equity raising costs	(244)
Balance at 30 June 2016	32,356

	Units
Balance at 9 June 2015	-
Applications	32,600,000
Balance at 30 June 2016	32,600,000

The offer to invest in SURF 1 opened on 16 July 2015 and closed on 30 September 2015. 32,600,000 units in SURF 1 were issued and allocated on 1 October 2015 at $1.00 per unit raising $32.6 million in equity.

10. Distributions

Each unit represents a right to an individual share in the scheme per the Constitution. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Scheme.

Quarter Ended	Distribution per unit	Total amount $'000	Declared date	Payment date
31 Dec 2015	2.02	659	15 Dec 2015	19 Jan 2016
31 March 2016	2.02	658	22 Mar 2016	19 Apr 2016
30 June 2016	2.02	659	21 Jun 2016	29 Jul 2016[1]
Total		**1,976**		

[1] Proposed payment date

11. Operating leases

All the investment properties (refer Note 3) are subject to operating leases. The investment properties are leased to tenants under long term leases with rentals payable monthly. Other lease terms can vary for each lease.

The main tenant of the five properties is Woolworths Limited trading as either Woolworths supermarkets, Dan Murphy's or Big W. The rent paid (excluding outgoings) by the single largest customer (Woolworths Limited) is $3,475,000 (or greater than 90% of the total rent).

For the supermarkets and the discount department store, lease terms for new leases will commonly be from 15 to 20 years and are typically followed by a number of optional lease extensions exercisable by the tenant. Additionally the base rent for these tenancies is subject to fixed periodic increases of up to 5% at the rent review date. The rent review date is typically every 5 years from the lease start or renewal.

For the Dan Murphy's tenancies, lease terms for new leases will commonly be from 15 to 20 years and are typically followed by a number of optional lease extensions exercisable by the tenant. The lease for these tenants also includes provision for additional rent in the form of sales turnover rent. Where sales turnover rent applies, it is payable annually in arrears where the sum of the initial rent and the turnover rent percentage amount for a year exceeds the sum of the base rent.

For other tenancies lease terms would commonly be for shorter periods such as five years with provisions for annual reviews which typically comprise either CPI based increases, fixed percentage increases or market reviews. Optional lease extensions exercisable by the tenant are also relatively common. Specialty leases incorporate provisions for reporting of sales turnover and may include payment of turnover rent percentage rental if appropriate.

No turnover rent was received for the period ended 30 June 2016.

Minimum Lease payments receivable (excluding outgoings) under non-cancellable operating leases of investment properties are as follows:

	30 Jun 2016
	$'000
Within one year	4,870
Between one and five years	19,725
After five years	39,558
	64,153

12. Notes to the statement of cash flows

Reconciliation of profit to net cash flows from operating activities is as follows:

	9 Jun to 30 Jun 2016 $'000
Net profit after income tax	2,465
Non-cash flows	
Fair value gain on investment properties	(2,304)
Fair value loss on financial liabilities	717
Rental straight lining income adjustments	(191)
Change in assets/liabilities	
Decrease in borrowings – unamortised establishment fee	(129)
Increase in trade and other receivables	(155)
Increase in trade and other payables	326
Net cash flows from operating activities	729

13. Financial instruments

Financial risk and capital management

(a) Capital risk management

The Fund's objective when managing capital is to safeguard the ability to continue as a going concern, whilst providing returns for unitholders and benefits for other stakeholders and to maintain a capital structure to minimise the cost of capital.

The capital structure of the Fund consists of cash and cash equivalents, interest-bearing loans and borrowings and contributed equity of the Fund (comprising contributed equity and retained earnings).

The Fund assesses the adequacy of its capital requirements, cost of capital, LvR and gearing (i.e. debt/equity mix).

The Fund continuously reviews its capital structure to ensure:

- Sufficient funds and financing facilities, on a cost effective basis, are available to assist the Fund's business; and
- Sufficient liquidity buffer is maintained.

The Fund can alter its capital structure by issuing new units.

(b) Financial risk management

The Fund's activities expose it to a variety of financial risks, including:

(i) credit risk
(ii) liquidity risk
(iii) market risk (including foreign exchange risk and interest rate risk)

The Fund seeks to minimise the effects of these risks by monitoring its exposure to these risks and assessments of market forecasts.

(b)(i) Financial risk management - credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the Fund. The Fund has exposure to credit risk on all financial assets included in its statement of financial position.

The Fund is exposed to credit risk from cash placed with a financial institution. This financial institution has a credit rating of AA- (Standard & Poor's).

Exposure to customer credit risk is also monitored. Woolworths Limited is a major tenant of the Fund representing approximately greater than 90% of rent received. Woolworths credit rating is BBB (Standard & Poor's). Other tenants represent the remainder of rent received.

The Fund's exposure to credit risk is summarised in the following table:

	30 Jun 2016
	$'000
Cash and cash equivalents	463
Receivables	155
	618

The maximum exposure of the Fund to credit risk as at 30 June 2016 is the carrying value of the financial assets in its statement of financial position.

(b)(ii) Financial risk management - liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund aims at having flexibility in funding by keeping sufficient cash and/or committed credit lines available whilst maintaining a low cost of holding these facilities. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The Fund manages liquidity risk through monitoring its net expected funding needs including the maturity of its debt portfolio. The Fund also manages liquidity risk by maintaining a liquidity buffer of cash and undrawn debt facilities.

The debt facility is a bank secured debt facility. Details of the debt facility, including debt facility available, is at Note 8.

Refinancing risk, also part of liquidity risk, is the risk that the maturity profile of the debt makes it difficult to refinance maturing debt, and/or that the cost of refinancing exposes the Fund to potentially unfavourable market conditions at any given time. The Fund is exposed to refinancing risks arising from the availability of finance as well as the interest rates and credit margins at which financing is available. The Fund intends to manage this risk, where appropriate, by refinancing borrowings in advance of the maturity of the borrowing and by securing longer term facilities.

Non-derivative financial instruments

The contractual maturities of the Fund's non-derivative financial liabilities at year end are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the liabilities including interest, margin, and line fees at the reporting date. Interest rates are based on the interest rates as the reporting date.

	1 year or less	Between 1 to 3 years	Over 3 years	Total
	$'000	$'000	$'000	$'000
30 Jun 2016				
Trade and other payables	326	-	-	326
Distribution payable	659	-	-	659
Borrowings	-	-	29,600	29,600
	985	-	29,600	30,585

The cashflows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

(b)(iii) Financial risk management - market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Fund's financial performance or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk within acceptable parameters, while optimising the return.

Market risk - foreign exchange risk.

The Fund has no foreign currency denominated assets or liabilities at the reporting date and therefore the Fund is not exposed to any significant foreign exchange risk.

Market risk - interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate due to changes in market interest rates.

The Fund is exposed to interest rate risk as it borrow funds at floating interest rates. This risk is managed through the use of interest rate swap contracts. Hedging activities are evaluated regularly.

The Fund's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Exposure to cash and cash equivalents is limited to $463,000.

Interest rate swap contracts

The Fund's interest rate risk arises from borrowings and cash holdings. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates or from fixed to floating. The Fund has entered into an interest rate swap contract. Under the interest rate swap contract, the Fund agrees with the other party to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to an agreed notional principal amount.

The Fund's secured debt facility is at floating rates. Borrowings with floating rates expose the Fund to cash flow interest rate risk. The Fund's preference is to be protected from interest rate movements in the two to five year term through appropriate risk management techniques. These techniques includes using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The requirements under Australian accounting standards in respect of documentation, designation and effectiveness for hedge accounting cannot be met in all circumstances. As a result the Fund does not apply hedge accounting for any derivatives as at 30 June 2016.

The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the forward market interest rate curve at reporting date.

The Fund's exposure to interest rate risk and the effective interest rates on financial assets and liabilities at reporting date are in the table below.

	Interest rate	$'000
30 Jun 2016		
Financial assets		
Cash and cash equivalents	1.3%	463
Trade and other receivables	0.0%	155
Financial liabilities		
Trade and other payables	0.0%	326
Borrowings - floating	3.5%	29,471
Distribution payable	0.0%	659
Total net financial liabilities		**29,838**

The maturity profile and the weighted average interest rate of the fixed derivatives (notional principal) held at 30 June 2016 (represented by an interest rate swap which expires on 30 June 2019) by the Fund can be summarised below.

	June 2017	June 2018	June 2019	June 2020
Interest rate swap (fixed) - $'000	28,000	28,000	28,000	-
Average fixed rate - %	2.5%	2.5%	2.5%	-

Sensitivity analysis – interest rate risk

The following sensitivity analysis shows the effect on profit/(loss) after tax and equity if market interest rates during the period had been 100 basis points higher/lower with all other variables held constant.

	Profit/loss after tax		Equity	
	100bp higher $'000	100bp lower $'000	100bp higher $'000	100bp lower $'000
Effect of market interest rate movement	11	(11)	11	(11)

(c) Accounting classifications and fair values

The fair value of interest rate derivatives is determined using a generally accepted pricing model based on discounted cash flow analysis using assumptions supported by observing market rates.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

The following table represents financial assets and liabilities that were measured and recognised at fair value as at 30 June 2016.

	30 Jun 2016 $'000
Assets	
Investment properties	63,400
Liabilities	
Interest rate derivatives	717

Fair value hierarchy

The Fund is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement.

Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed can be subjective.

The different levels have been defined as follows:

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

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis of the use of observable inputs that require significant adjustments based on unobservable inputs.

There were no transfers between levels during the year.

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

The interest rate swap which is a interest rate derivative and is also a financial instruments not quoted in active markets. For the interest rate swap the Fund uses valuation techniques such as present value, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Interest rate derivatives are financial instruments that use valuation techniques with only observable market inputs and are included in Level 2 above.

The Fund does not have any Level 1 or 3 financial instruments. Details of level 3 assets (investment properties) during the financial period and details of unobservable inputs and sensitivity are set out in Note 3.

14. Capital commitments, contingent liabilities and contingent assets

As at 30 June 2016, the Fund has no capital commitments, contingent liabilities or assets.

15. Related party transactions

The Responsible Entity of SURF 1 is SCA Unlisted Retail Fund RE Limited (ABN 42 604 416 284) (SURF RE). SURF RE is part of the SCA Property Group. The SCA Property Group comprises Shopping Centres Australasia Property Group RE Limited (ABN 47 158 809 851) as responsible entity of Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788) (Retail Trust). All fees and charges from the Responsible Entity and its related parties are in accordance with the Product Disclosure Statement (PDS) dated 16 July 2015 and the Trust's constitution. Transactions with entities associated to the SCA Property Group are disclosed below. Transactions with related parties have taken place at arm's length and in the ordinary course of business.

(a) Purchase of properties

On 1 October 2015 SURF 1 purchased five properties from SCA Property Group for $60,900,000. The purchase was in line with market values based on independent valuations of the property portfolio as at June 2015. This has been recognised in investment properties in the statement of financial position.

(b) Establishment fees

Establishment fees of $913,500 were paid to Shopping Centres Australasia Property Operations Pty Limited (Investment Manager) (ACN 160 890 433) as the Investment Manager of SURF 1. Upon the raising of the Total Offer Amount, the Manager was entitled to an establishment fee which reflects 1.5% of the property value using the most recent external valuations (being $60,900,000). This has been recognised as part of the transaction and establishment costs in the fund's statement of profit or loss and other comprehensive income.

(c) Investment Management Fees

Investment management fees are 0.45% per annum of gross asset value payable monthly in arrears. During the period investment management fees of $211,199 (excluding GST) were paid or payable to Shopping Centres Australasia Property Operations Pty Limited (ACN 160 890 433) as the Investment Manager of SURF 1. This has been recognised as an investment management fee in the statement of profit or loss and other comprehensive income. Total accrued investment management fees of $24,011 (excluding GST) are recognised in trade and other payables in the statement of financial position.

(d) Base management fees

Base management fees are 0.25% per annum of gross asset value payable monthly in arrears. During the period base management fees of $117,333 were paid or payable to the Responsible Entity during the financial year.

This has been recognised as a base management fee in the statement of profit or loss and other comprehensive Income. Total accrued base management fees of $13,340 are recognised in trade and other payables on the statement of financial position.

(e) Recharge expenses

SURF RE and the Investment Manager have the right of recover from the Fund the expenses properly incurred by SURF RE or the Manager from the Fund. The Manager is part of SCA Property Group. In practice the Fund has paid all such expenses directly except for certain formation expenses which were recharged. The relevant formation expenses have been recognised as part of the transaction and establishment costs in the Fund's statement of profit or loss and other comprehensive income.

(f) Directors fees

No fees were paid or are payable by SURF 1 to the directors of the Responsible Entity during the period. These costs are paid by SCA Property Group. Refer to Note 17.

(g) Related Party Unit Holdings and Distributions

Holdings of units by related parties:

	30 Jun 2016
	Units
Retail Trust	7,959,000

The units held by the Retail Trust rank pari passu with the other units on issue in SURF 1 and have been held by the Retail Trust since allotment (1 October 2015). The distributions paid or payable to the Retail Trust for the period are in the table below:

Quarter ended	**31 Dec 2015**	**31 Mar 2016**	**30 Jun 2016**
Number of units held	7,959,000	7,959,000	7,959,000
Distribution per unit – cents	2.02	2.02	2.02
Amount paid or payable- $	160,772	160,772	160,772
Date paid or payable	19 Jan 2016	19 Apr 2016	29 Jul 2016[1]

[1] This distribution was declared on 21 June 2016 and the proposed payment date is 29 July 2016.

The Fund did not hold any interests in related parties at the reporting date or throughout the current period.

(h) Performance fee

The Manager will be entitled to a performance fee of 20% of the portion of the outperformance of SURF 1 over an IRR of 10% per annum. As at 30 June 2016 the IRR is less than 10% and no accrual has been provided for this.

16. Auditors remuneration

During the period, all amounts paid or payable to the auditor of the Fund, BDO East Coast Partnership, by SCA Unlisted Retail Fund 1 for the period were:

	30 Jun 2016 $
Audit and review of the financial statements	31,000
Assurance and compliance services	3,500
Investigative Accountant Report (Product Disclosure Statement dated 16 July 2015)	37,610
	72,110

17. Key management personnel

Key Management Personnel of the Responsible Entity are those persons having authority and responsibility for planning directing and controlling the activities of the Fund, directly or indirectly, including any Director.

Key Management Personnel are employed by a related company to the Fund, Shopping Centres Australasia Property Operations Pty Limited. No compensation is paid by the Fund to any of the key management personnel of the Responsible Entity.

18. Subsequent events

A final distribution for the period 1 April 2016 to 30 June 2016 of 2.02 cents per unit was declared on 21 June 2016 and is expected to be paid on 29 July 2016. This distribution has been reflected as a payable in the statement of financial position as at 30 June 2016. Refer to Note 10 for details.

The Directors are not aware of any other matter or circumstance that has arisen since 30 June 2016 that significantly affects or may significantly affect the operations of the Fund, the result of those operations, or state of the Fund’s affairs in future financial periods.

* * *

SCA Unlisted Retail Fund 1
Directors' Declaration
For the period 9 June 2015 to 30 June 2016

In the opinion of the Directors of SCA Unlisted Retail Fund RE Limited, the Responsible Entity of SCA Unlisted Retail Fund 1 (SURF 1):

(a) The attached financial statements and notes are in accordance with the Corporations Act 2001, including:
   - (i) giving a true and fair view of the SURF 1's financial position as at 30 June 2016 and of its performance, for the period 9 June 2015 to 30 June 2016; and
   - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations), the Corporations Regulations 2001, and other mandatory professional reporting requirements.

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

The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Chairman
Sydney
21 July 2016

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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of SCA Unlisted Retail Fund 1

Report on the Financial Report

We have audited the accompanying financial report of SCA Unlisted Retail Fund 1 ('the Trust'), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period 9 June 2015 to 30 June 2016, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of SCA Unlisted Retail Fund RE Limited, as responsible entity for SCA Unlisted Retail Fund 1, 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 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 Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation of the financial report that gives a true and fair view 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 Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the responsible entity, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of SCA Unlisted Retail Fund 1 is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Trust's financial position as at 30 June 2016 and of its performance for the period 9 June 2015 to 30 June 2016; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies *with International Financial Reporting Standards* as disclosed in Note 2.

BDO East Coast Partnership

BDO

Ian Hooper
Partner

Sydney, 21 July 2016