Interim Financial Report

For the half year ended 31 December 2021

Elanor Retail Property Fund

Comprising the stapling of units in Elanor Retail Property Fund I (ARSN 615 291 220) and units in Elanor Retail Property Fund II (ARSN 615 291 284)

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ELANOR RETAIL PROPERTY FUND

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Directors' Report

The Directors of Elanor Funds Management Limited (Responsible Entity or Manager), as responsible entity of the Elanor Retail Property Fund I and Elanor Retail Property Fund II, present their interim report together with the consolidated interim financial report of Elanor Retail Property Fund (Group, Consolidated Group or Fund) and the consolidated interim financial report of the Elanor Retail Property Fund I (ERPF I Group) for the half year ended 31 December 2021 (period).

The interim financial report of the Consolidated Group comprises Elanor Retail Property Fund II (ERPF II) and its controlled entities, including Elanor Retail Property Fund I (ERPF I) and its controlled entities. The interim financial report of the ERPF I Group comprises Elanor Retail Property Fund I and its controlled entities.

The Responsible Entity is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 38, 259 George Street, Sydney NSW 2000.

ERPF I and ERPF II were registered as managed investment schemes on 13 October 2016. The units of ERPF I and the units of ERPF II are combined and issued as stapled securities of the Group. The Group's securities are traded on the Australian Securities Exchange (ASX: ERF), having listed on 9 November 2016. The units of each scheme cannot be traded separately and can only be traded as stapled securities. Although there is no ownership interest between ERPF I and ERPF II, ERPF II is deemed to be the parent entity of the Group in accordance with the Australian Accounting Standards.

The Directors' report is a combined Directors' report that covers both schemes. The financial information for the Group is taken from the consolidated financial reports and notes.

1. Directors

The following persons have held office as Directors of the Responsible Entity during the period and up to the date of this report:

- Paul Bedbrook (Chair)
- Glenn Willis (Managing Director and Chief Executive Officer)
- Nigel Ampherlaw
- Anthony Fehon
- Su Kiat Lim (appointed 1 October 2021)
- Karyn Baylis (appointed 1 November 2021)

2. Principal activities

The principal activities of the Fund are the investment in non-discretionary focused neighbourhood and sub-regional shopping centres.

3. Distributions

Distributions relating to the half year ended 31 December 2021 comprise:

Distributions	Half Year Ended 31 December 2021
Interim Distribution	
Amount payable (cents per stapled security)	3.01
Payment Date	28 February 2022

4. Operating and financial review

OVERVIEW AND STRATEGY

The Elanor Retail Property Fund is an externally managed real estate investment fund that invests in high investment quality supermarket-anchored shopping centres that provide everyday goods and essential services.

The Fund's objective is to provide investors with strong and growing income returns, and capital growth. To achieve this objective, the Fund's strategy is to:

- Invest in supermarket-anchored centres that provide quality earnings from a convenience-based tenant mix;
- Execute leasing, development and repositioning strategies, and other active asset management initiatives to grow the income and value of the centres;
- Acquire additional high investment quality supermarket-anchored centres; and
- Optimise the capital structure of the Fund based on a conservative approach to gearing.

The Fund's portfolio currently comprises five non-discretionary focused shopping centres with:

- A combined value of $191.2 million;
- An occupancy of 94.7% at balance date;
- 45% of its income from major retailers and 48% from specialty retailers; and
- 61% of revenue generated by supermarket and essential needs tenants, 26% from specialty stores and 13% from department and discount stores (DDS).

<u>Impact of the COVID-19 Pandemic on the Fund</u>

Government requirements and health related measures in response to the COVID-19 pandemic have continued since 26 June 2021. Certain restrictions have eased, however the pandemic continues to influence operating and financial conditions across the Australian economy. In response to a further outbreak in December 2021, the NSW Government has extended the National Code of Conduct pertaining to rental relief until 15 March 2022.

The Group's 'defensive' shopping centre portfolio has performed well during the COVID-19 pandemic. Given the geographic spread and non-discretionary nature of the ERF portfolio, the ongoing effects of the COVID-19 pandemic continue to be relatively minimal. As at 31 January 2021, 94% of rental billings for the six months ended 31 December 2021 had been collected.

Negotiations are continuing with certain tenants in respect to COVID-19 related rent relief and deferral arrangements in accordance with the Code of Conduct. For the six months to 31 December 2021, the impact of COVID-19 rental abatements was $0.51 million, representing only 5.9% of Rental Income.

The impacts of COVID-19 on the Fund have also been considered in the determination of the fair value of investment properties. Refer to Note 4 for the key estimates and significant judgements applied as a result of this.

4. Operating and financial review (continued)

INVESTMENT PORTFOLIO

The valuation of the Group's portfolio of investment properties at 31 December 2021 increased by 2.2% compared to 30 June 2021. On 31 August 2021, the sale of Moranbah Fair settled at a sale price of $28.0 million.

The following table shows the Group's investment portfolio as at balance date:

Property	Location	Type	Carrying Value $'m
Tweed Mall	Tweed Heads, NSW	Sub-regional shopping centre	87.0
Manning Mall	Taree, NSW	Sub-regional shopping centre	36.4
Gladstone Square	Gladstone, QLD	Neighbourhood shopping centre	30.0
Glenorchy Plaza	Glenorchy, TAS	Sub-regional shopping centre	19.5
Northway Plaza	Bundaberg, QLD	Neighbourhood shopping centre	18.3
Total investment portfolio			**191.2**

FINANCIAL RESULTS

The Group recorded a statutory profit of $2.72 million for the half year ended 31 December 2021 including valuation movements in the Fund's investment portfolio and the sale of Moranbah Fair.

Funds from Operations (FFO) for the half year were $4.05 million or 3.17 cents per stapled security. FFO is considered by Management to be an appropriate estimate of the underlying recurring cash earnings of the Fund and has been determined in accordance with Property Council of Australia Guidelines.

A summary of the Group's results for the half year to 31 December 2021 is set out below:

Key financial results	Consolidated Group 31 December 2021
Net Profit ($'000)	2,716
FFO ($'000)	4,050
FFO per stapled security (cents)	3.17
FFO per weighted average stapled security (cents)	3.17
Distributions payable to securityholders ($'000)	3,847
Distributions (cents per stapled security)	3.01
Net tangible assets ($ per stapled security)	1.22
Gearing (net debt / total assets less cash) (%)	18.3%

4. Operating and financial review (continued)

FINANCIAL RESULTS (CONTINUED)

The table below provides a reconciliation from statutory net profit / (loss) to distributable FFO:

	Consolidated Group 31 December 2021 $'000
Statutory net profit	**2,716**
Adjustments for items included in statutory Income	
Amortisation expense[3]	498
Transaction cost[4]	370
Straight-lining of rental income[2]	(90)
Fair value adjustments on investment property	(1,116)
Other[5]	1,672
FFO[1]	**4,050**

Note 1: FFO has been determined in accordance with Property Council of Australia Guidelines and represents the Directors' view of underlying earnings from ongoing operating activities for the period, being net profit / (loss), adjusted for one-off realised items (being formation or other transaction costs that occur infrequently or are outside the course of ongoing business activities), and non-cash items (being fair value movements, amortisation and lease straight-lining).

Note 2: Straight-lining of rental income is a non-cash accounting adjustment recognised in rental income in the Consolidated Statement of Profit or Loss.

Note 3: Amortisation expense includes the amortisation of capitalised leasing costs and debt establishment costs, recognised in rates, taxes and other outgoings, other expenses and borrowing costs in the Consolidated Statement of Profit or Loss.

Note 4: Transaction costs incurred by the Group through profit and loss related to the divestment of Moranbah Fair which settled on 31 August 2021.

Note 5: Other items predominantly relate to settlement adjustments related to the Auburn Central transaction. Auburn central was sold on 23 December 2020.

4. Operating and financial review (continued)

SUMMARY AND OUTLOOK

The Fund's key objective is to provide investors with strong and growing income returns, and capital growth from its portfolio of high investment quality supermarket-anchored shopping centres that provide everyday goods and essential services.

During the half year ended 31 December 2021, the Fund has undertaken the following key activities:

- The $28.0 million sale of Moranbah Fair was completed in August 2021, proceeds from which were used to repay $25.0 million of bank finance facilities.
- A Special Distribution of $0.12 per security was paid in August 2021.
- Gearing reduced from 21.1% to 18.3% at balance date.
- Tweed Mall was adversely impacted by the Queensland border closures, which were lifted on 13 December 2021. Positive progress continues to be made in the value add strategy at Tweed Mall to realise the property's mixed used development potential.
- Despite challenging market conditions, positive leasing initiatives have been achieved across the Fund's portfolio.
- Trading activity across the Fund's portfolio has recovered post Government imposed restrictions with 99.4% of tenants trading as at 31 December 2021.

The risks to the Fund in the coming year primarily comprise potential earnings variability associated with uncertain economic and market conditions related to the COVID-19 pandemic. These risks may result in reduced retailer demand and domestic retail spending, softening of rental growth and increases in required incentives. While general market uncertainty may impact the availability of capital for acquisition opportunities, investment demand for quality assets is expected to remain positive. Other risks include potential related movements in property valuations and possible weather-related events.

These risks to the Fund are mitigated through the active management of the Fund's portfolio. Regular engagement with tenants across the portfolio and ongoing assessments of tenant rental risks, including relevant scenario analysis, are key contributors to the strong performance of the Fund. Further risk mitigants include the broadening of the Fund's tenant mix, ensuring appropriate insurance arrangements are in place and actively managing the Fund's cash position and capital structure.

The Fund's portfolio of supermarket-anchored shopping centres is well positioned to enhance value for security holders. The active asset management of the portfolio is generating improved operational performance and returns. Furthermore, targeted strategic initiatives to increase the capital value of the Fund are in progress.

5. Carrying Value of assets

	Consolidated Group 31 December 2021 $'000	ERPF I Group 31 December 2021 $'000
Value of total assets	204,737	197,338
Value of net assets	155,229	39,957

6. Interest in the Group

The movement in the number of stapled securities of the Group during the period is set out below:

	Consolidated Group 31 December 2021	Consolidated Group 30 June 2021	ERPF I Group 31 December 2021	ERPF I Group 30 June 2021
Stapled securities on issue at the beginning of the period	127,712,725	128,729,755	127,712,725	128,729,755
Stapled securitites cancelled through security buy-back scheme	-	(1,017,030)	-	(1,017,030)
Stapled securities on issue at the end of the period	**127,712,725**	**127,712,725**	**127,712,725**	**127,712,725**

7. Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* (Cth), is included on the page following the Directors' Report.

8. Events occurring after reporting date

The Directors of the Responsible Entity are not aware of any other matter since the end of the period that has or may significantly affect the operations of the Group, the result of those operations, or the state of the Group's affairs in future financial periods that are not otherwise referred to in this Directors' Report.

9. Rounding of amounts to the nearest thousand dollars

In accordance with Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission, amounts in the financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the Board of Directors of the Responsible Entity.

Signed in accordance with a resolution of the Directors.

Paul Bedbrook
Chairman

Glenn Willis
CEO and Managing Director

Sydney, 18 February 2022

Auditor's Independence Declaration

As lead auditor for the review of Elanor Retail Property Fund I and Elanor Retail Property Fund II for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Elanor Retail Property Fund II and the entities it controlled during the period.

N R McConnell
Partner
PricewaterhouseCoopers

Sydney
18 February 2022

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ELANOR RETAIL PROPERTY FUND

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

	Note	Consolidated Group 31 December 2021 $'000	Consolidated Group 31 December 2020 $'000	ERPF I Group 31 December 2021 $'000	ERPF I Group 31 December 2020 $'000
Income					
Rental income	2	8,617	12,543	8,617	9,331
Outgoings reimbursement		965	1,068	965	915
Net fair value increment on investment properties		1,116	174	1,116	-
Total income		**10,698**	**13,785**	**10,698**	**10,246**
Expenses					
Rates, taxes and other outgoings		3,196	4,685	3,196	3,413
Provision for expected credit loss		1,566	420	523	148
Investment management fees	6	711	1,234	658	807
Borrowing costs	5	499	5,694	3,325	6,617
Transaction costs		370	-	370	-
Other expenses		1,640	796	1,108	524
Net fair value decrement on investment properties		-	-	-	1,253
Total expenses		**7,982**	**12,829**	**9,180**	**12,762**
Net profit / (loss) for the period		**2,716**	**956**	**1,518**	**(2,516)**
Attributable to securityholders of:					
- Elanor Retail Property Fund II		1,198	3,472	-	-
- Elanor Retail Property Fund I (Non-controlling interest)		1,518	(2,516)	1,518	(2,516)
Net profit / (loss) for the period		**2,716**	**956**	**1,518**	**(2,516)**
Basic earnings per stapled security (cents)		2.13	0.74	1.19	(1.95)
Diluted earnings per stapled security (cents)		2.13	0.74	1.19	(1.95)

The above Consolidated Statements of Profit or Loss should be read in conjunction with the accompanying notes

ELANOR RETAIL PROPERTY FUND

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2021

	Consolidated Group 31 December 2021 $'000	Consolidated Group 31 December 2020 $'000	ERPF I Group 31 December 2021 $'000	ERPF I Group 31 December 2020 $'000
Net profit / (loss) for the period	**2,716**	**956**	**1,518**	**(2,516)**
Other comprehensive income				
Items that may be reclassified to profit and loss				
Gain / (Loss) on revaluation of cash flow hedge	12	4,040	-	4,145
Other comprehensive income / (loss) for the period	12	4,040	-	4,145
Total comprehensive income / (loss) for the period	**2,728**	**4,996**	**1,518**	**1,629**
Attributable to securityholders of:				
- Elanor Retail Property Fund II	1,210	3,367	-	-
- Elanor Retail Property Fund I (Non-controlling interest)	1,518	1,629	1,518	1,629
Total comprehensive income / (loss) for the period	**2,728**	**4,996**	**1,518**	**1,629**

The above Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying notes

ELANOR RETAIL PROPERTY FUND

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	Consolidated Group 31 December 2021 $'000	Consolidated Group 30 June 2021 $'000	ERPF I Group 31 December 2021 $'000	ERPF I Group 30 June 2021 $'000
Current assets					
Cash and cash equivalents		5,275	18,713	4,762	4,277
Trade and other receivables		6,879	7,578	290	594
Other current assets		948	821	973	821
Prepayments		174	456	163	453
Assets held for sale		-	28,000	-	28,000
Total current assets		**13,276**	**55,568**	**6,188**	**34,145**
Non-current assets					
Trade and other receivables		311	3,958	-	-
Investment properties	4	191,150	187,000	191,150	187,000
Total non-current assets		**191,461**	**190,958**	**191,150**	**187,000**
Total assets		**204,737**	**246,526**	**197,338**	**221,145**
Current liabilities					
Distribution payable		3,847	20,223	3,847	3,360
Trade and other payables		3,438	2,606	2,711	1,546
Rent received in advance		435	563	435	563
Derivative financial instruments		77	63	-	-
Total current liabilities		**7,797**	**23,455**	**6,993**	**5,469**
Non-current liabilities					
Interest bearing liabilities	5	41,683	66,669	-	4,997
Interest bearing cross-staple loan		-	-	150,388	168,393
Derivative financial instruments		28	54	-	-
Total non-current liabilities		**41,711**	**66,723**	**150,388**	**173,390**
Total liabilities		**49,508**	**90,178**	**157,381**	**178,859**
Net assets		**155,229**	**156,348**	**39,957**	**42,286**
Equity					
Contributed equity		89,691	89,691	65,581	65,581
Reserves		(108)	(120)	-	-
Retained profits / (accumulated losses)		25,689	24,491	(25,624)	(23,295)
Parent entity interest		**115,272**	**114,062**	**39,957**	**42,286**
Equity Holders of Non-Controlling Interest					
Contributed equity		65,581	65,581	-	-
Reserves		-	-	-	-
(Accumulated losses) / Retained profits		(25,624)	(23,295)	-	-
Non-controlling interest		**39,957**	**42,286**	**-**	**-**
Total equity attributable to stapled securityholders:					
- Elanor Retail Property Fund II		115,272	114,062	-	-
- Elanor Retail Property Fund I		39,957	42,286	39,957	42,286
Total equity		**155,229**	**156,348**	**39,957**	**42,286**

The above Consolidated Statements of Financial Position should be read in conjunction with the accompanying notes

ELANOR RETAIL PROPERTY FUND

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

	Note	Contributed Equity $'000	Cash flow Hedge Reserve $'000	Security Based Payment Reserve $'000	Retained Profits/ (Accumulated Losses) $'000	Parent Entity Total Equity $'000	Non-Controlling Interests $'000	Total Equity $'000
Consolidated Group								
Total equity at 1 July 2021		89,691	(120)	-	24,491	114,062	42,286	156,348
Profit / (loss) for the period		-	-	-	1,198	1,198	1,518	2,716
Other comprehensive income / (expense) for the period		-	12	-	-	12	-	12
Total comprehensive income / (expense) for the period		**-**	**12**	-	**1,198**	**1,210**	**1,518**	**2,728**
Transactions with owners in their capacity as owners:								
Security buy-back		-	-	-	-	-	-	-
Distributions paid and payable		-	-	-	-	-	(3,847)	(3,847)
Total equity at 31 December 2021		**89,691**	**(108)**	**-**	**25,689**	**115,272**	**39,957**	**155,229**
Consolidated Group								
Total equity at 1 July 2020		90,421	(180)	45	40,979	131,265	41,453	172,718
Profit / (loss) for the period		-	-	-	3,472	3,472	(2,516)	956
Other comprehensive income / (expense) for the period		-	(105)	-	-	(105)	4,145	4,040
Total comprehensive income / (expense) for the period		**-**	**(105)**	-	**3,472**	**3,367**	**1,629**	**4,996**
Transactions with owners in their capacity as owners:								
Security-based payments		(602)	-	-	5	(597)	(437)	(1,034)
Distributions paid and payable	3	-	-	-	(3,360)	(3,360)	(2,838)	(6,198)
Total equity at 31 December 2020		**89,819**	**(285)**	**45**	**41,096**	**130,675**	**39,807**	**170,482**

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes

ELANOR RETAIL PROPERTY FUND

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

	Note	Contributed Equity $'000	Cash flow Hedge Reserve $'000	Security Based Payment Reserve $'000	Retained Profits/ (Accumulated Losses) $'000	Total Equity $'000
ERPF I Group						
Total equity at 1 July 2021		65,581	-	-	(23,295)	42,286
Profit / (loss) for the period		-	-	-	1,518	1,518
Other comprehensive income / (expense) for the period		-	-	-	-	-
Total comprehensive income / (expense) for the period		**-**	**-**	-	**1,518**	**1,518**
Transactions with owners in their capacity as owners:						
Security buy-back		-	-	-	-	-
Distributions paid and payable		-	-	-	(3,847)	(3,847)
Total equity at 31 December 2021		**65,581**	**-**	**-**	**(25,624)**	**39,957**
ERPF I Group						
Total equity at 1 July 2020		66,116	(4,147)	34	(20,550)	41,453
Profit / (loss) for the period		-	-	-	(2,516)	(2,516)
Other comprehensive income / (expense) for the period		-	4,145	-	-	4,145
Total comprehensive income / (expense) for the period		**-**	**4,145**	**-**	**(2,516)**	**1,629**
Transactions with owners in their capacity as owners:						
Security-based payments		(441)	-	-	4	(437)
Distributions paid and payable	3				(2,838)	(2,838)
Total equity at 31 December 2020		**65,675**	**(2)**	**34**	**(25,900)**	**39,807**

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes

ELANOR RETAIL PROPERTY FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021

	Consolidated Group 31 December 2021 $'000	Consolidated Group 31 December 2020 $'000	ERPF I Group 31 December 2021 $'000	ERPF I Group 31 December 2020 $'000
Cash flows from operating activities				
Rental and other property income received	13,446	15,227	10,148	11,363
Finance costs paid	(485)	(2,081)	(55)	(3,004)
Payments to suppliers and the Responsible Entity	(5,797)	(9,155)	(4,594)	(7,851)
Net cash inflow from operating activities	**7,164**	**3,991**	**5,499**	**508**
Cash flows from investing activities				
Receipts from disposals of asset held for sale	27,261	-	27,261	-
Receipts from disposals of investment properties	-	115,022	-	-
Payments for additions to investment properties	(2,640)	(13,888)	(2,640)	(1,440)
Net cash inflow/(outflow) from investing activities	**24,621**	**101,134**	**24,621**	**(1,440)**
Cash flows from financing activities				
Proceeds from interest bearing-cross staple loans	-	10,037	-	100,848
Security buy-back	-	(1,032)	-	(436)
Swap break costs	-	(3,613)	-	(3,613)
Distributions paid	(20,223)	-	(3,360)	-
Payment of interest bearing-cross staple loans	-	-	(21,275)	-
Payment of interest bearing liabilities	(25,000)	(99,641)	(5,000)	(96,477)
Net cash inflow/(outflow) from financing activities	**(45,223)**	**(94,249)**	**(29,635)**	**322**
Net increase/(decrease) in cash and cash equivalents	(13,438)	10,876	485	(610)
Cash and cash equivalents at the beginning of the period	18,713	4,003	4,277	3,071
Cash at the end of the period	**5,275**	**14,879**	**4,762**	**2,461**

The above Consolidated Statements of Cash Flows should be read in conjunction with the accompanying notes

About this Report

Elanor Retail Property Fund (the Fund, Group or Consolidated Group) is a 'stapled' entity comprising of Elanor Retail Property Fund I (ERPF I) and its controlled entities, and Elanor Retail Property Fund II (ERPF II) and its controlled entities. The units in ERPF I are stapled to units in ERPF II. The stapled securities cannot be traded or dealt with separately. The stapled securities of the Fund were listed on the Australian Securities Exchange (ASX: ERF) on 9 November 2016 (IPO transaction).

For the purposes of the consolidated financial report, ERPF II has been deemed the parent entity of ERPF I in the stapled structure. The financial report of the Fund comprises the consolidated financial report of Elanor Retail Property Fund II and its controlled entities, including Elanor Retail Property Fund I and its controlled entities (ERPF I Group). As permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838, this report is a combined report that presents the consolidated financial statements and accompanying notes of both the Fund and ERPF I Group.

The half year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001*, the Fund Constitution and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the Fund during the half year ended 31 December 2021 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year unless stated otherwise.

Comparative figures have been restated where appropriate to ensure consistency of presentation throughout the financial report.

Changes in accounting policy

New and amended accounting standards and interpretations commencing 1 July 2021

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2021 that are applicable to the Group.

New accounting standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions

Basis of consolidation

The consolidated financial report of the Fund incorporates the assets and liabilities of ERPF II (the Parent) and all of its subsidiaries, including ERPF I and its subsidiaries as at 31 December 2021. ERPF II is the parent entity in relation to the stapling. The results and equity of ERPF I (which is not directly owned by ERPF II) have been treated and disclosed as a non-controlling interest. Whilst the results and equity of ERPF I are disclosed as a non-controlling interest, the stapled securityholders of ERPF I are the same as the stapled securityholders of ERPF II.

For the purpose of preparing the financial statements, the Fund is a for-profit entity. The financial report is presented in Australian Dollars. Comparative figures have been restated where appropriate to ensure consistency of presentation throughout the financial report.

Rounding of amounts to the nearest thousand dollars

In accordance with Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission, amounts in the financial statements have been rounded to the nearest thousand dollar, unless otherwise indicated.

ELANOR RETAIL PROPERTY FUND

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2021

The notes to the consolidated financial statements have been organised into the following four sections:

Results

This section focuses on the operating results and financial performance of the Fund. It includes disclosures of revenue and distributions.

1. Segment information

OVERVIEW

The Fund operates in one business segment, being the investment in retail shopping centres in Australia.

2. Revenue

OVERVIEW

The Fund's main source of revenue is rental income from its investment in retail shopping centres.

(a) Rental income

	Consolidated Group 31 December 2021 $'000	Consolidated Group 31 December 2020 $'000	ERPF I Group 31 December 2021 $'000	ERPF I Group 31 December 2020 $'000
Tweed Mall	3,463	3,241	3,463	3,241
Manning Mall	1,734	1,542	1,734	1,542
Gladstone Square	1,293	1,499	1,293	1,499
Glenorchy Plaza	1,039	909	1,039	909
Northway Plaza	744	711	744	711
Moranbah Fair[1]	344	1,429	344	1,429
Auburn Central	-	3,212	-	-
Total revenue from operating activities	**8,617**	**12,543**	**8,617**	**9,331**

[(1)] The Rental Income for Moranbah Fair for the six months ended 31 December 2021 represents income up to 31 August 2021, when the sale of the asset was settled.

3. Distributions

OVERVIEW

In accordance with the Fund's Constitutions, the Responsible Entity determines Fund from Operations (FFO) attributable to securityholders as the net profit for the half year, excluding certain non-recurring and non-cash items.

The Fund aims to distribute between 90% and 100% of consolidated FFO each year.

(a) Distributions during the half year

Consolidated Group

The following distributions were declared by the Consolidated Group in respect of the half-year ended 31 December 2021:

	Distribution 31 December 2021 cents per stapled security	Distribution 31 December 2020 cents per stapled security	Total amount 31 December 2021 $'000	Total amount 31 December 2020 $'000
Distribution for the period	3.01	4.84	3,847	6,198
Total	**3.01**	**4.84**	**3,847**	**6,198**

(1) The distribution of 3.01 cents per stapled security for the half-year ended 31 December 2021 will be paid on 28 February 2022. Please refer to the Director's Report for the calculation of FFO and the Distribution.

ERPF I Group

The following distributions were declared by the ERPF I Group in respect of the half-year ended 31 December 2021:

	Distribution 31 December 2021 cents per stapled security	Distribution 31 December 2020 cents per stapled security	Total amount 31 December 2021 $'000	Total amount 31 December 2020 $'000
Distribution for the period	3.01	2.22	3,847	2,838
Total	**3.01**	**2.22**	**3,847**	**2,838**

(1) The distribution of 3.01 cents per unit for the half-year ended 31 December 2021 will be paid on 28 February 2022. Please refer to the Director's Report for the calculation of FFO and the Distribution.

ACCOUNTING POLICY

Distributions are recognised as a liability when declared or at the record date (if earlier). Distributions paid and payable are recognised as distributions within equity. Distributions paid are included in cash flows from financing activities in the consolidated statement of cash flows.

A review was performed on the accounting policy for the recognition of distributions in the current year. In prior periods, a distribution was recognised when declared. It is deemed appropriate, given the track record of the Fund paying a distribution, to record a liability at balance date as the record date has passed and it is probable the distribution in respect of the period ended 31 December 2021 will be paid (even if not yet declared at balance date). This policy change has been applied retrospectively, resulting in a restatement in the comparative retained earnings balance as at 31 December 2020 in the Consolidated Statement of Changes in Equity. The total impact is a decrease in the comparative retained earnings of $6.20 million and $2.84 million for the Consolidated Group and the ERPF I Group, respectively.

Operating Assets

This section includes information about the assets used by the Fund to generate profits and revenue, specifically information relating to its investment properties.

4. Investment properties

OVERVIEW

Investment properties are held solely for the purpose of earning rental income and / or for capital appreciation. At balance date, the Fund's investment property portfolio comprises five retail shopping centres in Australia. Both independent and internal valuations were performed as at 31 December 2021.

Internal valuations were prepared on both discounted cash flow and income capitalisation valuation methodologies. The property valuations were completed using detailed forecasts prepared by the Fund's asset management teams.

Refer to the 30 June 2021 Annual Financial Report for detailed accounting policies and the valuation techniques applied.

(a) Carrying values of investment properties

	Valuation	Date	Consolidated Group 31 December 2021 $'000	Consolidated Group 30 June 2021 $'000	ERPF I Group 31 December 2021 $'000	ERPF I Group 30 June 2021 $'000
Tweed Mall	Independent	31 Dec	87,000	85,000	87,000	85,000
Manning Mall	Independent	31 Dec	36,400	36,100	36,400	36,100
Gladstone Square	Internal	31 Dec	30,000	30,000	30,000	30,000
Glenorchy Plaza	Internal	31 Dec	19,500	18,900	19,500	18,900
Northway Plaza	Internal	31 Dec	18,250	17,000	18,250	17,000
Total investment properties			**191,150**	**187,000**	**191,150**	**187,000**

Investment properties are categorised as level 3 in the fair value hierarchy. There were no transfers between hierarchies during the period.

(b) Movement in investment properties

	Consolidated Group 31 December 2021 $'000	Consolidated Group 30 June 2021 $'000	ERPF I Group 31 December 2021 $'000	ERPF I Group 30 June 2021 $'000
Opening balance	**187,000**	**317,197**	**187,000**	**209,197**
Capital expenditure	2,390	18,998	2,390	4,092
Net fair value adjustments	2,147	1,596	2,147	2,621
Straightlining of rental income	90	(234)	90	(234)
Amortisation	(477)	(779)	(477)	(676)
Disposals	-	(121,778)	-	-
Reclassification	-	(28,000)	-	(28,000)
Total investment properties	**191,150**	**187,000**	**191,150**	**187,000**

4. Investment properties (continued)

(c) Fair value measurement

Highest and best use

For all investment properties, the current use equates to the highest and best use.

Fair value hierarchy and valuation techniques

The fair value measurement for investment properties has been categorised as Level 3 fair value based on the key inputs to the valuation techniques. Key valuation assumptions including capitalisation rates, terminal yields and discount rates were determined based on comparable market evidence and valuation parameters determined in external valuations completed for comparable properties.

Refer to the 30 June 2021 Annual Financial Report for detailed explanations of the significant unobservable inputs.

Valuation Techniques	Significant unobservable inputs	Range 1HY22	Range 1HY21	Weighted average 1HY22	Weighted average 1HY21
Discounted cash flows – involves the projection of a series of inflows and outflows to which a market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property.	Adopted discount rate	7.25% - 7.75%	7.75% - 7.90%	7.50%	8.09%
	Adopted terminal yield	7.00% - 7.50%	7.25% - 8.25%	7.18%	7.68%
	Net property income (per sqm)	$96 - $307	$157 - $342	$225	$265
Capitalisation method – involves determining the net market income of the investment property. This net market income is then capitalised at the adopted capitalisation rate to derive a core value.	Adopted capitalisation rate	6.75% - 7.50%	7.00% - 8.00%	6.98%	7.43%

The outbreak of the COVID-19 pandemic continued to impact on the uncertainty in the retail property sector. Considering the continued uncertainty created by the pandemic, the Fund independently valued two assets representing 65% of the retail assets by value at 31 December 2021. The remaining three assets were valued internally. Across the independent and internal valuations, valuers adopted a range of adjustments to reflect the shorter-term impact of the pandemic. Where appropriate allowances were allowed in line with market trends, with property specific adjustments including increases in vacancy periods, increases in operating costs, reduction in renewal assumptions on expiry of existing leases and changes to growth rates were made. These assumptions were generally applied over a forward-looking period of between 6 months and 2 years by the external valuers.

All the relevant information available at 31 December 2021 has been incorporated in determining the fair value of the Fund's investment properties, including relevant market information between 31 December 2021 and the date of approval of the Fund's financial statements. No additional information after balance date had an impact on the fair value of the Fund's investment properties reported at 31 December 2021.

The following sensitivity analysis has been prepared to illustrate the exposure of the fair value of the investment property balance at 31 December 2021 to changes in the key drivers most impacted by the current market uncertainty. Significant unobservable inputs such as discount and capitalisation rates, and terminal yields may be impacted by market movement after 31 December 2021. While it is unlikely that the significant assumptions would move in isolation, these sensitivities have been performed independently to illustrate the impact each individual assumption has on fair value.

4. Investment properties (continued)

(c) Fair value measurement (continued)

Sensitivity Analysis

The key unobservable inputs to measure the fair value of investment properties are disclosed below.

	Fair value measurement sensitivity			
	Increase by 0.25%	Decrease by 0.25%	Increase by 0.25%	Decrease by 0.25%
	$'000	$'000	%	%
Discount rate (%)	(3,500)	3,410	(1.8%)	1.8%
Terminal yield (%)	(3,650)	4,050	(1.9%)	2.1%
Capitalisation rate (%)	(7,120)	7,600	(3.7%)	4.0%

Finance Structure

This section provides further information on the Fund's debt structure.

5. Interest bearing liabilities

OVERVIEW

The Fund has access to a combined $46.7 million debt facility. The drawn amount at 31 December 2021 was $41.7 million, following repayments made with the proceeds from the sale of the Moranbah Fair property. The weighted average debt facility maturity is 2.37 years. At 31 December 2021, the interest rate risk of drawn facilities is hedged to 100%.

	Consolidated Group 31 December 2021 $'000	Consolidated Group 30 June 2021 $'000	ERPF I Group 31 December 2021 $'000	ERPF I Group 30 June 2021 $'000
Non-current				
Bank loan - term debt	41,700	66,699	-	5,000
Borrowing costs less amortisation	(17)	(30)	-	(3)
Total non-current interest bearing liabilities	**41,683**	**66,669**	**-**	**4,997**
Cross-staple loan	-	-	150,388	168,393
Total interest bearing liabilities	**41,683**	**66,669**	**150,388**	**173,390**

During the half year ended 31 December 2021, the Fund repaid loans of $25.0 million following sale of Moranbah Fair.

Other Items

This section provides information that is not directly related to the specific line items in the financial statements, including information about contingent liabilities and events after the end of the reporting period.

6. Related parties

OVERVIEW

Related parties are persons or entities that are related to the Fund as defined by AASB 124 *Related Party Disclosures*. This note provides information about transactions with related parties during the half year.

(a) Key management personnel

Responsible Entity

Elanor Funds Management Limited is the Responsible Entity of the Fund, and is the key management personnel (KMP) of the Fund.

Directors of the Responsible Entity

The Directors of Elanor Funds Management Limited are:

Paul Bedbrook (Chair)
Glenn Willis (Managing Director and Chief Executive Officer)
Nigel Ampherlaw
Anthony Fehon
Su Kiat Lim (appointed 1 October 2021)
Karyn Baylis (appointed 1 November 2021)

Other Management Personnel

In addition to the directors, the following persons were Management Personnel of the Responsible Entity with the authority for the strategic direction of the Fund:

Michael Baliva – Fund Manager
Symon Simmons – Chief Financial Officer
Paul Siviour – Chief Operating Officer

6. Related parties (continued)

Remuneration of Management Personnel

Compensation is paid to the Responsible Entity in the form of fees and is disclosed below. No other amounts are paid by the Fund directly or indirectly to the Management Personnel for services provided to the Fund.

The Directors of the Responsible Entity and other management personnel are paid by the Responsible Entity. Payments made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel.

Consequently, no compensation as defined in AASB 124 *Related Party Disclosures*, is paid by the Fund to its Management Personnel, other than that paid to the Responsible Entity.

Related party disclosure

During the period, fees were incurred by the Fund to Elanor Investors Group and its controlled entities, in accordance with the Constitution of each Scheme, including management fees, accrued performance fee and cost recoveries.

Fees paid to Elanor Investors Group and its controlled entities:	Consolidated Group 31 December 2021	Consolidated Group 31 December 2020	ERPF I Group 31 December 2021	ERPF I Group 31 December 2020
Management fees	711,220	1,069,992	657,783	700,235
Accrued performance fee	-	163,765	-	106,447
Total investment management fees	711,220	1,233,757	657,783	806,682
Other	980,749	199,627	658,904	171,109
Total	**1,691,969**	**1,433,384**	**1,316,687**	**977,791**

Related party holdings

Key Management Personnel and other Management Personnel of the Responsible Entity and of its related entities may hold investments in the Fund. Such investments were purchased on normal commercial terms and were at arm's length. The number of securities held by Key Management Personnel and other Management Personnel are as follows:

	Stapled Securities 31 December 2021	Stapled Securities 30 June 2021
Investments held by Elanor Investment Trust	23,026,082	23,026,082
Investments held by Directors and other Management Personnel	797,391	797,391
Total	**23,823,473**	**23,823,473**

Cross-Staple Loan

On 9 November 2016, as part of the internal funding structure on listing of the Fund, ERPF I entered into a 10-year interest-bearing loan with ERPF II at arm's length commercial terms. As at 31 December 2021, the outstanding loan balance payable to ERPF II was $150.4 million ($168.4 million as at 30 June 2021).

7. Unrecognised items

OVERVIEW

Items that have not been recognised on the Fund's balance sheet, including contractual commitments for future expenditure and contingent liabilities which are not sufficiently certain to qualify for recognition as a liability on the balance sheet, are defined as unrecognised items. This note provides details of any such items.

(a) Contingent liabilities

The Directors are not aware of any material contingent liabilities of the Fund (30 June 2021: nil).

(b) Commitments

The Fund, including ERPF I Group, has capital commitments of $nil (30 June 2021: nil) in respect of capital expenditures contracted at the date of the statements of financial position.

8. Subsequent events

The Directors are not aware of any other matter or circumstance not otherwise dealt with in the financial reports or the Directors' Report that has significantly affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in financial periods subsequent to the half year ended 31 December 2021.

9. 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, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

In preparing the consolidated financial statements for the half year ended 31 December 2021, significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is consistent with those disclosed in the financial report of the previous financial year.

COVID-19 Pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of the financial statements. This uncertainty is associated with the extent and duration of the economic disruption to business arising from the response of government, businesses and consumers in response to the COVID-19 pandemic.

The impact of the COVID-19 pandemic has heightened uncertainty in applying accounting estimates and critical judgments for the period ended 31 December 2021.

In response to the recent market volatility, the appropriateness of the inputs to the valuation of the Fund's investment properties (including vacancy allowances, lease renewal probabilities, levels of leasing incentives and market rent growth assumptions), and the impact of any changes in these inputs have been considered in detail in both independent and internal property valuations (including relevant sensitivity analysis) with respect to the fair value hierarchies. The Fund's portfolio of investment properties has been appropriately valued at balance date. Refer to Note 4 for further information.

9. Critical accounting estimates and judgements (continued)

The recoverability of the Fund's rent receivables has been assessed in detail. This assessment has been completed by the Fund's asset management team in conjunction with the property manager for each asset through the review of expected or requested waivers and deferrals of rent, assessment of each tenants' financial situation and the outstanding debtor ageing balance. Regular tenant engagement continues, with information provided by tenants in response to requests for rental relief under the Code of Conduct (including financial information) utilised in recoverability assessments.

For the six months to 31 December 2021, the impact of COVID-19 rental abatements was $0.51 million, representing only 5.9% of Rental Income. At balance date, the Fund holds a total provision of $0.8 million for COVID-19 related rental relief requests. This provision reflects the amount of tenant rental arrears at balance date that is likely to be waived in respect of past occupancy and also includes any additional amount relating to arrears at balance date that has been assessed to have credit risk in respect of the financial position of the tenant.

There have been no other significant changes in the types of financial risks or the Fund's risk management program (including methods used to measure the risks). Refer to the 30 June 2021 Annual Financial Report for further details on the Fund's financial risk management including market risk, interest rate risk and credit risk.

ELANOR RETAIL PROPERTY FUND

DIRECTORS' DECLARATION TO STAPLED SECURITYHOLDERS

In the opinion of the Directors of Elanor Funds Management Limited as responsible entity for Elanor Retail Property Fund I and Elanor Retail Property Fund II:

(a) the financial statements and notes set out on pages 10 to 27 are in accordance with the *Corporations Act 2001* (Cth), including:

i. complying with Australian Accounting Standards, the *Corporations Regulations* 2001 and other mandatory professional reporting requirements; and

ii. giving a true and fair view of the Consolidated Group's and ERPF I Group's financial position as at 31 December 2021 and of their performance, for the financial half year ended on that date; and

(b) there are reasonable grounds to believe that the Consolidated Group and the ERPF I Group will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors in accordance with Section 303(5) of the *Corporations Act 2001* (Cth).

Glenn Willis
CEO and Managing Director

Sydney, 18 February 2022

Independent auditor's review report to the stapled security holders of Elanor Retail Property Fund II and Elanor Retail Property Fund I

Report on the half-year financial reports

Conclusion

We have reviewed the half-year financial report of:

- Elanor Retail Property Fund II (the Registered Scheme) and the entities it controlled during the half-year (together the Group), and
- Elanor Retail Property Fund I (ERPF I Group)

which comprise:

- the consolidated statements of financial position as at 31 December 2021
- the consolidated statements of comprehensive income for the half-year then ended
- the consolidated statements of changes in equity for the half-year then ended
- the consolidated statements cash flow statements for the half-year then ended
- the significant accounting policies and explanatory notes and the director's declaration.

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

1. giving a true and fair view of the Group's and ERFP Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date

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

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group and ERPF I Group 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 the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors of the Responsible Entity for the half-year financial report

The directors of Elanor Funds Management Limited, the Responsible Entity of the Group and ERFP I Group (the directors), are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's and ERPF I Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

N R McConnell
Partner

Sydney
18 February 2022