Trilogy Funds

Milton Office Trust

Annual Financial Report
30 June 2024

ARSN 628 273 807

Issued by Trilogy Funds Management Limited
in its capacity as Responsible Entity

A Message from the Non-Executive Chairman

Welcome to the 2024 Milton Office Trust Annual Report.

Economic conditions remained challenging throughout FY24, with the ramifications of COVID-19 continuing to hinder the economy. We saw a changing of the guard at the Reserve Bank of Australia (RBA), with Philip Lowe's seven-year tenure as Governor coming to an end in September 2023 and former Deputy, Michelle Bullock, taking over .

The cash rate was 4.1% at the start of the financial year, rising 25 basis points to 4.35% at the 7 November 2023 RBA board meeting and holding firm for the remainder of the financial year. The rationale for the November rise was the persistence of inflation. This theme remained throughout the year, albeit with inflation having moderated substantially from its 2022 peak and continuing to lower incrementally.

Unlisted property funds found the going particularly tough, returning -8.5% over the year to June 2024[1], with office the worst performing sector over this period.

Across FY24, the Milton Office Trust's (Trust) single asset at 16 Marie Street, Milton, saw occupancy levels rise from 78.90% to 90.20%. This was a result of significant leasing activity over the course of the financial year, which also increased the weighted average lease expiry from 1.82 years to 4.51 years.

This leasing activity has driven a short-term negative impact on cashflow due to leasing fees and incentive costs. However, this longer-term rental stream assists the Trust in responding to higher-for-longer interest rates and will have a positive impact on the capital value of the asset.

As at 30 June 2024, the annualised net distribution rate of the Trust was 0.50% p.a.[1] We will continue to provide investors in the Trust with regular updates via our quarterly investment reports.

Thank you for your continued support of Trilogy Funds and the Milton Office Trust.

Yours sincerely,

Robert Willcocks

Independent Non-Executive Chairman
Trilogy Funds Management Limited

[1] June 2024 net distribution rate annualised. Variable rate. Past performance is not a reliable indicator of future performance.

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Directors' report
30 June 2024

The Directors of Trilogy Funds Management Limited (Responsible Entity), the Responsible Entity of the Milton Office Trust (Scheme), present their report together with the financial statements of the Scheme for the year ended 30 June 2024.

Responsible Entity
The Responsible Entity is incorporated and domiciled in Australia. The registered office and principal place of business of the Responsible Entity and the Scheme is Level 26, 10 Eagle Street, Brisbane, QLD, 4000.

Directors
The names of the directors in office at any time during, or since the end of the period are:

Name and qualifications	***Age***	***Experience and special responsibilities***
Robert M Willcocks Independent Non-Executive Chairman BA, LL.B, LL.M	75	Member of the Audit & Risk Committee Former partner with Mallesons Stephen Jaques (now King & Wood Mallesons) Mr Willcocks has been a non-executive director (sometimes Chairman) of a number of listed companies Chairman – Responsible Entity since 9 October 2009
Rodger I Bacon Non-Executive Deputy Chairman BCom(Merit), AICD, SFFin	78	Former executive director of Challenger International Limited Mr Bacon is a former director of several companies including, Financial Services Institute of Australasia Director – Responsible Entity until 30 June 2023 Non-Executive Director - Responsible Entity since 30 June 2023
John C Barry Executive Director BA, FCA	72	Chairman of the Audit & Risk Committee Former executive director of Challenger International Limited Mr Barry is a director of several companies, including former Chairman of Westpac RE Limited Director – Responsible Entity since 9 July 2004
Philip A Ryan Managing Director and Company Secretary LL.B, Grad Dip Leg Prac, FTIA, FFIN	63	Mr Ryan is a solicitor and member of the Queensland Law Society Inc. Former partner of a Brisbane law firm Mr Ryan is a director of several companies Director – Responsible Entity since 13 October 1997
Rohan C Butcher Non-Executive Director Grad Dip PM, BASc(QS), Registered Builder, Licensed Real Estate Agent	55	Member of the Lending Committee Consultant to several major companies providing development management services Director – Responsible Entity since 29 July 2008
Justin J Smart Executive Director and Company Secretary BCom, CPA	52	Member of the Audit & Risk Committee Mr Smart is a director of several private companies and has over 20 years' experience in the financial services industry Director – Responsible Entity from 1 January 2023 Company Secretary - Responsible Entity from 11 July 2013

Directors (continued)

Henry F Elgood Executive Director MAICD	28	Member of the Audit & Risk Committee, Compliance Committee Mr Elgood is a non-executive director of several private companies Director – Responsible Entity since 1 January 2023
Clinton B Arentz Executive Director MBA, SIA (Aff)	61	Chairman of the Workout Committee Head of Lending & Property Mr Arentz is a former director of Winston Development Services, and has over 25 years' experience in property development, asset management, project delivery, construction lending and property finance Director – Responsible Entity since 1 January 2023
Patrice A Sherrie Independent Non-Executive Director GAICD, FCA, B Bus	61	Member of the Audit & Risk Committee Patrice has over 35 years' experience in chartered accounting and commerce and is, and has been, a non executive director of listed and unlisted organisations across multiple industries Independent Non-Executive Director – Responsible Entity from 25 February 2024

Principal activities
The Responsible Entity registered the Scheme as a managed investment scheme on 24 August 2018 and commenced operations from that date. The principal activity of the Scheme during the financial year was a direct property investment in a multi-tenanted commercial office building located at 16 Marie Street, Milton, Queensland. The Scheme is domiciled in Australia and did not have any employees during the year.

Review of operations and results

Financial overview
The profit attributable to unitholders for the year totalled $663,636 (2023: loss of $510,528). During the period the Scheme generated net rental income. The Scheme also realised a recovery of a previously recognised impairment of $1,736,403 (2023: impairment of $128,481) following the valuation report received from John Lang LaSalle Pty Ltd (JLL) on 17 August 2023. Income was offset by increased interest expense as well as non-cash expenses including depreciation expense of $1,006,938 (2023: $1,000,138).

The total carrying value of the Scheme’s assets as at 30 June 2024 was $22,366,133 (2023: $21,218,611) comprised primarily of the investment property.

Distributions to unitholders
The return to unitholders of the Scheme for the period was as follows:

	2024 **$**	2023 $
Distributions paid during the period	**191,704**	444,473
Distributions payable at period end	**8,000**	40,406
	199,704	484,879
Cents per ordinary unit (CPU) (i)	**1.28**	3.12

Review of operations and results (continued)

Distributions to unitholders (continued)

(i) From March 2021 to August 2023, distributions have been paid to retail investors at a rate of 3.00 CPU p.a. Between September 2023 and October 2023 inclusive, distributions have been paid to retail investors at a rate of 2.00 CPU p.a. From November 2023 distributions have been paid to retail investors at a rate of 0.50 CPU p.a.

Leasing overview

During the period fit out works were complete on the previously vacant level 2 space. These works were completed to facilitate the tenancy of COHA Group Pty Ltd, who have executed a 5-year lease for the 142m^2 space which began in September 2023. Both vacant spaces following the decision of SMSF Operations Pty Ltd not to renew their lease of level 3 and 4 of the building have been tenanted. The 764m^2 level 3 space has been leased to Homefront Australia Pty Ltd for a period of 6 years beginning March 2024 and the level 4 585m^2 space has been leased to Ballantyne Moss Brown Pty Ltd for a period of 6 years beginning May 2024.

Additionally, during the period several minor repairs and maintenance were completed on the building to improve the buildings facilities and façade.

During the period, the Responsible Entity continued efforts to recover the arrears owed by MR Cagney Pty Ltd (MR Cagney) (in Liquidation). In October 2023, the bank guarantee provided by the tenant at the commencement of their lease was successfully recovered in full. In June 2024, the Liquidator informed the Responsible Entity that the arrears owed by MR Cagney were unrecoverable. The Responsible Entity upon receiving the determination from the Liquidator, determined the amounts owed by MR Cagney were unrecoverable.

Net asset value per unit (NAV) (unaudited non-IFRS disclosure)

The Scheme's net asset value per unit as at 30 June 2024 is $0.54 (2023: $0.66).

	2024	2023
	$	$
Net assets	**8,235,483**	7,771,551
Adjustments for:		
Accumulated depreciation (i)	**699,003**	4,510,624
Derivative financial instruments (i)	**-**	(123,021)
Stamp duty, property title and legals (i)	**-**	(1,577,383)
Unamortised acquisition costs (stamp duty, legal and registration fees) (i)	**-**	78,869
Amortised estimated selling costs (iii)	**(407,500)**	(362,188)
Straight-line (asset)/liability adjustments (ii)	**(127,929)**	(69,466)
Adjusted net assets	**8,399,057**	10,228,986
NAV per unit	**$ 0.54**	$ 0.66

(i) When an external valuation is commissioned, it is the Scheme's policy to adopt the current market valuation for NAV purposes resulting in a recorded fair value increase of the property as an asset. Following the property valuation during the period, the Scheme realised a recovery of previously recognised impairment. This recovery was offset against accumulated depreciation, stamp duty, property title and legals as well as unamortised acquisition cost for NAV purposes.

(ii) Effective from 30 June 2020, it is the policy of the Responsible Entity to, in the first 5 years from the date of acquisition, exclude accumulated depreciation, derivative financial instruments and straight-line rental adjustments from the calculation of the NAV. These costs are subsequently amortised and realised over a 5-year period.

(iii) Should the Responsible Entity seek to sell the investment property and wind-up the Scheme, the net assets of the Scheme will be adjusted to account for estimated selling and disposal costs and performance fees (if applicable).

Review of operations and results (continued)

Indirect cost ratio (ICR)
The ICR for the Scheme for the period ended 30 June 2024 is 2.28% p.a. (2023: 2.10% p.a.).

Units on issue
During the period no units were issued, or redeemed from the Scheme. The Scheme had 15,555,000 units on issue as at 30 June 2024 (2023: 15,555,000 units).

Interests of the Responsible Entity
The following transactions occurred between the Scheme and the Responsible Entity and its associates during the period (refer Note 14(c)).

	2024	2023
	$	$
Expenses		
Management and administration costs	**8,269**	3,226
Compliance fees	**412**	443
Professional fees	**-**	5,050
Registry fees	**26,685**	26,950
Responsible Entity management fees (i)	**93,031**	91,098
	128,397	126,767

(i) The Responsible Entity elected to waive the management fees for the Scheme from September 2020 until November 2021. The management fees from November 2021 have since been deferred.

Units held by the Responsible Entity
The Responsible Entity (including its associates) does not hold any units in the Scheme as at 30 June 2024.

Loan covenant breach
In August 2023, the Scheme's financier, Suncorp-Metway Limited (Suncorp) issued a breach in relation to the Scheme's finance facility covenant requiring a maximum of 20% of the net lettable area to be vacant. During the period August 2023 to July 2024, 21.2% of the Scheme's net lettable area was vacant. In response to the breach, Suncorp requested the following:

- In accordance with Condition Subsequent 8, Suncorp requires that the Responsible Entity provide a monthly progress report and update on prospective tenants until such time as the vacancies are below the relevant threshold.

The Responsible Entity complied with Suncorp’s request and the breach was resolved in July 2024 following the commencement of CMP Engineers Pty Ltd lease.

Following a bank valuation report, Suncorp issued a breach in relation to the Scheme's Loan to Valuation Ratio (LVR). The Schemes finance facility requires an LVR to be maintained at no more than 56%. In September 2023, after the valuation, the LVR of the Scheme increased to 56.67%. In response to the breach, Suncorp requested the following:

- In accordance with Condition Subsequent 4, Suncorp requires that the Responsible Entity provide a monthly report on tenancies given the facility and material tenancies due for renewal/option extension.

The Responsible Entity complied with Suncorp’s requests and the breach was resolved in February 2024 during the finance facility renewal follwing an increase to the LVR.

Events subsequent to the end of the reporting period

Trust Term Extension

It is the The Responsible Entity's intention to extend the Scheme's term for a further two years as permitted under the Constitution from the existing termination date of 13 December 2024. The Responsible Entity in its view has determined it is in the best interest of the members to postpone the termination of the Scheme to achieve an enhanced return to members in a favourable divestment environment.

Other than the above there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Leasing overview

Subsequent to the end of the reporting period, on 1 July 2024, CMP Engineers Pty Ltd commenced tenancy of the previously vacant 441sqm space on level 1 of the building. The Lease term is 5 years, expiring on 30 June 2029.

Likely developments and expected results of operations

The Scheme will continue to pursue its principal activities in the next financial year in order to achieve the target return for unitholders.

Environmental regulation

The operations of the Scheme are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Scheme.

Options

No options were:

(i) Granted over unissued units in the Scheme during or since the end of the period; or
(ii) Granted to the Responsible Entity.

No unissued units in the Scheme were under option as at the date on which this report is made.

No units were issued in the Scheme during or since the end of the period as a result of the exercise of an option over unissued units in the Scheme.

Indemnification of officers

Indemnification

Under the Scheme constitution the Responsible Entity is required to indemnify all current and former officers of the Responsible Entity (but not including auditors) out of the property of the Responsible Entity against:

(a) any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that person’s favour, or in which the person is acquitted, or in the connection with an application in relation to any such proceedings in which the court grants relief to the person under the Corporations Act 2001; and

(b) a liability incurred by the person, as an officer of the Responsible Entity or of a related body corporate, to another person (other than the Responsible Entity or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

Indemnification of officers (continued)

Insurance premiums

During the period, the Responsible Entity paid an insurance premium in respect of a contract insuring each of the officers of the Responsible Entity. The amount of the premium is, under the terms of the insurance contract, confidential. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Responsible Entity or related body corporates. This insurance premium does not cover auditors. The Scheme has not indemnified any auditor of the Scheme.

Proceedings on behalf of the Responsible Entity

No person has applied for leave of Court to bring proceedings on behalf of the Responsible Entity in relation to Scheme, or intervene in any proceedings to which the Responsible Entity in relation to the Scheme is a party, for the purpose of taking responsibility on behalf of the Responsible Entity for all or any part of those proceedings. The Responsible Entity was not a party to any such proceedings during the period.

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 7.

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

Philip A Ryan
Managing Director

26 September 2024
Brisbane

Justin J Smart
Executive Director

26 September 2024
Brisbane

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DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF TRILOGY FUNDS MANAGEMENT LIMITED AS RESPONSIBLE ENTITY OF MILTON OFFICE TRUST

As lead auditor of Milton Office Trust for the year ended 30 June 2024, 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.

T J Kendall
Director

BDO Audit Pty Ltd

Brisbane, 26 September 2024

Milton Office Trust
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2024

	Note	2024 $	2023 $
Revenue and other income			
Rental revenue		**1,690,459**	1,791,234
Recoverable outgoings		**103,789**	139,029
Other income		**143,570**	460,134
Interest revenue from financial institutions		**19**	35
		1,937,837	2,390,432
Expenses			
Audit and compliance	5	**(33,929)**	(33,162)
Bad debt expense		**(275,063)**	-
Custodian fees	16	**(18,027)**	(16,025)
Direct property expenses and outgoings		**(633,529)**	(732,894)
Depreciation	8	**(1,006,938)**	(1,000,138)
Impairment of trade receivables	7	**-**	(258,322)
Management and administration costs		**(10,214)**	(5,197)
Net change in fair value of derivative financial instruments		**(123,021)**	(12,286)
Professional fees		**(30,588)**	(8,198)
Registry fees	14(c)	**(26,685)**	(26,950)
Responsible Entity management fees	14(c)	**(93,031)**	(91,098)
Taxation fees		**(5,491)**	(5,050)
		(2,256,516)	(2,189,320)
Profit/(loss) for the period before finance costs		**(318,679)**	201,112
Finance costs:			
• Interest expense		**(741,163)**	(576,693)
• Amortisation of loan transaction costs		**(12,925)**	(6,466)
		(754,088)	(583,159)
Impairment costs:			
• Recovery/(impairment) of investment property	8	**1,736,403**	(128,481)
		1,736,403	(128,481)
Profit/(loss) for the period attributable to unitholders		**663,636**	(510,528)
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income for the period attributable to		**663,636**	(510,528)

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

Milton Office Trust
Statement of financial position
As at 30 June 2024

	Note	2024 $	2023 $
Assets			
Current assets			
Cash and cash equivalents	6	**117,650**	178,363
Trade and other receivables	7	**189,966**	58,181
Derivative financial instruments	11	**-**	123,021
Total current assets		**307,616**	359,565
Non-current assets			
Trade and other receivables	7	**257,520**	36,807
Investment property	8	**21,800,997**	20,822,239
Total non-current assets		**22,058,517**	20,859,046
Total assets		**22,366,133**	21,218,611
Liabilities			
Current liabilities			
Trade and other payables	9	**587,696**	341,101
Borrowings	10	**13,534,954**	13,065,553
Distributions payable	4	**8,000**	40,406
Total current liabilities		**14,130,650**	13,447,060
Total liabilities		**14,130,650**	13,447,060
Net assets		**8,235,483**	7,771,551
Equity			
Contributed equity	12	**15,555,000**	15,555,000
Accumulated losses		**(7,319,517)**	(7,783,449)
Total equity		**8,235,483**	7,771,551

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

Milton Office Trust
Statement of changes in equity
For the year ended 30 June 2024

	Note	Contributed equity $	Accumulated losses $	Total equity $
Balance at 1 July 2022		15,555,000	(6,788,041)	8,766,959
Comprehensive income:				
Loss for the period		-	(510,528)	(510,528)
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		-	(510,528)	(510,528)
Transactions with unitholders in their capacity as owners:				
Units issued for cash	12	-	-	-
Distributions paid/payable	4	-	(484,879)	(484,879)
Balance at 30 June 2023		15,555,000	(7,783,449)	7,771,551
Balance at 1 July 2023		**15,555,000**	**(7,783,449)**	**7,771,551**
Comprehensive income:				
Profit for the period		**-**	**663,636**	**663,636**
Other comprehensive income for the period		**-**	**-**	**-**
Total comprehensive income for the period		**-**	**663,636**	**663,636**
Transactions with unitholders in their capacity				
Units issued for cash	12	**-**	**-**	**-**
Distributions paid/payable	4	**-**	**(199,704)**	**(199,704)**
Balance at 30 June 2024		**15,555,000**	**(7,319,517)**	**8,235,483**

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

Milton Office Trust
Statement of cash flows
For the year ended 30 June 2024

	Note	2024 $	2023 $
Cash flows from operating activities			
Receipts from customers		**1,453,631**	2,225,710
Payments to suppliers		**(940,600)**	(784,869)
Interest received		**19**	35
Interest paid		**(741,163)**	(576,693)
Net cash provided by/(used in) operating activities	13	**(228,113)**	864,183
Cash flows from investing activities			
Capital expenditure - property and equipment		**(56,966)**	(369,846)
Net cash provided by/(used in) investing activities		**(56,966)**	(369,846)
Cash flows from financing activities			
Proceeds from borrowings		**480,000**	-
Payment of borrowing costs		**(23,524)**	-
Distributions paid to unitholders		**(232,110)**	(484,880)
Net cash provided by/(used in) financing activities		**224,366**	(484,880)
Net (decrease)/increase in cash and cash equivalents		**(60,713)**	9,457
Cash at beginning of the reporting period		**178,363**	168,906
Cash and cash equivalents at end of the financial period	6	**117,650**	178,363

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

Note 1 Reporting entity

The Milton Office Trust (Scheme) is a registered managed investment scheme under the Corporations Act 2001 (Act). The financial statements of the Scheme are for the period 1 July 2023 to 30 June 2024. The Scheme is a for-profit entity.

As stipulated under the Scheme's constitution, the life of the Scheme is 6 years from the anniversary of the purchase date of the Scheme's investment property, however, the life of the Scheme can be extended beyond 6 years in accordance with the provisions of the Scheme's Constitution. The termination date for this Scheme is 13 December 2024. It is the view of Trilogy Funds Management Limited (Responsible Entity), as permitted under the Constitution, that the term will be extended for a further two years from the existing date of 13 December 2024.

Working capital position

The statement of financial position indicates that the Scheme has a working capital deficit (current assets less current liabilities) of $13,823,034 due to the classification of the Scheme's finance facilities with Suncorp-Metway Limited (Suncorp) and SPFM No. 2 Trust as current liabilities. The Suncorp loan at the reporting date is classified as current due to the maturity date of 6 March 2025 and the SPFM No. 2 Trust facility being held at call. SPFM No. 2 Trust has informed the Responsible Entity that it has no intention of calling on the loan in in the near future. Additionally, the extension of the Scheme's finance facility is likely following its expiry, as such, the Responsible Entity believes it is appropriate for the financial report to be prepared on a going concern basis

Note 2 Basis of preparation

(a) Statement of compliance

The financial statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations adopted by the Australian Accounting Standards Board and the Act. The financial statements of the Scheme comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors of the Responsible Entity on 26 September 2024.

(b) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Scheme's functional currency.

(c) Key assumptions and sources of estimation

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 period affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised are disclosed in:

- Note 8: Investment property (Impairment of investment property)
- Note 11: Derivative financial instruments
- Note 15: Financial risk management

Note 3 Significant accounting policies

There are no new relevant Accounting Standards mandatory for future reporting periods which need to be considered for early adoption.

The accounting policies adopted are consistent with those of the previous financial year.

(a) Rental revenue

Rental revenue from operating leases is recognised on a straight-line basis over the lease term. When the Scheme provides lease incentives to tenants, the cost of the incentives are recognised over the lease term on a straight-line basis, as a reduction of property rental revenue.

Note 3 Significant accounting policies (continued)

(b) Interest income and interest expense

Interest income and expense is recognised in the statement of profit or loss and other comprehensive income as it accrues, using the effective interest method.

Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(c) Expenses

All expenses, including management fees, are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

(d) Taxation

Under current legislation the Scheme is not subject to income tax as its taxable income including assessable realised capital gains is distributed in full to the unitholders. The Scheme fully distributes its distributable income, calculated in accordance with the Scheme's constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the constitution.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any future realised capital gains. If realised capital gains exceeds realised capital losses the excess is distributed to the unitholders.

(e) Unit prices

The unit price is based on unit price accounting outlined in the Scheme's constitution and Product Disclosure Statement (PDS).

(f) Distributions to unitholders

Distributions to unitholders on units issued are recognised in the statement of changes in equity as distributions paid/payable. Distributions unpaid at the end of the financial year are recognised in the statement of financial position as a financial liability. Distributions paid to unitholders are included in cash flows from financing activities in the statement of cash flows.

(g) Applications and redemptions

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

The application and redemption prices are determined as the net asset value of the Scheme per the Constitution adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

(h) Terms and conditions of units on issue

Each unit confers upon the unitholder an equal interest in the Scheme and is of equal value. A unit does not confer an interest in any particular asset or investment of the Scheme. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed;
- receive income and capital distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Scheme.

Note 3 Significant accounting policies (continued)

(h) Terms and conditions of units on issue (continued)

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Scheme's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Scheme, and it is not a contract settled in the Scheme's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

As the units in the Scheme meet the above criteria, the units are classified as equity in accordance with AASB 132 *Financial instruments: Presentation.*

The Responsible Entity has elected to adopt the Attribution Managed Investment Trust (AMIT) tax regime since inception.

(i) Increase/decrease in net assets attributable to unitholders

Income that has not been distributed to unitholders has been recognised in the statement of profit or loss and other comprehensive income in either the current or a previous period and attributed to unitholders.

(j) Investment property

Investment property is carried at historical cost and includes expenditure that is directly attributable to the acquisition of the property.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Scheme and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Impairments based on recoverable amounts are taken to profit or loss. Reversals of previous impairments also go via profit or loss to the extent of the previous impairment only.

Land is not depreciated. Depreciation on the building component of investment property is calculated using the straight-line method to allocate the cost or revalued amounts, net of the residual value, over an estimated useful life of 25 years.

The asset's residual value and useful life is reviewed, and adjusted if appropriate, at the end of each reporting period.

(k) Interest bearing loans and liabilities

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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

(l) Borrowing costs

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

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Note 3 Significant accounting policies (continued)

(m) Operating leases
The minimum rental revenue of operating leases with fixed rental increases, where the lessor effectively retains substantially all the risk and benefits of ownership of the leased item, are recognised on a straight-line basis.

(n) Lease incentives
Incentives such as cash, rent-free periods, lessor owned fit outs may be provided to lessees to enter into an operating lease. These incentives are capitalised and amortised on a straight-line basis over the term of the lease as a reduction of rental revenue.

(o) Trade and other receivables
Receivables are recorded at amortised cost less impairment and may include amounts for distributions and interest. Distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

(p) Goods and services tax
Rental income, management fees, custody fees and other expenses are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC).

Payables are stated with the amount of GST included.

Cash flows are included in the statement of cash flows on a gross basis.

(q) Trade and other payables
Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Scheme during the reporting period, which remains unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(r) Impairment of non-financial assets
At the end of each reporting period, the Responsible Entity assesses whether there is any indication that an asset may be impaired. The assessment will include considering external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset to its carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Responsible Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(s) Derivative financial liabilities
Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at balance date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

(t) Critical accounting estimates and judgements
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent revenue billings, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor financial position. Where a notice of unrecoverability has been received, the Scheme will determine raise a bad debt expense.

(u) Impaired receivables
From 1 July 2018, the Scheme assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables the Scheme applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition to the receivables. Management has determined that the assessment of expected credit loss associated with trade receivables is immaterial.

Note 4 Distributions to unitholders

Distributions paid and payable by the Scheme for the period are:

	2024		2023	
	$	**Cents/unit**	$	Cents/unit
Paid during the period	**191,704**	**1.23**	444,473	2.86
Distributions payable at period end	**8,000**	**0.05**	40,406	0.26
	199,704	**1.28**	484,879	3.12

(i) From March 2021 to August 2023, distributions have been paid to retail investors at a rate of 3.00 CPU p.a. Between September 2023 and October 2023 inclusive, distributions have been paid to retail investors at a rate of 2.00 CPU p.a. From November 2023 distributions have been paid to retail investors at a rate of 0.50 CPU p.a.

Note 5 Auditor's remuneration

During the period the following fees were paid or payable for services provided by the auditor of the Scheme, BDO Audit Pty Ltd:

	2024	2023
	$	$
Audit and other assurance services		
• Audit and review of the financial statements	**28,000**	26,500
• Audit of the compliance plan	**5,000**	5,000
Total remuneration for audit and other services	**33,000**	31,500

Note 6 Cash and cash equivalents

	2024	2023
	$	$
Cash at bank	**117,650**	178,363

Note 7 Trade and other receivables

	2024	2023
	$	$
Current		
Other receivables	**150,088**	283,844
Less: Provision for impairment (i)	**-**	(258,322)
GST receivable	**39,878**	-
Total other receivables	**189,966**	25,522
Straight-line rental asset	**-**	32,659
	189,966	58,181
Non-current		
Straight-line rental asset	**257,520**	36,807
	257,520	36,807

(i) Provision for Impairment
A provision for impairment was recorded in relation to rent arrears previously recognised and owed by MR Cagney a tenant of the property. During the period the Liquidator advised the Responsible Entity that the arrears amount totalling $533,385 owed was unrecoverable. Subsequently, the amount in arrears owed by MR Cagney have been recognised as a bad debt expense. Subsequent to the end of the period, in July 2024, the Responsible Entity relet the premises to CMP Engineers Pty Ltd.

Note 7 Trade and other receivables (continued)

(a) Critical accounting estimates and judgements
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent revenue billings, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor financial position.

(b) Impaired receivables
From 1 July 2018, the Scheme assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Note 8 Investment property

	2024	**2023**
	$	$
Investment property - at cost	**27,965,144**	27,701,380
Impairment of investment property	**(632,113)**	(2,368,516)
Accumulated depreciation	**(5,532,034)**	(4,510,625)
	21,800,997	20,822,239

Movement	**2024**	2023
	$	$
Balance at beginning of period	**20,822,239**	21,612,986
Capital expenditure - property and equipment	**56,966**	369,846
Impairment adjustment	**1,736,403**	(128,481)
Capitalised lease costs	**234,804**	-
Amortisation of capitalised lease costs	**(42,477)**	(31,974)
Depreciation expense	**(1,006,938)**	(1,000,138)
Balance at end of period	**21,800,997**	20,822,239

The investment property is located at 16 Marie Street, Milton, Brisbane QLD. Settlement took place on 13 December 2018.

The Scheme's assets are pledged as security to Suncorp under a registered first mortgage. Included in the balance of investment property are assets over which a first mortgage has been granted as security over bank loans. The terms of the first mortgage preclude the asset being sold or being used as security for further mortgages without the permission of the first mortgage holder. The mortgage also requires that the building that forms part of the security is to be insured at all times.

Impairment of investment property
At the end of each reporting period, the Responsible Entity assesses whether there is any indication that an asset may be impaired. The assessment undertaken considered multiple impairment triggers including date of last valuation, changes to the rental market since this valuation, prevaling market conditions and capitalisation rates adopted in comparable properties.

The investment property is leased to tenants under operating leases with rentals payable monthly.

Minimum lease payments receivable on lease of the investment property are as follows:

	2024	2023
	$	$
Not later than one year	**865,998**	1,407,255
Later than one year and not later than five years	**2,963,098**	1,142,566
Greater than five years	**689,750**	-
	4,518,846	2,549,821

Note 9 Trade and other payables

	2024	2023
	$	$
Current		
Trade payables	**84,556**	91,838
Payables to related entities	**2,098**	2,128
Straight-line rental liability	**129,593**	20,891
Accrued expenses	**314,959**	187,195
Interest payable on interest bearing liabilities	**56,490**	39,049
	587,696	341,101

Note 10 Borrowings

	2024	2023
	$	$
Current		
Commercial bill facility - secured	**12,734,954**	12,745,553
Related party loan - unsecured	**800,000**	320,000
	13,534,954	13,065,553

The details of borrowings as at the reporting date are set out below:

2024

Facility - Current	**Secured**	**Maturity date**	**Facility Limit $**	**Drawn Balance $**
Loan facility (i)	Yes	06-Mar-25	**12,750,000**	**12,750,000**
Loan facility (ii)	No	At call	**800,000**	**800,000**
Unamortised transaction costs (iii)				**(15,046)**
Total borrowings				**13,534,954**

2023

Facility - Current	**Secured**	**Maturity date**	**Facility Limit $**	**Drawn Balance $**
Loan facility (i)	Yes	08-Feb-24	12,750,000	12,750,000
Loan facility (ii)	No	At call	320,000	320,000
Unamortised transaction costs (iii)				(4,447)
Total borrowings				13,065,553

(i) The facility with Suncorp comprises two interest components, being a variable 30 day BBSW rate, plus a funding margin fee of 2.40% p.a. (both payable monthly in arrears).

The facility with Suncorp has the following covenants:

1. The LVR is to be maintained at not more than 58%.
2. The Interest Cover Ratio (ICR) is not less than 1.40 at any time, with testing to be undertaken once every 12 months.
3. Vacancies must not exceed 20% of Net Lettable Area (NLA).

As the Scheme's long term finance facility has a variable interest rate, its carrying value is a reasonable estimate of its fair value.

Refer Note 8 for details of security for this facility.

(ii) Loan advanced by SPFM No. 2 Pty Ltd ATF SPFM No. 2 Unit Trust (Investment Manager). This is an interest free, at call facility for an amount of $800,000.

Note 10 Borrowings (continued)

(iii) Deferred borrowing costs comprise all costs in relation to the establishment, arrangement and documentation of the debt facility. Such costs have been offset against the balance of the debt facility and are being amortised over the term of the facility.

Loan covenant breach

In August 2023, the Scheme's financier, Suncorp issued a breach in relation to the Scheme's finance facility covenant requiring a maximum of 20% of the NLA to be vacant. During the period August 2023 to July 2024, 21.2% of the Scheme's NLA was vacant. In response to the breach, Suncorp requested the following:

- In accordance with Condition Subsequent 8, Suncorp requires that the Responsible Entity provide a monthly progress report and update on prospective tenants until such time as the vacancies are below the relevant threshold.

The Responsible Entity complied with Suncorp’s request and the breach was resolved in July 2024 following the commencement of CMP Engineers Pty Ltd lease.

Following a bank valuation report, Suncorp issued a breach in relation to the Scheme's Loan to Valuation Ratio (LVR). The Schemes finance facility requires an LVR to be maintained at no more than 56%. In September 2023, after the valuation, the LVR of the Scheme increased to 56.67%. In response to the breach, Suncorp requested the following:

- In accordance with Condition Subsequent 4, Suncorp requires that the Responsible Entity provide a monthly report on tenancies given the facility and material tenancies due for renewal/option extension.

The Responsible Entity complied with Suncorp’s requests and the breach was resolved in February 2024 during the finance facility renewal follwing an increase to the LVR.

Note 11 Derivative financial instruments

The Responsible Entity manages the cash flow interest rate risk of the Scheme by using a floating-to-fixed interest rate derivative. On 13 December 2018, the Scheme entered into an interest rate swap derivative with a face value of $12,750,000, fixed interest rate of 2.35% p.a. This facility expired on 13 December 2023 and was not renewed.

Recognised fair value measurements

	2024	2023
	$	$
Derivative asset		
Interest rate swap - level 2	**-**	123,021

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair value of the interest rate swap derivative asset. To provide an indication about the reliability of the inputs used in determining fair value, the Scheme has classified its interest rate swap into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
2024				
Interest rate swap	**-**	**-**	**-**	**-**
2023				
Interest rate swap	-	123,021	-	123,021
Net decrease in swap derivative (liability)/asset.	-	(123,021)	-	(123,021)

Note 11 Derivative financial instruments (continued)

There were no transfers between levels 1, 2 or 3 during the period.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

Level 1: the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: a valuation technique is used using inputs other than quoted prices within level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices); and

Level 3: a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

(ii) Valuation techniques used to determine level 2 and level 3 fair values
The fair value of derivatives not traded in an active market (interest rate swaps) is determined using valuation techniques which use only observable market data. The fair value of interest rate swap is calculated as the present value of the estimated future cash flows based on observable market data by the Scheme's financier.

Note 12 Contributed equity

	2024		2023	
	Units	**$**	Units	$
Balance at beginning of period	**15,555,000**	**15,555,000**	15,555,000	15,555,000
Ordinary units issued	**-**	**-**	-	-
Ordinary units redeemed	**-**	**-**	-	-
Balance at end of period	**15,555,000**	**15,555,000**	15,555,000	15,555,000

Note 13 Reconciliation of cash flows from operating activities

	2024	2023
	$	$
Profit/(Loss) for the period attributable to unitholders	**663,636**	(510,528)
Adjustments for:		
Amortised borrowing costs	**12,925**	6,464
Depreciation	**1,006,938**	1,000,138
Recovery/(impairment) of investment property	**(1,736,403)**	128,481
Recovery/(impairment) of trade and other receivables	**-**	258,322
Capitalised lease costs	**(234,804)**	-
Amortisation of capitalised lease costs	**42,477**	31,975
Net change in fair value of derivative financial instruments	**123,021**	12,286
Bad debt expense	**275,063**	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	**(627,561)**	(62,629)
Increase/(decrease) in trade and other payables	**246,595**	(326)
Net cash provided by operating activities	**(228,113)**	864,183

Note 14 Related party transactions

(a) Responsible Entity
The Responsible Entity of the Milton Office Trust is Trilogy Funds Management Limited ABN 59 080 383 679.

(b) Key management personnel

Responsible Entity
The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme. The Executive Directors of the Responsible Entity are key personnel of that entity and their names are John C Barry, Philip A Ryan, Justin J Smart, Henry F Elgood and Clinton B Arentz. The Responsible Entity also has four Non-Executive Directors being Robert M Willcocks, Rodger I Bacon, Rohan C Butcher and Patrice A Sherrie.

The Responsible Entity is entitled to a management fee which is calculated as a proportion of total gross assets of the Scheme.

No compensation is paid to the Directors of the Responsible Entity or to the key personnel of the Responsible Entity by the Scheme.

(c) Transactions with related parties
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

i. Transactions recorded in the statement of profit or loss and other comprehensive income

	2024	2023
	$	$
Expenses		
Management and administration fees (i)	**8,269**	3,226
Compliance fees (i)	**412**	443
Professional fees (i)	**-**	5,050
Registry fees (ii)	**26,685**	26,950
Responsible Entity management fees (iii)	**93,031**	91,098
	128,397	126,767

ii. Balances recorded in the statement of financial position

	2024	**2023**
	$	$
Trade and other payables (i)(ii)	**2,098**	2,128
Advances payable to investment manager (iv)	**800,000**	320,000
	802,098	322,128

(i) Reimbursement of costs incurred by the Responsible Entity on behalf of the Scheme.
(ii) A company associated with the Responsible Entity provides registry services to the Responsible Entity, who in turn provides these services to the Scheme for which it levies a fee.
(iii) The management fees from November 2021 have since been accrued but not paid.
(iv) Funds contributed by the Investment Manager, this is an interest free, loan facility.

Note 14 Related party transactions (continued)

(d) Related party investments held by the Scheme
The Scheme has no investment in the Responsible Entity or its associates (2023: nil).

(e) Units in the Scheme held by other related parties
Units held by the Responsible Entity
The Responsible Entity held no interest in the Scheme as at 30 June 2024 (2023: nil).

Units held by Director related entities
No entities associated with Directors of the Responsible Entity held any interest in the Scheme as at 30 June 2024.

(f) Key management personnel loan disclosures
The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(g) Other transactions within the Scheme
Apart from those details disclosed in this note, no Director has entered into a material contract with the Scheme from inception to the end of the period and there were no material contracts involving Directors' interests subsisting at period end.

Note 15 Financial risk management

Overview
The Scheme's assets principally consist of investment property. It holds these investment assets at the discretion of the Responsible Entity in accordance with the Scheme’s constitution and PDS.

Specific financial risk exposures and management
The main risks the Scheme is exposed to through its financial instruments are credit risk, liquidity risk, and market risk relating to interest rate risk.

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Scheme’s risk management framework. Discussions with property managers, tenants and loan providers are undertaken regularly.

The Board is responsible for developing and monitoring the Scheme's risk management policies. The Responsible Entity's risk management policies are established to identify and analyse the risks faced by the Scheme, including those risks managed by the Responsible Entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme’s activities.

The Responsible Entity’s Compliance Committee and its Audit & Risk Committee oversees how management monitors compliance with the Scheme’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Scheme.

(a) Credit risk
Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme and cause a loss. The Responsible Entity manages the exposure to credit risk on an ongoing basis.

The carrying amount of the Scheme's financial assets represents the maximum credit exposure. The Scheme's maximum exposure to credit risk at the reporting date is as follows:

Milton Office Trust
Notes to the financial statements
30 June 2024
Note 15 Financial risk management (continued)

(a) Credit risk (continued)

	Note	2024 $	2023 $
Financial assets			
Cash and cash equivalents	6	**117,650**	178,363
Trade and other receivables (net of impairments) (i)	7	**189,966**	25,522
Derivative financial instruments	11	**-**	123,021
Total financial assets		**307,616**	326,906

(i) Straight-line rental asset is excluded.

This risk is minimised by regularly reviewing the Scheme's trade and other receivables. The ageing of trade receivables at the reporting date are all current and impairment and bad debt expense has been recorded appropriately.

(b) Liquidity risk
Liquidity risk arises from the possibility that the Scheme might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Responsible Entity manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The timing of cash flows presented in the table below to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will be rolled forward.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

	Carrying amount $	Contract cash flows $	< 1 month $	1-3 months $	3-12 months $	> 12 months $	Weighted average interest rate
2024							
Financial liabilities							
Distributions payable	**8,000**	**8,000**	**8,000**	**-**	**-**	**-**	**3.00%**
Related party loan	**800,000**	**800,000**	**800,000**	**-**	**-**	**-**	**0.00%**
Trade and other payables	**587,696**	**587,696**	**341,248**	**-**	**246,448**	**-**	**-**
Commercial bill facility	**12,750,000**	**13,337,512**	**73,144**	**217,072**	**13,047,295**	**-**	**6.75%**
	14,145,696	**14,733,208**	**1,222,393**	**217,072**	**13,293,742**	**-**	

	Carrying amount $	Contractual cash flows $	< 1 month $	1-3 months $	3-12 months $	> 12 months $	Weighted average interest rate
2023							
Financial liabilities							
Distributions payable	40,406	40,406	40,406	-	-	-	3.00%
Related party loan	320,000	320,000	-	-	320,000	-	0.00%
Trade and other payables	341,101	341,101	341,101	-	-	-	-
Commercial bill facility	12,750,000	13,580,025	50,354	99,083	13,068,365	362,222	4.46%
	13,451,507	14,281,532	431,861	99,083	13,388,365	362,222	

Note 15 Financial risk management (continued)

(c) Capital management

The Scheme's capital management strategy seeks to maximise unitholder value through optimising the level and use of capital resources and the mix of debt funding.

The Scheme's capital management objectives aim to:

- ensure that the Scheme complies with capital and distribution requirements of its constitution and PDS;
- ensure sufficient capital resources to support the Scheme's operational requirements;
- continue to support the Scheme's credit worthiness; and
- safeguard the Scheme's ability to continue as a going concern.

In a stable economic environment the Scheme is generally able to alter its capital mix by:

- adjusting the amount of distributions paid to members; and
- selling assets to reduce borrowings.

The Scheme protects its equity in property assets by taking out insurance cover with credit worthy insurers.

The Scheme monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by adjusted assets. Net debt is calculated as total borrowings less cash and cash equivalents. Adjusted assets are calculated as total assets less cash and cash equivalents. The gearing ratio as at 30 June 2024 and 30 June 2023 were as follows:

	Note	**2024**	2023
		$	$
Total borrowings	10	**13,550,000**	13,070,000
Less: cash and cash equivalents	6	**(117,650)**	(178,363)
Net debt		**13,432,350**	12,891,637
Total assets		**22,366,133**	21,218,611
Less: cash and cash equivalents	6	**(117,650)**	(178,363)
Adjusted assets		**22,248,483**	21,040,248
Gearing ratio		**60%**	61%

The Scheme's gearing ratio is considered medium to high.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Scheme’s income or the value of its holdings of financial instruments. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i. *Interest rate risk*

The Scheme is exposed to interest rate risk on the commercial bill facility, which is currently subject to variable interest rates. The Scheme has historically managed its interest rate risk by utilising an interest rate swap derivative, however upon expiry on 13 December 2023, the derivative was not renewed. Any fair value movements in the Scheme's interest rate swap derivative as a result of underlying interest rate changes and other market factors are non-cash movements that do not impact the operations of the Scheme.

ii. *Other market risk*

The Scheme is not exposed to other material market risk on its financial assets and liabilities.

(e) Fair value estimation

The carrying values approximate the fair value of the Scheme's financial assets and liabilities.

Note 16 Custodian of the Scheme

The Scheme's custodian is The Trust Company Limited. The custodian holds title to the assets of the Scheme in its name on behalf of the Scheme. The total value of assets held by the custodian at cost as at 30 June 2024 totals $22,366,133 (30 June 2023: $21,218,611).

The custodian is entitled to a minimum annual administration fee of $17,748 (plus GST) (2023: $16,738 (plus GST)). During the period, the Scheme paid $18,027 in custodian fees (2023: $16,025).

The relationship between the custodian and Responsible Entity is set out in the Custodial Agreement.

Note 17 Litigation and contingent liabilities

There are no contingent liabilities or contingent assets at 30 June 2024 (2023: nil).

Note 18 Events subsequent to reporting date

Trust Term Extension

It is the The Responsible Entity's intention to extend the Scheme's term for a further two years as permitted under the Constitution from the existing termination date of 13 December 2024. The Responsible Entity in its view has determined it is in the best interest of the members to postpone the termination of the Scheme to achieve an enhanced return to members in a favourable divestment environment.

Leasing overview

Subsequent to the end of the reporting period, on 1 July 2024, CMP Engineers Pty Ltd commenced tenancy of the previously vacant 441sqm space on level 1 of the building. The Lease term is 5 years, expiring on 30 June 2029.

Other than the above there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Milton Office Trust
Directors' declaration

In the opinion of the Directors of Trilogy Funds Management Limited (Responsible Entity), the Responsible Entity of Milton Office Trust (Scheme):

(a) The financial statements and notes, as set out on pages 8 to 25 are in accordance with the Corporations Act 2001, including:

 (i) giving a true and fair view of the Scheme's financial position as at 30 June 2024 and of its performance, for the financial year ended on that date; and

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

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

(c) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of the Responsible Entity.

Philip A Ryan	Justin J Smart
Managing Director	Executive Director
26 September 2024	26 September 2024
Brisbane	Brisbane

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INDEPENDENT AUDITOR'S REPORT

To the members of Milton Office Trust

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Milton Office Trust (the Registered Scheme), which comprises the statement of financial position as at 30 June 2024, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including material accounting policy information and the directors' declaration of Trilogy Funds Management Limited as Responsible Entity of Milton Office Trust.

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

(i) Giving a true and fair view of the Registered Scheme's financial position as at 30 June 2024 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Registered Scheme in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Trilogy Funds Management Limited as Responsible Entity of Milton Office Trust, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Other information

The directors of Trilogy Funds Management Limited as Responsible Entity of Milton Office Trust are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Registered Scheme's Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of Trilogy Funds Management Limited as Responsible Entity of Milton Office Trust 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 preparing the financial report, the directors are responsible for assessing the Registered Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Registered Scheme or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO

Tim Kendall

T J Kendall
Director

Brisbane 26 September 2024

Find out more.

Start a conversation with us today.
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