

4 October 2019

Notice of Meeting and Explanatory Memorandum

Australian Unity Investment Real Estate Limited (**AUIREL**), as Responsible Entity of Australian Unity Office Fund (ASX: **AOF**) announces the release of the attached Notice of Meeting and Explanatory Memorandum (**Notice of Meeting**) in respect of a unitholder meeting to consider the proposal by CHAB Office Pty Limited as trustee for the CHAB Office Trust (**CHAB**), an entity associated with Abacus Property Group (ASX: **ABP**) and Charter Hall Group (ASX: **CHC**), to acquire all the units of AOF that it does not already hold by way of trust scheme (**Scheme**). This follows the provision of judicial advice by the Supreme Court of Victoria confirming that AUIREL is justified in despatching the Notice of Meeting to unitholders and convening the meeting.

It is expected that the Notice of Meeting and an accompanying proxy form will be mailed to AOF unitholders on or around 11 October 2019. AOF unitholders who have previously nominated an electronic means of notification will receive or be able to access the materials electronically.

Vote in favour of the Scheme

The Independent Directors of AUIREL (Mr Peter Day, Mr Don Marples and Ms Eve Crestani) unanimously recommend that AOF unitholders vote in favour of the Scheme, in the absence of a 'superior proposal'.¹

The independent board committee (IBC) established by the AUIREL Board to consider the proposal have appointed Deloitte Corporate Finance Pty Limited as the Independent Expert to provide an opinion on the Scheme. The Independent Expert has determined that the Scheme is fair and reasonable and is in the best interests of AOF unitholders.

Scheme Meeting

A meeting of unitholders to consider the Scheme is currently scheduled to be held at **10.00am (Melbourne time) on Thursday, 7 November 2019 at Ground Floor, 271 Spring Street, Melbourne Victoria 3000**. All AOF unitholders are encouraged to vote by completing and lodging the proxy form that will accompany the Notice of Meeting or alternatively by attending the Scheme meeting.

The Notice of Meeting is an important document that AOF unitholders should read in its entirety before making a decision as to how to vote (whether in person or by proxy). For proxy votes to be considered, they must be lodged with Boardroom Pty Limited by 10.00am (Melbourne time) on Tuesday, 5 November 2019.

AOF Unitholder Information Line

For further information in relation to the Scheme, AOF unitholders can contact AOF Unitholder Information Line on +61 1800 179 970, from Monday to Friday between 8.15am and 5.30pm (Melbourne time), or consult their investment, legal, taxation or other professional adviser.

¹ As defined in the SIA.

ASX code:

AOF

Issuer:

Australian Unity Investment Real Estate Limited

ABN 86 606 414 368

AFSL 477434

Enquiries:

Australian Unity Office Fund Investor Services

1300 721 637 or

+61 2 8016 2890

(outside Australia)

Contact details:

271 Spring Street

Melbourne VIC 3000

Tel: 13 29 39

About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra.

This announcement is issued by Australian Unity Investment Real Estate Limited ABN 86 606 414 368 AFSL 477434 (AUIREL). AUIREL is a wholly owned subsidiary of Australian Unity Limited ABN 23 087 648 888.

Australian Unity is a health, wealth and living organisation providing products and services designed to help people thrive. More than one million Australians have created a bright future with us. Our businesses span operations providing healthcare, financial services, and retirement and living services, employing more than 7,500 people across Australia.

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Australian Unity Office Fund

Explanatory Memorandum and Notice of Meeting

The AOF Independent Directors unanimously recommend that you vote in favour of the Scheme Resolutions, in the absence of a Superior Proposal

The Independent Expert has determined that the Scheme is fair and reasonable and is in the best interests of AOF Unitholders

This is an important document and requires your immediate attention. You should read this document in its entirety before deciding how to vote.

If you are in doubt as to what you should do, you should consult your legal, investment, taxation or other professional adviser without delay.

Australian Unity Office Fund (ARSN 113 369 627)

Responsible Entity

Australian Unity Investment Real Estate Limited

(ABN 86 606 414 368)

(AFSL Licence No. 477434)

Important Notices

What is this document?

The purpose of this Explanatory Memorandum is to provide AOF Unitholders with information about the Scheme which, if approved and implemented, will result in CHAB, the special purpose vehicle established by the Consortium, becoming the owner of 100% of the Units in AOF and the Scheme Participants receiving \$3.04 cash per Scheme Unit that they hold (less any future distributions declared or paid in respect of AOF and subject to any withholding for foreign residents as outlined in section 6.1(b) of this Explanatory Memorandum).

This document is the notice of meeting and explanatory memorandum for the Scheme and provides such information as is prescribed or otherwise material to the decision of AOF Unitholders on how to vote on the Scheme Resolutions at the Scheme Meeting.

Date of Explanatory Memorandum

This Explanatory Memorandum is dated 4 October 2019.

General

AOF Unitholders should read this Explanatory Memorandum in its entirety before making a decision as to how to vote on the Scheme Resolutions to be considered at the Scheme Meeting.

If you have any questions about the Scheme, please contact the AOF Unitholder Information Line on +61 1800 179 970 from Monday to Friday between 8.15am and 5.30pm (Melbourne time). For information about your individual financial or taxation circumstances, please consult your investment, legal, taxation or other professional adviser.

No investment advice

This Explanatory Memorandum does not constitute financial product advice and has been prepared without reference to your particular investment objectives, financial situation, tax situation or needs. This Explanatory Memorandum should not be relied on as the sole basis for any investment decision. Independent financial and taxation advice should be sought before making any investment decision in relation to your Units and how you vote on the Scheme Resolutions.

Responsibility for information

Except as outlined below, the information in this Explanatory Memorandum has been provided by AUIREL and is the responsibility of AUIREL (**AOF Information**). Neither of the Consortium Members nor CHAB nor any of their respective directors, officers or advisors assume any responsibility for the accuracy or completeness of any such AOF Information.

CHAB has provided and is responsible for the CHAB Information, including information as to the funding arrangements it has made to provide the Scheme Consideration and information as to CHAB's opinions, views, intentions and decisions in relation to AOF. AUIREL and its directors, officers and advisors do not assume any responsibility for the accuracy or completeness of the CHAB Information.

The Independent Expert has provided and is responsible for the information contained in Attachment D. None of AUIREL, the Consortium Members, CHAB nor any of their respective directors, officers and advisors assume any responsibility for the accuracy or completeness of the information contained in Attachment D. The Independent Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Explanatory Memorandum other than that contained in Attachment D.

ASIC and ASX involvement

A copy of this Explanatory Memorandum has been provided to ASIC and ASX. Neither ASIC nor any of its officers takes any responsibility for the contents of this Explanatory Memorandum. Neither ASX nor any of its officers take any responsibility for the contents of this Explanatory Memorandum.

Court involvement

The Court provided the First Judicial Advice on Friday, 4 October 2019. The Court's provision of the First Judicial Advice is not and should not be treated as an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme. In particular, the Court's provision of the First Judicial Advice does not mean that the Court:

- has formed any view as to the merits of the Scheme or as to how AOF Unitholders should vote (on these matters, AOF Unitholders must reach their own decision); or
- has prepared, or is responsible for, the content of this Explanatory Memorandum.

Disclosure regarding forward looking statements

This Explanatory Memorandum contains both historical and forward-looking statements in connection with AOF, the Consortium and CHAB.

The forward-looking statements in this Explanatory Memorandum are not based on historical facts, but rather reflect the current expectations of AUIREL or, in relation to the CHAB Information, the Consortium Members and CHAB concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipated", "intending", "foreseeing", "likely", "should", "planned", "may", "estimated", "potential", or other similar words and phrases. Similarly, statements that describe AUIREL's and the Consortium Member's and CHAB's objectives, plans, goals or expectations are or may be forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause either AOF's or a Consortium Member's or CHAB's actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by these forward-looking statements. Deviations as to future results, performance and achievements are both normal and to be expected. AOF Unitholders should review carefully all of the information, including the financial information, included in this Explanatory Memorandum. The forward-looking statements included in this Explanatory Memorandum are made only as at the date of this Explanatory Memorandum. Neither AUIREL nor any Consortium Member nor CHAB gives any representation, assurance or guarantee to AOF Unitholders that any forward-looking statements will actually occur or be achieved. AOF Unitholders are cautioned not to place undue reliance on such forward-looking statements.

Subject to any continuing obligations under law or the ASX Listing Rules, AUIREL, the Consortium Members and CHAB do not give any undertaking to update or revise any forward-looking statements after the date of this Explanatory Memorandum to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

Defined Terms

Capitalised terms used in this Explanatory Memorandum and Proxy Form are defined in the Glossary in section 8 of this Explanatory Memorandum.

Currency

All financial amounts contained in this document are expressed in Australian currency unless otherwise stated. Some amounts in this document have been rounded and as a result some totals may not add up exactly.

Time

Unless stated otherwise, all references to time in this Explanatory Memorandum are to the time in Melbourne, Australia on the relevant date.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Explanatory Memorandum are subject to the effect of rounding.

Accordingly, the actual calculation of these figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Explanatory Memorandum.

As a result, any calculations you make based on the figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Explanatory Memorandum may differ from the correct answers to those calculations.

Any discrepancies between totals in tables or financial statements, or in calculations, graphs or charts are due to rounding.

Foreign jurisdictions

The release, publication or distribution of this Explanatory Memorandum in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions. Persons outside Australia who come into possession of this Explanatory Memorandum should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Explanatory Memorandum has been prepared in accordance with laws of the Commonwealth of Australia and the information contained in this Explanatory Memorandum may not be the same as that which would have been disclosed if this Explanatory Memorandum had been prepared in accordance with the laws and regulations of jurisdictions outside Australia.



Contents

Chairman's Letter	4
Key Dates	6
1. What to do and how to vote	8
2. AOF Independent Directors' recommendation and evaluation of the Scheme	9
3. Overview of the Scheme	15
4. Information about AOF	25
5. Information about CHAB and the Consortium	33
6. Taxation considerations	37
7. Additional information	41
8. Glossary	47
Attachments	
A Notice of Meeting	55
B Deed Poll	59
C Supplemental Deed	69
D Independent Expert's Report	83
Corporate Directory	137

Chairman's letter

4 October 2019

Dear AOF Unitholder,

On behalf of the Board of Australian Unity Investment Real Estate Limited (**AUIREL**) as responsible entity of Australian Unity Office Fund (**AOF**), I am pleased to provide you with this Explanatory Memorandum which contains important information in relation to the proposed acquisition of AOF by CHAB Office Pty Limited as trustee for the CHAB Office Trust (**CHAB**), the special purpose vehicle established by entities associated with Abacus Property Group (ASX: ABP) and Charter Hall Group (ASX: CHC) (together, the **Consortium**).

Background to the Proposal

On 4 June 2019, the Consortium announced that CHAB had acquired 19.9% of the Units in AOF for \$2.95 cash per Unit. Shortly thereafter, AUIREL announced that it had received an unsolicited, indicative and non-binding proposal from the Consortium for CHAB to acquire all the Units in AOF that it did not already own for \$2.95 cash per Unit, by way of a trust scheme (the **Initial Proposal**).

Following receipt of the Initial Proposal, the Board established an independent board committee comprising the AOF Independent Directors (Mr Peter Day, Mr Don Marples and Ms Eve Crestani) (**IBC**) to ensure that consideration of the Initial Proposal and any further proposal was undertaken free from any actual influence from Australian Unity Funds Management Limited (**AUFML**), Australian Unity Property Management Pty Ltd (**AUPM**) or Australian Unity Limited (**AUL**) or any of their related bodies corporate other than AUIREL.

Summary of the Proposal

On 3 July 2019, AUIREL announced to the ASX that it had received an improved, indicative and non-binding proposal from the Consortium for CHAB to acquire all the Units in AOF that it did not already hold for \$3.04 cash per Unit (**Scheme Consideration**), by way of a trust scheme (the **Proposal**). The Scheme Consideration was to be reduced by any distribution announced or paid in respect of AOF other than the 3.95 cent distribution announced on 21 June 2019. The Consortium indicated that the Proposal was best and final and that, in the absence of a competing proposal, it would not increase the offer price above \$3.04 cash per Unit.

The Scheme Consideration represents a:

- 9.4% premium to AOF's closing price of \$2.78 on 3 June 2019, the day prior to announcement of the Initial Proposal;
- 11.8% premium to the 30 day VWAP up until 3 June 2019 of \$2.72;
- 12.5% premium to the 3 month VWAP up until 3 June 2019 of \$2.70; and
- 9.0% premium to AOF's net tangible assets (**NTA**) per Unit of \$2.79 as at 30 June 2019.

On 17 July 2019, AUIREL announced to the ASX that the IBC had determined to engage further with the Consortium, providing them with due diligence access on a non-exclusive basis.

On 2 September 2019, AUIREL announced that it had entered into the Scheme Implementation Agreement with CHAB in relation to implementation of the Proposal by way of a trust scheme (**Scheme**).

The Scheme is subject to a number of customary conditions, including receipt of judicial advice from the Court and approval by AOF Unitholders.

This Explanatory Memorandum sets out details of the Scheme and important matters relevant to your vote in relation to the Scheme.

Recommendation of the AOF Independent Directors

The AOF Independent Directors have carefully considered the Proposal and, after receiving advice from their financial and legal advisers and considering the Independent Expert's Report, unanimously recommend that you vote in favour of the Scheme Resolutions to approve the Scheme, in the absence of a Superior Proposal. Each of the AOF Independent Directors intends to vote all the Units in AOF they own or control in favour of the Scheme Resolutions, in the absence of a Superior Proposal.

The AOF Independent Directors recommend you vote in favour of the Scheme for the following reasons:

- the Scheme Consideration represents an attractive price for AOF Units relative to historical trading price performance and a premium to NTA per Unit including a risk adjusted return for the proposed development at 2 Valentine Avenue, Parramatta given the risks and uncertainties associated with the timing and delivery of the proposed development;
- the Scheme Consideration is all cash, delivering certainty and immediate value for AOF Unitholders;
- the Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of AOF Unitholders;
- since receipt of the Initial Proposal, no Superior Proposal has emerged; and
- if the Scheme does not proceed, and no Superior Proposal emerges, the price of AOF Units quoted on the ASX may fall.

Please refer to section 2.3 of this Explanatory Memorandum for more information.

Balancing the reasons to vote in favour of the Scheme are a number of reasons to vote against the Scheme, which are outlined in section 2.4 of this Explanatory Memorandum.

Independent Expert's opinion

The IBC has commissioned the Independent Expert, Deloitte Corporate Finance Pty Limited, to prepare an Independent Expert's Report to opine on the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of AOF Unitholders.

The Independent Expert has assessed the full underlying value of AOF to be in the range of \$2.76 to \$3.06 per Unit. The Scheme Consideration of \$3.04 per Unit is at the upper end of this range.

The full Independent Expert's Report is set out in Attachment D. AOF Unitholders are encouraged to read the Independent Expert's Report in full.

Scheme Meeting and next steps

The Scheme requires approval of AOF Unitholders at the Scheme Meeting to be held at 10.00am (Melbourne time) on Thursday, 7 November 2019 at Ground Floor, 271 Spring Street, Melbourne Victoria 3000. Your vote is important in determining whether or not the Scheme proceeds. In order for the Scheme to proceed, each Scheme Resolution (outlined in section 3.6 of this Explanatory Memorandum) must be passed by the requisite majority of AOF Unitholders.

The Board strongly encourages you to participate in this important decision either by attending the Scheme Meeting to vote or by completing the enclosed Proxy Form. The AOF Directors urge you to read the Explanatory Memorandum (including the Independent Expert's Report) in its entirety as it contains important information that will need to be considered before you vote on the Scheme Resolutions.

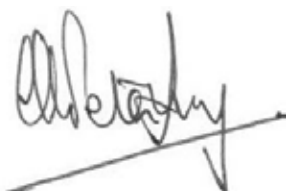
Further information

If you have any questions about the Scheme, please contact the AOF Unitholder Information Line on +61 1800 179 970 from Monday to Friday between 8.15am and 5.30pm (Melbourne time).

For information about your individual financial or taxation circumstances, please consult your investment, legal, taxation or other professional adviser.

On behalf of the Board, I would like to take this opportunity to thank you again for your ongoing support of AOF and I look forward to your participation at the Scheme Meeting.

Yours sincerely



W Peter Day

Independent Non-Executive Chairman
Australian Unity Investment Real Estate Limited
as responsible entity of Australian Unity Office Fund

“The AOF Independent Directors unanimously recommend that you vote in favour of the Scheme Resolutions, in the absence of a Superior Proposal”



Key dates

Date	Event
10.00am (Melbourne time) Tuesday, 5 November 2019	Last date and time by which Proxy Forms for the Scheme Meeting must be received by the Registry
7.00pm (Melbourne time) Tuesday, 5 November 2019	Voting Record Date – date and time for determining eligibility to vote at the Scheme Meeting
10.00am (Melbourne time) Thursday, 7 November 2019	Scheme Meeting

If the Scheme Resolutions are approved at the Scheme Meeting:

Friday, 8 November 2019	Second Court Date
Monday, 11 November 2019	Effective Date
4:00pm (Melbourne time) Monday, 11 November 2019	Cessation of trading in Units on ASX at the close of trading
7:00pm (Melbourne time) Wednesday, 13 November 2019	Record Date – all Scheme Participants who hold Units on this date will be entitled to receive the Scheme Consideration
Friday, 22 November 2019	Implementation Date – Scheme Participants will be sent the Scheme Consideration to which they are entitled on this date

All dates and times are indicative only and are subject to change. Any changes to the above timetable will be announced to ASX and notified on AOF's website at www.australianunityofficefund.com.au.

Section 1

What to do and how to vote



1. What to do and how to vote

1.1 Read this Explanatory Memorandum

This Explanatory Memorandum has been sent to you because you are an AOF Unitholder and AOF Unitholders are being asked to vote on the Scheme for the proposed acquisition of AOF by CHAB.

You should carefully read this Explanatory Memorandum in its entirety before making a decision as to how to vote on the Scheme Resolutions and, if necessary, consult your legal, investment, taxation or other professional adviser before voting on the Scheme Resolutions.

It is important that you consider the information disclosed in light of your own particular investment needs, objectives and financial circumstances.

1.2 Vote on the Scheme Resolutions

If you are registered on the Register as an AOF Unitholder at the Voting Record Date (being 7.00pm (Melbourne time) on Tuesday, 5 November 2019), then you will be entitled to attend and vote at the Scheme Meeting, unless otherwise noted in the Notice of Meeting set out in Attachment A.

Your vote is important and is your opportunity to have your say on the success or failure of the Scheme. However, voting is not compulsory.

In order for the Scheme to proceed, each Scheme Resolution must be passed by the requisite majority of AOF Unitholders at the Scheme Meeting. If either Scheme Resolution is not passed, the Scheme will not proceed.

Reasons to vote for or against the Scheme Resolutions are set out in Sections 2.3 and 2.4 of this Explanatory Memorandum.

You may vote by:

- attending the Scheme Meeting in person;
- appointing an attorney to attend and vote on your behalf;
- appointing a proxy to attend and vote on your behalf; or
- in the case of a corporation which is an AOF Unitholder, appointing an authorised representative to attend and vote on its behalf.

Details of how to vote are set out in the Notice of Meeting set out in Attachment A. Further information in relation to the Scheme Resolutions, the voting majority required to approve each Scheme Resolution and the voting exclusions for each Scheme Resolution is set out in sections 3.6 to 3.8 of this Explanatory Memorandum.

1.3 Details of the Scheme Meeting

The details of the Scheme Meeting are as follows:

Location

Australian Unity Office Fund, Ground Floor, 271 Spring Street, Melbourne VIC 3000

Date

Thursday, 7 November 2019

Time

10.00am (Melbourne time)

A copy of the Notice of Meeting is set out in Attachment A.

Section 2

AOF Independent Directors' recommendation and evaluation of the Scheme

2. AOF Independent Directors' recommendation and evaluation of the Scheme

2.1 Overview of the Scheme

The Scheme involves the acquisition by CHAB, the special purpose vehicle established by the Consortium, of all the Units in AOF that it does not already hold for \$3.04 cash per Scheme Unit (less any future distributions declared or paid in respect of AOF and subject to any withholding for foreign residents as outlined in section 6.1(b) of this Explanatory Memorandum). Given the Scheme Consideration is reduced by the amount of any future distributions declared or paid in respect of AOF, AUIREL has resolved not to pay a distribution for the quarter ended 30 September 2019. As at the date of this Explanatory Memorandum, CHAB currently holds 19.9% of the Units.

Implementation of the Scheme is subject to the satisfaction or (where applicable) waiver of a number of Conditions Precedent, including approval of the Scheme Resolutions by the requisite majorities of AOF Unitholders at the Scheme Meeting.

If the Scheme becomes Effective and is implemented:

- CHAB will become the owner of 100% of the Units and Scheme Participants will cease to hold an interest in AOF;
- Scheme Participants will receive the Scheme Consideration of \$3.04 cash per Scheme Unit (less any future distributions declared or paid in respect of AOF and subject to any withholding for foreign residents as outlined in section 6.1(b) of this Explanatory Memorandum); and
- an application will be made for AOF to be de-listed from ASX.

If the Conditions Precedent to the Scheme are not satisfied or (where applicable) waived or the Scheme Implementation Agreement is terminated, the Scheme will not proceed, the Scheme Units will not be transferred to CHAB, you will not receive the Scheme Consideration and AOF will remain listed on ASX. AUIREL will continue to implement its strategy and investment objectives and the AUIREL Board will also consider whether a distribution should be declared or paid in respect of AOF. Further information in relation to the Scheme is set out in section 3 of this Explanatory Memorandum.

2.2 AOF Independent Directors' recommendation

(a) AOF Directors

The AOF Directors as at the date of this Explanatory Memorandum are set out in the table below:

AOF Director	Position
Mr Peter Day	Independent Non-executive Chairman
Mr Don Marples	Independent Non-executive Director
Ms Eve Crestani	Independent Non-executive Director
Mr Greg Willcock	Non-executive Director
Ms Kirsty Dullahide	Executive Director

Sections 7.1 and 7.2 of this Explanatory Memorandum contain details of the AOF Directors' securityholdings and other interests in both AOF and CHAB (if any).

(b) AOF Independent Directors' recommendation

Mr Peter Day, Mr Don Marples and Ms Eve Crestani are the AOF Independent Directors. They together form the IBC that was established by the Board to consider the Proposal.

Each of the AOF Independent Directors considers himself or herself justified in making a recommendation in relation to the Scheme and each of them recommends that you vote in favour of the Scheme Resolutions, in the absence of a Superior Proposal.

In reaching their recommendation, the AOF Independent Directors have assessed the Scheme having regard to the reasons to vote in favour of, or against, the Scheme, as set out in sections 2.3 and 2.4 of this Explanatory Memorandum.

(c) Non-independent AOF Directors' position

Given their position as a current director and present employee of the Australian Unity Group respectively, each of Mr Willcock and Ms Dullahide do not consider it appropriate for him or her to make a recommendation in respect of the Proposal and accordingly each of them makes no such recommendation.

(d) AOF Directors' voting intentions

Mr Day is the only AOF Director that holds or controls Units as at the date of this Explanatory Memorandum. Mr Day intends to vote in favour of the Scheme Resolutions in respect of all Units which he holds or controls, in the absence of a Superior Proposal.

2.3 Reasons to vote in favour of the Scheme

The reasons to vote in favour of the Scheme Resolutions to approve the Scheme are set out below.

(a) Attractive price for AOF Units relative to historical trading price performance and NTA

The Scheme Consideration of \$3.04 cash per Scheme Unit represents a premium to the price at which the Units have historically traded since IPO, and a premium to NTA per Unit.

Chart 1 AOF historical trading price performance for the period from IPO until receipt of the Initial Proposal



Source: Company filings, IRESS as at 3 June 2019

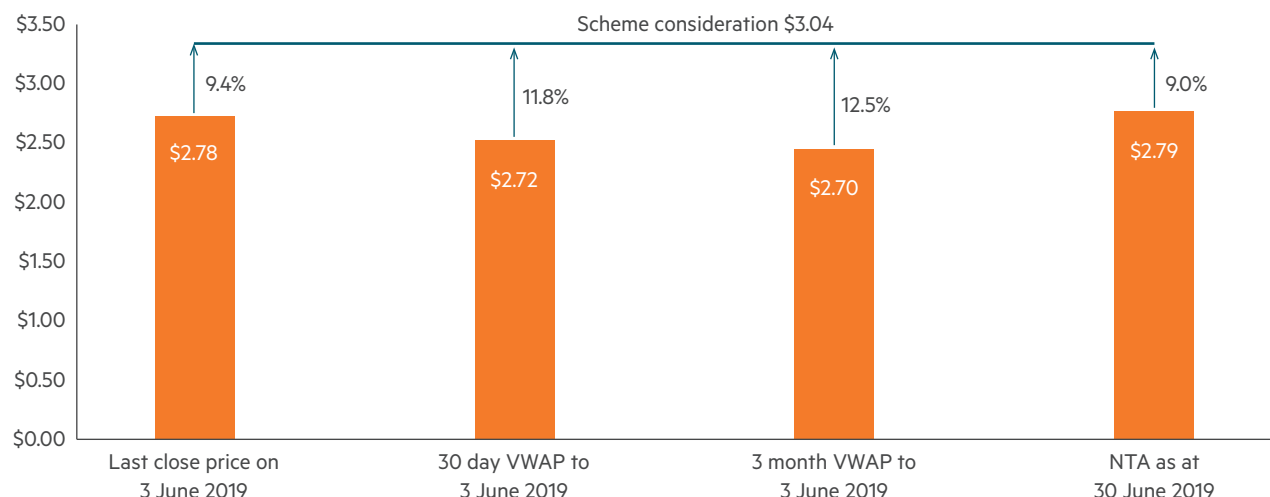
The Scheme Consideration represents a:

- 9.4% premium to AOF's closing price of \$2.78 on 3 June 2019, the day prior to announcement of the Initial Proposal;
- 11.8% premium to AOF's 30 day VWAP of \$2.72 up until 3 June 2019;
- 12.5% premium to AOF's 3 month VWAP of \$2.70 up until 3 June 2019; and
- 9.0% premium to AOF's NTA per Unit of \$2.79 as at 30 June 2019.

The premium to NTA is consistent with the premiums paid in precedent transactions involving ASX listed A-REITs, as considered by the Independent Expert in Appendix 4 to the Independent Expert's Report set out in Attachment D.

2. AOF Independent Directors' recommendation and evaluation of the Scheme (continued)

Chart 2 Proposal consideration premium



Source: Company filings, IRESS as at 3 June 2019

AOF Unitholders who supported the initial public offering (IPO) of AOF in June 2016 would recognise approximately a:

- 52% premium to the IPO price;
- 75% total unitholder return; and
- 20% per annum internal rate of return.

(b) Certain cash proceeds and immediate value for AOF Unitholders

The Scheme Consideration is 100% cash, providing AOF Unitholders certainty of proceeds and meaningful liquidity for their Units. The certainty of the 100% cash consideration should be compared with the risks and uncertainties of remaining an AOF Unitholder (which existed before the Proposal) which include but are not limited to the following:

- risks and uncertainties associated with the timing and delivery of the proposed development at 2 Valentine Avenue, Parramatta, including obtaining tenant pre-commitments for the proposed development. Further information in relation to the status of the proposed development is set out in section 4.3(f) of this Explanatory Memorandum;
- risks associated with the liquidity of Units potentially being lower than prior to the Initial Proposal, potentially impacting upon the ability to dispose of Units at a price in line with the Scheme Consideration;
- variable conditions in the property investment markets including the property valuation cycle, the availability of funding and interest rates, all of which can impact the value of AOF's underlying properties;
- vacancy levels and re-leasing risks and timing, which can affect rental returns and the market value of office property;
- interest rate risks which can impact the value of some of AOF's debt and hedging facilities; and
- equity market volatility which can impact the value of AOF Units on the ASX.

(c) Conclusion of the Independent Expert

The IBC has appointed the Independent Expert, Deloitte Corporate Finance Pty Limited, to prepare the Independent Expert's Report to give its opinion as to whether the Scheme is fair and reasonable and in the best interests of AOF Unitholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of AOF Unitholders.

The Independent Expert has assessed the full underlying value of AOF to be in the range of \$2.76 to \$3.06 per Unit. The Scheme Consideration of \$3.04 per Unit is at the upper end of this range.

The Independent Expert has also considered a range of factors in reaching its conclusion and AOF Unitholders are encouraged to read the Independent Expert's Report in full, a copy of which is included in Attachment D of this Explanatory Memorandum.

(d) No Superior Proposal has emerged

Following receipt of the Initial Proposal which was announced to ASX on 4 June 2019, AUIREL approached, and was approached by, a number of potentially interested parties to discuss alternative proposals. No alternative proposal emerged from those discussions prior to the entry into the Scheme Implementation Agreement on 2 September 2019.

Following entry into the Scheme Implementation Agreement, and acting in accordance with the exclusivity provisions of that agreement, AUIREL ceased discussions with, and has not made any further approaches to potentially interested parties.

Under the Scheme Implementation Agreement, AUIREL is permitted to engage with third parties that approach it in respect of a Competing Proposal if the AOF Independent Directors determine that the Competing Proposal is or could reasonably be considered to become a Superior Proposal and it would be likely to be a breach of their fiduciary duties not to so engage.

As at the date of this Explanatory Memorandum, no Superior Proposal has emerged.

(e) The AOF Unit price quoted on the ASX may fall if AOF Unitholders do not vote in favour of the Scheme and no Superior Proposal emerges

If the Scheme is not implemented, Units will remain quoted on the ASX and will continue to be subject to market volatility as a result of AOF's performance, general stock market movements and general economic conditions. The AOF Independent Directors are unable to predict the price at which the Units on the ASX will trade in the future, but it is possible that in the absence of the implementation of the Scheme, the price of the Units on the ASX may fall.

(f) No brokerage

You will not incur any brokerage on the transfer of your Units pursuant to the Scheme. This is particularly relevant to holders of less than a marketable parcel of Units. If Units are sold on the ASX, AOF Unitholders may have to pay brokerage and other costs.

2.4 Reasons to vote against the Scheme

Although the AOF Independent Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal, and although the Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of AOF Unitholders in the absence of a Superior Proposal, factors which may lead you to vote against the Scheme include the following:

(a) You may disagree with the unanimous recommendation of the AOF Independent Directors and the conclusion of the Independent Expert

Despite the unanimous recommendation of the AOF Independent Directors, and the opinion of the Independent Expert that the Scheme is fair and reasonable and in the best interests of AOF Unitholders, you may believe that the Scheme is not in your best interests or that of the other AOF Unitholders.

(b) You may have a preference to maintain an investment in AOF

If the Scheme is approved and implemented, you will receive the Scheme Consideration in return for your investment and you will cease to hold Units in AOF. In particular, you will forego any future distributions from AOF, the opportunity to benefit from any increases in its Unit price, and your voting rights as an AOF Unitholder.

This may not be consistent with your investment objectives. You may wish to maintain an interest in AOF because you do not wish to crystallise a capital gain (see taxation consequences in sections 2.4(e) and 6 of this Explanatory Memorandum), or are seeking to maintain exposure to a publicly listed entity with the specific characteristics of AOF such as operational profile, capital structure, size and geography.

You may wish to maintain your current investment in AOF because you will be unable to reinvest the Scheme Consideration at the same distribution yield after crystallising any applicable capital gain and paying tax (see taxation consequences in sections 2.4(e) and 6 of this Explanatory Memorandum).

(c) You may not believe the Scheme Consideration adequately reflects AOF's long-term growth potential or current market conditions

You may believe that AOF has stronger long term growth potential and valuation upside, for example due to the development opportunity at 2 Valentine Avenue, Parramatta (see section 4.3(f) of this Explanatory Memorandum for further details), notwithstanding the risk and time to complete the development, and the Scheme Consideration does not fully reflect your view of long term value. You may also believe that the Scheme Consideration does not adequately reflect current market conditions given the trading prices of a number of AOF's peers has increased since receipt of the Initial Proposal. You may therefore decide that it is in your best interests to retain your Units in order to maintain your current investment and risk profile.

2. AOF Independent Directors' recommendation and evaluation of the Scheme (continued)

(d) Expectation that a Superior Proposal will emerge

You may believe that a more attractive proposal for AOF Unitholders could emerge in the future.

However, it should be noted that following receipt of the Initial Proposal which was announced to ASX on 4 June 2019, AUIREL approached, and was approached by, a number of potentially interested parties to discuss alternative proposals. No Competing Proposal emerged from those discussions prior to the entry into the Scheme Implementation Agreement on 2 September 2019.

Under the Scheme Implementation Agreement, AUIREL is permitted to engage with third parties that approach it in respect of a Competing Proposal if the AOF Independent Directors determine that the Competing Proposal is or could reasonably be considered to become a Superior Proposal and it would be likely to be a breach of their fiduciary duties not to so engage.

As at the date of this Explanatory Memorandum, no Superior Proposal has emerged.

(e) Taxation consequences

The tax consequences of the Scheme for AOF Unitholders will depend on the personal taxation and financial circumstances of each AOF Unitholder. If the Scheme is approved and implemented, it may result in taxation consequences for AOF Unitholders (potentially including incurring a CGT liability). These tax consequences generally arise for the income year in which the Scheme Units are sold. Accordingly, if the Scheme is approved and implemented, tax consequences will arise earlier than may otherwise have been the case if the AOF Unitholders did not dispose of their Units until a later date.

The Scheme Consideration will be paid in cash. For some AOF Unitholders who have been long term investors in AOF, the disposal of their Scheme Units is expected to crystallise a capital gain. This could be significant as AOF has been operating as a registered managed investment scheme (both as an unlisted vehicle and a listed vehicle) for nearly 15 years and any tax deferred component of distributions has the effect of reducing the CGT cost base for the Units. Further information in relation to distributions previously declared and paid in respect of AOF and the tax deferred components of such distributions is available on AOF's website at www.australianunityofficefund.com.au/investor-centre/taxdeferred.

General information about the Australian CGT consequences of the Scheme is set out in section 6 of this Explanatory Memorandum.

The AOF Directors recommend that AOF Unitholders obtain specialist taxation advice on the consequences of disposing of the Scheme Units, taking into account your own specific circumstances.

Section 3

Overview of the Scheme

3. Overview of the Scheme

3.1 Background to the Scheme

On 4 June 2019, the Consortium announced that CHAB, a special purpose vehicle established by the Consortium Members, had acquired 19.9% of the Units in AOF for \$2.95 cash per Unit. Shortly thereafter, AUIREL announced that it had received an unsolicited indicative and non-binding proposal from the Consortium for CHAB to acquire all the Units in AOF that it did not already own for \$2.95 cash per Unit by way of a trust scheme (the **Initial Proposal**). Under the Initial Proposal, AOF Unitholders were entitled to retain a distribution of up to 3.95 cents per Unit in respect of the quarter ending on 30 June 2019 without any reduction to the offer price. If the Initial Proposal was implemented after the record date for the distribution in respect of the quarter ending on 30 September 2019 in circumstances where AUIREL had acted in good faith in meeting the timetable proposed by the Consortium, and had not contributed to any delay, AOF Unitholders would have also been entitled to retain a distribution of up to 3.95 cents per Unit in respect of the quarter ending on 30 September 2019 without any reduction to the offer price.

Following receipt of the Initial Proposal, the AUIREL Board established an independent board committee comprising the AOF Independent Directors (Mr Peter Day, Mr Don Marples and Ms Eve Crestani) (the **IBC**) to ensure that consideration of the Initial Proposal and any further proposal was undertaken free from any actual influence from Australian Unity Funds Management Limited (**AUFML**), Australian Unity Property Management Pty Limited (**AUPM**) or Australian Unity Limited (**AUL**) or any of their related bodies corporate other than AUIREL.

On 13 June 2019, AUIREL announced preliminary valuations for five of AOF's properties (being 10 Valentine Avenue, Parramatta, 5 Eden Park Drive, North Ryde, 468 St Kilda Road, Melbourne, 241 Adelaide Street, Brisbane and 64 Northbourne Avenue, Canberra). These preliminary valuations resulted in an increase of approximately \$14 million, or approximately 9 cents per Unit, over the preceding book value immediately prior to the valuation of those properties and reflected a weighted average tightening in capitalisation rates of approximately 39bps since each of those properties were revalued in June 2018. It was also announced that the IBC had requested that the remaining four properties in AOF's portfolio be revalued.

On 26 June 2019, AUIREL announced that as a result of revaluing AOF's entire portfolio and the estimated value of interest rate swap contract liabilities as at 24 June 2019, AOF's NTA per Unit was estimated to increase from \$2.67 as at 31 December 2018 to \$2.78 as at 30 June 2019, and that the IBC would finalise its evaluation of the Initial Proposal including engaging with the Consortium to clarify aspects of the Initial Proposal.

On 3 July 2019, AUIREL announced to ASX that it had received an improved, indicative and non-binding proposal from the Consortium for CHAB to acquire all the Units in AOF that it did not already hold for \$3.04 cash per Unit, by way of a trust scheme (being the **Proposal**). The offer price of \$3.04 per Unit was to be reduced by any distribution announced or paid in respect of AOF other than the 3.95 cent distribution announced on 21 June 2019. The Consortium indicated that the Proposal was best and final and, in the absence of a competing proposal, it would not increase the offer price above \$3.04 cash per Unit. AUIREL also announced that the estimated NTA per Unit as at 30 June 2019 was updated to \$2.79.

On 17 July 2019, AUIREL announced to the ASX that the IBC had determined to engage further with the Consortium, providing them with due diligence access on a non-exclusive basis for a four week period.

On 2 September 2019, AUIREL announced that it had entered into a Scheme Implementation Agreement with CHAB pursuant to which AUIREL agreed to give AOF Unitholders the opportunity to consider the Scheme. A copy of the Scheme Implementation Agreement was released to ASX on 2 September 2019 and is available on the news and announcements section of AOF's website at www.australianunityofficefund.com.au/news-and-announcements. At that time, the AOF Independent Directors unanimously recommended the Scheme in the absence of a Superior Proposal and subject to the Independent Expert concluding that the Scheme is in the best interests of AOF Unitholders.

3.2 What is the Scheme?

As set out in section 2.1 of this Explanatory Memorandum, the Scheme involves the acquisition by CHAB of all of the Units in AOF that it does not already hold for \$3.04 cash per Scheme Unit by way of a trust scheme.

The Scheme Consideration of \$3.04 per Scheme Unit will be reduced by any future distributions declared or paid in respect of AOF. As a result, the Board has resolved not to pay a distribution for the quarter ending 30 September 2019 (**September Distribution**) so AOF Unitholders will not be paid the September Distribution.

Therefore, if the Scheme is implemented in accordance with the current timetable, Scheme Participants will receive a payment of \$3.04 cash in respect of each Scheme Unit they hold on the Record Date (subject to any withholding for foreign residents as outlined in section 6.1(b) of this Explanatory Memorandum). It is currently anticipated that the Record Date will be 7.00pm (Melbourne time) on Wednesday, 13 November 2019 and the Scheme Consideration will be paid to Scheme Participants on the Implementation Date.

Following implementation of the Scheme, AOF Unitholders will cease to hold an interest in AOF and an application will be made for AOF to be de-listed from ASX.

3.3 Do the AOF Independent Directors recommend the Scheme?

The AOF Independent Directors unanimously recommend that you vote in favour of the Scheme Resolutions to approve the Scheme, in the absence of a Superior Proposal.

The reasons for the AOF Independent Directors' unanimous recommendation are set out in detail in section 2.3 of this Explanatory Memorandum.

3.4 What does the Independent Expert say?

In summary, the Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of AOF Unitholders.

The Independent Expert has assessed the full underlying value of AOF to be in the range of \$2.76 to \$3.06 per Unit. The Scheme Consideration of \$3.04 per Unit is at the upper end of this range.

A complete copy of the Independent Expert's Report is contained in Attachment D. AOF Unitholders are encouraged to read the Independent Expert's Report in full.

3. Overview of the Scheme (continued)

3.5 Are there any conditions that must be satisfied in order for the Scheme to be implemented?

The Scheme is conditional on the satisfaction or (where applicable) waiver of the following Conditions Precedent:

No.	Condition Precedent	Status
1.	(FIRB approval) before 8.00am on the Second Court Date, the Treasurer of the Commonwealth of Australia (or his delegate) provides written notice that it has no objections to CHAB acquiring the Scheme Units (either unconditionally or on conditions acceptable to CHAB acting reasonably) or becomes precluded by the passage of time from making an order or decision under the FATA in respect of such an acquisition.	CHAB has received FIRB approval at the date of this Explanatory Memorandum.
2.	(ASIC Modifications) before 8.00am on the Second Court Date, ASIC has granted the ASIC Modifications and has not withdrawn or revoked any of the ASIC Modifications.	ASIC has agreed to grant the ASIC modifications necessary to implement the Scheme.
3.	(other regulatory approvals) before 8.00am on the Second Court Date, all other regulatory approvals required to implement the Scheme are granted or obtained and those approvals have not been withdrawn or revoked.	The parties do not consider that any other regulatory approvals are required to implement the Scheme at the date of this Explanatory Memorandum.
4.	(Independent Expert's Report) the Independent Expert's Report concludes that the Scheme is in the best interests of AOF Unitholders and the Independent Expert does not change or withdraw its conclusion prior to the Scheme Meeting.	Satisfied at the date of this Explanatory Memorandum.
5.	(AOF Unitholder approval) the Scheme Resolutions are approved at the Scheme Meeting by the requisite majorities of AOF Unitholders.	The Scheme Meeting to consider the Scheme Resolutions will be held at 10.00am (Melbourne time) on Thursday, 7 November 2019.
6.	(Judicial Advice) the Court provides the First Judicial Advice and the Second Judicial Advice.	The Court provided the First Judicial Advice on Friday, 4 October 2019. The Second Judicial Advice will be sought on or around Friday, 8 November 2019 if the Scheme Resolutions are approved by the requisite majorities of AOF Unitholders at the Scheme Meeting.
7.	(No restraints) no judgment, order, decree, statute, law, ordinance, rule or regulation, or other temporary restraining order, preliminary or permanent injunction, restraint or prohibition issued by any court or other Government Agency remains in effect as at 8.00am on the Second Court Date that prohibits, materially restricts, makes illegal or restrains the implementation of the Scheme.	As at the date of this Explanatory Memorandum, AUIREL is not aware of anything that will cause this condition not to be satisfied.
8.	(no Prescribed Occurrence) from the date of the Scheme Implementation Agreement until 8.00am on the Second Court Date, there is no Prescribed Occurrence.	As at the date of this Explanatory Memorandum, AUIREL is not aware of anything that will cause this condition not to be satisfied.
9.	(no Material Adverse Change) from the date of the Scheme Implementation Agreement until 8.00am on the Second Court Date, there are no events, occurrences or changes that have, or are reasonably likely to have, the effect of a diminution in the NTA of AOF by at least \$23 million or a diminution on recurring Funds from Operations of AOF of at least A\$1.4 million, other than as permitted under the Scheme Implementation Agreement.	As at the date of this Explanatory Memorandum, AUIREL is not aware of anything that will cause this condition not to be satisfied.

No.	Condition Precedent	Status
10.	(AUIREL Warranties) the AUIREL Warranties (as defined in the Scheme Implementation Agreement) are true and correct in all material respects on the date of the Scheme Implementation Agreement and as at 8.00am on the Second Court Date.	As at the date of this Explanatory Memorandum, AUIREL is not aware of anything that will cause this condition not to be satisfied.
11.	(consent from The Brisbane Club) as at 8.00am on the Second Court Date, the consent of The Brisbane Club under the head lease for the property at 241 Adelaide Street, Brisbane to the change of trustee of the subtrust of AOF which holds the leasehold interest in the property (see item 13 below) has been obtained and has not been withdrawn, cancelled or revoked.	AUIREL has sought the consent of The Brisbane Club. The Brisbane Club must not unreasonably or arbitrarily withhold its consent in relation to a transfer of the head lease to a respectable and financially responsible person. As at the date of this Explanatory Memorandum, AUIREL has not received this consent.
12.	(restructure agreements) as at 8.00am on the Second Court Date, restructure agreements in relation to certain subtrusts of AOF have been executed in a form reasonably satisfactory to CHAB, and have not been withdrawn, cancelled or revoked.	As at the date of this Explanatory Memorandum, AUIREL is not aware of anything that will cause this condition not to be satisfied.
13.	(change of trustee of each AOF subtrust) as at 8.00am on the Second Court Date, deeds of retirement and appointment to effect the change of trustee of each of the subtrusts of AOF have been executed in a form reasonably satisfactory to CHAB, and have not been withdrawn, cancelled or revoked.	As at the date of this Explanatory Memorandum, AUIREL is not aware of anything that will cause this condition not to be satisfied.

If the Conditions Precedent are not satisfied or (where applicable) waived, the Scheme will not proceed. For further information in relation to the implications of the Scheme not proceeding, see section 3.11 of this Explanatory Memorandum.

3.6 What am I being asked to vote on?

AOF Unitholders will be asked to consider, and if thought fit, approve the following Scheme Resolutions. The Scheme Resolutions are interdependent and the Scheme will only proceed if both the Amendment Resolution and the Approval Resolution are approved by the requisite majorities of AOF Unitholders at the Scheme Meeting. If either Scheme Resolution is not passed, the Scheme will not proceed.

(a) Amendment Resolution

To enable the Scheme to be implemented, it is necessary to amend the Trust Constitution.

The proposed amendments to the Trust Constitution are set out in the Supplemental Deed to be entered into by AUIREL, a copy of which is set out in Attachment C. A copy of the Supplemental Deed is also available on the corporate governance section of AOF's website at www.australianunityofficefund.com.au/about-the-fund/corporate-governance.

The Amendment Resolution approves those amendments to the Trust Constitution to enable the Scheme to be implemented and make it binding on all AOF Unitholders, and authorises AUIREL to execute and lodge with ASIC the Supplemental Deed to give effect to those amendments.

The Amendment Resolution and applicable voting exclusions are set out in the Notice of Meeting in Attachment A.

3. Overview of the Scheme (continued)

(b) Approval Resolution

In addition to the Amendment Resolution, AOF Unitholders must approve CHAB acquiring the Scheme Units for the purposes of item 7 of section 611 of the Corporations Act.

Section 606 of the Corporations Act prohibits the acquisition of interests in a listed managed investment scheme if the acquisition would increase any person's voting power in the scheme to more than 20%. Under the Scheme, CHAB would obtain voting power of 100% in AOF. However, item 7 of section 611 of the Corporations Act permits the acquisition by CHAB of Units which would increase its voting power beyond the 20% threshold if the acquisition is previously approved by a resolution of AOF Unitholders where no votes are cast in favour of the resolution by CHAB and its associates.

The Approval Resolution, if passed, approves the Scheme for all purposes and authorises AUIREL to give effect to the Scheme.

The Approval Resolution and applicable voting exclusions are set out in the Notice of Scheme Meeting in Attachment A.

3.7 What voting majorities are required to approve the Scheme Resolutions?

The voting majority required to approve each Scheme Resolution depends on the particular Scheme Resolution being considered:

- (a) the Amendment Resolution must be approved by at least 75% of the total number of votes cast on that resolution (in person, by proxy, by attorney or, in the case of a body corporate, by a corporate representative) by AOF Unitholders entitled to vote on the resolution; and
- (b) the Approval Resolution must be approved by at least 50% of the total number of votes cast on that resolution (in person, by proxy, by attorney or, in the case of a body corporate, by a corporate representative) by AOF Unitholders entitled to vote on the resolution.

In order for the Scheme to proceed, both the Amendment Resolution and the Approval Resolution must be passed by the requisite majorities of AOF Unitholders.

The vote on each Scheme Resolution will be conducted by way of a poll. On a poll, each AOF Unitholder present in person or by proxy has one vote for each dollar of the value of its total interest in AOF. The value of an AOF Unitholder's total interest in AOF will be calculated by reference to the last sale price of the Units on the ASX on the trading day immediately prior to the Scheme Meeting, which is currently expected to be Wednesday, 6 November 2019.

3.8 Who is excluded from voting?

Voting exclusions in respect of each Scheme Resolution depend on the particular resolution being considered:

(a) Amendment Resolution: For the purposes of the Amendment Resolution:

- (i) in accordance with Guidance Note 15, any votes cast in favour of the Amendment Resolution by CHAB and its associates must be disregarded; and
- (ii) in accordance with section 253E of the Corporations Act, AUIREL and its associates are not entitled to vote on the Amendment Resolution if they have an interest in the Amendment Resolution other than as a member of AOF; and

(b) Approval Resolution: For the purposes of the Approval Resolution:

- (i) in accordance with item 7 of section 611 of the Corporations Act, CHAB and its associates (unless the associate is a custodian, nominee, trustee, responsible entity or other fiduciary which has received a specific instruction from a third party beneficiary who is not an associate of CHAB, directing the associate to vote) are not entitled to vote in favour of the Approval Resolution; and
- (ii) in accordance with section 253E of the Corporations Act, AUIREL and its associates are not entitled to vote on the Approval Resolution if they have an interest in the Approval Resolution other than as a member of AOF.

Those exclusions are described more fully in the Notice of Meeting set out in Attachment A. The Chair of the Scheme Meeting will determine whether an AOF Unitholder is entitled to vote on each Scheme Resolution based on the factual circumstances existing at the time of the Scheme Meeting.

3.9 What happens if I do not vote or vote against the Scheme?

If you do not vote at the Scheme Meeting, or vote against the Scheme Resolutions, then the Scheme may not be approved. The Scheme cannot be implemented unless both of the Scheme Resolutions are passed by the requisite majorities of AOF Unitholders at the Scheme Meeting.

However, even if you do not vote, or vote against the Scheme Resolutions, the Scheme may still be approved. If each of the Scheme Resolutions are approved by the requisite majority at the Scheme Meeting, then subject to the Court providing the Second Judicial Advice and all other Conditions Precedent to the Scheme being satisfied or (where applicable) waived, the Scheme will be implemented and binding on all Scheme Participants, including those who vote against the Scheme Resolutions and those who do not vote at all. In these circumstances, all Scheme Units that you hold as at the Record Date will be acquired and you will receive the Scheme Consideration in respect of those Units.

3.10 What happens if a Superior Proposal emerges?

Since the Initial Proposal was announced on 4 June 2019, no Superior Proposal has emerged from any party other than CHAB.

If a Competing Proposal is made involving AOF, the AOF Independent Directors having regard to their obligations under the Scheme Implementation Agreement (including the 'no talk' restrictions) will consider the merits of that proposal. If the Independent Directors consider that the Competing Proposal is a Superior Proposal, they will advise you of their recommendation.

CHAB has been granted a right under the Scheme Implementation Agreement to match or better any Competing Proposal that the AOF Independent Directors consider to be a Superior Proposal.

AUIREL will be required to pay to CHAB a break fee of approximately \$4.88 million (**AUIREL Break Fee**) if:

- (a) a Competing Proposal in respect of AOF is publicly announced or received by AUIREL and completed by 2 September 2020; or
- (b) any AOF Independent Director changes or withdraws its recommendation to vote in favour of the Scheme in connection with a Competing Proposal.

3.11 What happens if the Conditions Precedent are not satisfied or (where applicable) waived or the Scheme Implementation Agreement is terminated and the Scheme does not proceed?

AOF Unitholders should also be aware that the Scheme Implementation Agreement may be terminated in certain circumstances (details of which are set out in section 7.4(d) of this Explanatory Memorandum). If the Scheme Implementation Agreement is terminated or any of the Conditions Precedent are not satisfied or (where applicable) waived, the Scheme will not proceed, the Scheme Units will not be transferred to CHAB, you will not receive the Scheme Consideration and AOF will remain listed on ASX.

In some circumstances, AUIREL may be required to pay the AUIREL Break Fee to CHAB (see section 7.4(c) of this Explanatory Memorandum for further information).

If the Scheme is not implemented, AUIREL will continue to implement its strategy and investment objectives (see section 4.2 of this Explanatory Memorandum for further information). The AUIREL Board will also consider whether a distribution should be declared or paid in respect of AOF.

3.12 What happens if the Scheme Resolutions are approved by the requisite majorities of AOF Unitholders?

If:

- (a) the Scheme Resolutions are approved by the requisite majorities of AOF Unitholders at the Scheme Meeting; and
- (b) all other Conditions Precedent (other than obtaining the Second Judicial Advice) have been satisfied or (where applicable) waived,

AUIREL will apply to the Court for the Second Judicial Advice.

Each AOF Unitholder has the right to appear at the Second Court Hearing and oppose the Second Judicial Advice.

If you wish to oppose AUIREL obtaining the Second Judicial Advice, you may do so by filing with the Court and serving AUIREL with an interlocutory process in the prescribed form, together with any affidavit on which you wish to rely at the hearing, on or before 4.00pm (Melbourne time) on Thursday, 7 November 2019. You may also oppose the Second Judicial Advice by attending the Second Court Hearing and applying to the Court to raise any objections you may have at the hearing. You should notify AUIREL in advance of any intention to object. The date of the Second Court Hearing is currently scheduled to be Friday, 8 November 2019, although this date is subject to change.

3. Overview of the Scheme (continued)

3.13 What happens if the Court gives the Second Judicial Advice?

If the Court gives the Second Judicial Advice and all other Conditions Precedent have been satisfied or (where applicable) waived, AUIREL will execute the Supplemental Deed and lodge it with ASIC, at which time the Scheme will become Effective. A copy of the Supplemental Deed is set out at Attachment C.

Under the Trust Constitution, as amended by the Supplemental Deed:

- (a) each Scheme Participant is deemed to have warranted to CHAB, and to have authorised AUIREL to warrant to CHAB, that:
 - (i) all of their Scheme Units (and any rights and entitlements attaching to those Scheme Units) which are transferred to CHAB pursuant to the Scheme will, at the date of transfer to CHAB, be fully paid and free from all mortgages, charges, liens, encumbrances, security interests and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind; and
 - (ii) they have full power and capacity to sell and transfer their Scheme Units to CHAB pursuant to the Scheme;
- (b) AUIREL will have power to do all things which it considers necessary, desirable or reasonably incidental to give effect to the Scheme and the Scheme Implementation Agreement;
- (c) subject to the payment of the Scheme Consideration to each Scheme Participant, and until AUIREL registers CHAB as the holder of the Scheme Units in the Register, each Scheme Participant irrevocably appoints AUIREL as its attorney and agent (and directs AUIREL in such capacity to appoint CHAB or any nominee of CHAB) as its sole proxy and, where applicable, corporate representative, to attend AOF Unitholder meetings, exercise the votes attaching to the Scheme Units registered in its name and sign any AOF Unitholder resolutions.

The Supplemental Deed will bind AOF and all AOF Unitholders, including those who do not attend the Scheme Meeting, who do not vote at that meeting and those who vote against the Scheme Resolutions.

3.14 What happens if the Scheme becomes Effective and is implemented?

(a) Suspension of trading in Units on ASX

If the Scheme becomes Effective, AUIREL intends to apply to ASX for the Units to be suspended from trading on the ASX at the close of trading on the Effective Date.

(b) Obligations of CHAB

On 1 October 2019, CHAB executed the Deed Poll in favour of the Scheme Participants pursuant to which CHAB agreed, subject to the Scheme becoming Effective, to:

- (i) duly and punctually observe and perform all obligations contemplated of it under and in accordance with the Scheme, including to pay the Scheme Consideration for the Scheme Units in accordance with the Scheme Implementation Agreement; and
- (ii) do all things that it is required to do under the Scheme Implementation Agreement to implement the Scheme.

A copy of the Deed Poll is set out at Attachment B.

The Consortium Members have agreed pursuant to an equity commitment letter to provide, on a several basis, to CHAB an amount equivalent to the amount required to pay the Scheme Consideration for each of the Scheme Units for the sole purpose of CHAB satisfying its obligations under the Scheme Implementation Agreement and the Deed Poll.

(c) Steps for acquisition of Units

If the Scheme becomes Effective:

- (i) CHAB will pay the Scheme Consideration for the Scheme Units, in cleared funds into an Australian denominated trust account in the name of, and operated by, AUIREL as trustee for the Scheme Participants by no later than 10.00am (Melbourne time) on the Business Day before the Implementation Date;
- (ii) subject to CHAB paying the aggregate Scheme Consideration to AUIREL as set out above, AUIREL will pay to each Scheme Participant the Scheme Consideration of \$3.04 cash per Scheme Unit (less any future distributions declared or paid in respect of AOF and subject to any withholding for foreign residents outlined below) on the Implementation Date in the manner described below; and
- (iii) AUIREL will transfer the Scheme Units to CHAB.

(d) What AOF Unitholders will receive

If the Scheme is implemented and you are a Scheme Participant, you will receive the Scheme Consideration of \$3.04 cash for each Scheme Unit you hold (less any future distributions declared or paid in respect of AOF and subject to any withholding outlined at section 6.1(b) of this Explanatory Memorandum).

Your Scheme Units will be acquired and you will receive the Scheme Consideration even if you did not vote or voted against any of the Scheme Resolutions.

You will be a Scheme Participant if you are an AOF Unitholder on the Register on the Record Date (other than CHAB).

If any amount is required to be withheld by CHAB under Subdivision 14-D of Schedule 1 to the Taxation Administration Act (which relates to withholding from the purchase price paid to certain foreign residents), the amount of that tax will be deducted from the Scheme Consideration (see section 6.1(b) of this Explanatory Memorandum for further information).

(e) Payment of Scheme Consideration

The Scheme Consideration will be paid by AUIREL making a payment to each Scheme Participant's bank account nominated with the Registry in accordance with the requirements of the Registry before the Record Date.

If a Scheme Participant has not notified the Registry of a bank account or would like to change the existing nominated bank account, the Scheme Participant should complete a Direct Credit Facility form, available at boardroomlimited.com.au/investor-forms/, and return it to enquiries@boardroomlimited.com.au before the Record Date.

If a Scheme Participant does not have a nominated bank account with the Registry as at the Record Date, that Scheme Participant will be sent a cheque for any Scheme Consideration that the Scheme Participant is entitled to receive under the Scheme. If the Scheme Participant's whereabouts are unknown as at the Record Date, the Scheme Consideration will be paid into a separate bank account and held by AUIREL on trust until claimed or applied under laws dealing with unclaimed money.

(f) Determination of persons entitled to the Scheme Consideration**(i) Dealings on or prior to the Record Date**

For the purpose of establishing the persons who are Scheme Participants, dealings in Units will only be recognised if:

- (A) in the case of dealings of the type to be effected by CHES, the transferee is registered in the Register as a holder of the relevant Units by the Record Date; and
- (B) in all other cases, registrable transfers or transmission applications are received by the Registry by the Record Date. AUIREL must register such transfers or transmission applications which it receives at or before the Record Date.

(ii) Dealings after the Record Date

AUIREL will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Units received after the Record Date or received prior to the Record Date and not in registrable form.

For the purposes of determining entitlements to the Scheme Consideration, AUIREL will from the Record Date until registration of CHAB in respect of all of the Units, maintain the Register in this form, which, together with the terms of the Scheme, will determine entitlements to the Scheme Consideration.

From the Record Date, each entry on the Register will cease to be of any effect other than as evidence of entitlement to the Scheme Consideration in respect of Scheme Participants relating to that entry.

Any statements of holding in respect of Units shall, from the Record Date, cease to have any effect as documents of evidence of title in respect of such Units.

(g) Post-implementation matters

Following implementation of the Scheme, an application will be made for AOF to be de-listed from the ASX. The trustee of each subtrust of AOF will also be replaced by an entity within the Charter Hall Group and associated with CHAB with effect immediately after implementation of the Scheme. Refer to section 5.6 of this Explanatory Memorandum for further detail about the Consortium's intentions in the event that the Scheme becomes Effective.

3. Overview of the Scheme (continued)

3.15 What are the tax implications of the Scheme for AOF Unitholders?

The tax consequences of the Scheme for AOF Unitholders will depend on the personal taxation and financial circumstances of each AOF Unitholder.

General information about the Australian CGT consequences of the Scheme is set out in section 6 of this Explanatory Memorandum. This general information does not apply to AOF Unitholders who hold their Units on revenue account or as trading stock.

The AOF Directors recommend that AOF Unitholders consult their own taxation advisers about the taxation consequences for them if the Scheme is implemented.

3.16 What happens if you do not provide a declaration to CHAB that you are an Australian resident or that your interest in AOF is not an indirect Australian real property interest?

If you do not provide a declaration to CHAB that you are an Australian resident or that your interest in AOF is not an indirect Australian real property interest, CHAB will, if it otherwise reasonably believes that you are a non-resident withhold 12.5% of the purchase price and remit this amount to the ATO.

More information on the foreign resident CGT withholding is set out in section 6.1(b) of this Explanatory Memorandum.

3.17 What if I want further information?

If you have any questions about the Scheme, please contact the AOF Unitholder Information Line on +61 1800 179 970 from Monday to Friday between 8.15am and 5.30pm (Melbourne time).

For information about your individual financial or taxation circumstances please consult your investment, legal, taxation or other professional adviser.

Section 4

Information about AOF

4. Information about AOF

4.1 Overview of AOF

The Australian Unity Office Fund (ASX: AOF) is an ASX listed A-REIT that wholly owns a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra. The portfolio is independently valued at \$668.4 million as at 30 June 2019, has an occupancy rate of 95.3% and WALE of 3.5 years. As at 30 September 2019, AOF had a market capitalisation of \$491.8 million (based on a closing price of \$3.02 per Unit).

AUIREL is the responsible entity of AOF. AUIREL has appointed AUFML as investment manager and AUPM as property manager of AOF. AUFML and AUPM are part of the Australian Unity property business unit which is an established, well regarded investment manager of commercial and health care property with approximately \$3.7 billion of real estate funds under management as at 30 June 2019 (including AOF).

4.2 Strategy and investment objectives

AUIREL's objective is to deliver AOF Unitholders sustainable income returns via quarterly distributions and the potential for capital growth over the long term by investing in a diversified portfolio of Australian office properties. AOF's strategy is to:

- (a) focus predominantly on owning Australian office properties in metropolitan and CBD markets;
- (b) grow net property income and enhance capital values through active asset management;
- (c) deliver investors sustainable and growing income returns via quarterly distributions;
- (d) maintain a capital structure that has a target gearing below 40%; and
- (e) construct a portfolio that maintains diversification of geography, tenants and lease expiry profile through:
 - (i) investments in existing properties (that may include undertaking refurbishment and alterations to meet changing tenant requirements and where income risk can be suitably mitigated, undertaking redevelopment of a property); and
 - (ii) potential future acquisitions.

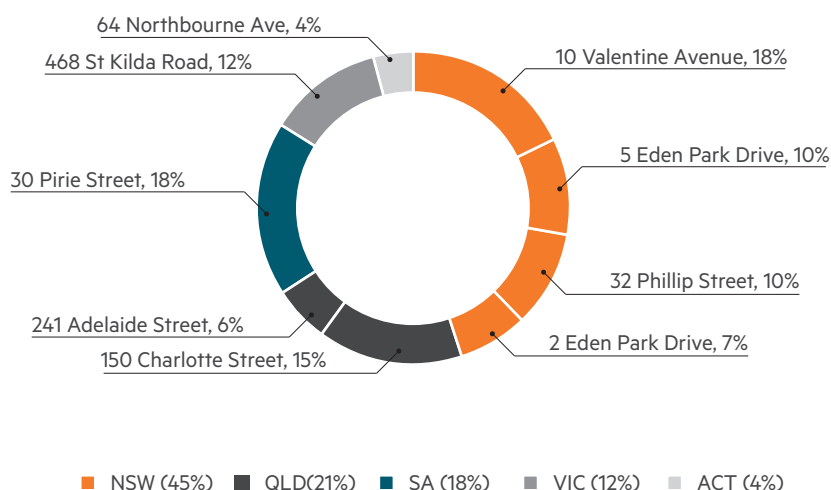
4.3 Portfolio overview

A summary of AOF's portfolio as at 30 June 2019 is set out below.

Key portfolio statistics	As at 30 June 2019
Number of properties	9
Independent valuation	\$668.4 million
Weighted average capitalisation rate	6.21%
Net lettable area (NLA)	107,667 sqm
Occupancy (by NLA)	95.3%
Weighted average lease expiry (WALE)	3.5 years

(a) Geographic diversification as at 30 June 2019¹

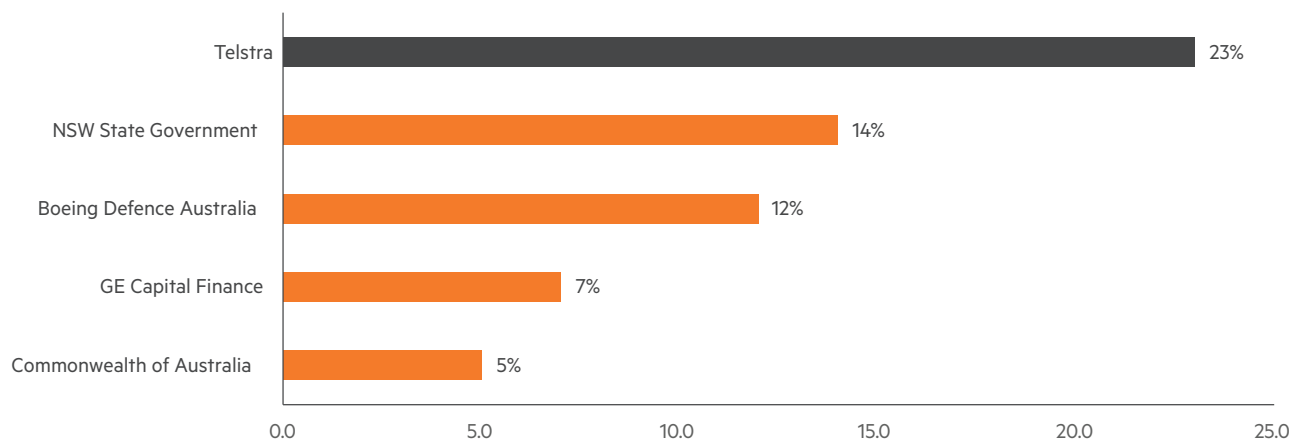
AOF's portfolio is geographically diversified across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra as illustrated by the chart below outlining the percentage revenue by property as at 30 June 2019.



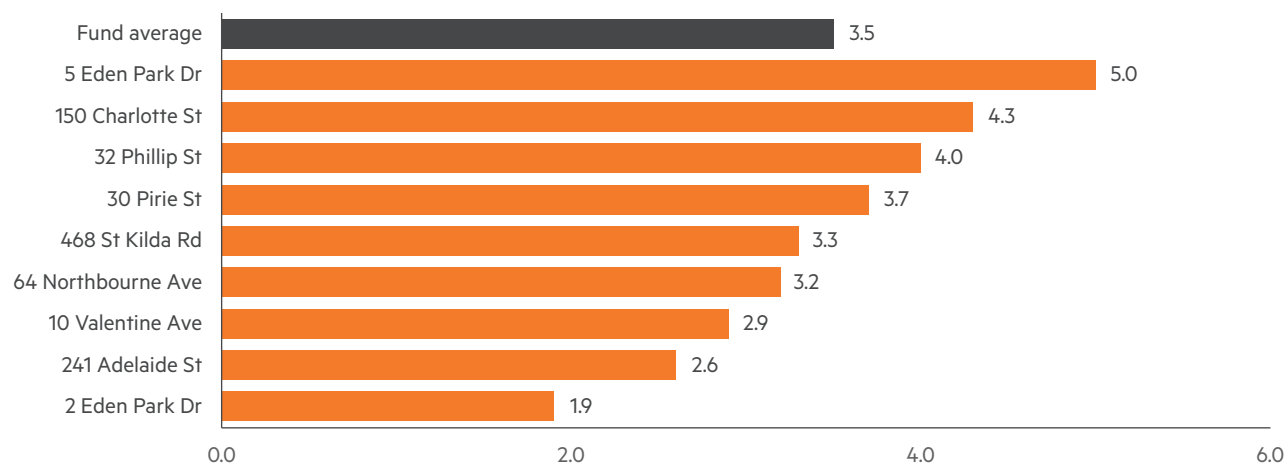
¹ By independent valuation as at 30 June 2019.

(b) Top 5 tenants as at 30 June 2019²

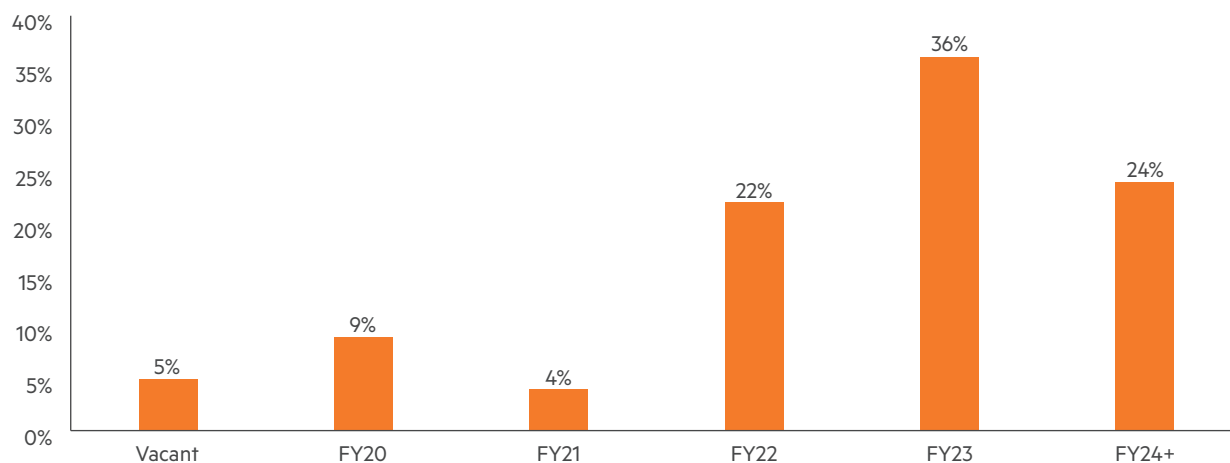
AOF's earnings are underpinned by high quality tenants including Telstra, NSW State Government, Boeing Defence Australia, GE Capital Finance and Commonwealth of Australia. As at 30 June 2019, AOF's top 5 tenants (by gross property income) account for 61% of gross property income as illustrated in the graph below.

**(c) Portfolio lease expiry as at 30 June 2019**

As at 30 June 2019, the average lease expiry for properties in the AOF property portfolio is 3.5 years, as illustrated in the graph below.

**(d) Lease expiry profile as at 30 June 2019³**

The profile of the expiry of leases by NLA as at 30 June 2019 is set out in the graph below.



² By gross property income as at 30 June 2019.

³ By NLA as at 30 June 2019.

4. Information about AOF (continued)

(e) Investment portfolio as at 30 June 2019

A list of AOF's properties and their key statistics as at 30 June 2019 is set out below.

Property	State	Independent value (\$m)	Cap rate	NLA (sqm)	WALE (years)	Occupancy (by NLA)
Single or dominant tenant assets						
30 Pirie Street, Adelaide	SA	124.5	7.25%	24,749	3.7	94.0%
10 Valentine Avenue, Parramatta	NSW	120.0	5.75%	16,020	2.9	100.0%
150 Charlotte St, Brisbane	QLD	102.0	6.00%	11,049	4.3	97.3%
5 Eden Park Drive, North Ryde	NSW	66.0	6.00%	11,030	5.0	92.8%
32 Phillip Street, Parramatta	NSW	65.0	5.75%	6,759	4.0	100.0%
Multi-tenant assets						
468 St Kilda Road, Melbourne	VIC	80.5	5.25%	11,211	3.3	96.7%
2 Eden Park Drive, North Ryde	NSW	47.4	6.25%	10,345	1.9	100.0%
241 Adelaide Street, Brisbane	QLD	39.0	7.50%	10,075	2.6	88.2%
64 Northbourne Avenue, Canberra	ACT	24.0	7.00%	6,429	3.2	86.4%
Total / weighted average		668.4	6.21%	107,667	3.5	95.3%

(f) 2 Valentine Avenue, Parramatta development opportunity

Subject to approval of the Board, AUIREL intends to pursue a development scheme for a commercial office building with NLA of approximately 28,000 sqm at 2 Valentine Avenue, Parramatta, which is on the same title as AOF's existing property at 10 Valentine Avenue, Parramatta.

In April 2018, AUIREL received a development consent to build an office building of approximately 8,000 sqm.

AUIREL is pursuing a site specific planning proposal to amend the building height and floor space ratio (or density) standards that apply to the site at 2-10 Valentine Avenue, Parramatta that would enable a larger office building to be developed of approximately 28,000 sqm.

On 29 May 2019, the NSW Government Department of Planning & Environment (as delegate of the Minister for Planning and Public Spaces) determined that AUIREL's site specific planning proposal should proceed subject to the conditions of the Gateway Determination.

The conditions of the Gateway Determination require the City of Parramatta Council to consult with the community and relevant public authorities, amongst other things. The community consultation process finished on 2 August 2019.

Thereafter, the City of Parramatta Council will consider any submissions received and determine if the local environmental plan should be made. This Council meeting has been scheduled for mid October 2019. Assuming that it resolves to proceed, the local environment plan will be prepared by the NSW Parliamentary Counsel. With the Minister's (or delegate's) approval, the local environmental plan is published on the NSW legislation website and becomes law. The Gateway Determination states that the site specific local environment plan is to be finalised by 29 February 2020.

On 29 August 2019, AUIREL lodged a development application with City of Parramatta Council to enable the development application assessment processes to run in parallel with the site specific Gateway Determination process. The recent development application seeks to add additional office space above the existing commercial office building with NLA of approximately 8,000 sqm the subject of the current development consent which, if approved, will result in a development consent for a building with NLA of approximately 28,000 sqm.

In parallel with the development approval process, AUIREL is continuing its efforts to seek tenant pre-commitments for the proposed development. AUIREL is in discussions with a number of tenants seeking accommodation in Parramatta.

AUIREL is targeting a fully-let yield on cost, including tenant incentives and finance costs, of between 7% and 8%, and the indicative value range of the completed new building is between \$250 million and \$300 million. If the development application lodged with City of Parramatta Council on 29 August 2019 is approved, and subject to Board approval and tenant pre-commitments and financing for the proposed development being obtained, it is expected that completion of the proposed development will occur approximately 2 years after works have commenced.



Artist impression of the potential development at 2 Valentine Avenue, Parramatta, NSW

4. Information about AOF (continued)

4.4 Financial Information

The historical financial information for AOF is set out below. This has been extracted from AOF's audited financial statements for the 12 months ending 30 June 2017, the 12 months ending 30 June 2018 and the 12 months ending 30 June 2019. These statements are available on the ASX or the news and announcements section of AOF's website at www.australianunityofficefund.com.au/news-and-announcements.

(a) Key financial performance measures

	12 months ending 30 June 2017	12 months ending 30 June 2018	12 months ending 30 June 2019
	(Audited)	(Audited)	(Audited)
Statutory net profit	\$60.6m	\$97.3m	\$44.8m
FFO	\$24.0m	\$27.0m	\$28.2m
FFO per Unit	17.1 cpu	17.2 cpu	17.3 cpu
Distribution	\$21.1m	\$24.5m	\$25.7m
Distribution per Unit	15.0 cpu	15.6 cpu	15.8 cpu

AOF uses the Property Council of Australia's definition of Funds from Operations (FFO) as a key determinant of the level of distributions to pay and aims to distribute between 80% and 100% of FFO each year. FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards net profit for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives and leasing costs, rental straight-line adjustments and other unrealised or one-off items.

(b) Balance sheet

\$m	30 June 2017	30 June 2018	30 June 2019
	(Audited)	(Audited)	(Audited)
Cash and cash equivalents	4.1	6.2	5.7
Receivables	0.4	0.8	1.6
Financial assets held at fair value	0.2	–	–
Other assets	0.4	0.6	0.5
Investment properties	441.1	635.6	668.4
Total assets	446.2	643.1	676.1
Distributions payable	5.3	6.4	6.4
Payables	4.3	4.4	5.6
Financial liabilities held at fair value	0.0	0.3	6.1
Borrowings	122.8	197.2	203.9
Total liabilities	132.5	208.2	222.1
Net assets	313.7	434.9	454.0
Number of Units on issue (million)	140.4	162.8	162.8
Net Tangible Assets per Unit (\$)	\$2.23	\$2.67	\$2.79
Gearing	27.0%	30.2%	29.7%

4.5 FY20 guidance

As announced to ASX on 26 August 2019, subject to no material change in current market conditions and no unforeseen events and based on business as usual operations, AOF provides FFO guidance for financial year 2020 of between 17.3 and 17.7 cents per Unit, and distribution guidance for financial year 2020 of 16.0 cents per Unit.

Given the Scheme Consideration is reduced by the amount of any future distributions declared or paid in respect of AOF, AUIREL has resolved not to pay a distribution for the quarter ended 30 September 2019.

4.6 AOF trading performance

Set out below is a summary of AOF's trading performance since its initial public offering in June 2016.



Source: Company filings, IRESS as at 30 September 2019

4.7 Material changes in financial position

Within the knowledge of each of the AOF Directors, other than for accrued earnings post 1 July 2019, there has been no material change in the financial position of AOF since 30 June 2019, being the date of the last audited balance sheet announced to the ASX.

4.8 Capital structure

As at the date of this Explanatory Memorandum, AOF has 162,831,952 Units on issue.

4.9 AOF's substantial holders

The substantial holders of Units as at the date of this Explanatory Memorandum are as follows:

Name	Number of Units	Voting power in Units
CHAB and its associates	32,403,558	19.90%
Australian Unity Property Limited and its associates	22,842,855	14.03%
Hume Partners	9,334,103	5.73%

AUIREL has relied on substantial holder notices provided to it up to the date of this Explanatory Memorandum, which are available on the ASX website, to compile the above table. Information in regard to substantial holdings arising, changing or ceasing before this time or in respect of which the relevant announcement is not available on the ASX website is not included above.

4. Information about AOF (continued)

4.10 Information disclosed to ASX and documents lodged with ASIC

AOF is a “disclosing entity” for the purposes of the Corporations Act and as such is subject to periodic reporting and continuous disclosure obligations under the Corporations Act and the ASX Listing Rules.

Publicly disclosed information about all listed entities, including AOF, is available on the ASX website at www.asx.com.au. Publicly disclosed information about AOF is also available on AOF’s website at www.australianunityofficefund.com.au.

In addition, AUIREL is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC by AUIREL may be obtained from, or inspected at, ASIC offices.

Section 5

Information about CHAB and the Consortium

5. Information about CHAB and the Consortium

5.1 Overview of the Consortium

Abacus Funds Management Limited (ACN 007 415 590) as responsible entity of Abacus Trust (ARSN 096 572 128) (**Abacus**) and Charter Hall Holdings Pty Limited (ACN 051 363 547) (**Charter Hall**) (together the **Consortium**) established CHAB Office Pty Limited (ACN 633 833 566) (acting in its capacity as trustee of CHAB Office Trust (ABN 57 232 539 578)) (**CHAB**), for the purposes of acquiring an interest in AOF.

Abacus and Charter Hall each own 50% of CHAB and entered into a framework agreement dated 4 June 2019 (**Framework Agreement**) pursuant to which it is proposed that Abacus and Charter Hall will co-operate for the purposes of pursuing a transaction involving the acquisition of all of the Units which CHAB does not currently hold.

5.2 Directors of CHAB

The directors of CHAB as at the date of this Explanatory Memorandum are:

- David Harrison;
- Gavin Lechem;
- Sean McMahon; and
- Steven Sewell.

5.3 Information on CHAB

(a) Charter Hall Group

Charter Hall Group (ASX: CHC) is a stapled group comprising shares in Charter Hall Limited and units in Charter Hall Property Trust (ARSN: 113 339 147). Charter Hall Group has been listed on the ASX since 2005 under the ticker code CHC. It is included in the S&P/ASX 100 index and, as at 30 September 2019, has a market capitalisation of \$5.43 billion.

Charter Hall Group is one of Australia's leading fully integrated property groups, with over 28 years' experience managing and investing in high quality property on behalf of institutional, wholesale and retail clients. Charter Hall Group has curated a \$34.6 billion diverse portfolio of over 840 high quality, long leased properties around Australia across its core sectors – office, retail, industrial and social infrastructure.

Charter Hall Group has offices in Sydney, Melbourne, Brisbane, Adelaide and Perth. Further information on the Charter Hall Group is available from its website at www.charterhall.com.au.

(b) Abacus Property Group

Abacus Property Group (ASX: ABP) is a diversified A-REIT with an investment portfolio concentrated in the Office and Self Storage sectors. Abacus invests capital in real estate opportunities to deliver superior long term returns and maximise securityholder value.

Abacus Property Group's key focus is to be a strong asset backed, annuity style business model where capital is directed towards assets that provide potential for enhanced income growth and ultimately create value. Abacus Property Group's people, market insight and repositioning capability together with strategic partnering are the key enablers of its strategy.

Abacus Property Group was established in 1996 and listed on the ASX in 2002. It is included in the S&P/ASX 200 index and has a market capitalisation of \$2.53 billion as at 30 September 2019, with a single corporate office in Sydney, Australia.

Abacus Property Group is comprised of Abacus Group Holdings Limited (the nominated parent entity), Abacus Group Projects Limited and Abacus Storage Operations Limited, Abacus Trust, Abacus Income Trust and Abacus Storage Property Trust. The shares and units in these entities are stapled together and trade as one security in ABP.

Further information on the Abacus Property Group is available from its website at www.abacusproperty.com.au.

5.4 Rationale for the Scheme

AOF's portfolio of nine office properties located in five Australian capital cities is consistent with the Consortium's strategic objectives of owning and managing office properties in Australian metropolitan office markets. If the Scheme is implemented, CHAB expects that the acquisition of AOF will grow each Consortium member's earnings through the addition of rental income and management fees. The acquisition of AOF will also further diversify the composition of the Abacus Property Group and Charter Hall Group property portfolios.

5.5 Funding arrangements for the Scheme Consideration

On the Implementation Date, Scheme Participants will receive the Scheme Consideration of \$3.04 for each Unit (less any distributions declared or paid by AUIREL after the date of the Implementation Agreement and prior to the Implementation Date (if any) and subject to any withholding for foreign residents as outlined in section 6.1(b) of this Explanatory Memorandum). Based on the number of Units on issue that are not currently owned by CHAB as at the date of this Explanatory Memorandum the maximum amount of cash payable by CHAB to Scheme Participants in connection with the Scheme will be approximately A\$396.5 million.

The Scheme is not conditional on CHAB obtaining debt or equity finance to fund the payment of the Scheme Consideration. CHAB has advised AUIREL that it proposes to fund the acquisition using a combination of debt and equity. A description of the CHAB's funding arrangements to finance the payment of the Scheme Consideration is as follows:

(a) Equity Funding Arrangements

CHAB has received an equity commitment for the aggregate Scheme Consideration from Abacus Funds Management Limited as responsible entity of Abacus Trust and Charter Hall Holdings Pty. Limited (ACN 051 363 547), a member of the Charter Hall Group. As a result, CHAB has sufficient capacity to fund the aggregate Scheme Consideration. The equity commitment letter is conditional upon the Scheme becoming Effective.

Abacus Property Group has sufficient available liquidity to fund its equity contribution. Abacus Property Group's available liquidity as at 30 June 2019 of approximately \$330 million was substantially increased following a successful \$250 million equity raising on 24 July 2019.

Charter Hall has equity commitments from wholesale capital partners sufficient to fund its equity contribution.

(b) Debt Funding Arrangements

CHAB has executed a binding commitment letter dated 14 August 2019 with Australia and New Zealand Banking Group Limited, National Australia Bank Limited and The Hongkong and Shanghai Banking Corporation Limited, Sydney Branch as mandated lead arrangers and bookrunners to provide debt facilities to CHAB totalling \$375 million (**Debt Funding Arrangements**).

Drawdown under the Debt Funding Arrangements is subject to a number of conditions precedent, including:

- (i) the execution and delivery of long-form financing documents;
- (ii) approval of the Scheme by AOF Unitholders and the Court; and
- (iii) satisfaction of other conditions which are customary for facilities funding acquisitions by way of a scheme of arrangement.

It is expected that these conditions will be satisfied or waived at least one Business Day prior to the Implementation Date. If these conditions precedent are satisfied, then the financiers must provide the funds for their portion of a drawdown request by CHAB up to their commitment under the Debt Funding Arrangements. Financiers are required to provide funding under the Debt Funding Arrangements on a certain funds basis. That is, they are required to fund if the conditions precedent are satisfied (unless certain key representations are not correct, certain key undertakings are not complied with, or certain key events of default are subsisting).

As at the date of this Explanatory Memorandum, CHAB is not aware of:

- (i) any reason why any of the conditions precedent to the Debt Funding Arrangements will not be satisfied, and expect that they will be satisfied, in time to allow payment in full of the aggregate Scheme Consideration as and when due under the terms of the Scheme; or
- (ii) the occurrence of any misrepresentation, breach of undertaking or event of default or any circumstance that would lead to any misrepresentation, breach of undertaking or event of default or which would give rise to a right to the financiers to refuse a drawdown request under the Debt Funding Arrangements.

Notwithstanding the above, CHAB will have sufficient equity (via the equity commitment as described at section 5.5(a)) to fund the aggregate Scheme Consideration in full, such that the Scheme is not subject to the Debt Funding Arrangements. As such, CHAB's ability to make payment of the aggregate Scheme Consideration is not dependent upon any such Debt Funding Arrangements being put in place.

5. Information about CHAB and the Consortium (continued)

5.6 The Consortium's intentions if the Scheme is implemented

This section 5.6 sets out the Consortium's current intentions on the basis of facts and information concerning AOF and the general business environment, each of which as known to the Consortium at the time of the preparation of this Explanatory Memorandum. The intentions set out in this section are statements of current intention only and are based on facts and circumstances that are known to the Consortium as at the date of preparing this Explanatory Memorandum.

If the Scheme is implemented, the Consortium members will own 50% of each AOF property through their 50% interest in CHAB. In particular, CHAB intends to:

- (a) have AOF removed from the official list of the ASX;
- (b) continue to operate AOF as a trust investing in Australian office property;
- (c) deregister AOF (and its sub-trusts, where applicable) as a managed investment scheme under the Corporations Act;
- (d) develop and implement strategies to deliver superior returns for the AOF portfolio including refurbishment or redevelopment of particular properties in the AOF portfolio, drive rental growth through implementation of leasing strategies and maintenance of rental income in performing assets;
- (e) refinance AOF's existing debt facilities with a new syndicated loan facility; and
- (f) remove AUIREL as responsible entity of AOF and appoint a member of the Charter Hall Group as the new responsible entity.

5.7 The Consortium's interest in Units

(a) Current interests

The Consortium currently holds 32,403,558 Units representing 19.9% of Units on issue.

(b) Dealings in the last four months

The Consortium acquired its interest in AOF on 4 June 2019 at a purchase price of \$2.95 per Unit for a total consideration of A\$95.6 million. CHAB's power to vote or dispose of Units is restricted by the Framework Agreement.

(c) Benefits to third parties

Except for the aggregate Scheme Consideration to be provided under the Scheme and the relevant interest outlined in section 5.7(b) of this Explanatory Memorandum above, during the four months before the date of this Explanatory Memorandum, none of CHAB or, to the best of its knowledge, any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an Associate to:

- (i) vote in favour of the Scheme; or
- (ii) dispose of Units.

Section 6

Taxation Considerations

6. Taxation Considerations

The comments below provide a general summary of Australian tax issues for Scheme Participants who hold their Scheme Units on capital account for Australian income tax purposes.

These comments do not apply to Scheme Participants that hold their Scheme Units other than on capital account (eg Scheme Participants that hold their Scheme Units on revenue account or as trading stock). These Scheme Participants should seek independent professional advice.

These comments also do not consider the consequences of Division 230 of the *Income Tax Assessment Act 1997* (the Taxation of Financial Arrangements or TOFA regime). If you are subject to TOFA, you should obtain your own tax advice as to the implications under the TOFA regime (if any).

The comments below are based on the tax laws in force as at 9.00am (Melbourne time) on the date of this Explanatory Memorandum. The tax consequences discussed below may alter if there is a change to the tax law or a change to the interpretation of the tax law after the date of this Explanatory Memorandum. They do not take into account the tax law of countries other than Australia.

Australian tax laws are complex. The summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. The precise implications of disposal of the Scheme Units will depend upon your specific circumstances. It is strongly recommended that you obtain specialist taxation advice on the consequences of disposing of the Scheme Units, taking into account your own specific circumstances.

6.1 Income tax

(a) Consequences of disposal of Scheme Units

The disposal of a Scheme Unit will be a CGT event. The time of the event will be the Implementation Date.

Resident Scheme Participants

A capital gain will arise if the capital proceeds received on disposal (ie, \$3.04 per Scheme Unit) exceed the CGT cost base of the Scheme Units.

The CGT cost base (or reduced cost base) of each Scheme Unit includes the amount paid to acquire the Unit plus any transaction/incidental costs such as broker fees. However, the cost base (and reduced cost base) may be adjusted as a result of the character of certain amounts distributed to, or attributed to, the Scheme Participant. The manner in which these adjustments are made varies based on whether they were made before or after AOF became an attribution managed investment trust (**AMIT**), as follows:

- (i) Prior to AOF becoming an AMIT, the cost base (and reduced cost base) of the Units was reduced by tax deferred distributions made to the Scheme Participants. Details of the tax deferred distributions are available on Scheme Participants' annual tax statements.
- (ii) After AOF became an AMIT, the cost base (and reduced cost base) of the Units may be increased or decreased depending, broadly, on the actual distributions to which the Scheme Participant is entitled compared with the income components attributed to the Scheme Participant under the AMIT rules. Essentially, if the distributions exceed the attributed amounts, the cost base (and reduced cost base) of the Units will be reduced by the excess amount. If the attributed amounts exceed the distributions, the cost base (and reduced cost base) will be increased by the excess amount. This information should be available on your AMIT member annual statement.

Details of the tax deferred distributions and AMIT cost base adjustments are also available at www.australianunityofficefund.com.au/investor-centre/taxdeferred.

The CGT discount may be applied against the capital gain (reduced by relevant capital losses) if you are an individual, complying superannuation entity or trustee, you have held the Scheme Units for more than 12 months prior to sale and certain other requirements have been met (note that special rules apply to individuals who were foreign or temporary residents during part of the period of ownership of the Scheme Units and trusts who had one or more beneficiaries who were a foreign or temporary residents). Scheme Participants should seek their own taxation advice to determine if their Scheme Units have been held for the requisite period and whether the CGT discount may apply.

If the CGT discount applies, any capital gain arising to individuals and entities acting as trustees (other than a trust that is a complying superannuation entity) may be reduced by one-half after offsetting current year or prior year capital losses. For complying superannuation entities, any capital gain may be reduced by one-third after offsetting current year or prior year capital losses.

A company is not entitled to a CGT discount.

If the Scheme Participant has a net capital gain, this amount will be included in its assessable income for tax purposes. Trustees should seek specific advice in relation to the taxation consequences of making distributions attributable to any capital gain to which the CGT discount applies.

You will realise a capital loss if the capital proceeds from the disposal are less than the reduced cost base of the Scheme Units. Capital losses may only be offset against capital gains that you realise in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other assessable income.

Non-resident Scheme Participants

Any capital gain or loss made by a Scheme Participant who is a non-resident of Australia in respect of the disposal of the Scheme Units will be disregarded unless the Scheme Units are “taxable Australian property”.

Generally, a Scheme Unit should only be “taxable Australian property” if:

- (i) the Scheme Unit is, or has been, held by the relevant Scheme Participant in carrying on business through a permanent establishment in Australia;
- (ii) the Scheme Participant was previously an Australian resident individual and elected to disregard any capital gain or loss on the Scheme Unit when they ceased to be an Australian resident; or
- (iii) the Scheme Unit is an “indirect Australian real property interest”.

Broadly, the Scheme Unit will be an “indirect Australian real property interest” if the Scheme Participant (together with associates) holds an interest of 10% or more of AOF on the Implementation Date, or for a period of 12 months or more during the two years preceding the Implementation Date and more than 50% (by market value) of AOF’s assets comprise real property in Australia (which we expect to be the case).

If a Scheme Unit is “taxable Australian property”, the capital gain or loss should be calculated in a similar manner as outlined above for residents, except that non-residents are generally not entitled to any CGT discount. Special rules apply for Scheme Units acquired on or before 8 May 2012. Scheme Participants should seek their own taxation advice if their Scheme Unit is taxable Australian property.

(b) Foreign resident CGT withholding

Under the Australian foreign resident CGT withholding rules, CHAB must withhold, and pay to the ATO, 12.5% of the Scheme Consideration payable to a Scheme Participant if:

- (i) CHAB considers or reasonably believes that the Scheme Participant is a foreign resident or not an Australian resident; and
- (ii) the Scheme Participant and its associates own on the Implementation Date, or owned throughout a 12 month period during the two years preceding the Implementation Date, 10% or more of all the Units in AOF.

For this reason, CHAB will seek a declaration from each relevant Scheme Participant confirming that either it is an Australian resident (**Residency Declaration**), or that it and its associates have not owned 10% or more of the Units over any 12 month period in the two years before implementation of the Scheme (**Interest Declaration**).

If no declaration is received and CHAB considers or reasonably believes that the Scheme Participant is a foreign resident or not an Australian resident, CHAB will withhold and remit 12.5% of the Scheme Consideration payable to the Scheme Participant, to the ATO prior to, or on the Implementation Date.

If a signed residency declaration or an interest declaration form is received by CHAB by the required time, CHAB does not intend to withhold any amount from the Scheme Consideration payable to you.

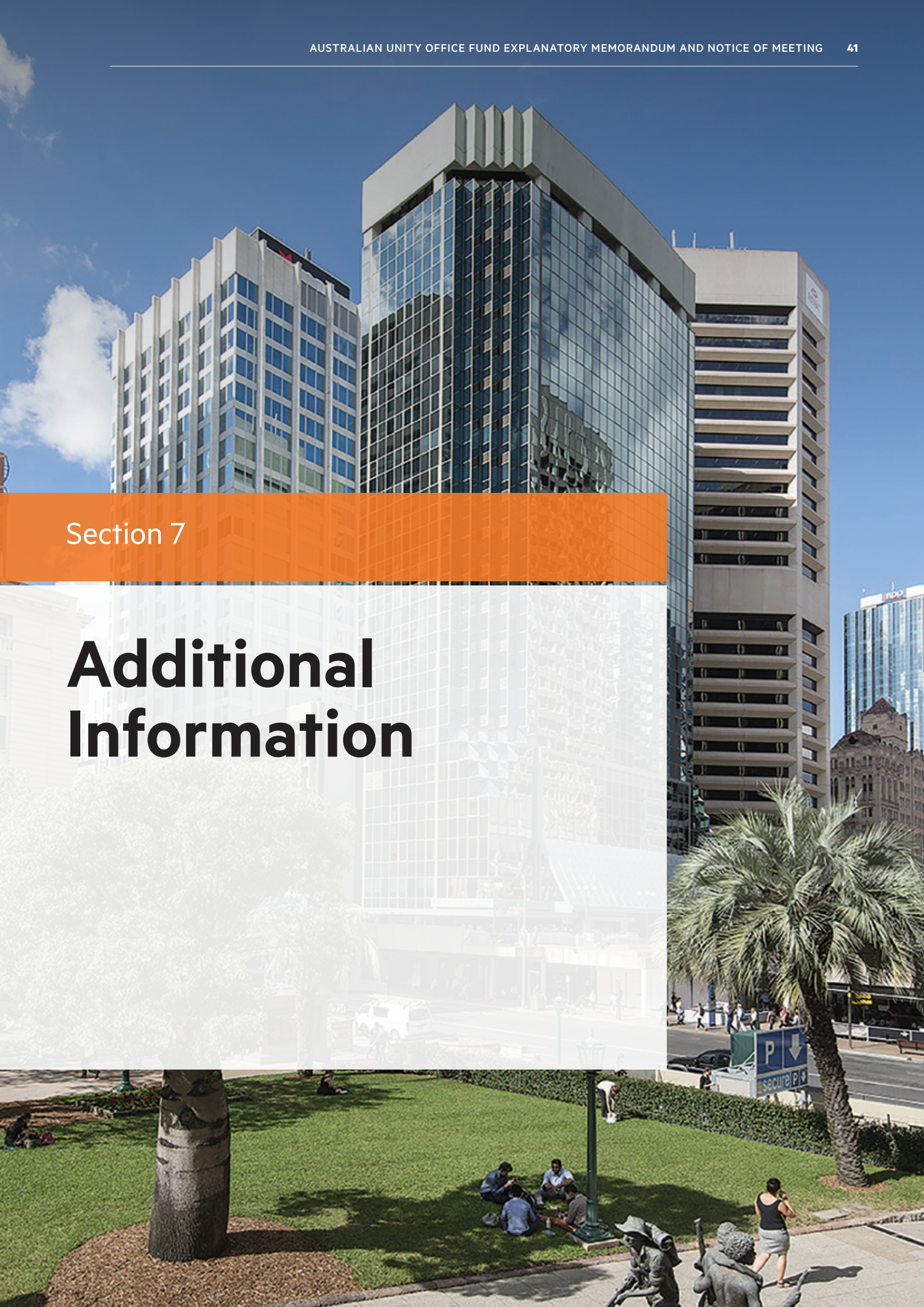
6.2 Goods and Services Tax

You should not be liable to pay GST in respect of the transfer of your Scheme Units to CHAB under the Scheme. You may be charged GST on costs that relate to the Scheme (such as adviser fees relating to your participation in the Scheme). You may be entitled to input tax credits for such costs, but should seek independent professional tax advice in relation to your individual circumstances.

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Section 7

Additional Information



7. Additional Information

7.1 Units held by AOF Directors

The Units held by or on behalf of AOF Directors as at the date of this Explanatory Memorandum are set out in the table below:

AOF Director	Number of Units
Mr Peter Day	58,000
Mr Don Marples	Nil
Ms Eve Crestani	Nil
Mr Greg Willcock	Nil
Ms Kirsty Dullahide	Nil

7.2 Interests held by or on behalf of AOF Directors in agreements or arrangements relating to the Scheme or securities of any Consortium Member or CHAB

Except as disclosed in section 7 of this Explanatory Memorandum, no AOF Director:

- (a) holds any marketable securities in any Consortium Member or CHAB;
- (b) has any interest in any contract entered into by any Consortium Member or CHAB;
- (c) has any other interest, whether as a director, member or creditor of AOF or otherwise which is material to the Scheme;
- (d) has entered into an agreement or arrangement with any other person, including a director or officer of Consortium Member and/or CHAB, in connection with or conditional upon the outcome of the Scheme.

7.3 Payments and other benefits to directors, secretaries or executive officers of AOF

No payment or other benefit is proposed to be made or given to a director, secretary or executive officer of AOF as compensation for loss of, or as consideration for or in connection with their retirement from, office in AOF as a result of the Scheme.

7.4 Summary of the Scheme Implementation Agreement

The Scheme Implementation Agreement between CHAB and AUIREL dated 2 September 2019 was released to ASX on 2 September 2019 and is available on the news and announcements section of AOF's website at www.australianunityofficefund.com.au/news-and-announcements. This section 7.4 of the Explanatory Memorandum contains a summary of the key terms of the Scheme Implementation Agreement.

(a) Conditions Precedent

A summary of the Conditions Precedents and the status of each Condition Precedent as at the date of this Explanatory Memorandum is set out at section 3.5 of this Explanatory Memorandum.

Full details of the Conditions Precedent and the ability of AOF and CHAB to rely on the various Conditions Precedent and the provisions relating to satisfaction or waiver of these Conditions Precedent are set out in clause 3 of the Scheme Implementation Agreement.

(b) Exclusivity

The Scheme Implementation Agreement contains certain exclusivity arrangements in favour of CHAB which apply during the period commencing on 2 September 2019 and the earlier of the Effective Date, the End Date and the date on which the Scheme Implementation Agreement is terminated (the **Exclusivity Period**). These exclusivity arrangements may be summarised as follows:

- (i) **(no shop)** AUIREL must not, and must ensure that its Representatives do not, except with CHAB's prior consent, solicit, encourage, initiate or invite any Competing Proposal or initiate any discussions or negotiations with any Third Party which may reasonably be expected to lead to any Competing Proposal.
- (ii) **(no talk)** subject to the fiduciary exception and the other exceptions described below, AUIREL must not, and must ensure that its Representatives do not, except with CHAB's consent, participate in any negotiations or discussions with a Third Party in relation to a Competing Proposal or any agreement, understanding or arrangement that may reasonably be expected to lead to a Competing Proposal.
- (iii) **(no due diligence)** subject to the fiduciary exception and the other exceptions described below, AUIREL must not, and must ensure that its Representatives do not, except with CHAB's prior consent, make available or permit any Third Party to receive any non-public information relating to AOF in connection with the formulation, development or finalisation of a Competing Proposal.

(iv) **(notification of approaches)** subject to the fiduciary exception described below and any Third Party confidentiality obligations, AUIREL must promptly notify CHAB (and in any event within two Business Days of becoming aware) if it or its Representatives:

- (A) receives any bona fide Competing Proposal, including details of the party making the proposal, the material terms of the proposal and any material updates to the proposal; or
- (B) provides any non-public information concerning the business or operations of AOF in connection with the formulation, development or finalisation of a Competing Proposal.

(v) **(matching right)** AUIREL is prohibited from entering into an agreement to undertake a Competing Proposal and must use its best endeavours to ensure that none of the Independent Directors recommend a Competing Proposal unless (among other things) the Competing Proposal is a Superior Proposal and AUIREL has given CHAB at least five Business Days to provide a matching or Superior Proposal to the terms of the Competing Proposal.

(vi) **(provision of further information to CHAB)** subject to certain exceptions, AUIREL must as soon as reasonably practicable provide CHAB with any non-public information about the business or affairs of AOF provided to any Third Party in connection with a Competing Proposal that has not previously been provided to CHAB, provided such information is material in the context of AOF.

However, AUIREL's 'no talk', 'no due diligence' and 'notification of approaches' obligations are subject to a fiduciary carve-out. This means that these obligations do not apply to the extent that the AOF Independent Directors determine that:

- (i) after consultation with their financial advisors, the Competing Proposal is, or could reasonably be considered to become, a Superior Proposal; and
- (ii) after receiving legal advice from their external legal advisers, that taking or refusing to take the action (as applicable) would be likely to constitute a breach of the fiduciary or statutory duties owed by any AOF Independent Director.

Further 'ordinary course of business' exceptions also apply to the 'no talk' and 'no due diligence' provisions in the Scheme Implementation Agreement.

These exclusivity arrangements are set out in full in clause 11 of the Scheme Implementation Agreement.

(c) AUIREL Break Fee

Subject to the exceptions described further below, AUIREL has agreed to pay a break fee of approximately \$4.88 million to CHAB if:

- (i) **(Competing Proposal)** during the Exclusivity Period, a certain type of Competing Proposal is announced or received by AUIREL and completed within 12 months of execution of the Scheme Implementation Agreement;
- (ii) **(termination by CHAB for material breach)** CHAB terminates the Scheme Implementation Agreement following material breach by AUIREL, except for when, at the time of termination, AUIREL has the right to terminate for CHAB's material breach; or
- (iii) **(change of recommendation)** any of the AOF Independent Directors change or withdraw their recommendation, except in the following circumstances:
 - (A) the Independent Expert concludes that the Scheme is not in the best interests of AOF Unitholders (other than where that conclusion is due wholly or in a material respect to a Competing Proposal);
 - (B) AUIREL has validly terminated, or has a right to terminate, the Scheme Implementation Agreement due to material breach by CHAB; or
 - (C) a Condition Precedent is not satisfied other than as a result of a breach by AUIREL of its obligations to use reasonable endeavours to procure that the Conditions Precedents are satisfied.

AUIREL will not have to pay the AUIREL Break Fee to CHAB if the Scheme becomes Effective or to the extent that payment of the break fee is finally determined by the Takeovers Panel or a court to be unlawful, involve a breach of the fiduciary or statutory duties of the AUIREL Board, or constitute unacceptable circumstances within the meaning of the Corporations Act. In these circumstances, if any amount has already been paid by AUIREL to CHAB, it must be refunded by CHAB to AUIREL.

The AUIREL Break Fee will not be payable to CHAB merely by reason of any Scheme Resolution not being approved by the requisite majority of AOF Unitholders at the Scheme Meeting.

(d) Termination

AUIREL or CHAB may terminate the Scheme Implementation Agreement any time before the Implementation Date if:

- (i) **(Conditions Precedent)** the Conditions Precedent are not satisfied or (where applicable) waived;
- (ii) **(material breach)** before 8.00am on the Second Court Date, the other party is in material breach of the Scheme Implementation Agreement, the terminating party has given notice to the other party in relation to the breach and, to the extent the breach is capable of remedy, the breach is not remedied within 5 Business Days (or any such shorter period ending at 8.00am on the Second Court Date) of receiving such notice;

7. Additional Information (continued)

- (iii) **(orders preventing Implementation)** any orders are issued by any court of competent jurisdiction which would prevent implementation of the Scheme;
- (iv) **(material breach of representations and warranties)** the other party commits a material breach of any representations and warranties; or
- (v) **(change of recommendation)** the AOF Independent Directors change, modify or withdraw their recommendation in relation to the Scheme.

CHAB may also terminate the Scheme Implementation Agreement any time before the Implementation Date if a Prescribed Occurrence occurs.

7.5 Change of control consequences under key contracts

(a) Investment Management Services Agreement

Under the terms of the Investment Management Services Agreement, either party may terminate the agreement on seven days' notice if the other party experiences a change of control.

A change of control of AOF is likely to occur on the Implementation Date and AUFML would then have the right to terminate the agreement. There are no termination fees payable upon a termination for change of control.

A detailed summary of the Investment Management Services Agreement is provided in the corporate governance section of AOF's website at www.australianunityofficefund.com.au/about-the-fund/corporate-governance.

(b) Loan Agreement

Under the terms of the Loan Agreement, it will be a review event if effective control of AOF is altered.

The Scheme would likely cause the effective control of AOF to be altered on the Implementation Date, therefore triggering a review event under the agreement. In the case of a review event, if the parties cannot agree to a continuation of the facilities, AOF may be required to repay the facilities.

Additionally, de-listing of AOF will be considered an event of default under the terms of the Loan Agreement. An application will be made for AOF to be de-listed following implementation of the Scheme. If there is an event of default, the commitments under the agreement may be cancelled and/or AUIREL may be required to pay (either immediately or on demand) all outstanding money under the facilities plus any applicable interest or other amounts owing in addition to that amount.

As set out in section 5.6 of this Explanatory Memorandum, CHAB intends to refinance AOF's existing debt facilities with a new syndicated loan facility if the Scheme is implemented.

7.6 Consequences of a change of responsible entity of AOF under key contracts

(a) Property Management Services Agreement

If AUIREL is removed as responsible entity of AOF and replaced with an entity that is not a related party of AUPM, the Property Management Services Agreement automatically terminates after two years or, at the discretion of AUPM, immediately terminates, in which case the incoming responsible entity of AOF must pay AUPM the equivalent of fees that AUPM would otherwise have received during the two year period immediately following the change of responsible entity of AOF assuming the change had not occurred. This amount should be calculated to be the higher of:

- (i) the amount of fees that would have been payable to AUPM based on the budgeted gross operating income and budgeted capital works for each property and the budgeted fees relating to the rent review services and the leasing services for each property for the following two years after the change of responsible entity of AOF; or
- (ii) the actual fees accrued or payable in the month immediately prior to the change of responsible entity of AOF multiplied by 24.

A detailed summary of the Property Management Services Agreement is provided in the corporate governance section of AOF's website at www.australianunityofficefund.com.au/about-the-fund/corporate-governance.

(b) Investment Management Services Agreement

The Investment Management Services Agreement will automatically terminate if AUIREL is removed as responsible entity of AOF or otherwise replaced with an entity that is not a related party of AUFML. There are no termination fees payable upon a termination for removal or replacement of AUIREL as responsible entity of AOF.

(c) Loan Agreement

Under the terms of the Loan Agreement, it will be an event of default if AUIREL is replaced as responsible entity of AOF by an entity that is not a wholly owned subsidiary of AUIREL. The consequences of an event of default under the Loan Agreement are set out in section 7.5(b) of this Explanatory Memorandum. As set out in section 5.6 of this Explanatory Memorandum, CHAB intends to refinance AOF's existing debt facilities with a new syndicated loan facility if the Scheme is implemented.

7.7 Consequences of a change of trustee of AOF subtrusts under key contracts

As set out in section 3.5 of this Explanatory Memorandum, it is a Condition Precedent to the Scheme for deeds of retirement and appointment (DORAs) to effect a change of trustee of each of the subtrusts of AOF to be executed by the Second Court Date. It is currently anticipated that the trustee of each AOF subtrust will be replaced by an entity within the Charter Hall Group and associated with CHAB with effect immediately after implementation of the Scheme.

Several AOF Group Members have obligations under certain material leases and agreements to obtain the counterparty's consent to, or procure that the incoming trustee undertakes certain actions in connection with, the change of trustee of certain AOF subtrusts. In particular, as set out in section 3.5 of this Explanatory Memorandum, the consent of The Brisbane Club under the head lease for the property at 241 Adelaide Street, Brisbane is a Condition Precedent to the Scheme. As at the date of this Explanatory Memorandum, AUIREL has requested the consent of The Brisbane Club and is yet to receive this consent. AUIREL and CHAB are in the process of agreeing an approach to seek certain consents under other material leases and agreements in accordance with the Scheme Implementation Agreement.

7.8 ASIC Modifications

On behalf of CHAB, AUIREL has sought, and ASIC has granted the following relief:

- (a) a modification to item 7 of section 611 of the Corporations Act to enable all AOF Unitholders other than CHAB and its associates (unless the associate is a custodian, nominee, trustee, responsible entity or other fiduciary which has received a specific instruction from a third party beneficiary, who is not an associate of CHAB, directing the associate how to vote) to vote on the Approval Resolution; and
- (b) an exemption from Division 5A of Part 7.9 of the Corporations Act to the extent that CHAB may potentially be characterised as making an unsolicited off-market offer to purchase Units under the Scheme.

AUIREL has also applied for, and ASIC has granted, an exemption from Division 2 of Part 7.7 of the Corporations Act in relation to the requirement for AUIREL to issue a financial services guide in connection with this Explanatory Memorandum.

7.9 ASX relief

AUIREL has applied for, and ASX has granted, the following confirmations:

- (a) confirmation that ASX does not object to the proposed amendments to the Trust Constitution under ASX Listing Rule 15.1.1;
- (b) confirmation that the proposed manner in which the Scheme Units are to be dealt with is appropriate and equitable for the purposes of ASX Listing Rule 6.12.3; and
- (c) confirmation that the proposed timetable for implementation of the Scheme is acceptable to ASX.

7.10 Costs and expenses

AUIREL has and will incur costs in connection with the Scheme. If the Scheme is implemented, it is estimated that these costs will total approximately \$7.6 million. These costs include advisory fees for AUIREL's financial, legal, accounting and tax advisers, fees payable in relation to the Independent Expert's Report, fees payable to communications consultants (including the Registry) and general administrative fees including costs associated with the publication and despatch of the Explanatory Memorandum and the holding of the Scheme Meeting.

As at the date of this Explanatory Memorandum, costs of approximately \$1.2 million have been incurred by AOF in connection with the Scheme. These costs will be payable by AUIREL regardless of whether or not the Scheme becomes Effective and is implemented. If the Scheme is not implemented, AUIREL estimates that it will pay approximately \$1.8 million in transaction costs, excluding any break fees that may be payable in those circumstances.

The amounts set out in this section 7.10 do not include transaction costs that may be incurred by CHAB and the Consortium in relation to the Scheme.

7.11 Consents to be named

The Independent Expert has given and has not, before the date of this Explanatory Memorandum, withdrawn its consent to the inclusion of the Independent Expert's Report in Attachment D and to the references to the Independent Expert's Report in this Explanatory Memorandum being made in the form and context in which each such reference is included in this Explanatory Memorandum.

Each of the Consortium Members and CHAB has given and has not, before the date of this Explanatory Memorandum, withdrawn its consent to the inclusion of the CHAB Information in this Explanatory Memorandum and to the references to that information in this Explanatory Memorandum being made in the form and context in which each such reference is included in the Explanatory Memorandum.

7. Additional Information (continued)

The following persons have given, and have not, before the date of this Explanatory Memorandum, withdrawn their consent to be named in this Explanatory Memorandum in the form and the context in which they are named:

- (a) Boardroom Pty Limited as AOF's Registry;
- (b) Ashurst as AOF's legal adviser; and
- (c) UBS AG, Australia Branch as AOF's financial adviser.

Other than as specifically outlined above, each party referred to in this section 7.11 has not caused or authorised the issue of this Explanatory Memorandum and does not make or purport to make any statement in this Explanatory Memorandum or any statement on which a statement is based, and takes no responsibility for any part of this Explanatory Memorandum other than any reference to its name.

7.12 Supplementary information

AUIREL will issue a supplementary document to this Explanatory Memorandum if it becomes aware of any of the following between the date of despatch of this Explanatory Memorandum and the date of the Scheme Meeting:

- (a) a material statement in this Explanatory Memorandum is false or misleading;
- (b) there is a material omission from this Explanatory Memorandum;
- (c) there is a significant change affecting a matter in this Explanatory Memorandum; or
- (d) a significant new matter has arisen and it would have been required to be included in this Explanatory Memorandum if known about at the date of despatch to AOF Unitholders.

Depending on the nature and the timing of the changed circumstances and subject to obtaining any relevant approvals, AUIREL may circulate and publish any supplementary document by:

- (a) placing an advertisement in a prominently placed newspaper which is circulated generally throughout Australia;
- (b) including the supplementary document on AOF's website at www.australianunityofficefund.com.au;
- (c) making an announcement to the ASX; and/or
- (d) posting the supplementary document to all AOF Unitholders.

7.13 Privacy

AUIREL may collect personal information in the process of implementing the Scheme. The type of information that they may collect about you includes your name, contact details and information on your unitholding in AOF and the names of persons appointed by you to act as a proxy, attorney or corporate representative at the Scheme Meeting, as relevant to you. The collection of some of this information is required or authorised by the Corporations Act.

The primary purpose of the collection of personal information is to assist AUIREL to conduct the Scheme Meeting and implement the Scheme. Without this information, AUIREL may be hindered in its ability to issue this Explanatory Memorandum and implement the Scheme. Personal information of the type described above may be disclosed to the Registry, third party service providers (including print and mail service providers and parties otherwise involved in the conduct of the Scheme Meeting), authorised securities brokers, professional advisers, related bodies corporate of AUIREL, Government Agencies, and also where disclosure is otherwise required or allowed by law.

AOF Unitholders who are individuals and the other individuals in respect of whom personal information is collected is outlined above have certain rights to access the personal information collected in relation to them. If you would like to obtain details of information about you held by AUIREL, please contact the AOF Unitholder Information Line on +61 1800 179 970 from Monday to Friday between 8.15am and 5.30pm (Melbourne time).

AOF Unitholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meeting should ensure that they inform that person of the matters relating to the collection and use of personal information outlined above.

7.14 Other material information

Within the knowledge of each of the AOF Directors as at the date of this Explanatory Memorandum, there is no other information about AOF or the Scheme that is material to a decision by an AOF Unitholder on how to vote on the Scheme Resolutions in relation to the Scheme and which:

- (a) is not set out or referred to in this Explanatory Memorandum; or
- (b) has not otherwise been made available publicly by AOF.

Section 8

Glossary

USABILITY
CENTRE

8. Glossary

Definitions

In this Explanatory Memorandum unless the context otherwise requires:

Term	Definitions
A-REIT	means an Australian real estate investment trust.
Abacus	means Abacus Funds Management Limited (ACN 007 415 590) as responsible entity of Abacus Trust (ARSN 096 572 128).
Abacus Property Group	means the ASX-listed stapled entity (ASX: ABP) comprising Abacus Group Holdings Limited (the nominated parent entity), Abacus Group Projects Limited and Abacus Storage Operations Limited, Abacus Trust, Abacus Income Trust and Abacus Storage Property Trust.
Amendment Resolution	means Resolution 1 in the Notice of Meeting, which is summarised in section 3.6 of this Explanatory Memorandum.
Approval Resolution	means Resolution 2 in the Notice of Meeting, which is summarised in section 3.6 of this Explanatory Memorandum.
AOF	means Australian Unity Office Fund (ARSN 113 369 627).
AOF Director	means a director on the Board as at the date of this Explanatory Memorandum.
AOF Group	means AOF and each of its controlled entities and AOF Group Member means any one of them.
AOF Independent Directors	means Mr Peter Day, Mr Don Marples and Ms Eve Crestani.
AOF Information	means all information in this Explanatory Memorandum other than the CHAB Information and the Independent Expert's Report.
AOF Unitholder	means each person who is registered in the Register as the holder of a Unit.
ASIC	means the Australian Securities and Investments Commission.
ASIC Modifications	means: - a modification of item 7 of section 611 of the Corporations Act, to allow AOF Unitholders other than CHAB and its associates (unless the associate is a custodian, nominee, trustee, responsible entity or other fiduciary which has received a specific instruction from a third party beneficiary, who is not an associate of CHAB, directing the associate how to vote) to vote in favour of the Scheme for the purpose of item 7 of section 611 of the Corporations Act; - a modification or exemption from any requirement for CHAB to comply with Division 5A of Part 7.9 of the Corporations Act in relation to the proposed offer to purchase Scheme Units under the Scheme; - an exemption from the requirement to provide a financial services guide in relation to any general financial product advice by AUIREL contained in the Explanatory Memorandum; and - any other modification or exemption from the Corporations Act that AUIREL and CHAB agree is necessary to give effect to the Scheme or to avoid a breach of law.

Term	Definitions
ASX	means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.
ASX Listing Rules	means the official listing rules, from time to time, of ASX.
ATO	means the Australian Taxation Office.
AUIREL	means Australian Unity Investment Real Estate Limited (ABN 86 606 414 368) in its capacity as responsible entity of AOF.
AUIREL Break Fee	means \$4,884,958.56.
AUFML	means Australian Unity Funds Management Limited (ABN 60 071 497 115).
Australian Unity	means Australian Unity Limited (ABN 23 087 648 888).
Australian Unity Group	means Australian Unity and each of its controlled entities.
AUPM	means Australian Unity Property Management Pty Limited (ABN 76 073 590 600).
Board	means the board of directors of AUIREL (in its capacity as responsible entity of AOF) as at the date of this Explanatory Memorandum.
Business Day	means any day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in both Melbourne, Victoria and Sydney, New South Wales.
CGT	means capital gains tax.
CHAB	means CHAB Office Pty Ltd (ACN 633 833 566) as trustee for the CHAB Office Trust (ABN 57 232 539 578).
CHAB Information	means the information provided by a Consortium Member or CHAB to AUIREL for inclusion in this Explanatory Memorandum, being sections 3.16, 5 and 6.1(b) of this Explanatory Memorandum, references to the awareness of CHAB in relation to the status of the Conditions Precedent in section 3.5 of this Explanatory Memorandum, the definitions of CHAB and the Consortium and any references to such information in the form and context in which they are included in this Explanatory Memorandum.
CHAB Group	means CHAB, each Consortium Member and each of their respective related bodies corporate and CHAB Group Member means any one of them.
Charter Hall	means Charter Hall Holdings Pty Limited (ACN 051 363 547).
CHESS	means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Limited (ACN 008 504 532).

8. Glossary (continued)

Term	Definitions
Competing Proposal	means: (a) any proposal by a Third Party to internalise management of AOF, which may include the stapling to Units of the shares of a company which (directly or indirectly) owns AUIREL (or a replacement responsible entity) or any transaction or arrangement that has an economically similar result; or (b) any proposal, agreement, arrangement or transaction which, if entered into or completed, would mean a Third Party (either alone or together with any associate) would: (i) directly or indirectly acquire a Relevant Interest in, or have a right to acquire, a legal, beneficial or economic interest in, or control of, 20% or more of the Units; (ii) acquire Control of AOF; (iii) directly or indirectly acquire or become the holder of, or otherwise acquire or have a right to acquire, a legal, beneficial or economic interest in, or control of, all or substantially all of AOF's business or assets or the business or assets of AOF; or (iv) otherwise directly or indirectly acquire or merge or be stapled with AOF.
Condition Precedent	means a condition precedent in clause 3 of the Scheme Implementation Agreement.
Consortium	means the consortium comprising of Abacus and Charter Hall and Consortium Member means any or each of such persons.
Control	has the meaning given by section 50AA of the Corporations Act.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth) as modified in respect of AOF or the Scheme.
Court	means the Supreme Court of Victoria or such other court of competent jurisdiction agreed to in writing by AUIREL and CHAB.
Deed Poll	means the document dated 1 October 2019 under which CHAB covenants in favour of the Scheme Participants to, amongst other things, perform its obligations under the Scheme Implementation Agreement and the Supplemental Deed, a copy of which is set out in Attachment B.
Effective	means the coming into effect of the Supplemental Deed pursuant to subsection 601CC(2) of the Corporations Act.
Effective Date	means the date on which the Scheme becomes Effective.
End Date	means 16 December 2019, subject to any extension agreed by AUIREL and CHAB in writing under the Scheme Implementation Agreement.
Explanatory Memorandum	means this explanatory memorandum, including the attachments to it.
FATA	means the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
FIRB	means the Foreign Investment Review Board.

Term	Definitions
First Judicial Advice	means confirmation from the Court under Order 54 of the <i>Supreme Court (General Civil Procedure) Rules 2005</i> (Vic) that, among other things, AUIREL would be justified in convening the Scheme Meeting for the purposes of considering the Scheme Resolutions.
Government Agency	means a government, government department or a governmental, semi-governmental, administrative, statutory or judicial entity, agency, authority, commission, department, tribunal, or person charged with the administration of a law or agency, whether in Australia or elsewhere, including ASIC and any self-regulatory organisation established under statute or by ASX.
Guidance Note 15	means <i>Guidance Note 15: Trust Scheme Mergers</i> issued by the Takeovers Panel of Australia.
GST	means a goods and services tax or similar value added tax levied or imposed under the GST Law.
GST Law	has the meaning given to it in the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
IBC	means the Independent Board Committee established by the Board to consider the Initial Proposal and the Improved Proposal and any further proposal, comprised of Mr Peter Day, Mr Don Marples and Ms Eve Crestani.
Implementation Date	means the date that the Scheme is implemented, being the date that is 7 Business Days after the Record Date or such other date agreed by AUIREL and CHAB in writing (currently expected to be Friday, 22 November 2019).
Independent Expert	means Deloitte Corporate Finance Pty Limited (ACN 003 833 127).
Independent Expert's Report	means the report prepared by the Independent Expert for inclusion in this Explanatory Memorandum, a copy of which is set out in Attachment D.
Initial Proposal	means the unsolicited, indicative and non-binding offer received by AUIREL from the Consortium announced to ASX on 4 June 2019.
Investment Management Services Agreement	means the investment management services agreement dated 20 May 2016 between AUIREL and AUFML.
Loan Agreement	means the loan agreement dated 23 March 2011 between AUIREL, Commonwealth Bank of Australia and National Australia Bank Limited (among others), as amended by an amendment deed dated 28 June 2018.
NLA	means net lettable area (being the total lettable floor area less common areas, in square metres).
NTA	means net tangible assets (being total assets less total liabilities).
Notice of Meeting	means the notice of the Scheme Meeting as set out in Attachment A.

8. Glossary (continued)

Term	Definitions
Prescribed Occurrence	has the meaning given in the Scheme Implementation Agreement, which is summarised below: (a) AOF converts all or any of its securities into a larger or smaller number of securities; (b) AOF reduces or resolves to reduce its capital in any way or resolves to re-classify, combine, split, redeem or re-purchase directly or indirectly any of its units; (c) AOF enters into a buy-back agreement or resolves to approve the terms of a buy-back agreement under the Corporations Act; (d) AOF or an AOF Group Member issues securities or grants an option over its securities, or agrees to make such an issue or grant such an option; (e) AOF or an AOF Group Member issues, or agrees to issue, convertible notes or any other security or instrument convertible into securities; (f) AOF resolves to pay or pays a distribution other than in accordance with clause 4.4 of the Scheme Implementation Agreement; (g) AOF or an AOF Group Member creates, or agrees to create, any mortgage, charge, lien or other encumbrance over the whole or a substantial part of the business or property of AOF; (h) AOF or an AOF Group Member disposes or agrees to dispose of the whole or a substantial part of its business or property; (i) an insolvency event occurs in relation to any AOF Group Member; or (j) the Trust Constitution is amended, replaced or repealed, but excluding any matter: (k) required to be done or procured under, or as contemplated by, the Scheme Implementation Agreement or the Scheme; (l) which has previously been disclosed to ASX prior to the date of the Scheme Implementation Agreement or was fairly disclosed in accordance with the Scheme Implementation Agreement; or (m) which has been agreed to in writing by CHAB or any of its Representatives.
Property Management Services Agreement	means the property management services agreement dated 20 May 2016 between AUIREL, AUFML, Australian Unity Investment Management Administration Pty Ltd (ACN 115 442 969) in its capacity as trustee of several subtrusts of AOF and AUPM, as amended from time to time.
Proposal	means the improved, indicative and non-binding proposal received by AUIREL from the Consortium announced to ASX on 3 July 2019 which revised the Initial Proposal.
Proxy Form	means the form accompanying this Explanatory Memorandum which provides for AOF Unitholders to give voting instructions and appoint proxies for the Scheme Meeting.
Record Date	means 7.00pm (Melbourne time) on the date that is 2 Business Days after the Effective Date, or such other date agreed by AUIREL and CHAB in writing or as required by ASX (currently expected to be Wednesday, 13 November 2019).
Register	means the register of AOF Unitholders maintained by or on behalf of AOF in accordance with section 168 of the Corporations Act.
Registry	means Boardroom Pty Limited (ACN 003 209 836).

Term	Definitions
Relevant Interest	has the meaning given to it in sections 608 and 609 of the Corporations Act.
Representative	means, in relation to a person: (a) in relation to CHAB: (i) a related body corporate; or (ii) an employee or officer of the person or any of the person's related bodies corporate; or (iii) a debt or equity financier of, or a financial adviser, corporate adviser or legal adviser or other adviser or consultant who provides advisory services in a professional capacity to the market in general who has been engaged by, that person or any of that person's related bodies corporate; and (b) in relation to AUIREL: (i) a director or employee of AUIREL; (ii) Simon Beake, Giovanna Reale, Mark Lumby and Tim Kemp-Bishop; or (iii) a debt or equity financier of, or a financial adviser, corporate adviser or legal adviser or other adviser or consultant who provides advisory services in a professional capacity to the market in general who has been engaged by AUIREL or any AOF Group Member, however, for the purposes of this definition, where a person is acting as trustee of a trust, the relevant person is that person acting in the capacity as trustee of the trust and a reference to a related body corporate of the person is taken to be a reference to a related body corporate of the trust.
Scheme	means the arrangement, in accordance with Guidance Note 15, under which CHAB acquires all the Scheme Units it does not already own that is facilitated by amendments to the Trust Constitution as set out in the Supplemental Deed, subject to the Scheme Resolutions being approved by the requisite majorities of AOF Unitholders.
Scheme Consideration	means \$3.04 cash for each Scheme Unit.
Scheme Implementation Agreement	means the Scheme Implementation Agreement dated 2 September 2019 between AUIREL and CHAB and released to ASX on 2 September 2019.
Scheme Meeting	means the meeting of AOF Unitholders to approve the Scheme Resolutions which is to be held at 10.00am (Melbourne time) on Thursday, 7 November 2019 at Ground Floor, 271 Spring Street, Melbourne VIC 3000, the notice for which is set out at Attachment A.
Scheme Participant	means each AOF Unitholder who is registered in the Register as a holder of Scheme Units as at the Record Date.
Scheme Resolutions	means the resolutions to be considered at the Scheme Meeting as set out in the Notice of Meeting in Attachment A, comprising of the Amendment Resolution and the Approval Resolution.
Scheme Units	means the Units on issue as at the Record Date that are not already owned by CHAB.
Second Court Date	means the first day of hearing of an application made to the Court by AUIREL for the Second Judicial Advice or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

8. Glossary (continued)

Term	Definitions
Second Judicial Advice	means confirmation from the Court under Order 54 of the <i>Supreme Court (General Civil Procedure) Rules 2005</i> (Vic) that, AOF Unitholders having approved the Scheme Resolutions by the requisite majorities, AUIREL would be justified in implementing the Scheme, giving effect to the provisions of the Trust Constitution (as amended by the Supplemental Deed) and in doing all things and taking all necessary steps to put the Scheme into effect.
Superior Proposal	means a bona fide written Competing Proposal that is publicly announced or received by AUIREL which the AOF Independent Directors, acting in good faith and after obtaining written advice from their legal and financial advisers, determine: (a) is reasonably capable of being valued and completed; and (b) would, if completed substantially in accordance with its terms, be more favourable to AOF Unitholders than the Proposal, taking into account all of the aspects of the Competing Proposal, including timing considerations, financing, conditions and any other matters relevant to the Competing Proposal being contemplated (including the identity, expertise, reputation, and financial condition of the person making such proposal and legal, regulatory, and financial matters).
Supplemental Deed	means a deed poll pursuant to which AUIREL will amend the Trust Constitution for the purpose of facilitating the Scheme, a copy of which is set out in Attachment C.
Takeovers Panel	means the Takeovers Panel constituted under the <i>Australian Securities and Investments Commission Act 2001</i> (Cth).
Third Party	means any person other than a CHAB Group Member or a consortium, partnership, limited partnership, syndicate, trust, or other group in which no CHAB Group Member has agreed to be a participant.
Trust Constitution	means the constitution establishing the AOF dated 23 March 2005 (as amended from time to time).
Unit	means a fully paid ordinary unit on issue in AOF.
Voting Record Date	means 7.00pm (Melbourne time) on Tuesday, 5 November 2019, being the time and date for determining eligibility to vote at the Scheme Meeting.
VWAP	means volume-weighted average price (being the ratio of securities traded to the total volume of securities traded over a particular time frame).
WALE	means weighted average lease expiry.

Attachment A

Notice of Meeting

Notice of Meeting

Notice is hereby given by Australian Unity Investment Real Estate Limited (ABN 86 606 414 365) (**AUIREL**) as responsible entity Australian Unity Office Fund (ARSN 113 369 627) (**AOF**) that a meeting of AOF Unitholders will be held at:

Date	Thursday, 7 November 2019
Registration	9:30am (Melbourne time)
Commencement	10.00am (Melbourne time)
Venue	Australian Unity Office Fund Ground Floor, 271 Spring Street, Melbourne, VIC 3000
Proxy Form Deadline	10.00am (Melbourne time) on Tuesday, 5 November 2019

Mr Peter Day has been appointed by AUIREL to chair the Scheme Meeting (**Chair**).

Business

The business of the meeting will consist of the following:

Resolution 1 – Amendments to Constitution

To consider and, if thought fit, pass the following resolution as a special resolution:

Subject to Resolution 2 being passed, that the constitution of Australian Unity Office Fund (Constitution) be amended in accordance with the provisions of the supplemental deed poll in the form tabled at the meeting and initialled by the Chair for the purposes of identification (Supplemental Deed Poll), and that Australian Unity Investment Real Estate Limited be authorised to execute the Supplemental Deed Poll and lodge it with Australian Securities and Investments Commission to give effect to the amendments to the Constitution.

Resolution 1 will be decided on a poll and can only be passed if at least 75% of the value of eligible Units voted on the resolution are in favour.

Voting eligibility

In accordance with Takeovers Panel Guidance Note 15 – Trust Scheme Mergers, votes cast in favour of Resolution 1 by CHAB and its associates will be disregarded.

In accordance with section 253E of the Corporations Act, AUIREL and its associates are not entitled to vote on Resolution 1 if they have an interest in Resolution 1 other than as a member of AOF.

Whether an AOF Unitholder is entitled to vote on Resolution 1 will be determined by the Chair based on the factual circumstances existing at the time of the Scheme Meeting.

Resolution 2 – Approval of the Scheme

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

Subject to Resolution 1 being passed, that for the purposes of item 7 of section 611 of the Corporations Act 2001 (Cth) and for all other purposes, the Scheme under which CHAB Office Pty Ltd as trustee for the CHAB Office Trust will acquire all of the units in AOF that it does not already own, as described in the Explanatory Memorandum accompanying this Notice of Meeting (with or without such modifications as are approved at the Scheme Meeting), be approved and Australian Unity Investment Real Estate Limited be authorised to do all things which it considers necessary, desirable or reasonably incidental to give effect to the Scheme.

Resolution 2 will be decided on a poll and can only be passed if at least 50% of the value of eligible Units voted on the resolution are in favour.

Voting eligibility

In accordance with item 7 of section 611 of the Corporations Act, no votes may be cast by CHAB and its associates (unless the associate is a custodian, nominee, trustee, responsible entity or other fiduciary which has received a specific instruction from a third party beneficiary who is not an associate of CHAB, directing the associate to vote) in favour of Resolution 2.

In accordance with section 253E of the Corporations Act, AUIREL and its associates are not permitted to vote on Resolution 2 if they have an interest in Resolution 2 other than as a member of AOF.

Whether an AOF Unitholder is entitled to vote on Resolution 2 will be determined by the Chair based on the factual circumstances existing at the time of the Scheme Meeting.

Background Information

This Notice of Meeting should be read in conjunction with the Explanatory Memorandum accompanying this Notice of Meeting. The Explanatory Memorandum contains an explanation of the Scheme Resolutions and further information about the Scheme to enable you to make an informed decision as to how to vote on the Scheme Resolutions.

Unless otherwise defined in this Notice of Meeting, terms used in this Notice of Meeting have the same meaning as defined in the Glossary.

Entitlement to vote

If you are registered on the Register as an AOF Unitholder at 7.00pm (Melbourne time) on Tuesday, 5 November 2019, then you will be entitled to attend and vote at the Scheme Meeting, unless otherwise noted in this Notice of Meeting.

Voting in person

If you wish to vote in person, you must attend the Scheme Meeting. Registration for the Meeting commences at 9:30am (Melbourne time) on Thursday, 7 November 2019. Please allow sufficient time prior to the time designated for the start of the Scheme Meeting so that the value of your Units may be checked against the Register and your attendance can be noted.

If you cannot attend the Scheme Meeting, you may vote by proxy, attorney or if you are a body corporate, by appointing a corporate representative.

Voting by attorney

If you intend to appoint an attorney to act on your behalf at the Scheme Meeting, such appointment must be made by a duly executed power of attorney. Unless the power of attorney has been previously provided to the Registry, the attorney must bring to the Scheme Meeting the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

Voting by Corporate representative

A body corporate which is an AOF Unitholder may appoint an individual to act as its corporate representative.

The appointment must comply with the requirements of section 253B of the Corporations Act. Unless the appointment has been previously provided to the Registry, the corporate representative must bring to the Scheme Meeting satisfactory evidence of his or her appointment, including any authority under which it is signed.

Voting by proxy

If you cannot or do not wish to attend the Scheme Meeting, you may appoint a representative or the Chair to act as your proxy to attend and vote at the Scheme Meeting on your behalf. The proxy does not need to be an AOF Unitholder. If you appoint a proxy, you may still attend the Scheme Meeting, however, your proxy will not be able to speak or vote at the Scheme Meeting while you are present.

A proxy is entitled to vote on a poll and a show of hands. If you are entitled to cast two or more votes at the Scheme Meeting, you may appoint two proxies and specify the proportion or number of votes each proxy is entitled to exercise. Where a proportion is not specified, each proxy may exercise half of your voting rights.

The Proxy Form for the Scheme Meeting accompanies this Explanatory Memorandum. The Proxy Form must be signed by the AOF Unitholder or their attorney or, in the case of a corporation, executed in accordance with section 127 of the Corporations Act or signed by an authorised officer or attorney.

If the Proxy Form is signed by an attorney or by an authorised officer of a corporation, the original or a certified copy of the power of attorney or other authority must accompany the Proxy Form unless it has previously been provided to the Registry. If the Proxy Form is sent by fax, any accompanying power of attorney or other authority must be certified.

Where an AOF Unitholder appoints a body corporate as proxy, that body corporate will need to ensure that:

- (a) it appoints an individual as its corporate representative to exercise its powers at the Scheme Meeting, in accordance with 253B of the Corporations Act; and
- (b) unless the appointment has been previously provided to the Registry, the corporate representative must bring to the Scheme Meeting satisfactory evidence of their appointment, including any authority under which it was signed.

Notice of Meeting (continued)

The Proxy Form, duly completed in accordance with the instructions set out on each Proxy Form, may be returned to the Registry by:

- (a) posting it in the reply paid envelope provided;
- (b) hand delivering it during business hours on a Business Day to Boardroom Pty Limited at Level 12, 225 George Street Sydney NSW 2000 Australia;
- (c) faxing it to +61 2 9290 9655; or
- (d) posting it to c/- Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 Australia.

If a signed Proxy Form is returned and does not include the name of a proxy being appointed, the Chair of the Scheme Meeting will be deemed to be appointed. The Chair intends to vote all undirected proxies in favour of the Scheme Resolutions.

**TO BE VALID, YOUR PROXY FORMS MUST BE RECEIVED BY THE REGISTRY BY NO LATER THAN
10.00am (MELBOURNE TIME) ON TUESDAY, 5 NOVEMBER 2019**

Jointly held Units

If Units are jointly held, the vote of the AOF Unitholder whose name appears first in the Register will be accepted to the exclusion of the votes of all other joint holders. If that AOF Unitholder does not vote, the next named joint AOF Unitholder may exercise the voting rights of the jointly held Units.

By order of the board of AUIREL



Emma Rodgers
Company Secretary

Attachment B

Deed Poll

Deed Poll

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Deed Poll

CHAB Office Pty Limited as trustee for the CHAB Office
Trust

1 October 2019

CONTENTS

CLAUSE	PAGE
1. DEFINITIONS AND INTERPRETATION	1
1.1 Definitions	1
1.2 Rules for interpreting this document.....	1
2. CONDITION PRECEDENT AND TERMINATION.....	1
2.1 Condition precedent	1
2.2 Termination	1
2.3 Consequences of Termination.....	1
3. COMPLIANCE WITH SCHEME OBLIGATIONS	2
3.1 Scheme obligations of CHAB	2
3.2 Scheme Implementation.....	2
4. WARRANTIES	2
5. NATURE OF DEED POLL	3
5.1 Reliance	3
5.2 Continuing obligations	4
6. STAMP DUTY	4
7. CHAB LIMITATION OF LIABILITY.....	4
7.1 Capacity	4
7.2 Limitation of liability.....	4
7.3 Qualification to limitation	4
8. AMENDMENT AND ASSIGNMENT	5
8.1 Amendment	5
8.2 Assignment.....	5
9. GENERAL	5
9.1 Governing law	5
9.2 Liability for expenses.....	5
9.3 Waiver of rights.....	5
9.4 Operation of this document.....	5
9.5 Remedies cumulative	6
9.6 Further assurances	6

Deed Poll (continued)

THIS DEED POLL is made on 1 October 2019

BY:

- (1) **CHAB Office Pty Limited** (ACN 633 833 566) in its capacity as trustee for the **CHAB Office Trust** (ABN 57 232 539 578) (**CHAB**)

FOR THE BENEFIT OF: Each holder of fully paid ordinary units in the **Australian Unity Office Fund** (ARSN 113 369 627) (**AOF**).

RECITALS:

- (A) CHAB and Australian Unity Investment Real Estate Limited (ABN 86 606 414 368) (**AUIREL**) as responsible entity of AOF have entered into a Scheme Implementation Agreement dated 2 September 2019 (**SIA**) under which they each agree to take certain steps to implement the Scheme.
- (B) In accordance with the SIA, CHAB is entering into this document to covenant in favour of the Scheme Participants that it will observe and perform its obligations under the SIA and the Scheme.

OPERATIVE PROVISIONS

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

Terms used in this document have the same meaning as in the SIA unless otherwise defined in this document or the context requires otherwise.

1.2 Rules for interpreting this document

The provisions of clauses 1.1 (Definitions), 1.2 (Rules for interpreting this document) and 1.3 (Non-Business Days) of the SIA apply to this document as if set out in this document, except where the context makes it clear that a provision is not intended to apply.

2. CONDITION PRECEDENT AND TERMINATION

2.1 Condition precedent

The obligations of CHAB under this document are subject to the Supplemental Deed becoming Effective.

2.2 Termination

The obligations of CHAB under this document will automatically terminate and be of no further force or effect upon the termination of the SIA in accordance with its terms or if the Supplemental Deed has not become Effective on or before the End Date.

2.3 Consequences of Termination

If this document is terminated under clause 2.2 then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

- (a) CHAB is released from its obligations under this document except those obligations under clause 6; and

- (b) each Scheme Participant retains any rights, powers or remedies that the Scheme Participant has against CHAB in respect of any breach of its obligations under this document that occurred before termination of this document.

3. COMPLIANCE WITH SCHEME OBLIGATIONS

3.1 Scheme obligations of CHAB

CHAB covenants in favour of each Scheme Participant that it will duly and punctually observe and perform all obligations contemplated of it under and in accordance with the Scheme, including the relevant obligations relating to the provision of the Aggregate Scheme Consideration.

3.2 Scheme Implementation

CHAB will do all things that it is required to do under the SIA to implement the Scheme.

4. WARRANTIES

CHAB represents and warrants in favour of each Scheme Participant that:

- (a) **(status)** it is a company limited by shares under the laws of its place of incorporation;
- (b) **(power)** it has full legal capacity and power to:
 - (i) own its property and to carry on its business; and
 - (ii) enter into this document and to carry out the transactions that this document contemplates;
- (c) **(corporate authority)** it has taken all corporate action that is necessary or desirable to authorise its entry into this document and its carrying out of the transactions this document contemplates;
- (d) **(Authorisations)** it holds each Authorisation that is necessary or desirable to:
 - (i) enable it to properly execute this document and to carry out the transactions that this document contemplates;
 - (ii) ensure that this document is legal, valid, binding and admissible in evidence; and
 - (iii) enable it to properly carry on its business,

and, so far as it is aware (after making reasonable enquiries), it is complying with any conditions to which any Authorisation is subject;
- (e) **(documents effective)** this document constitutes its legal, valid and binding obligations, enforceable against it in accordance with its terms;
- (f) **(no contravention)** neither its execution of this document nor the carrying out by it of the transactions that it contemplates, does or will:
 - (i) contravene any law to which it or any of its property is subject or any order of any Government Agency that is binding on it or any of its property;
 - (ii) contravene any Authorisation;

Deed Poll (continued)

- (iii) contravene any undertaking or instrument binding on it or any of its property; or
- (iv) contravene its constitution;
- (g) **(no Insolvency)** none of CHAB or its subsidiaries is affected by an Insolvency Event; and
- (h) **(trust)**
 - (i) the following definitions apply in this warranty:
 - (A) Trust means the trust known as the CHAB Office Trust constituted by the Trust Deed;
 - (B) Trust Deed means the trust deed establishing the Trust, as amended from time to time; and
 - (C) Trust Fund means the assets of the Trust;
 - (ii) the Trust is duly constituted and no action has been taken to terminate or wind up the Trust nor has the date or any event occurred for the vesting of the Trust Fund;
 - (iii) CHAB is the only trustee of the Trust;
 - (iv) CHAB has been validly appointed as trustee of the Trust and it has not given any notice of resignation and no action has been taken or proposed to remove it as trustee of the Trust or appoint an additional trustee of the Trust;
 - (v) the Trust Deed was properly executed and appropriately stamped;
 - (vi) CHAB has full legal capacity and power under the Trust Deed to enter into and perform its obligations under this document; and
 - (vii) CHAB has a right to be fully indemnified out of the Trust Fund in relation to this document and all of its obligations and liabilities under this document (other than in the case of its fraud, negligence or breach of trust) and, to the best of its knowledge and belief, there is nothing that would prevent it from being fully indemnified out of the Trust Fund for any obligations under or in connection with this document or any of the transactions contemplated by this document that it incurs in its capacity as trustee of the Trust.

5. NATURE OF DEED POLL

5.1 Reliance

CHAB acknowledges that:

- (a) this document may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participant is not party to it; and
- (b) under the Scheme, each Scheme Participant irrevocably appoints AUIREL and each of its directors and officers, jointly and severally, as its agent and attorney to enforce this document against CHAB on behalf of that Scheme Participant.

5.2 Continuing obligations

This document is irrevocable and, subject to clause 2, remains in full force and effect until the earlier of:

- (a) CHAB has completely performed its obligations under this document; and
- (b) termination of this document under clause 2.

6. STAMP DUTY

CHAB must:

- (a) pay or reimburse all stamp duty, registration fees and similar taxes payable on this document or assessed as being payable in connection with this document or any transaction contemplated by this document or the SIA including the transfer of the Scheme Units to CHAB pursuant to the SIA (including any fees, fines, penalties and interest in connection with any of those amounts); and
- (b) indemnify each Scheme Participant on demand against, and agree to reimburse and compensate it for, any liability in respect of stamp duty, registration fees and similar taxes arising from a failure to comply with clause 6(a).

7. CHAB LIMITATION OF LIABILITY

7.1 Capacity

CHAB enters into this document only in its capacity as trustee of the CHAB Office Trust. For the purposes of this clause 7, the Trustee means CHAB and Trust means the CHAB Office Trust.

7.2 Limitation of liability

Subject to clause 7.3, and despite any other provision of this document, a liability arising under or in connection with this document is limited and can be enforced against the Trustee only to the extent to which the Trustee, having sought indemnification, is actually indemnified in respect of that liability out of the assets of the Trust. No person will be entitled to:

- (a) claim from or commence proceedings against the Trustee in respect of any liability under this document in any capacity other than as trustee for the Trust;
- (b) seek the appointment of a receiver, receiver and manager, liquidator, an administrator or any similar office-holder to the Trustee, or prove in any liquidation, administration or arrangement of or affecting the Trustee, except in relation to the property of the Trust; or
- (c) enforce or seek to enforce any judgment in respect of a liability under this document against the Trustee in any capacity other than as trustee of the Trust.

7.3 Qualification to limitation

The limitation in clause 7.2 does not apply to any obligation or liability of the Trustee to the extent to which there is, in respect of that obligation or liability, whether under the Trust's trust deed or by operation of law, a reduction in the extent of the Trustee's indemnity, or a loss of the Trustee's right to indemnification, out of the assets of the Trust as a result of any fraud, breach of trust or breach of duty by the Trustee.

Deed Poll (continued)

8. AMENDMENT AND ASSIGNMENT

8.1 Amendment

A provision of this document may not be amended or varied:

- (a) before the Second Court Date, unless the amendment is agreed to in writing by AUIREL and CHAB; or
- (b) on or after the Second Court Date, unless the amendment is agreed to in writing by AUIREL and CHAB, and is approved by the Court,

and CHAB enters into a further deed poll in favour of each Scheme Participant giving effect to that amendment or variation. For the avoidance of doubt, amendments to this document do not require approval by any Scheme Participant.

8.2 Assignment

The rights and obligations of a person under this document are personal. They cannot be assigned, encumbered, charged or otherwise dealt with, and no person shall attempt or purport to do so, without the prior consent of AUIREL and CHAB.

9. GENERAL

9.1 Governing law

- (a) This document is governed by the law in force in Victoria, Australia.
- (b) CHAB submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in Victoria, and any court that may hear appeals from any of those courts, for any proceedings in connection with this document, and waive any right they might have to claim that those courts are an inconvenient forum.

9.2 Liability for expenses

Subject to clause 6, each party must pay its own expenses incurred in negotiating, executing, and registering this document.

9.3 Waiver of rights

A right may only be waived in writing, signed by the party giving the waiver, and:

- (a) no other conduct of a party (including a failure to exercise, or delay in exercising, the right) operates as a waiver of the right or otherwise prevents the exercise of the right;
- (b) a waiver of a right on one or more occasions does not operate as a waiver of that right if it arises again; and
- (c) the exercise of a right does not prevent any further exercise of that right or of any other right.

9.4 Operation of this document

- (a) Any right that a person may have under this document is in addition to, and does not replace or limit, any other right that the person may have.

- (b) Any provision of this document which is unenforceable or partly unenforceable is, where possible, to be severed to the extent necessary to make this document enforceable, unless this would materially change the intended effect of this document.

9.5 **Remedies cumulative**

The rights, powers and remedies in connection with this document are in addition to other rights, powers and remedies given by law independently of this document.

9.6 **Further assurances**

CHAB will do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the provisions of this document and the transactions contemplated by it.

Deed Poll (continued)

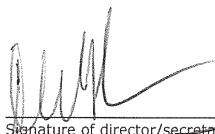
EXECUTED as a deed poll.

**EXECUTED by CHAB OFFICE PTY
LIMITED AS TRUSTEE FOR THE CHAB
OFFICE TRUST:**



Signature of director
Steven Craig Sewell
Director

Name



Signature of director/~~secretary~~
David William Harrison

Name

Attachment C

Supplemental Deed

Supplemental Deed

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Supplemental Deed

Australian Unity Investment Real Estate Limited
ABN 86 606 414 368

CONTENTS

CLAUSE	PAGE
1. DEFINED TERMS AND INTERPRETATION	1
1.1 Definitions	1
1.2 Rules for interpreting this document.....	2
2. AMENDMENTS TO THE CONSTITUTION	2
3. BINDING PROVISIONS	9
4. NO RESETTLEMENT OR DECLARATION.....	10
5. NO MERGER	10
6. GOVERNING LAW.....	10

Supplemental Deed (continued)

THIS DEED POLL is made on

2019

BY:

- (1) **Australian Unity Investment Real Estate Limited** (ABN 86 606 414 368) (the **Responsible Entity**)

RECITALS:

- (A) The Responsible Entity is the responsible entity of the Australian Unity Office Fund (ARSN 113 369 627) (the **Trust**) established under the constitution dated 23 March 2005 (as amended from time to time) (**Constitution**).
- (B) The Trust has been registered by the Australian Securities and Investments Commission (**ASIC**) as a managed investment scheme pursuant to section 601EB of the *Corporations Act 2001* (Cth) (**Corporations Act**).
- (C) Units are officially quoted on the Australian Securities Exchange and, as at the date of this deed, there are 162,831,952 Units on issue.
- (D) The Responsible Entity (acting in its capacity as responsible entity of the Trust) and CHAB have agreed, by executing the SIA, to propose and implement the Scheme.
- (E) The Constitution must be amended to facilitate the Scheme.
- (F) Clause 26 of the Constitution provides that the Responsible Entity may, in accordance with the Corporations Act, by supplemental deed modify, add to or otherwise delete from, the Constitution.
- (G) Section 601GC(1)(a) of the Corporations Act provides that the constitution of a registered scheme may be modified by special resolution of the members of the registered scheme.
- (H) At a meeting of Members held on [●] 2019 convened in accordance with the Corporations Act and the Constitution, Members approved the Scheme Resolutions, including a special resolution to modify the Constitution by making the amendments to the Constitution now set out in this deed.

THE PARTIES AGREE AS FOLLOWS:

1. DEFINED TERMS AND INTERPRETATION

1.1 Definitions

Terms used in this deed have the same meaning as in the Constitution unless otherwise defined in this deed or the context requires otherwise. The following definitions also apply in this deed:

CHAB means CHAB Office Pty Limited (ACN 633 833 566) in its capacity as trustee for the CHAB Office Trust (ABN 57 232 539 578).

Effective Date means the date on which the amendments to the Constitution to facilitate the Scheme come into effect pursuant to section 601GC(2) of the Corporations Act.

Meeting Date means the date on which the Scheme Meeting is held.

Scheme has the same meaning given to it in the SIA.

Scheme Meeting has the same meaning given to it in the SIA.

Scheme Resolutions has the same meaning given to it in the SIA.

SIA means the Scheme Implementation Agreement dated 2 September 2019 entered into between the Responsible Entity (acting in its capacity as responsible entity of the Trust) and CHAB, as amended from time to time.

1.2 **Rules for interpreting this document**

- (a) The provisions of clauses 1.1 (Definitions) and 1.2 (Interpretation) of the Constitution apply to this deed as if set out in this deed.
- (b) A reference to time in this deed is a reference to the time in Melbourne, Victoria.

2. **AMENDMENTS TO THE CONSTITUTION**

With effect on and from the Effective Date, the Constitution is amended as follows:

- (a) in clause 1.1, by inserting the following definitions in alphabetical order:

Aggregate Scheme Consideration means the Transfer Price multiplied by the number of Scheme Units.

CHAB means CHAB Office Pty Limited (ACN 633 833 566) in its capacity as trustee for the CHAB Office Trust (ABN 57 232 539 578).

CHAB Scheme means the arrangement, in accordance with Guidance Note 15, under which CHAB will acquire all of the Scheme Units for the Aggregate Scheme Consideration, as set out in clause 41.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of securities and other financial products operated by ASX Settlement Pty Ltd (ABN 49 008 504 532).

Condition Satisfaction Date has the meaning given to that term in the SIA.

Deed Poll means the deed poll dated 1 October 2019 executed by CHAB in favour of Scheme Participants.

Effective Date means the date on which the amendments to this constitution to facilitate the CHAB Scheme, including the insertion of clause 41, came into effect pursuant to section 601GC(2) of the Corporations Act.

Excluded Unit means a Unit on issue that is held by CHAB on the Record Date.

Guidance Note 15 means *Guidance Note 15: Trust Scheme Mergers* issued by the Takeovers Panel of Australia.

Implementation Date means the date which is 7 Business Days (as defined in the SIA) after the Record Date or such other date as the parties agree in writing.

Record Date means 7.00pm on the date that is 2 Business Days (as defined in the SIA) after the Effective Date or such other date as may be agreed by the parties in writing or as may be required by ASX.

Registry means the share registry of AOF, being Boardroom Pty Limited (ACN 003 209 836).

Supplemental Deed (continued)

Scheme Meeting means the meeting of Members, held on [] 2019 and convened in accordance with the Corporations Act and the SIA, to consider and, if thought fit, approve the Scheme Resolutions, and includes any adjournment of that meeting.

Scheme Participant means each person registered as the holder of a Scheme Unit on the Record Date.

Scheme Resolutions means resolutions of Members to approve the CHAB Scheme including:

- (a) an ordinary resolution approving for all purposes, including item 7 of section 611 of the Corporations Act, the steps required to implement the CHAB Scheme; and
- (b) a special resolution for the purpose of section 601GC(1) of the Corporations Act to approve the amendments to this deed to facilitate the implementation of the CHAB Scheme.

Scheme Transfer means, for each Scheme Participant, a proper instrument of transfer of their Scheme Units for the purpose of section 1071B of the Corporations Act, which may be a master transfer of all or part of all of the Scheme Units.

Scheme Trust Account means an Australian dollar denominated trust account in the name of the Responsible Entity and operated by the Responsible Entity (or by the Registry on behalf of the Responsible Entity) as trustee for the Scheme Participants.

Scheme Unit means a Unit on issue on the Record Date other than any Excluded Unit.

SIA means the Scheme Implementation Agreement dated 2 September 2019 entered into between the Responsible Entity (acting in its capacity as responsible entity of the Scheme) and CHAB, as amended from time to time.

Transfer Price means \$3.04 per Scheme Unit, subject to any reduction required under clause 4.4(b) of the SIA.

- (b) by deleting clause 19.6 and inserting a new clause 19.6 as set out below:

"19.6 Responsible Entity must not hold Units

Notwithstanding any other provision in this constitution, while the Responsible Entity is the trustee or responsible entity of the Scheme, the Responsible Entity (and any replacement responsible entity of the Scheme) must not:

- (a) hold any Units or Securities, in any capacity;
- (b) be a Member, in any capacity; or
- (c) otherwise be or become a beneficiary of the Scheme.

Notwithstanding any other provision of this constitution, this clause 19.6 is irrevocable and cannot be amended under clause 26."

- (c) by inserting a new clause 41 as set out below:

"41 CHAB Scheme

This clause 41 applies on and from the Condition Satisfaction Date.

41.1 Dealings in Units

- (a) For the purpose of establishing the persons who are Scheme Participants, dealings in Units will only be recognised if:
 - (i) in the case of dealings of the type to be effected using CHES, the transferee is registered in the Register as the holder of the relevant Units by the Record Date; and
 - (ii) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the Registry by the Record Date.
- (b) The Responsible Entity will register registrable transfers or transmission applications of the kind referred to in clause 41.1(a)(ii) by, or as soon as practicable after, the Record Date.
- (c) The persons shown in the Register, and the number of Scheme Units shown as being held by them, after registration of transfer and transmission applications of the kind referred to in clause 41.1(a)(ii), will be taken to be the Scheme Participants, and the number of Scheme Units held by them, on the Record Date.
- (d) The Responsible Entity will not accept for registration, nor recognise for the purpose of establishing the persons who are Scheme Participants, any transfer or transmission application in respect of Units received after the Record Date (or received prior to the Record Date not in registrable form) and prior to registration of CHAB as the holder of all Scheme Units under clause 41.4(c).
- (e) The Responsible Entity will, until CHAB has been entered into the Register as the holder of all the Scheme Units, maintain or procure the maintenance of the Register in accordance with this clause 41.1. The Register immediately after registration of registrable transfers or transmission applications of the kind referred to in clause 41.1(a)(ii) will solely determine the persons who are Scheme Participants and their entitlements to the Scheme Consideration.
- (f) From the Record Date and until registration of CHAB as the holder of all Scheme Units under clause 41.4(c), no Member may deal with Units in any way except as set out in this clause 41 and any attempt to do so will have no effect.
- (g) As from the Record Date, and without limiting clause 41.6, (and, other than for CHAB, following the Implementation Date):
 - (i) all unit certificates and holding statements for Scheme Units will cease to have effect as documents of title in respect of those Scheme Units; and
 - (ii) each entry in the Register as at the Record Date relating to the Scheme Units will cease to have any effect other than as evidence of the entitlements of Scheme Participants to payment of the Transfer Price in respect of the Scheme Units.
- (h) As soon as practicable after the Record Date but before the Implementation Date, the Responsible Entity must give to CHAB

Supplemental Deed (continued)

details of the names and addresses shown in the Register of all Scheme Participants and of the number of Scheme Units held by each of them on the Record Date in such form as CHAB may reasonably require.

41.2 Deposit of Aggregate Scheme Consideration

- (a) By no later than 10:00am on the date that is one Business Day before the Implementation Date, CHAB must, in consideration for the transfer of the Scheme Units under clause 41.4, deposit (or procure the deposit) in cleared funds into the Scheme Trust Account an amount equal to the Aggregate Scheme Consideration (less any amounts required to be withheld and remitted to the Australian Taxation Office (**ATO**) under clause 7.2(b) of the SIA).
- (b) The Responsible Entity must hold any amounts deposited into the Scheme Trust Account under clause 41.2(a) on trust for the Scheme Participants for the purpose of paying (or procuring the payment to) each Scheme Participant in accordance with clause 41.3 (except that the amount of any interest on the amounts deposited into the Trust Account (less any bank fees and other charges) will be to CHAB's account).
- (c) For the avoidance of doubt, any amounts deposited into the Scheme Trust Account under clause 41.2(a) shall not constitute Scheme Property.

41.3 Payment to Scheme Participants

- (a) On the Implementation Date, subject to CHAB having satisfied its obligations under the Deed Poll and clause 7.2(a)(i) of the SIA, the Responsible Entity must pay (or procure the payment to) each Scheme Participant from the Scheme Trust Account the Transfer Price per Scheme Unit held by that Scheme Participant at the Record Date (less any amounts required to be withheld and remitted to the ATO under clause 7.2(b) of the SIA) in accordance with clause 41.3(b).
- (b) The obligations of the Responsible Entity under clause 41.3(a) will be satisfied by the Responsible Entity either:
 - (i) where a Scheme Participant has, before the Record Date, complied with the requirements of the Registry for nominating a bank account to receive distribution payments that is denominated in Australian currency, by electronic funds transfer to the account nominated by the Scheme Participant; or
 - (b) otherwise, by cheque sent by pre-paid post:
 - (A) in the case of Scheme Participants who are registered as holding the Scheme Units jointly – the address recorded in the AOF Unit Register on the Record Date of the person whose name appears first in the AOF Unit Register in respect of the joint holding; and
 - (B) otherwise – to the Scheme Participant's address recorded in the AOF Unit Register on the Record Date.

41.4 Transfer of Scheme Units to CHAB

On the Implementation Date, and subject to CHAB having satisfied its obligations under the Deed Poll and clause 7.2(a)(i) of the SIA and the Responsible Entity having paid each Scheme Participant the amounts owing to it under clause 41.3, all of the Scheme Units, together with all rights and entitlements attaching to those Scheme Units as at the Implementation Date, will be transferred to CHAB without the need for any further act by any Scheme Participant (other than acts performed by the Responsible Entity (or its directors or officers) as attorney or agent of the Scheme Participants under clause 41.5) by:

- (a) the Responsible Entity delivering to CHAB for execution duly completed Scheme Transfers to transfer all of the Scheme Units to CHAB, duly executed by the Responsible Entity (or any of its directors or officers) as attorney or agent of the Scheme Participants under clause 41.5;
- (b) CHAB executing the Scheme Transfers as transferee and delivering them to the Responsible Entity for registration; and
- (c) the Responsible Entity, immediately after receipt of the executed Scheme Transfers under clause 41.4(b), entering, or procuring the entry of, the name and address of CHAB in the Register as the holder of all the Scheme Units.

41.5 Covenants by Responsible Entity and Members

- (a) Each Scheme Participant and the Responsible Entity must do all things and execute all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the CHAB Scheme and the transactions contemplated by it.
- (b) Without limiting the Responsible Entity's other powers under this clause 41, the Responsible Entity has power to do all things that it considers necessary, desirable or reasonably incidental to give effect to the CHAB Scheme, the SIA and the transactions contemplated by them.
- (c) Each Scheme Participant, without the need for any further act, irrevocably:
 - (i) agrees to the transfer of all of their Scheme Units, together with all rights and entitlements attaching to those Scheme Units as at the Implementation Date, to CHAB in accordance with this clause 41;
 - (ii) agrees to the modification or variation (if any) of the rights attaching to their Scheme Units arising from this clause 41;
 - (iii) appoints the Responsible Entity and each of its directors and officers, jointly and severally, as that Scheme Participant's attorney and agent for the purpose of executing any document or doing any other act necessary to give full effect to the CHAB Scheme, this clause 41, and the transactions contemplated by them, including providing to CHAB on behalf of that Scheme Participant a warranty by the Scheme Participant in the terms of the deemed warranty in clause 41.6(a);
 - (iv) consents to the Responsible Entity and CHAB doing all things and executing all deeds, instruments, transfers or other

Supplemental Deed (continued)

documents as may be necessary or desirable to give full effect to the CHAB Scheme, this clause 41 and the transactions contemplated by them; and

- (v) appoints the Responsible Entity and each of its directors and officers, jointly and severally, to enforce the Deed Poll against CHAB on behalf of, and as agent and attorney for, the Scheme Participant.
- (d) The Responsible Entity, as agent and attorney for each Scheme Participant, may sub delegate its functions, authorities or powers under this clause 41.5 to all or any of its directors and officers (jointly, severally, or jointly and severally).
- (e) Subject to the Responsible Entity having paid each Scheme Participant the amounts owing to it under clause 41.3, from the Implementation Date until the Responsible Entity registers CHAB as the holder of all Scheme Units in the Register, each Scheme Participant irrevocably appoints the Responsible Entity as its attorney and agent (and directs the Responsible Entity in such capacity) to appoint CHAB (or any nominee of CHAB) as its sole proxy and, where applicable, corporate representative for the purpose of:
 - (i) attending Member meetings;
 - (ii) exercising the votes attaching to the Scheme Units of which they are the registered holder in the Register; and
 - (iii) signing any Members' resolution,

and no Scheme Participant may attend or vote at any of those meetings or sign or vote on any resolutions (whether in person, by proxy or by corporate representative) other than pursuant to this clause 41.5(e). The Responsible Entity undertakes in favour of each Scheme Participant that it will appoint CHAB (or any nominee of CHAB) as the Scheme Participant's proxy or, where applicable, corporate representative in accordance with this clause 41.5(e).

41.6 Status of Scheme Units

- (a) Each Scheme Participant warrants to CHAB and the Responsible Entity, and authorises the Responsible Entity to warrant to CHAB as agent and attorney for the Scheme Participant, that all of their Scheme Units (and any rights and entitlements attaching to those Units) which are transferred to CHAB under this clause 41 or otherwise pursuant to the CHAB Scheme will, at the date of the transfer of them to CHAB, be fully paid and free from all mortgages, charges, liens, encumbrances, security interests (including "security interests" within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Scheme Units (including any rights and entitlements attaching to those Units) to CHAB pursuant to the CHAB Scheme.
- (b) Subject to the Responsible Entity having paid each Scheme Participant the amounts owing to it under clause 41.3, CHAB will be beneficially entitled to the Scheme Units transferred to it under this

clause 41 or otherwise pursuant to the CHAB Scheme pending registration by the Responsible Entity of the name and address of CHAB in the Register as the holder of those Scheme Units.

41.7 Effect of clause 41

This clause 41:

- (a) binds the Responsible Entity and all Scheme Participants, including those who do not attend the Scheme Meeting, those who do not vote at the Scheme Meeting and those who vote against the Scheme Resolutions at the Scheme Meeting; and
- (b) overrides the other provisions of this constitution to the extent of any inconsistency (but, for the avoidance of doubt, remains subject to the Corporations Act and the Listing Rules).

41.8 Responsible Entity's limitation of liability

Subject to the Corporations Act, the Responsible Entity will not have any liability of any nature whatsoever to Members, beyond the extent to which the Responsible Entity is actually indemnified out of the assets of the Scheme, arising, directly or indirectly, from the Responsible Entity doing or refraining from doing any act (including the execution of a document), matter or thing pursuant to or in connection with the implementation of the CHAB Scheme.

41.9 Implementation of CHAB Scheme

- (a) Subject to the Corporations Act, the Responsible Entity, CHAB and any of their respective directors, officers, employees or associates may do any act, matter or thing described in or contemplated by this clause 41 even if they have an interest (financial or otherwise) in the outcome or in the act, matter or thing or any consequence thereof.
- (b) The Responsible Entity may amend the terms of the CHAB Scheme if:
 - (i) such amendment is not inconsistent with the approval given by the Scheme Participants or such amendment does not adversely affect the rights of Scheme Participants whose Units are to be transferred under the CHAB Scheme; and
 - (ii) such amendment is approved in writing by CHAB.

This clause 41 shall apply to the CHAB Scheme as amended.

41.10 Unclaimed monies

- (a) The *Unclaimed Moneys Act 2008* (Vic) will apply in relation to any amount payable to a Scheme Participant under the CHAB Scheme which becomes "unclaimed money" (as defined in section 3 of that Act).
- (b) The Responsible Entity may cancel a cheque issued on account of the Transfer Price paid in respect of a Scheme Unit if the cheque:
 - (i) is returned to the Responsible Entity; or

Supplemental Deed (continued)

- (ii) has not been presented for payment within 6 months after the date on which the cheque was sent.

41.11 Orders of court or Government Agency

- (a) The Responsible Entity may deduct and withhold from the Transfer Price which would otherwise be payable to a Scheme Participant in respect of a Scheme Unit, any amount which CHAB or the Responsible Entity determine is required to be deducted and withheld from that consideration under any applicable law including any order, direction or notice made or given by a court of competent jurisdiction or by another Government Agency (including any amounts required to be withheld and remitted to the ATO under clause 7.2(b) of the SIA).
- (b) To the extent that amounts are so deducted or withheld, such deducted or withheld amounts will be treated for all purposes under the CHAB Scheme as having been paid to the person in respect of which such deduction or withholding was made, provided that such deducted or withheld amounts are actually remitted to the appropriate Government Agency.
- (c) If written notice is given to the Responsible Entity (or the Registry) of an order, direction or notice made or given by a court of competent jurisdiction or by another Government Agency which:
 - (i) requires consideration that would otherwise have been payable or provided to a Scheme Participant under the CHAB Scheme to instead be paid or provided to a Government Agency or other third party (either through payment of a sum or the issuance of a security) then the Responsible Entity shall be entitled to procure that payment or provision of that consideration is made in accordance with that order, direction or notice (and payment or provision of that consideration in accordance with that order, direction or notice will be treated for all purposes under the CHAB Scheme as having been paid or provided to that Scheme Participant); or
 - (ii) that prevents the Responsible Entity from providing consideration to any particular Scheme Participant under the CHAB Scheme, or the payment or provision of such consideration is otherwise prohibited by applicable law, the Responsible Entity will be entitled to retain the Transfer Price to which that Scheme Participant would otherwise be entitled for a Scheme Unit under the CHAB Scheme until such time as provision or payment of the Transfer Price for that Scheme Unit under the CHAB Scheme is permitted by that order, direction or notice or otherwise by law."

3. BINDING PROVISIONS

The provisions of this deed are binding on and are made for the benefit of the Responsible Entity, each Member and all persons claiming through them.

4. **NO RESETTLEMENT OR DECLARATION**

The Responsible Entity confirms that it is not by this deed:

- (a) resettling or redeclaring the Trust;
- (b) declaring any trust; or
- (c) effecting or causing the transfer, vesting or accruing of any property comprising the assets of the Trust to or in any person.

5. **NO MERGER**

Each obligation set out in this Supplemental Deed which is capable of having future operation continues in force after the Effective Time although this Supplemental Deed has otherwise been fully performed.

6. **GOVERNING LAW**

This deed is governed by the laws in force in Victoria, Australia. The Responsible Entity submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in Victoria, and any court that may hear appeals from any of those courts, for any proceedings in connection with this deed, and waives any right it might have to claim that those courts are an inconvenient forum.

Supplemental Deed

(continued)

EXECUTED as a deed poll.

EXECUTED by **AUSTRALIAN UNITY
INVESTMENT REAL ESTATE LIMITED**
AS RESPONSIBLE ENTITY OF
AUSTRALIAN UNITY OFFICE FUND:

Signature of director

Signature of director/secretary

Name

Name

Attachment D

Independent Expert's Report

Independent Expert's Report

Deloitte.

Australian Unity Office Fund

Independent expert's report and Financial Services Guide

30 September 2019

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you a FSG because you have received a report or other financial services from us. The person who provides the advice is an Authorised Representative (AR) of Deloitte Corporate Finance Pty Limited (DCF), which authorises the AR to distribute this FSG. Their AR number is included in the report which accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately \$190,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed transaction between the Australian Unity Office Fund and entities associated with the Abacus Property Group (ABP) and Charter Hall Group (CHC) (collectively, the Consortium) (the Proposed Scheme).

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Australian Financial Complaints Authority (AFCA). AFCA provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. AFCA's contact details are also set out below.

The Complaints Officer	Australian Financial
PO Box N250	Complaints Authority Limited
Grosvenor Place	GPO Box 3
Sydney NSW 1220	Melbourne VIC 3001
complaints@deloitte.com.au	info@afca.org.au
Fax: +61 2 9255 8434	www.fos.org.au
	Tel: 1800 931 678
	Fax: +61 3 9613 6399

What insurance arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

30 September 2019

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

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Independent Expert's Report (continued)



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The Independent Board Committee (IBC)
Australian Unity Investment Real Estate Limited as responsible entity of
Australian Unity Office Fund
Level 15
271 Spring Street
Melbourne VIC 3000

30 September 2019

Dear Directors

Re: Independent expert's report

Introduction

Australian Unity Investment Real Estate Limited (AUIREL) as responsible entity (RE) of Australian Unity Office Fund (AOF or the Fund) proposes to enter into a trust scheme with entities associated with the Charter Hall Group (CHC) and Abacus Property Group (ABP) (collectively, the Consortium) to acquire all of the units in AOF that they do not already own for \$3.04 per unit cash consideration (the Proposed Scheme).

The full details of the Proposed Scheme are included in an explanatory memorandum (Explanatory Memorandum) issued by AUIREL to AOF unitholders. An overview of the Proposed Scheme is provided in Section 1 of our report.

Purpose of the report

AOF is an ASX listed fund managed by entities associated with Australia Unity Limited. The Fund is largely invested in commercial property assets.

Our independent expert's report is required pursuant to Takeover Panel Guidance Note 15 – Trust Scheme Mergers in order to provide our opinion as to whether the terms of the Proposed Scheme are fair and reasonable to, and/or in the best interests of, AOF unitholders.

This independent expert's report has been prepared to assist AOF unitholders in their consideration of the Proposed Scheme (the Purpose).

Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than AOF unitholders and AUIREL, in respect of this report, including any errors or omissions however caused.

Basis of evaluation

We have prepared this report having regard to Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 in relation to the content of expert's reports.

To assess whether the Proposed Scheme is in the best interests of AOF unitholders, we have adopted the test of whether the Proposed Scheme is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

Further information on the basis of evaluation is set out in Section 2.

Summary and conclusion

In our opinion, the Proposed Scheme is fair and reasonable to, and therefore in the best interests of AOF unitholders. In arriving at this opinion, we have had regard to the following factors.

The Proposed Scheme is fair

According to ASIC Regulatory Guide 111, in order to assess whether the Proposed Scheme is fair, the independent expert is required to compare the current market value of an AOF unit on a control basis with the cash consideration.

The Proposed Scheme is fair if the value of the cash consideration is equal to or greater than the value of an AOF unit. Set out in the table below is that comparison:

Table 1: Comparison of our valuation of an AOF unit to the cash consideration

\$	Section	Low	High
Estimated market value of one AOF unit	6	2.76	3.06
Cash consideration		3.04	3.04

Source: Deloitte Corporate Finance analysis

We have estimated the market value of an AOF unit using the net assets on a going concern methodology, an approach commonly used in valuing property investment trusts and other asset holding businesses. The valuation reflects the value of an AOF unit on a control basis. In applying this methodology, we made certain adjustments in respect of changes in net assets between 30 June 2019 and the Implementation Date and certain items included in the net assets of AOF as at 30 June 2019 that we consider a prospective buyer of AOF would seek to adjust in the assessment of the market value of AOF. AOF's net assets do not take adequate account of the value of the Valentine Site development. As such, we also made adjustments to recognise our assessment of the value of this development. We also made adjustments for a portfolio premium and capitalised operating costs. Our valuation of AOF is set out in Section 4, our valuation of the Valentine Site development is set out in Section 5 and our resulting valuation of a unit in AOF is set out in Section 6.

The cash consideration being offered by the Consortium is within the range of our assessment of the value of a unit in AOF. As such, we consider the Proposed Scheme to be fair so far as AOF unitholders are concerned.

Independent Expert's Report (continued)

The Proposed Scheme is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Scheme is reasonable. We have also identified the following factors:

AOF unitholders are receiving a premium to the unit price of AOF prior to the announcement of the offer

The cash consideration of \$3.04 per unit represents a premium to AOF's unit trading prices throughout the 12 month period prior to the announcement of the initial offer from the Consortium (3 June 2019), as highlighted below:¹

- 11.1% based on one month volume weighted average price (VWAP)
- 12.5% based on three months VWAP
- 12.6% based on six months VWAP
- 13.0% based on 12 months VWAP.

The Proposed Scheme appears to be the best offer available

The initial and revised offers that were received in 2018 from Starwood Capital Asia Limited to acquire all the issued units in AOF for \$2.95 (which was endorsed by the Board of AUIREL subject to an independent expert's report) and \$2.87 (which was rejected by the Board of AUIREL) were less than the Offer under the Proposed Scheme.

Subsequent to the Consortium's offer under the Proposed Scheme, we understand from Executives of AUIREL and the IBC that there have been discussions with third parties. However, no formal alternative proposal has been forthcoming. Further, with CHAB owning 19.9% of the issued units in AOF, we consider there would be challenges for a third party to successfully launch a superior offer.

The Proposed Scheme appears to be the best alternative available

Executives of AUIREL have considered the following alternatives to the Proposed Scheme:

- maintaining the status quo:
 - in the past three years to FY2019, AOF unitholders have received a distribution implying a yield based on AOF's NTA and unit trading price of 5.4% to 6.7%, respectively. In order to generate higher income and therefore distribution to unitholders, and in the absence of market rental growth (but noting that the vast majority of leases have built in fixed rental increases), AOF would have to increase income through value added acquisition and/or redevelopment of its existing portfolio, for example, AOF's development at the Valentine Site. Executives of AUIREL indicated they have been actively identifying opportunities to acquire new assets and have made offers to acquire properties, however, have not been successful. We note that successful acquisitions are impeded by strong competition for high quality properties with a reasonable return on capital. Equally, superior returns on such investments (which there is no guarantee of achieving) would only be achieved over the medium to long term
 - in order to generate further capital growth of net tangible assets per unit, and in the absence of any further compression of capitalisation rates, AOF could also realise lower capitalisation rates, as identified by Executives of AUIREL, by securing longer term leases, particularly those with impending expiry such as NSW State Government (expiring in 2022), Telstra and GE Finance (expiring in 2023) and Boeing Defence Australia (expiring in 2024). AOF has a track record of extending these leases but such benefits are likely to be, relatively speaking, marginal and achieved over the long term
- selling the properties: based on discussions with Executives of AUIREL, they expect that AOF may be able to achieve a premium to the current book value on the sale of the properties. However, from a tax perspective, the properties have a low cost base, given AOF's ownership of the properties of more than 10 years (with the exception of 150 Charlotte Street, Brisbane), and therefore would be subject to capital gains tax in the event of a sale. As a result, the net

¹ Source: Capital IQ, Deloitte Corporate Finance analysis

proceeds to unitholders are likely to be impacted by such taxes. We also highlight that the cash consideration under the Proposed Scheme is at a premium to the net tangible assets (i.e. book value) of AOF and our assessment of the value of AOF (which takes account of the value of the Valentine Site development).

The Proposed Scheme provides the opportunity to realise certainty of value

The consideration under the Proposed Scheme is cash which provides certainty in crystallising the value of unitholders' investment in AOF. In the event that the Proposed Scheme is not approved, AOF unitholders will continue to hold units in AOF, the value of which could be impacted by investment risks relevant to AOF.

AOF unitholders may experience a reduction in distribution over the next few years

If the Proposed Scheme is not approved, AOF is likely to pursue the development of the Valentine Site which will require funding. Whilst some of this funding could be sourced from debt capital markets, AOF would likely need to undertake a capital raising to fund the equity contribution which AOF unitholders would need to participate in to avoid dilution. If AOF unitholders do not fund the development, capital may need to be raised at a discount to the prevailing unit price, which may cause a dilution of the unit price and hence value to existing AOF unitholders. Alternative sources of funding the development include one, or a combination of the following options: selling an existing asset(s), forming a joint venture with another party or funding through existing cash resources. Selling an existing asset(s) or funding through existing cash resources may impact distributions. Conversely forming a joint venture would impact the expected increase in net tangible assets over the long term from undertaking the development.

The price of AOF units could drop if the Proposed Scheme is not approved

In the event that the Proposed Scheme is not implemented, the price of AOF units could decrease to levels prior to the announcement of the offer (last unit trading price was \$2.78 at 3 June 2019). In addition, with the Consortium's ownership of 19.9%, trading liquidity of the units could decrease which could result in a further decrease in the unit price.

AOF unitholders may be exposed to greater risk if the Proposed Scheme is not implemented

If the Proposed Scheme is not implemented, AOF is likely to continue to pursue the development of the Valentine Site. This may expose unitholders to risks such as construction risk that they have not previously been materially exposed to (as an AOF unitholder). Such risks have been taken account of in our assessment of fairness.

AOF unitholders will lose access to distributions

As a result of accepting the offer, AOF unitholders will lose the right to future distributions. In respect of FY2019, AOF unitholders received absolute distribution of 15.8 cents, which equates to a yield on the unit price at 30 June 2019 of 5.4%. Whilst this is a relatively strong distribution yield, AOF unitholders should be able to obtain relatively similar yield by investing in other property trusts listed on the ASX on a pre-tax basis. However, we understand that for AOF unitholders who hold units on capital account, this yield would be reduced on a post-tax basis given the taxable capital gain on disposal of the AOF units.

Other considerations

We understand that entities associated with Australian Unity Limited and the Consortium have been in discussions regarding a potential fee payable by the Consortium to Australian Unity Limited for the termination of certain agreements with entities associated with Australian Unity Limited. As an example, the termination of the Property Management Agreement allows for the payment of a fee equal to 24 months' management fee in the event of a change in the RE and at the discretion of the Property Manager.

AOF unitholders may be subject to capital gains tax on disposal of their units if they participate in the Proposed Scheme.

The Valentine Site development continues to progress and it is likely to be the case that further progress will be made with respect of the development through to the Implementation Date. Our valuation analysis has sought to have regard a realistic scenario of the progress of the development through to the Implementation Date. This has included consideration of development approvals, construction cost estimates and tenant pre-commitment expectations. However, to the extent that the development progresses (materially) in a manner not anticipated within our valuation analysis, the value of an AOF

Independent Expert's Report (continued)

unit may change. We reserve the right to amend our opinion should there be a material change in circumstances that would suggest a change in our opinion.

The Consortium may be able to realise additional value from ownership of AOF that is not available to AOF unitholders. This does seem to be evident, given the Consortium is paying a price that is at the high end of our assessment of the market value of an AOF unit (on a control basis). We have not been able to explicitly identify any factors that may create special value for the Consortium based on the information we have had access to (refer Section 1.5 which discusses the intentions of the Consortium). However, one factor could be the operating cost base of AOF. The members of the Consortium (entities associated with CHC and ABP) have extensive experience and in-house teams capable of providing operational and management capabilities surrounding funds management, investment management and property services. It may be the case that the marginal cost of providing these services to the Fund under their ownership may be materially less than what we've assumed in our valuation (and notwithstanding that we assumed a much lower cost base than currently in existence. This benefit may also be available to some other bidders.

Conclusion on reasonableness

On balance, and having regard to the above, including our assessment that the Proposed Scheme is fair, in our opinion, the Proposed Scheme is reasonable.

Opinion

In our opinion, the Proposed Scheme is fair and reasonable to AOF unitholders. It is therefore in the best interests of AOF unitholders.

An individual unitholder's decision in relation to the Proposed Scheme may be influenced by his or her particular circumstances. If in doubt the unitholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully



Tapan Parekh
Authorised Representative
AR Number: 461009

Glossary

Reference	Definition
\$	Australian dollars
ABP	Abacus Property Group
AOF	Australian Unity Office Fund
ASIC	The Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUFML	Australian Unity Funds Management Limited
AUIREL	Australian Unity Investment Real Estate Limited
AUPM	Australian Unity Property Management Pty Limited
CHAB	CHAB Office Pty Limited acting in its capacity as trustee of CHAB Office Trust
CHC	Charter Hall Group
DA	Development Application
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
Directors	The Directors of AUIREL
Explanatory Memorandum	The explanatory memorandum issued by AUIREL to AOF unitholders in respect of the Proposed Scheme between the Consortium and AOF
FSG	Financial Services Guide
FSR	Floor space ratio
FY	Financial year
GFA	Gross floor area
IBC	The Independent Board Committee of AUIREL
Implementation Date	Anticipated date that the Proposed Scheme is intended to take effect being 18 November 2019
m ²	Square metres
NLA	Net lettable area
NTA	Net tangible assets
Proposed Scheme	AUIREL as RE of AOF proposes to enter into a trust scheme with an entity owned by the Consortium to acquire all of the units in AOF that they do not already own for \$3.04 per unit cash consideration
RE	Responsible Entity, being AUIREL
REIT	Real estate investment trust
the Consortium	Charter Hall Holdings Pty Limited and Abacus Funds Management Limited as responsible entity of Abacus Trust and, entities associated with the CHC and ABP, acting through CHAB
the Fund	AOF
VWAP	Volume weighted average price
WACR	Weighted average capitalisation rate
WALE	Weighted average lease expiry

Independent Expert's Report (continued)

Contents

1	Overview of the Proposed Scheme	9
2	Basis of evaluation	11
3	Profile of AOF	13
4	Valuation of AOF	30
5	Valuation of the Valentine Site	32
6	Valuation of an AOF unit	41
	Appendix 1: Context to the report	43
	Appendix 2: Valuation methodologies	45
	Appendix 3: Valentine Site development market evidence	46
	Appendix 4: Premiums and discounts to the market value of the properties	49

1 Overview of the Proposed Scheme

1.1 Background to the Proposed Scheme

On 4 June 2019, CHAB Office Pty Limited acting in its capacity as trustee of CHAB Office Trust (CHAB) equally owned by the Consortium, acquired 19.9% of the units in AOF for \$2.95 cash per unit. Shortly thereafter, AUIREL received an unsolicited, indicative and non-binding proposal from the Consortium to acquire all the units in AOF that it did not already own for \$2.95 cash per unit, by way of a trust scheme. Subsequent to this initial offer, on 3 July 2019, AOF received an improved, indicative and non-binding proposal from the Consortium to acquire all of the issued units in AOF that it does not already own for \$3.04 per unit.

AUIREL as RE of AOF proposes to enter into a trust scheme with the Consortium to acquire all of the units in AOF that they do not already own for \$3.04 per unit cash consideration (the Proposed Scheme). The offer price of \$3.04 per unit is to be reduced by any distribution announced or paid in respect of AOF other than the 3.95 cent distribution announced on 21 June 2019 and subject to any capital gains tax withholding for foreign residents as outlined in Section 6.1(b) of this Explanatory Memorandum. As a result, the Board of AUIREL has resolved not to pay a distribution for the quarter ending 30 September 2019 and thus the cash consideration remains at \$3.04 per unit.

Further detail on the background of the Proposed Scheme is set out in Section 3.1 of the Explanatory Memorandum.

1.2 Background to the Consortium

The two members of the Consortium are entities associated with the Charter Hall Group (CHC) and Abacus Property Group (ABP).

CHC is listed on the ASX with a market capitalisation of almost \$6bn. It provides property management and investment services on behalf of institutional, wholesale and retail clients across the office, retail, industrial and social infrastructure property sectors.

ABP is also listed on the ASX with a market capitalisation of circa \$2.5bn. It also provides property management and investment services on behalf of institutional, wholesale and retail clients across the office and self storage sectors.

Further information about the Consortium is contained in Section 5 of the Explanatory Memorandum.

1.3 Governance regime in respect of the Proposed Scheme

The Board of AUIREL established an independent board committee (IBC) comprising the Independent Directors of AOF (Peter Day, Don Marples and Eve Crestani) to ensure that consideration of the initial proposal and any further proposal was undertaken independent from any influence from entities associated with Australian Unity.

1.4 Key conditions of the Proposed Scheme

The Proposed Scheme is subject to certain conditions, the most significant are as follows:

- the passing of a special resolution to amend the AOF constitution (which requires approval of at least 75%) and an ordinary resolution to approve the acquisition of the AOF units by the Consortium (which requires approval of at least 50%)
- no prescribed occurrences or material adverse changes as described under the Scheme Implementation Agreement
- no court or government agency issuing a temporary or permanent restraint on the Proposed Scheme.

Further detail on the conditions that the Proposed Scheme is subject to are set out in Section 3.5 of the Explanatory Memorandum. All of the conditions listed above could be viewed as largely procedural. However, we do highlight that some minor restructuring events are required to be undertaken to effect the implementation of the Proposed Scheme and certain consents need to be obtained from the owner of the freehold of 241 Adelaide Street, Brisbane (the Brisbane Club).

Independent Expert's Report (continued)

The Consortium has exclusivity through to 16 December 2019 with a break fee of \$4.9m payable by AOF to the Consortium if AOF receives a competing offer which is completed within 12 months, the Consortium terminates the Scheme Implementation Agreement due to a material breach by AOF or the IBC change their recommendation in respect of the Proposed Scheme unless the change in recommendation is as a result of the independent expert changing its opinion. Refer to Section 7.4(c) of the Explanatory Memorandum for full details of when the break fee is payable.

It should also be noted that there are some restrictions with respect to the continued progress of the Valentine Site development. Based on discussions with Executives of AUIREL, we consider that none of those restrictions are excessively prohibitive recognising they don't limit activities that have already been started, the current status of the development, the fact that consent from the Consortium could be obtained and the timeframe for implementation of the Proposed Scheme.

1.5 Intentions if the Proposed Scheme proceeds

If the Proposed Scheme proceeds, CHC and ABP, as members of the Consortium, will own each AOF property equally. In particular, the Consortium intends to:

- have AOF removed from the official list of the ASX
- continue to operate AOF as a trust investing in Australian office property
- deregister AOF (and its sub-trusts, where applicable) as a managed investment scheme under the Corporations Act
- develop and implement strategies to deliver superior returns for the AOF portfolio including refurbishment or redevelopment of particular properties in the AOF portfolio, drive rental growth through implementation of leasing strategies and maintenance of rental income in performing assets
- refinance AOF's existing debt facilities with a new syndicated loan facility
- remove AUIREL as responsible entity of AOF and appoint a member of the Charter Hall Group as the new responsible entity.

2 Basis of evaluation

2.1 Guidance

We have prepared this report having regard to the ASIC Regulatory Guide 111 in relation to the content of expert's reports, and ASIC Regulatory Guide 112 in relation to the independence of experts.

ASIC Regulatory Guide 111 provides guidance in relation to the content of independent expert's reports prepared for a range of transactions. In respect of transactions with related parties and other persons of influence, ASIC Regulatory Guide 111 states that:

- the assessment of whether the transaction is 'fair and reasonable' should not be applied as a composite test; rather, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable'
- a proposed transaction is 'reasonable' if it is 'fair'. It might also be 'reasonable' if, despite being 'not fair', the expert believes there are sufficient reasons for members to vote for the proposal.

ASIC Regulatory Guide 112 primarily focuses on the independence of experts and provides little guidance on evaluating transactions.

2.2 Fairness

In considering the 'fairness' of the Proposed Scheme we have assessed how the value (on a control basis²) of a unit of AOF compares to the cash consideration.

2.3 Reasonableness

Our assessment of whether the Proposed Scheme is reasonable has had regard to additional factors relevant to the unitholders. Such factors include:

- the value to an alternative bidder and the likelihood of an alternative offer being made
- the Consortium's existing unitholding in AOF
- any special value to the Consortium
- the advantages and disadvantages of alternatives other than the Proposed Scheme
- implications associated with AOF unitholders rejecting the Proposed Scheme
- the extent to which AOF unitholders are receiving a premium for control.

2.4 Definition of value

For the purpose of our opinion, we have referred to the concept of market value. Market value is defined as the amount at which the securities in the entities valued would be expected to change hands in a hypothetical transaction between a knowledgeable willing, but not anxious, buyer and a knowledgeable willing, but not anxious, seller acting at arm's length.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation has not been premised on the existence of a special purchaser.

² Given 100% of units in AOF are being acquired

Independent Expert's Report (continued)

2.5 Limitations

We have evaluated the Proposed Scheme for unitholders as a whole and have not considered the effect of the Proposed Scheme on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Scheme from the one adopted in this report. Accordingly, investors may reach different conclusions to ours on whether the Proposed Scheme is fair and reasonable to unitholders. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

This report should be read in conjunction with Appendix 1.

In addition, we highlight below some specific limitations related to the valuation of the Valentine Site development.

2.5.1 Valentine Site development

Date of inspection

An unaccompanied external site inspection was conducted on 5 August 2019. However, Executives of AOF has confirmed that there have been no changes since this date and the date of our report to cause the value of the Valentine Site development to change materially.

Verifiable and/or key assumptions

The verifiable and/or key assumptions upon which our valuation of the Valentine Site development is based are as follows:

- planning information in respect of the Valentine Site development was from the NSW legislation site. We have relied upon this information in assessing the value of the property. No responsibility is accepted for the accuracy of that information and if it is found to be incorrect in any significant respect, our assessment of value may differ. Should you have concerns regarding the validity of this information, we would recommend that a formal enquiry be made with the appropriate authority
- our valuation is made on the assumption that there are no environmental problems in any way affecting the property, including surface or below ground conditions, toxic or hazardous wastes or building material hazards. Any such matters may adversely affect the property or its use and our assessment of value. Should any such matters be known or discovered no reliance should be placed on our assessment of value unless we have been advised of these matters and we have confirmed that our assessment is not affected
- flood level information in respect of the Valentine Site development was from Parramatta Council and no responsibility is accepted for the accuracy of the information provided. Should it prove incorrect in any material respect, the matter should be referred to us for review of the valuation as deemed appropriate
- in the absence of a schedule of proposed lettable areas relating to architectural schematics being prepared for lodgement as part of the Development Application we have relied upon lettable areas indicated within the feasibility assessment provided by the client. The latest version of the feasibility supplied (file reference "AOF 2 Valentine Ave development feasibility 28000m2 NLA (Cost Plan 5)". Should any subsequent surveys indicate a variation to the areas adopted within, they may impact the valuation
- we are not qualified to comment on building compliance and our 'As If Complete' assessment is undertaken on the assumption that all buildings will comply with all relevant building codes, that the necessary certifications will be achieved and that all building and occupational health and safety standards will be met
- our valuation has been undertaken on the basis that all buildings will be constructed in accordance with the flood regulation levels.

3 Profile of AOF

3.1 Overview of AOF and its history

AOF is a registered real estate investment trust (REIT) listed on the ASX which owns nine office properties across Australian metropolitan and CBD markets. The portfolio is valued at \$668.4m and has a total net lettable area (NLA) of 107,667 square metres (m²) as at 30 June 2019.

The responsible entity of the Fund is Australian Unity Investment Real Estate Limited (AUIREL), a wholly owned subsidiary of Australian Unity Limited. AUIREL has appointed Australian Unity Funds Management Limited (AUFML) as investment manager and Australian Unity Property Management Pty Limited (AUPM) as property manager of AOF. AUFML and AUPM are part of the Australian Unity Limited property business unit. The properties (or leasehold interests in the properties) are held directly by the Fund.

The Fund's strategy is to focus predominantly on owning Australian office properties in metropolitan and CBD markets. It aims to grow net property income and enhance capital values through active asset management and to deliver investors sustainable and growing income returns via quarterly distributions. To do so, the manager has constructed a portfolio that maintains diversification of geography, tenants and lease expiry through investment in existing properties and potential future acquisitions.

Figure 1: History of AOF

2005	Established by Investa Property Group with \$150m funds under management with full or partial ownership interests in three office buildings and two unlisted property trusts
2007	- Merged with three unlisted property trusts - Acquired 10 Valentine Avenue, Parramatta with funds under management totalling \$546m
2011	Australian Unity acquired the management rights to AOF and two other funds, which were subsequently merged into AOF in 2013 and 2014, respectively, and which then resulted in AOF owning the properties in entirety
June 2016	Initial public offering (IPO) on the ASX under the ticker ASX:AOF at \$2.00 per unit
October 2017	Announced it entered into an unconditional agreement to acquire 150 Charlotte Street, Brisbane for \$105.8m. The acquisition price represented an initial passing yield of 6.7% and capitalisation rate of 6.0%
April 2018	AOF received approval for Development Application (DA) DA/841/2017 for the redevelopment at 2 Valentine Avenue, Parramatta for a 14 storey building, six storey aboveground car park (135 car spaces) in the podium and eight storey commercial office comprising approximately 8,000m² of NLA
June 2018	AOF submits an enhanced planning proposal in respect of the redevelopment at 10 Valentine Avenue, Parramatta through the Gateway process of NSW Government
October 2018	Received an unsolicited, indicative and non-binding proposal from Starwood Capital Asia Limited to acquire all the issued units in AOF for \$2.95 cash per AOF unit. The price represented a 9.7% premium to the unit price
November 2018	Starwood Capital Asia Limited revised its offer to \$2.87 per unit which was then rejected by the Board of AUIREL
June 2019	- The NSW Government determined that AOF's proposal should proceed subject to the conditions of the NSW Gateway Determination, which requires Parramatta Council to consult with the community and relevant public authorities - An entity associated with Abacus Property Group and Charter Hall Group (collectively, the Consortium) acquires 19.9% of the units in AOF and submits an unsolicited, indicative and non-binding proposal to acquire the remaining units for \$2.95 cash per AOF unit. The price represents a 6.1% premium to AOF's closing price of \$2.78 on 3 June 2019
July 2019	- The Consortium submits an improved, indicative and non-binding proposal from the Consortium to acquire all of the issued units in AOF that it does not already hold for \$3.04 cash per unit less any distributions declared after 30 June 2019 - The Consortium is granted access to information to allow it to undertake due diligence over a 4 week period
August 2019	End of community consultation in respect of the redevelopment at 10 Valentine Avenue, Parramatta and submission of development application with Parramatta Council for a larger office building comprising approximately 28,000m² of NLA

Source: AOF ASX announcements, Executives of AOF, Deloitte Corporate Finance analysis

Independent Expert's Report (continued)

3.2 Property assets

3.2.1 Overview of properties

AOF owns the following nine properties:

1. **30 Pirie Street Adelaide, South Australia:** A-grade office building, centrally located in Adelaide's CBD, with 23 levels of office space. The main tenant is Telstra which has occupied the property since its construction in 1987. The building underwent extensive refurbishment at a cost of \$19m in 2012 in accordance with the terms of the new 11 year lease entered into with Telstra
2. **10 Valentine Avenue, Parramatta, NSW:** A-grade 14 level office building located in the Parramatta CBD, with an adjacent six storey car park which provides parking for 286 vehicles. The property is located approximately 100 metres from the Parramatta bus and railway interchange and Westfield shopping centre. The property has been predominantly leased to the NSW State Government. AOF has a planning proposal to redevelop the adjacent carpark. Refer to Section 3.2.5 below for more detail
3. **150 Charlotte Street, Brisbane, QLD:** A-grade 16 level office building with three levels of basement parking located in Brisbane's CBD. The location in the Midtown precinct will benefit from projects including Queen's Wharf and the Cross River Rail. The base building underwent a \$21m refurbishment in 2012
4. **5 Eden Park Drive, North Ryde, NSW:** A-grade office building which comprises three levels of office space and a production and warehouse area. Approximately half of the building has been purpose built to meet the requirements of the major tenant, Contract Pharmaceuticals Services of Australia (CPSA)
5. **32 Phillip Street, Parramatta, NSW:** B-grade office building located within the northern portion of the Parramatta commercial precinct within close proximity to the retail strip on Church Street. The property was refurbished in 2013 under the terms of the 10 year lease to GE Capital Finance
6. **468 St Kilda Road, Melbourne, Victoria:** B-grade office building with 13 levels, with refurbishment carried out progressively since 2010. St Kilda Road is one of the largest non-CBD office markets in Australia located approximately three kilometres to the south of the Melbourne CBD
7. **2 Eden Park Drive, North Ryde, NSW:** Office and industrial complex with 16 attached units. The three level office areas are at the front of the property and the warehouse at the rear, split over two levels
8. **241 Adelaide Street, Brisbane, Queensland:** B-grade office building also known as "The Brisbane Club Tower" located within the CBD, adjacent to Post Office Square and within close proximity to central railway station. The building has been progressively refurbished since 2012
9. **64 Northbourne Avenue, Canberra, ACT:** B-grade property with six levels of office space, located within the Canberra CBD and within close proximity to the prime retail precinct, the City Bus Interchange and Canberra's new light rail.

Key metrics of the AOF portfolio are summarised in the following table.

Table 2: AOF property portfolio

Property portfolio	Valuation ¹ (\$m)	Lettable area (m ²)	Cap. rate (%)	WALE ² (years)	Occupancy (%)
30 Pirie St, Adelaide, SA	124.5	24,749	7.25%	3.7	94.0%
10 Valentine Ave, Parramatta, NSW	120.0	16,020	5.75%	2.9	100.0%
150 Charlotte St, Brisbane, QLD	102.0	11,049	6.00%	4.3	97.3%
468 St Kilda Rd, Melbourne, VIC	80.5	11,211	5.25%	3.3	96.7%
5 Eden Park Drive, North Ryde, NSW	66.0	11,030	6.00%	5.0	92.8%
32 Phillip St, Parramatta, NSW	65.0	6,759	5.75%	4.0	100.0%
2 Eden Park Drive, North Ryde, NSW	47.4	10,345	6.25%	1.9	100.0%
241 Adelaide St, Brisbane, QLD	39.0	10,075	7.50%	2.6	88.2%
64 Northbourne Ave, Canberra, ACT	24.0	6,429	7.00%	3.2	86.4%
Total	668.4	107,667			
Weighted average			6.21%	3.5	95.3%

Notes:

1. Values as at 30 June 2019

2. WALE – weighted average lease expiry, weighted by gross passing income as at 30 June 2019

Source: FY2019 Property book, Deloitte Corporate Finance analysis

3.2.2 Property valuations

AOF has a documented property valuation policy, which is applied to all AOF owned properties. The key principles of the policy are as follows:

- other than in exceptional circumstances, an independent valuation of each property is to be carried out at least once every financial year and once every 18 months for each property in the construction phase
- valuation reports for the properties are to be staggered throughout the year
- independent valuers are selected from a panel of predetermined firms. These valuers are registered or licensed in the relevant state or territory, have at least five years' continuous experience in valuing the type of property subject to the valuation and independent
- independent valuers must be rotated to ensure a diversity of valuers, with a new valuer required for each property every two years
- an independent valuation must be obtained within two months should management form the view that the value of a property has materially changed
- an independent valuation must be obtained before a property is purchased on an 'as is' and 'as if complete' basis for development properties and on an 'as is' basis for all other properties, with valuations completed no more than three months prior to the exchange of contracts
- where a property has been contracted for sale, the contracted sale price may be adopted instead of an independent valuation
- when draft valuation reports are received, they are reviewed by the Fund Manager for reasonableness. This includes a review of the approach adopted by the valuer and also the assumptions adopted by the valuer. To the extent that the valuation changes by greater than 5%, the Head of Valuations and Asset Management is required to approve the valuation, before the valuer issues a final report.

Independent Expert's Report (continued)

We have set out below the historical valuation outcomes for the properties.

Table 3: Historical valuation summary

Property portfolio	Valuation date	Valuation (\$m)	Capitalisation rate	WALE ¹
30 Pirie Street, Adelaide, SA	30/06/2016 ²	117.0	7.50%	6.3
	30/06/2017 ²	119.0	7.50%	5.7
	30/06/2018 ²	121.5	7.50%	4.7
	30/06/2019 ²	124.5	7.25%	3.7
10 Valentine Ave, Parramatta, NSW	30/06/2016 ²	69.5	8.50%	5.0
	30/06/2017 ²	86.0	7.75%	4.8
	30/06/2018 ²	115.0	6.25%	3.8
	30/06/2019 ²	120.0	5.75%	2.9
150 Charlotte Street, Brisbane, QLD	30/06/2016	n/a	n/a	n/a
	30/06/2017	n/a	n/a	n/a
	30/06/2018 ²	105.8	6.00%	4.7
	30/06/2019 ²	102.0	6.00%	4.3
468 St Kilda Rd, Melbourne, VIC	30/06/2016 ²	43.5	7.50%	3.4
	30/06/2017	51.0	6.75%	3.1
	30/06/2018	71.3	5.50%	3.7
	30/06/2019 ²	80.5	5.25%	3.3
5 Eden Park Drive, North Ryde, NSW	30/06/2016 ²	40.8	7.75%	1.1
	30/06/2017 ²	52.4	6.75%	6.6
	30/06/2018 ²	61.5	6.25%	6.0
	30/06/2019 ²	66.0	6.00%	5.0
32 Phillip Street, Parramatta, NSW	30/06/2016 ²	37.8	7.50%	7.2
	30/06/2017	41.7	7.00%	6.0
	30/06/2018 ²	56.5	6.25%	5.0
	30/06/2019 ²	65.0	5.75%	4.0
2 Eden Park Drive, North Ryde, NSW	30/06/2016 ²	28.7	8.25%	2.0
	30/06/2017	34.5	8.00%	2.7
	30/06/2018	44.3	6.50%	2.1
	30/06/2019 ²	47.4	6.25%	1.9
241 Adelaide Street, Brisbane	30/06/2016 ²	35.5	9.00%	2.8
	30/06/2017 ²	36.8	8.50%	2.5
	30/06/2018 ²	37.5	7.80%	2.2
	30/06/2019 ²	39.0	7.50%	2.6
64 Northbourne Avenue, Canberra, ACT	30/06/2016 ²	18.3	9.25%	4.2
	30/06/2017	19.7	9.00%	3.7
	30/06/2018	22.3	7.75%	3.3
	30/06/2019 ²	24.0	7.00%	3.2

Notes:

1. As at date of valuation

2. Subject of independent valuation on that date

Source: AOF 2016 annual report and independent valuation reports, FY2017, FY2018 and FY2019 Property books, Deloitte Corporate Finance analysis

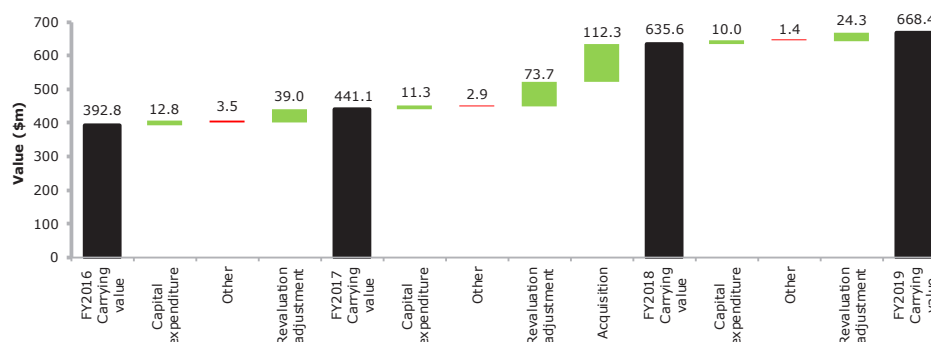
As at 30 June 2019, all of the properties have been independently valued.

Overall, the portfolio has seen strong increases in valuations over the last four valuation reporting periods, driven predominately by decreases in capitalisation rates and in some markets, rental growth (e.g. properties in Parramatta and 468 St Kilda Road, Melbourne).

The main driver to the decrease in capitalisation rates has been the strong domestic demand for Australian commercial property and competition for assets in a buoyant transactional market. Demand is further supported by historically low interest rates combined with relatively poor performance of alternative investments. Any change in the return profile of alternative investments, in particular fixed interest products, or the cost of obtaining capital will have a corresponding impact on investment metrics in the property market.

In respect of 150 Charlotte Street, Brisbane, we note there has been a reduction in value of approximately 3.6%, which is primarily driven by increases in existing vacancy allowances including letting up, incentives and leasing cost, as a result of these vacancies. We note the independent valuation expert adopted the same capitalisation rate as last reporting period.

Figure 2: Historical movement in AOF property valuations



Source: AOF FY2017 and FY2018 annual report and FY2019 Appendix 4E preliminary financial report, Deloitte Corporate Finance analysis

As discussed above, AOF acquired 150 Charlotte Street, Brisbane for \$105.8m plus acquisition costs of \$6.6m during FY2018.

Revaluation adjustments are primarily the result of capitalisation rates decreasing and in some cases market rental growth over each of the reporting periods, increasing the value of the portfolio by \$39.0m in FY2017, \$73.7m in FY2018 and \$24.3m in FY2019. This is illustrated through the movement (downwards) in the weighted average capitalisation rate (WACR) implicit in the portfolio as set out in the table below:

Table 4: WACR implicit in AOF portfolio

	Total value (\$m)	WACR (%)
30 June 2016	392.8	8.0%
30 June 2017	441.1	7.5%
30 June 2018	635.6	6.5%
30 June 2019	668.4	6.2%

Source: AOF 2016 annual report and independent valuation reports, FY2017, FY2018 and FY2019 Property books, Deloitte Corporate Finance analysis

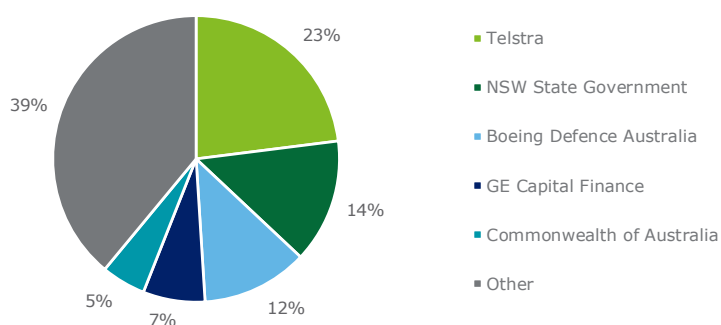
Independent Expert's Report (continued)

3.2.3 Key tenants

AOF's major tenant is Telstra, which contributes approximately 23% of the gross passing income. Other major tenants are government bodies, Boeing Defence Australia and GE Capital Finance. The portfolio is geographically diverse, with properties located in New South Wales, Queensland, Victoria, Australian Capital Territory and South Australia. Approximately 81% of the portfolio is located on the eastern seaboard.

The following table summarises AOF's key tenants by gross passing income.

Figure 3: AOF's key tenants (by income) for FY2019



Source: Executives of AOF

3.2.4 Capital expenditure and substantive works

AOF has a programme in place to identify and undertake capital expenditure works to maintain the portfolio.

Recently, AOF also undertook minor rectification works to replace aluminium composite panels identified as being in existence within some structures at several of its properties.

3.2.5 Development opportunities

The most substantial development opportunity relates to 2-10 Valentine Avenue, Parramatta which represents an opportunity to build a new circa 28,000m² NLA commercial office building in the location of the existing carpark. Relative to the last decade, the Parramatta office market is currently experiencing substantial office construction activity on the back of growth in A-grade office rents, general 'tightening' of investment yields and historically low vacancy rates (A-grade office vacancy at 2.7% in the second quarter of 2019³). Further catalysts to the growth in interest in Parramatta CBD as an office location are planned infrastructure projects ('Metro West' and 'Parramatta Light Rail') that will improve connections into the Sydney CBD and within the wider Parramatta region. AOF has determined that an opportunity exists to develop the site and capitalise on this market opportunity.

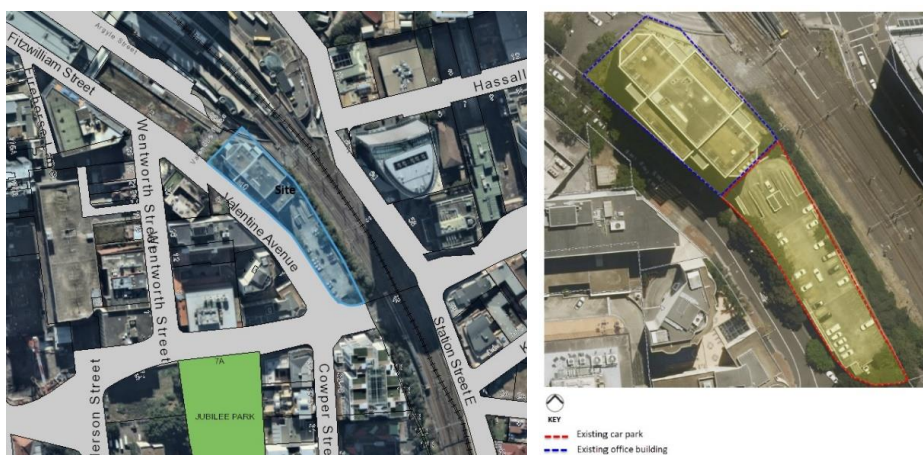
AOF has engaged Investa Office Development Pty Limited as development manager and Colliers International as leasing manager for the project.

³ Parramatta Council of Australia

Overview of the Valentine Site

The site (Part of Lot 2 DP 1119257) (Valentine Site) to be redeveloped is the existing carpark component at 10 Valentine Avenue, Parramatta, NSW. The existing office building located at the north end of the site (and adjacent to the carpark) will be retained. The site has a total land area of 3,935m². The Parramatta rail and bus interchange is located north of the site. The component of the site proposed for redevelopment relative to the existing office building is illustrated in the figure below (in red dashed outline).

Figure 4: Site at 2-10 Valentine Avenue, Parramatta, NSW



Source: Planning Proposal – 10 Valentine Avenue, Parramatta prepared by City of Parramatta dated May 2019

Land particulars

The key title details for the Valentine Site are presented in the table below.

Table 5: Key title details for the Valentine Site

Interest	Freehold Stratum (limited in depth)
Description	LOT 2 DP 1119257 (Parent Lot)
Registered Proprietor	Australian Unity Investment Management Administration Pty Ltd

Source: Independent property valuation

The site currently sits on a single land title but it is proposed, once developed, it will be improved with two office buildings comprising the existing office building along with the proposed new office building that will be positioned in the place of the existing carpark which is proposed to be demolished. The potential exists to subdivide the site to have each building on its own separate land title.

Existing development controls and consent

Under the existing Parramatta Local Environmental Plan 2011 (LEP), the site:

- is zoned in Commercial Core B3
- can house a building with a maximum height of 54 metres (and subject to solar access plane restrictions) and a maximum floor space ratio (FSR) of 6:1
- is not listed as an item of heritage significance and is not within a Heritage Conservation Area. However, it is close to the Parramatta railway station which is listed as an item of State heritage significance and is also listed on the State Heritage Register. The site is also located north east of Jubilee Park which has overshadowing restrictions
- the southern tip of the site is subject to the 1 in 100 year Average Recurrence Interval flood level and Probable Maximum Flood level.

In April 2018, AOF received approval for the development of a 14 storey building, comprising a six storey aboveground car park (135 car spaces) in the podium and eight floors of commercial offices (circa 8,000m² NLA of commercial space). In August 2019, AOF received approval for an amended

Independent Expert's Report (continued)

development comprising a 14 storey building with a four storey aboveground car park in the podium and eight floors of commercial offices (circa 8,500m² NLA of commercial space).

Proposed plan

Parramatta Council is proposing amendments to the local environmental plan which would result in a much taller building being allowed to be built on the site. AOF's original intention was to capitalise on these amendments and build a taller building on the site. However, these amendments are still in the process of being evaluated by the NSW State Government and as such have not been finalised.

However, in December 2018, AOF received endorsement from Parramatta Council to a site specific planning proposal for a taller building with circa 28,000m² NLA of commercial space but within the bounds of the proposed amended local environmental plan.

On 29 May 2019, the NSW Government determined that the planning proposal should proceed subject to the conditions of the NSW Gateway Determination. The conditions of the NSW Gateway Determination require Parramatta Council to consult with the community and relevant public authorities.

Community consultation was completed in early August 2019 with limited objections or issues and as such AOF does not foresee that Parramatta Council will have any issues. Executives of AOF understand that Parramatta Council is scheduling a meeting of Councillors in October 2019 to consider a further endorsement of the proposal to the NSW Government.

AOF and its advisers in respect of the development have also been in discussions with Transport for NSW (TfNSW) given the proximity of the site to the rail corridor. The design that has been developed is intended to meet TfNSW's requirements.

On 29 August 2019, AOF lodged the development application for the taller building. The DA is likely to be assessed for approval by Parramatta Council or an Assessment Planning Panel by Christmas. The site specific planning proposal in respect of the development at the Valentine Site will need to be gazetted before the DA can be issued.

Proposed building

The proposed new building with circa 28,000m² NLA of commercial space will be 29 storeys, which consists of five levels of aboveground carpark, 24 levels of commercial floor space, two levels have terraces and one level for plant and meeting rooms. The following table sets out the development particulars of the existing DA approved scheme with circa 8,500m² of commercial space (DA/841/2017/C) and the proposed scheme of circa 28,000m² NLA commercial space which is yet to receive development approval.

Table 6: Development particulars of approved building (as modified) and proposed new building

	Approved building (as modified)	Proposed building
Development Application reference	DA/841/2017/C	DA/517/2019 (Addition to approved office building DA/841/2017)
DA Status	Approved	Submitted and under assessment
Existing GFA to be retained (m ²)	17,600	17,600
Proposed GFA (m ²)	9,494	30,609 ¹
Total GFA (m ²)	27,094	48,209
Site area (m ²)	3,935	3,935
FSR on total GFA	6.89:1	12.25:1
Estimated NLA of commercial spaces including café (m ²)	8,504	28,096 ²
Uses:		
Ground	Retail, lobby, service	Retail, lobby, service
Podium	Retail, parking (Level 2 to 5)	Retail, parking (Level 2 to 5)
Tower	- Level 6 (Plant, service and meeting rooms) - Level 7 to 12 (Office) - Level 13 (Plant) - Level 14 (Lift Motor Room)	- Level 6 (Plant, service and meeting rooms) - Level 7 to 29 (Office) - Level 30 (Plant) - Level 31 (Lift Motor Room)
Parking spaces		
Existing to be retained	27	27
Proposed	116	116
Total number of parking spots	143	143
Lifts	8 ³	8 ³
Ecologically Sustainable Development (ESD)	Green Star: 5 star NABERS ⁴ Energy: 5 star NABERS Water: 4 star	Green Star: 5 star NABERS Energy: 5 star ⁵ NABERS Water: 4 star

Note:

- This includes the proposed GFA of 9,494m² approved under DA/841/2017/C
- This includes the estimated NLA of 8,504m² under DA/841/2017/C
- This includes the lift in the car park
- NABERS – National Australian Built Environment Rating System
- Tendered design targeting NABERS Energy rating of 5.5 star in accordance with Parramatta Council of Australia (PCA) A-grade 2019

Source: Executives of AOF

Construction delivery

Construction of the Valentine Site development is expected to take 29 months (assuming an appropriate tenant pre-commitment is in place). The table below provides a summary of the key project costs based on detailed quantity surveyor construction budget estimate.

Table 7: Key project costs

Construction Cost (excludes contingencies and escalation and GST)	\$154.7m (\$5,054 per square metre of GFA)
Professional & Development management fees (excludes GST)	3.5% of total construction costs and design and planning costs for the first \$43m and 3.25% for the balance
Leasing fee	20% of net rent

Source: Executives of AOF, Cost Plan 5 PTE prepared by Slattery dated 15 July 2019 and AOF's feasibility study for the redevelopment at 10 Valentine St

Based on AOF's feasibility study of the Valentine Site development and development costs estimates prepared by an independent quantity surveyor, the total development cost has been estimated to be in the region of \$235m with circa \$155m related to construction and circa \$80m related to planning and design, sales and marketing, development management, contingencies, escalation and finance charges.

AOF commenced the tender process for securing a builder and we have received a summary of headline building tender prices from multiple Tier 1 builders in relation to the project. These prices are below the construction costs as estimated by the quantity surveyor. However, these tender prices have yet to be

Independent Expert's Report (continued)

interrogated in respect of factors such as inclusions/exclusions, provisional items, specifications and liquidated damages.

Proposed tenancies

AOF has engaged Colliers International to assist it with securing tenancies for the building once constructed, with a view to securing a pre-commitment for a cornerstone tenancy representing a substantial proportion of the NLA of the new building. In this regard, Colliers and AOF are in discussions with a number of prospective tenants.

Proposed financing

AOF expects the development to be funded 30% by debt and 70% by equity. We are advised by AOF that all of AOF's current banks have indicated a willingness to fund the development whilst the equity component is likely to be funded through a capital raising from select or all AOF unitholders. Other institutional investors may also be invited to participate.

3.2.6 Other opportunities

Outside of development opportunities, there is the potential to redevelop three of the properties, namely 32 Phillip Street, Parramatta, 2 Eden Park Drive, North Ryde and 468 St Kilda Road, Melbourne into residential apartments and the potential for AOF to actively manage leases in respect of some of the properties where current or pending vacancies exist.

3.3 Management fees

Entities associated with Australian Unity are entitled to receive management fees as outlined in the table below.

Table 8: Management fees

Fee type	Description of fees										
Responsible entity services	5% of the RE Base Fee which comprises 0.60% p.a. multiplied by the Fund's gross asset value up to and including \$750m plus 0.55% p.a. multiplied by the Fund's gross asset value that exceeds \$750m - Reimbursement for all costs and expenses incurred in the day to day running of Fund including (but not limited to) custodian fees, directors' fees, auditors' fees, accounting fees, registry fees and legal fees.										
Investment management services	- An annual fee equating to 95% of the RE Base Fee (as described above) - An annual fee for accounting services of \$140,000, adjusted upwards by CPI for each year from the date at which AUFML was appointed investment manager (i.e. 17 June 2016) - Services provided include management, financial and tax reporting, investor relations and reporting, capital management including debt and equity raising and transactional services such as feasibility analysis and diligence management.										
Property management services	- Australian Unity also provides property management services connected with the buildings owned by AOF. These services range from leasing and tenancy management through to capital works management and facilities services - On 10 July 2019, the independent directors of AUIREL approved the changes in the Property Management Agreement fees as outlined as follows, with effect from 1 July 2019, in accordance with the terms of the Property Management Agreement which provides for a review of property management services fees every three years - Base Lease Fee: - Leasing fee for new leases with prospective tenants and renewals or increases in the leased area of leases by existing tenants. This is calculated as a percentage of the average annual gross rental income based on the number of years of the lease: <table border="1"> <caption>Table 9: Base Lease Fee</caption> <thead> <tr> <th>Lease years</th><th>% of average annual gross rental income</th></tr> </thead> <tbody> <tr> <td>3 years or less</td><td>11%</td></tr> <tr> <td>Between 3 and 4 years</td><td>12%</td></tr> <tr> <td>Between 4 and 5 years</td><td>13%</td></tr> <tr> <td>More than 5 years</td><td>13% plus 0.5% for each additional year after 5 years, up to a maximum of 15%</td></tr> </tbody> </table> - The leasing fee payable for renewals of leases and relocations of existing tenants is 50% of the Base Lease Fee. However, if another property agent has been appointed to provide leasing services in respect of the relevant property, the leasing fee payable to AUPMPL will be 25% of the Base Lease Fee. - Market rent review: 10% of any increase in the average annual gross rent payable over the remainder of the lease term - Project management fee (per project): 5% of the cost of the capital works (where the cost is less than \$1 million). Otherwise, \$50,000 plus 1% above \$1 million of the cost of capital works - Facilities services: \$0.50 per square metre - Property management services and financial management services: 3% of gross operating income (subject to an 85% occupancy floor in the overall occupancy rate)	Lease years	% of average annual gross rental income	3 years or less	11%	Between 3 and 4 years	12%	Between 4 and 5 years	13%	More than 5 years	13% plus 0.5% for each additional year after 5 years, up to a maximum of 15%
Lease years	% of average annual gross rental income										
3 years or less	11%										
Between 3 and 4 years	12%										
Between 4 and 5 years	13%										
More than 5 years	13% plus 0.5% for each additional year after 5 years, up to a maximum of 15%										

Source: FY2019 Appendix 4E preliminary financial report, Executives of AOF, Board minutes for the meeting of 15 July 2019

The changes to the property management fees outlined above are anticipated to result in an increase in costs in the region of \$220,000 in FY2020, primarily due to the negotiated discounts on the property management services fee.

Independent Expert's Report (continued)

The initial term of the Investment Management Agreement is 10 years (unless extended by agreement between the parties). Following this initial term, the Investment Management Agreement automatically extends for a further 5 years unless terminated in accordance with its termination provisions. The termination provisions are summarised as follows:⁴

- following the initial term, the Responsible Entity may terminate the agreement upon giving two years' notice to the Investment Manager
- the Investment Manager may terminate the agreement upon giving six months' notice to the Responsible Entity
- the agreement is automatically terminated if the Fund is terminated
- the agreement can be terminated if either party is the subject of an insolvency event, change of control or is in material breach of the agreement
- if the Responsible Entity is removed as the Responsible Entity and replaced by an entity which is not a related party of the Investment Manager, the agreement automatically terminates
- there are no termination fees payable under the agreement.

The initial term of the Property Management Agreement is 10 years. Following this initial term, the Property Management Agreement automatically extends for a further 5 years unless terminated in accordance with its termination provisions. The termination provisions are summarised as follows:⁵

- following the initial term, the Responsible Entity may terminate the agreement upon giving two years' notice to the Property Manager
- the Property Manager may terminate the agreement upon giving six months' notice to the Responsible Entity
- the agreement is automatically terminated if the Fund is terminated
- the agreement can be terminated if either party is the subject of a material breach of the agreement
- if the Responsible Entity is removed as the Responsible Entity and replaced by an entity which is not a related party of the Property Manager:
 - the agreement automatically terminates two years after the event
 - at the discretion of the Property Manager, the agreement immediately terminates, in which case, the replacement responsible entity must pay the Property Manager the equivalent of 24 months' management fees. This amount should be calculated to be the higher of:
 - the amount of fees that would have been payable based on the budgeted gross operating income and budgeted capital works for each property and budgeted fees relating to the rent review services and the leasing services for each property for the two years after the event
 - the actual fees accrued or payable in the month immediately prior to the termination multiplied by 24.

⁴ Investment Management Agreement between the Responsible Entity and the Investment Manager dated 20 May 2016

⁵ Property Management Agreement between the Responsible Entity and the Property Manager dated 20 May 2016

3.4 Debt profile

The following table sets out a summary of the key characteristics of AOF's debt:

Table 10: Debt profile

	As at 30 June 2019
Total facility limit	\$220.0m
Total borrowings (excluding unamortised borrowing costs)	\$204.8m
Current LVR	30.6%
Weighted average debt expiry	3.1 years
Interest coverage ratio (ICR)	4.6x
Weighted average term of interest rate hedging	3.1 years

Source: Executives of AOF, FY2019 Appendix 4E preliminary financial report

As at 30 June 2019, AOF had total debt facilities of \$220m, of which \$15.2m was undrawn. The debt facilities are with National Bank of Australia and Commonwealth Bank of Australia and are as follows:

Table 11: Debt facilities

Facility	Limit (\$m)	Maturity date	Gearing covenant	
			ICR	LTV
Tranche 1	70	21 June 2021		
Tranche 2	70	19 October 2022	2.0x	50%
Tranche 3	80	28 June 2023		
Total/weighted average	220			

Source: FY2019 Appendix 4E preliminary financial report, Executives of AOF

The debt facilities are secured against the assets of AOF and are non-recourse to unitholders.

As at the date of our report, AOF is in compliance with all debt facility covenants.

AOF has interest rate swaps which are used to hedge the drawn debt, as summarised in the following table. As at 30 June 2019, based on current interest rate swaps (of \$200m), drawn borrowings were 97.7% hedged.

Table 12: Hedging facilities

Hedging facility	Principal (\$m)	Pay rate	Pay	Receive ¹	Maturity
Swap 1	20	1.87%	Fixed	BBSW	7 August 2019
Swap 2	20	1.87%	Fixed	BBSW	7 August 2019
Swap 3	20	2.05%	Fixed	BBSW	21 October 2019
Swap 4	20	2.06%	Fixed	BBSW	21 August 2021
Swap 5	20	2.06%	Fixed	BBSW	21 August 2021
Swap 6	20	2.48%	Fixed	BBSW	20 October 2022
Swap 7	30	1.57%	Fixed	BBSW	23 April 2021
Swap 8	30	1.71%	Fixed	BBSW	23 April 2024
Swap 9	20	2.04%	Fixed	BBSW	23 April 2024
Swap 10 ²	30	2.52%	Fixed	BBSW	8 February 2022
Swap 11 ²	40	2.77%	Fixed	BBSW	22 August 2023
Total/weighted average	270	2.12%			

Notes:

1. BBSW – Bank bill swap rate

2. These are forward dated interest swap contracts commencing 8 August 2019 and 23 August 2021, respectively

Source: FY2019 Appendix 4E preliminary financial report

Independent Expert's Report (continued)

3.5 Financial performance

We have summarised the statements of financial performance of AOF for the three years ended 30 June 2017 to 30 June 2019.

Table 13: AOF financial performance

\$m (unless otherwise stated)	FY2017 Audited	FY2018 Audited	FY2019 Audited
Rental income	44.0	53.4	58.9
Property expenses	(15.8)	(18.3)	(19.5)
Net property income	28.3	35.1	39.4
Responsible entity fees	(2.5)	(3.3)	(3.9)
Other expenses	(0.9)	(1.1)	(1.2)
Operating earnings (before fair value movements)	24.9	30.8	34.2
Net fair value increment of investment properties	39.0	73.7	24.3
Net fair value gains on financial instruments	1.2	(0.5)	(5.9)
Operating income (after fair value movements)	65.0	104.0	52.7
Finance costs (net of interest income)	(4.4)	(6.7)	(7.8)
Profit attributable to unitholders	60.6	97.3	44.8
Cash distributions per unitholder (cents)	15.0	15.6	15.8

Source: AOF FY2018 annual report and FY2019 Appendix 4E preliminary financial report

Net property income has grown steadily over the three year period. Rental income increased by 21% and 10% in FY2018 and FY2019, respectively, primarily attributable to the acquisition of 150 Charlotte Street, Brisbane, annual rental increases and leasing of previously vacant areas. Property expenses increased by 16% and 7% in FY2018 and FY2019, respectively, which is also driven by the acquisition of 150 Charlotte Street and expenses associated with leasing the vacant spaces.

The decrease in profit for FY2019 was primarily attributable to the revaluation of the investment properties being lower than in FY2018, with valuation increases largely driven by a decrease in capitalisation rates and property improvements.

Responsible Entity Fees comprise responsible entity and investment management fees. These fees increased due to the increase in gross asset value of the Fund.

The increase in finance costs in FY2018 and FY2019 was the result of additional debt taken on to fund the acquisition of 150 Charlotte St, Brisbane.

The above historical financial performance have not been adjusted for the new property management services fees that will come to effect from 1 July 2019, as discussed in Section 3.3.

3.6 Financial position

We have summarised the statements of financial position of AOF as at 30 June 2017, 30 June 2018 and 30 June 2019.

Table 14: AOF financial position

\$m (unless otherwise stated)	FY2017 Audited	FY2018 Audited	FY2019 Audited
Receivables and prepaid expenses	0.4	0.6	1.1
Payables	(4.3)	(5.9)	(6.9)
Net working capital	(3.9)	(5.3)	(5.8)
Investment properties	441.1	635.6	668.4
Investment in property assets	437.2	630.3	662.6
Financial liabilities held at fair value ¹	0.2	(0.3)	(6.1)
Borrowings	(122.8)	(197.2)	(203.9)
Less: cash and cash equivalents	4.1	7.9	7.5
Net cash/(debt)	(118.5)	(189.6)	(202.6)
Other assets	0.4	0.6	0.5
Distributions payable	(5.3)	(6.4)	(6.4)
Net assets attributable to unitholders	313.7	434.9	454.0
Number of units (m)	140.4	162.8	162.8
Net tangible assets per units (\$)	2.23	2.67	2.79
Balance sheet gearing ²	27.5%	30.6%	30.2%
Implied return on net assets ³	20.6%	26.0%	10.1%

Notes:

1. Financial liabilities held at fair value has been calculated as net, incorporating 2017 financial assets held at fair value

2. Calculated as the ratio of drawn debt divided by total assets

3. The implied return on net assets is profit attributable to unitholders for the financial year divided by the average of the opening and closing net assets outstanding for that financial year

Source: AOF FY2018 annual report and FY2019 Appendix 4E preliminary financial report, Deloitte Corporate Finance analysis

Total assets increased by \$197m and \$34m in FY2018 and FY2019, respectively. The increase in FY2018 was also due to AOF's acquisition of 150 Charlotte Street, Brisbane, along with substantial revaluations in the portfolio. The increase in FY2019 was the result of revaluations. AOF's accounting policies, which are consistent with Australian accounting standards, mean that capital expenditure, lease incentives and straight-lining of rental income are all recognised in the investment property balance and that balance being the subject of fair valuation on a periodic basis.

As discussed above, in FY2019 AOF had an additional debt drawdown of \$6.5m to fund property capital expenditure, however, the Fund's gearing decreased due to the increase in the value of the assets. As at 30 June 2019, \$0.9m of unamortised borrowing costs are included in the borrowings figure such that borrowings are actually \$204.8m.

As a result of AOF entering into five additional interest rate swap contracts during FY2019 with a principal of \$120m (refer to Table 12), the level of borrowings hedged increased from 60.5% to 97.7%. The increase in the financial liabilities held at fair value in FY2019 was mainly due to a reduction in the floating interest rates relative to the fixed rate payable by AOF under the hedging facilities.

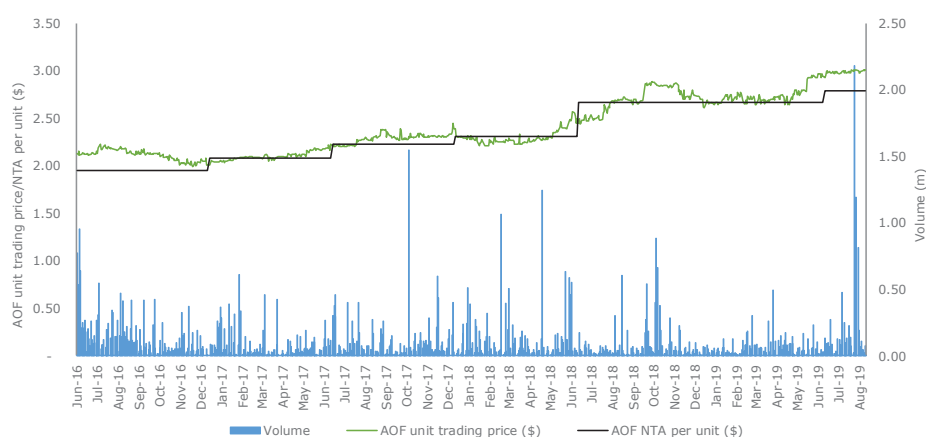
Independent Expert's Report (continued)

3.7 Units on issue

3.7.1 Recent unit price trading

AOF has 162.8m units on issue, which are listed on the ASX. AOF's unit trading price movements, trading volumes per unit and NTA per unit since IPO to 30 August 2019 are presented graphically in the figure below.

Figure 5: Historical unit trading price, volumes and NTA per unit since IPO



Source: Capital IQ, FY2016, FY2017 and FY2018 annual reports, FY2019 Appendix 4E preliminary financial report, FY2017, FY2018, FY2019 half yearly financial results, Deloitte Corporate Finance analysis

From 20 June 2016 to 30 August 2019, AOF units traded between \$2.00 and \$3.01 while the Fund's NTA per unit ranged from \$1.95 to \$2.79. The spike in AOF's unit price between October and November 2018 was due to Starwood Capital Asia Limited's proposal to acquire the units in AOF for \$2.95 per unit followed by AOF's rejection of the reduced offer. Approximately 14.5% of AOF units have traded on-market over the last 12 months, noting CHAB acquired 19.9% of AOF units off-market. We note that there was an increase in AOF units traded on 13 August which was the end of the four week due diligence period in respect of the Proposed Scheme and on 15 August when the Fund announced that it was in the process of providing outstanding due diligence information to the Consortium and that the IBC is in negotiations with the Consortium in regards to the Scheme Implementation Agreement.

In addition, generally speaking the unit price has oscillated around NTA with the range of the discount and premium to NTA being 8.6% (discount on 4 July 2018) to 14.4% (premium on 25 July 2016) since IPO.

Outlined in the figure on the following page is the relative performance of AOF compared to the S&P/ASX 300 Office A-REIT Index.⁶

⁶ The S&P/ASX 300 Office A-REIT Index comprises Centuria Metropolitan REIT, Cromwell Property Group, Dexous and GDI Property Group

Figure 6: AOF units and ASX/S&P 300 Office REIT index rebased to 100**Notes**

1. Rebased to 100 on 20 June 2016

Source: Capital IQ, Deloitte Corporate Finance analysis

Over the last three years, AOF's unit price has moved broadly in line with the S&P/ASX 300 Office A-REIT Index.

3.7.2 Significant unitholders

As at 15 July 2019, approximately 64.5% of the total units on issue were held by the top 20 unitholders, of which the majority were held by the three most substantial unitholders, as set out in the following table.

Table 15: Significant unitholders

	Number of AOF units held (million)	Total AOF units issued (%)
CHAB	32.4	19.9%
Australian Unity	22.8	14.0%
Hume Partners	10.7	6.5%

Source: Executives of AOF

CHAB acquired these units in early June 2019 at a price of \$2.95 per unit.

3.7.3 Distribution yield

The cash distributions made to unitholders along with the implied distribution yields are set out in the table below.

Table 16: AOF distribution yield

	FY2017 Audited	FY2018 Audited	FY2019 Unaudited
NTA per unit	2.23	2.67	2.79
Unit trading price at end of period	2.23	2.50	2.94
Cash distributions per unit	0.150	0.156	0.158
Distribution yield based on NTA	6.7%	5.8%	5.7%
Distribution yield based on unit trading price	6.7%	6.2%	5.4%

Source: AOF FY2018 annual report and FY2019 Appendix 4E preliminary financial report, Capital IQ, Deloitte Corporate Finance analysis

The Fund has seen a strong increase in the unit value of its ordinary units over the last three years, driven by an increase in the value of its properties. Total distributions have increased in FY2019 due to rental increases in the portfolio, whilst the distribution yield has decreased driven by the relatively stronger increase in asset values caused by the reduction in capitalisation rates.

Independent Expert's Report (continued)

4 Valuation of AOF

4.1 Selection of valuation methodologies

The valuation methodologies available to value entities such as AOF are set out in Appendix 2.

In estimating the market value of an AOF unit, we have utilised the net assets on a going concern basis methodology.

The net assets on a going concern basis approach is commonly used in valuing property investment trusts and other asset holding businesses. We are of the opinion that this approach is the most appropriate methodology to value AOF. In addition, the assets of AOF (predominately the properties) are the subject of periodic valuations. However, with respect to the Valentine Site development which has not been the subject of historical valuation by an independent property valuer, we have utilised the discounted cash flow approach and market based methods to appropriately recognise the development opportunity available with respect to the site. In undertaking this work and analysis, we involved specialists in the development and valuation of real estate.

Further discussion of these valuations is provided in Section 3.2 above and Section 5.

4.2 Valuation of AOF

In order to arrive at the market value of AOF, some adjustments to the net assets as at 30 June 2019 are required for the following factors:

1. changes in assets and liabilities between 30 June 2019 and the Implementation Date
2. pro-forma adjustments for AOF revaluations at 30 June 2019
3. certain items included in the net assets of AOF as at 30 June 2019 that we consider a prospective buyer of AOF would seek to adjust in assessing the market value of AOF
4. an adjustment regarding the value of the Valentine Site development which we evaluate in Section 5.

Our assessment of the market value of AOF, recognising the adjustments summarised above, is set out in the following table.

Table 17: Valuation of AOF

\$m	Section reference	Low value	High value
Net assets as at 30 June 2019	4.2.1	454.0	454.0
Adjustments			
Changes in net assets between 30 June 2019 and Implementation Date	4.2.1	7.4	7.4
Pro-forma adjustments for AOF revaluations at 30 June 2019	4.2.2	-	-
Accounting costs capitalised in net assets	4.2.3	(0.8)	(0.8)
Net adjustment regarding Valentine Site development	5	5.0	10.0
Market value of AOF (before premiums/discounts and capitalised operating costs)		465.6	470.6

Source: Deloitte Corporate Finance analysis

4.2.1 Net assets as at 30 June 2019

The value of AOF's net assets as at 30 June 2019 is based on the aggregate of the following:

- the value of AOF's property portfolio as at 30 June 2019 as recorded in the financial statements of AOF as at 30 June 2019, as presented in Section 3.6
- the market value of AOF's other balance sheet items, such as cash, borrowings, receivables and payables.

We note the financial statements of AOF as at 30 June 2019 have been subject to an audit.

Based on the budget balance sheet of AOF as at 31 October 2019, as proxy for the Implementation Date, and estimates of the market value AOF's financial liabilities, Executives of AOF project an increase in the net assets of the Fund of \$7.4m. This is primarily attributable to movements in net assets along with rental income and operating costs incurred by the Fund in the four month period through to Implementation Date, including an increase in earnings of \$9.7m, offset by transaction costs of \$1.6m and an increase in the financial liabilities held at fair value of \$0.7m. We consider the increase in earnings reasonable having regard to the historical performances of the Fund as set out in Table 13 and also note that, our calculation has only taken account of transaction costs to be incurred regardless of whether or not the Proposed Scheme is successful.

4.2.2 Pro-forma adjustments for AOF revaluations at 30 June 2019

Supporting the net assets of AOF are property valuations prepared by independent experts. Independent property experts, JLL, Savills, Cushman & Wakefield and CBRE, were engaged by AUIREL to prepare valuation reports for the assessment of the value of AOF's property portfolio as at 30 June 2019.

We have undertaken a review of the independent property valuations, along with holding discussions with executives of the AUIREL, and have concluded that:

- the protocols that are used by the manager to commission independent property valuations are sufficiently robust and appropriately addresses perceived and actual conflicts of interest
- the valuations are undertaken by suitably qualified and credentialed firms and personnel who have experience in valuing similar assets and knowledge of the markets in which the assets are located
- from our review of the valuations:
 - the valuation methods used and applied are consistent with those generally applied in the industry and based on our experience. Both the discounted cash flow and capitalisation of net income approaches have been used as the primary approaches. The valuation conclusion had regard to the results of each primary methodology
 - the assumptions and valuation metrics used by the valuer are not unreasonable and not inappropriate for the purpose of estimating the market value of the property.

Accordingly, we consider that the property valuations provide a reasonable estimate of the market value of AOF's property portfolio as at 30 June 2019.

4.2.3 Accounting costs included in book value of investment properties and borrowings

The book value of the unamortised establishment cost asset from AOF's previous debt facility of \$0.8m has been deducted to reflect the actual amount of debt due at Implementation Date.

Independent Expert's Report (continued)

5 Valuation of the Valentine Site

5.1 Valuation summary

The net adjustment as a result of the Valentine Site development is summarised in the following table.

Table 18: Net adjustment as a result of the Valentine Site development

\$m	Reference	Low value	High value
Market value of the Valentine Site development	5.5	16.0	21.0
Apportioned value of existing car park included in market value of 10 Valentine Avenue	5.6	(11.0)	(11.0)
Net adjustment as a result of Valentine Site development		5.0	10.0

Source: Deloitte Corporate Finance analysis

Given the site currently houses a carpark from which AOF derives rental income and whose value is included in the value of 10 Valentine Avenue, Parramatta and noting that our valuation of the Valentine Site development includes the redevelopment of this carpark, we have deducted the apportioned value of the existing carpark to avoid double-counting. Further discussion of the basis of the apportionment is set out in Section 5.6.

5.2 Valuation approaches utilised

The market value of the Valentine Site development on an 'As Is' basis has been assessed using the direct comparison approach and the residual land value approach. We also consider that these approaches are likely to be the approaches used by prospective acquirers of the site and thus consider them suitable as a basis of valuation. We note, however, that our residual land valuation approach assumes that the investor retains the asset and does not sell which is a different approach to that which a traditional property developer may take in developing to sell in order to realise a profit and incurring selling costs in the process. Given institutional developers are currently active in the office development market (including members of the Consortium), we consider our approach to exclude selling costs on completion from the feasibility study under the residual land value approach to be a reasonable assumption that reflects the circumstances of a typical institutional developer.

Direct comparison approach

The direct comparison approach is a derivative of the market based methodology. The direct comparison approach determines the value of the development site based on the assessment of the rate per square metre of GFA relative to comparable development sites which have been the subject of transactions. The application of this approach is set out in Section 5.3.

Residual land value approach

The residual land value approach is a derivative of the discounted cash flow (DCF) methodology. Due to the advanced stage of seeking development consents, along with design planning, we consider the residual land value approach appropriate. This approach involves working back from the indicative realisation estimate of the project (on an 'As If Complete' basis) to establish the Residual Land Value estimate of the site after the costs associated with the project (including construction costs and financing costs).

The residual land value approach is based on the critical assumption that the proposed DA scheme as contemplated has received an operative development consent from Parramatta Council (without onerous conditions). We further assume that a 'blue chip' tenant is pre-committed to 50% of the building NLA for at least 10 years at the rent rates assumed (outlined in this report). This is a hypothetical scenario modelled within our feasibility study that does not reflect the current tenancy pre-commitment status of the project but is intended to reflect a potential lease pre-commitment scenario that may be achieved in the near future given the leasing campaign being undertaken by Colliers on behalf of AOF.

The 'As If Complete' realisation estimate of the proposed building has been assessed using the capitalisation approach (a market based methodology), DCF approach and direct comparison approach (a market based methodology):

- the capitalisation approach involves estimating the total potential annual gross market income and then deducting anticipated building outgoings to arrive at the estimated net market income on a fully leased basis. The net market income is then capitalised in perpetuity at a market derived capitalisation rate to produce an indicative estimate of realisation. Various allowances including letting-up costs are deducted from the 'As If Complete' realisation estimate
- the DCF approach involves modelling a future cash flow projection (10 years) on a tenant-by-tenant and monthly rental basis. The cash flow projections require a range of assumptions regarding income growth, tenant renewal and letting-up (down time) periods, future lease structures and capital expenditure requirements
- the direct comparison approach is described above but in this case is being applied to the hypothetical building on an 'As If Complete' basis. It has been assessed based on a capital value comparison on a rate per square metre of net lettable area.

The application of the residual land value approach is set out in Section 5.4.

5.3 Application of the direct comparison approach

Our assessment of the value of the Valentine Site development under the direct comparison approach is set out in the table below.

Table 19: Market value 'As Is' – Direct comparison approach

	Approved building (as modified)	Proposed building (Incremental GFA)	Proposed building
GFA (m ²)	9,494	21,115	30,609
\$/m ²	1,100	330	572
Sub-total (\$m)	10.5	7.0	17.5
Subdivision cost allowance (\$m)			(0.2)
Building separation cost allowance (\$m)			(1.0)
Value (\$m)			16.3
Value (\$m) - Rounded			16.0

Source: Deloitte Corporate Finance analysis

We note the following regarding the assumptions under the direct comparison approach:

- the total GFA of the proposed building of 30,609m² relates to the Valentine Site development component only. It excludes the GFA of the existing building at 10 Valentine Ave, Parramatta of 17,600m² (the value of which is already factored into the valuation in Section 4.2.1)
- based on the sales evidence for development sites and considering the size and location of the Valentine Site, we adopted a value rate of \$1,100 per square metre to the existing DA approved GFA (DA/841/2017). We have then applied a lower value rate to the incremental GFA beyond the existing DA approved GFA (per the proposed building) at a notional 70% discount to the full DA approved rate as the proposal has not received DA approval. Refer to Appendix 3 for sales evidence on development sites. In determining a value per square metre for the Valentine Site, we considered the following:
 - commercial development site sales have been limited in recent years within Parramatta and other metropolitan commercial centres. The sales evidence indicates a value range between \$1,105/m² to \$1,259/m² of allowable GFA under current and proposed planning conditions
 - the 32 Smith Street sale is the most relevant having occurred in Parramatta and purchased as a 'raw' site from the Salvation Army. It is located further from Parramatta Station than the Valentine Site, however, the site is more regular in shape and conducive to larger floor plate design. It is also considered to be within the Parramatta

Independent Expert's Report (continued)

CBD core zone and will be in close proximity to the Parramatta Light Rail and future Metro West station. It is also located close to the Parramatta River and Eat Street (Church Street café strip). This site sold at a price implying \$1,105/m²

- Evidence of commercial development sites having sold with potential for additional GFA not secured under a DA and awaiting changes to the LEP are not evident. Typically, a vendor will mitigate the planning risks and achieve the DA before selling in order to maximise sale realisation. In this situation whereby the incremental GFA potential is not secured by a DA or by the current planning scheme, we have adopted a notional 70% discount allowance to account for the uncertainty associated with achieving the rezoning or development consent and the impact of timing and planning risk
- subdivision cost allowances (including surveyor, legal, statutory and LPI fees) and separation cost allowances are estimates only and relate to subdividing the site and separating the proposed building from the existing office building including make-good on the existing office building.

5.4 Application of the residual land value approach

As mentioned above, in order to assess the estimated realisation of the site using the residual land value approach, we needed to take account of:

1. the estimated realisation of the proposed building on an 'As If Complete' basis
2. the development costs
3. the timing of the development
4. the risks associated with the development and the cost for the risk that someone would command.

Our consideration of each of these factors is set out below.

5.4.1 Market value 'As If Complete'

We have assessed an indicative estimate of the market value of the proposed Valentine building 'As if Complete' in the region of \$295m (excluding GST, on a fully leased basis and assuming a 50% tenant pre-commitment). The values under the three approaches utilised are summarised in the table below:

Table 20: Summary of market value 'As If Complete'

\$m (unless otherwise stated)	Reference	
Capitalisation approach	Table 21	296.4
DCF approach	Table 22	276.9
Direct comparison approach	Table 25	297.7
Market value adopted		295.0
Implied yield		5.8%
Implied value \$/m ² of NLA		\$10,506

Source: Deloitte Corporate Finance analysis

Capitalisation approach

Our assessment of the market value of the proposed building at the Valentine Site 'As If Complete' under the capitalisation approach is set out in the following table.

Table 21: Market value 'As If Complete' – Capitalisation approach

	NLA (m ²)/ bays	\$/m ² (net)	Net market income (\$'000)
Office	27,693 ¹	595	16,474
Other	34	1,000	34
Car park	116	4,200	487
Signage	n/a	n/a	50
Total			17,045
Capitalisation rate (%)			5.75%
Market value 'As If Complete'²			296,439

Note:

1. This is less than the full NLA of circa 28,000m² of the proposed building due to the assumptions we have adopted as explained below
2. Fully leased value with all letting-up adjustments captured as development costs within Deloitte Corporate Finance's feasibility study of the Valentine Site development

Source: Deloitte Corporate Finance analysis

NLA

We assumed the following for the office space in the proposed building at the Valentine Site:

- 50% single tenant pre-commitment to the upper floors (14,022m² of NLA)
- 25% multiple tenant leasing to the mid floors (7,008m² of NLA) post construction completion on a whole-floor basis
- 25% multiple tenant leasing to the lower floors (6,663m² of NLA) post construction completion on a half-floor tenancy basis. This assumes a 95% floor efficiency due to loss of 5% in lettable areas for common corridor space.

Net market rent

To determine an appropriate net market rent for an office in the proposed building, we have considered rental evidence per NLA from executed market leases and pre-commitments in respect of similar properties. This rental evidence is provided in Appendix 3.

On this basis, we assumed the following net face rent:

- \$595/m² for upper floors based on 50% pre-committed space
- \$585/m² for mid floors assuming whole floor tenancies
- \$605/m² for lower to mid floors assuming half floor tenancies (smaller tenancy areas attract higher rent rates)
- we have adopted these as the rents to be achieved and not escalated any further due to a significant supply of office expected in the short to medium term.

For the other components of the building, based on our research, we assumed:

- other (café/retail space) at \$1,000/m²
- car park at \$350 per bay per calendar month equivalent to \$4,200 per bay per annum
- signage at \$50,000.

The net market income of the commercial space 'As If Complete' is assessed at \$17m.

Independent Expert's Report (continued)

Capitalisation rate

The capitalisation rate is assumed at 5.75%. We have considered sales evidence in respect of similar properties, as provided in Appendix 3. In determining the capitalisation rate, we considered the following:

- the 60 Station Street East and 105 Phillip Street sales which achieved an equivalent yield of 5.2% and 5.5%, respectively, are the most recent and comparable commercial office sales in Parramatta CBD, setting the benchmark for yields and capital value rates. The proposed building at the Valentine Site will be a new building and assumed to be 50% pre-committed to a single tenant (upper floors) for 10 years and 5 years for the remaining space which produces a WALE of about 7.5 years for a new building. 60 Station Street East would be the most comparable location to the Valentine Site, however, the Valentine Site is at an inferior location on the west side of the rail corridor and southern fringe of the Parramatta CBD. The proposed building at the Valentine Site also proposes smaller floor plates than the comparable sales
- a recent sale in Chatswood known as the Zenith Centre achieved an equivalent yield of 6.2%. Chatswood is a similar metropolitan office market location to Parramatta
- given the equivalent yield range for above three sales are from 5.2% to 6.2%, we would expect the proposed building at the Valentine Site to achieve a capitalisation rate in a range from 5.5% to 6.0%, with a midpoint of 5.75%
- the capitalisation rate of 5.75% that has been adopted is consistent with the capitalisation rate adopted in the independent property valuation of the existing building at 10 Valentine Avenue, Parramatta.

DCF approach

Our assessment of the market value of the proposed building at the Valentine Site 'As If Complete' under the DCF approach is set out in the following table.

Table 22: Summary of market value 'As If Complete' – DCF approach

Market value 'As If Complete'	\$276.9m
Implied value \$/m ² of NLA	\$9,862
Implied 10 year internal rate of return (IRR)	6.43%

Source: Deloitte Corporate Finance analysis

In our cash flow projections, our base rent (year 1 being the anticipated year of completion being 30 June 2022) is based on the NLA and net market rent assumption as discussed above under the capitalisation approach, with specific contractual rental movement over the lease terms. In respect of future leases we have adopted the lease renewal probabilities and hypothetical renewal profiles shown in the tables below. The projected market rental and outgoings growth assumptions adopted together with a summary of our DCF inputs are provided in the following tables.

Table 23: DCF assumptions

Year	Office growth	Car park growth	CPI	Outgoings	Capex	Office tenant incentive (gross)	Capital expenditure allowance (\$'000)
1	4.25%	3.50%	2.50%	2.50%	2.50%	20.00%	-
2	4.00%	3.50%	2.30%	2.30%	2.50%	20.00%	642
3	3.75%	3.50%	2.16%	2.16%	2.50%	20.00%	674
4	3.50%	3.50%	2.37%	2.37%	2.50%	20.00%	642
5	3.25%	3.50%	2.55%	2.55%	2.50%	20.00%	674
6	3.25%	3.50%	2.48%	2.48%	2.50%	20.00%	867
7	3.25%	3.50%	2.26%	2.26%	2.50%	20.00%	674
8	3.25%	3.50%	2.26%	2.26%	2.50%	20.00%	674
9	3.25%	3.50%	2.26%	2.26%	2.50%	20.00%	707
10	3.25%	3.50%	2.26%	2.26%	2.50%	20.00%	867
Compound average	3.50%	3.50%	2.34%	2.34%	2.50%	20.00%	6,423
11							867
Total including terminal value Year 11							7,299

Source: Deloitte Corporate Finance analysis

Table 24: DCF inputs

Input	Adopted
Average lease terms (whole building and multiple floor tenancy)	10 years
Average lease (single and half floor tenancy)	5 years
Leasing fees – new tenant (% year 1 gross rent)	15%
Leasing fees – renewal (% year 1 gross rent)	7.5%
Lease-up period on renewal	6 months
Renewal probability (applied to let-up period & leasing fees)	50%
Discount rate	7.0%
Terminal yield	6.0%
Acquisition costs	5.75%
Disposal/selling costs	1.25%

Source: Deloitte Corporate Finance analysis

The rental growth projections adopted in our cash flows are based upon existing and projected supply and demand forecasts. The future values quoted for the property, rent and costs are projections only formed on the basis of information currently available to us and are not representations of what the value of the property will be as at the future date. This information includes the current expectations as to property values and income that may not prove to be accurate.

The capital expenditure allowances made throughout the cash flow are based on average rate of \$25/m² applied per annum starting from year 2. The total allowance on a nominal basis over the 10 year cash flow period is equivalent to \$230/m².

Independent Expert's Report (continued)

Direct comparison approach

Our assessment of the market value 'As If Complete' of the proposed building at the Valentine Site is set out in the table below.

Table 25: Market value 'As If Complete' – Direct comparison approach

	Low	High	Mid
NLA (m ²)	27,693 ¹	27,693 ¹	27,693 ¹
Value/m ² of NLA (\$)	10,500	11,000	10,750
Value (\$m)	290.8	304.6	297.7

Note:

1. This is less than the full NLA of circa 28,000m² of the proposed building due to the assumptions we have adopted as explained in Section 5.4.1

Source: Deloitte Corporate Finance analysis

With reference to the sales evidence in respect of 60 Station Street East, 105 Phillip Street and the Zenith Centre in Chatswood being the most recent and comparable commercial office in Parramatta CBD, we have adopted a value range of between \$10,500 and \$11,000 per square metre of NLA. Refer to Appendix 3 for sales evidence.

5.4.2 Development costs

A summary of the development costs remaining from the Implementation Date including construction costs, finance costs and selling costs is provided in the table below.

Table 26: Summary of project costs

	\$m
Land acquisition and statutory holding costs	1.6
Professional & management services fees	8.8
Statutory fees & contributions	6.9
Construction costs (including contingency and escalation)	165.7
Debt financing costs & fees	1.6
Other development costs (rent guarantee, incentives, leasing fee, other)	39.4

Source: Feasibility study (based on Cost Plan 5 PTE prepared by Slattery dated 15 July 2019) for the redevelopment at 10 Valentine St, Deloitte Corporate Finance analysis

Land acquisition costs include stamp duty and other due diligence costs. Land statutory holding costs include land tax and council rates.

Professional and management fees relate to the consultant fees and development management fees.

AOF commissioned an independent quantity surveyor to estimate the construction costs having regard to the design currently being contemplated and the subject of development approval. We have reviewed this estimate and consider it to be within market parameters when analysed at a high level on a cost per square metre. Specifically, the construction cost including contingency and escalation of \$165.7m equates to \$5,414 per square metre of GFA which we do not consider unreasonable for a development of this scale and layout. AOF has provided to us a summary of headline building tender prices from multiple Tier 1 builders. As noted in Section 3.2.5, these prices are below the construction costs as estimated by the quantity surveyor and are yet to be interrogated in respect of factors such as inclusions/exclusions, provisional items, specifications and liquidated damages. Whilst informative, until a fixed price construction contract is executed, we are of the view that the construction costs as estimated by the quantity surveyor are more appropriate for the purposes of our assessment of the Valentine Site development.

Statutory fees and contributions relate to levies, authority charges and head works, based on the independent quantity surveyor's estimate of project overheads.

Debt financing costs include loan establishment cost at 0.5% of the facility limit, line fee at 0.5% of the facility limit and interest expense based on an interest rate of 4% and 40% debt funding and 60% equity funding. The interest rate and the debt and equity funding assumptions reflect what would ordinarily be seen for similar projects in the market that is achievable by a typical institutional developer.

Other development costs include three month rent guarantee, tenant incentives and leasing fee. Tenant incentives, based on 20% of net rent, relate to incentives expected to be paid or given to a tenant in order to get them to pre-commit to a tenancy in advance of completion of the building. The leasing fee adopted is a fixed \$3.5m amount which represents in excess of 20% of net rent being higher than market benchmarks of 15%, however is reflective of the additional complexity and skills required in securing tenant pre-commitments.

5.4.3 Development timing

A summary of the timing of the development of the proposed building at the Valentine Site is set out in the following table.

Table 27: Development timing

	Time
Purchase settlement	3 months
Lead in	5 months
Construction	29 months
Selling	1 month

Source: Deloitte Corporate Finance analysis

5.4.4 Requisite returns

Typically, an investor will accept a lower return to acquire a site or enter into a development agreement or joint venture arrangement, where the project is de-risked with approvals, fixed price construction contract secured and tenant pre-commitment in place. Target return hurdles for similar types of developments are generally in the order of 20% return on cost, with an equity IRR typically targeted at 15%.

As at the date of this report, the Valentine Site development project is exposed to construction risk and leasing risk. On this basis, we consider a targeted equity IRR of 15%, based on 60% equity funding and 40% debt funding, is appropriate.

5.4.5 Summary of valuation under residual land value approach

Under the residual land value approach, we estimated a value for the Valentine Site development of \$21m which implies a value of \$686 per square metre of GFA. This GFA rate derived under the residual land value approach is less than the most recent sale of a commercial development site in the Parramatta CBD, being 32 Smith Street, which achieved a rate of \$1,105 per square metre of potential GFA. We consider that the difference is attributable to the following:

- the sale of 32 Smith Street would have occurred when there was greater demand for development sites and strong competition for sites that could potentially accommodate residential apartment development
- the sale of 32 Smith Street would have occurred when development finance was more readily available and mainstream bank lenders were more likely to provide development finance
- the size of the land at 32 Smith Street, allows for more conventional rectangular floor plates and large enough to be classified as 'Premium' grade. As a broad indication of the benefit of this, the rents being achieved are in the low to mid \$600's per square metre (i.e. higher than that contemplated for the Valentine Site)
- the Valentine Site is located in an inferior position relative to the 32 Smith Street which is more centrally located within the Parramatta Core zone
- the irregular and long rectangular configuration of the Valentine Site may be less appealing to the buyer market than a regular shaped site.

Independent Expert's Report (continued)

5.5 Summary of our valuation

A summary of our results under the two valuation approaches are tabled below.

Table 28: Reconciliation – Market value 'As Is' Range

Methodology	Reference	\$m
Direct comparison approach ('As Is')	Table 19	16.0
Residual land value approach (DA approved, 50% tenant commitment)	5.4.5	21.0

Source: Deloitte Corporate Finance analysis

5.6 Hypothetical apportionment of existing car park

As discussed in Section 5.1 above, based on the property valuation of 10 Valentine Avenue, Parramatta at \$120m⁷, we apportioned \$11m to the existing car park which is expected to be demolished. Our calculation of the apportionment of the value of 10 Valentine Avenue, Parramatta to the existing car park is set out in the table below.

Table 29: Apportioned value of existing car park

Total car park net revenue	A	\$690,000
Total car spaces (basement of existing office building and existing car park)	B	307
Revenue per car space	C = A ÷ B	\$2,248
Car spaces within the existing car park	D	280 ¹
Net revenue from existing car park	E = C x D	\$629,316
Capitalisation rate	F	5.75%
Hypothetical apportioned Savills' value to the car park (\$m) (rounded)	G = E ÷ F	11.0
Implied value per car space		\$39,285

Note:

1. Total car spaces of 307 less 27 that is to be retained in the proposed new building (refer to Table 6)
Source: Deloitte Corporate Finance analysis

The capitalisation rate of 5.75% has been taken from the independent property valuation and applied to the rental income potential from the existing car park for the purpose of this apportionment exercise.

We note that we have not allowed for costs associated with subdivision and make-good of the existing building, given it is a hypothetical apportionment of Savills' valuation of \$120m attributable to the entire property as at 30 June 2019.

⁷ Refer to Section 3.2

6 Valuation of an AOF unit

Set out in the table below is a summary of the value of an AOF unit:

Table 30: Valuation of AOF units

	Reference	Unit	Low value	High value
Market value of AOF (before premiums/discounts and capitalised operating costs)	Table 17	\$m	465.6	470.6
Premium or discount to NTA	6.1.1	\$m	23.3	47.1
Capitalised operating costs	6.1.2	\$m	(39.6)	(19.8)
Market value of AOF units (on a going concern, control basis)		\$m	449.3	497.9
Number of AOF units	6.1.3	m	162.8	162.8
Market value of one AOF unit		\$	2.76	3.06

Source: Deloitte Corporate Finance analysis

6.1.1 Premium or discount to NTA

Each property owned by AOF has been valued on a standalone basis. The underlying valuations of the properties represent a "control" value (i.e. assume 100% ownership of each asset). It is, therefore, not appropriate to add an additional "premium for control" in considering the value of the individual assets of AOF.

A large diversified property portfolio can provide scale and greater efficiencies (as well as risk mitigation) that would not otherwise be available through ownership of an individual property and, as a result, a market participant may be willing to pay a premium for a portfolio of assets when compared to the aggregate market value of the same assets on a standalone basis. Set out at Appendix 4 is our analysis of recent transactions the premium to net assets paid in those transactions. The results are mixed because the premium (or discount) to net assets can also be influenced by numerous other factors which can vary over time.

We have adopted a portfolio premium to the net assets of the AOF in the range of 5% to 10%, which we consider appropriate to be applied based on the following reasons:

- AOF has a portfolio of nine⁸ office properties in key metropolitan markets, with diversification across five Australian states, including SA, NSW, VIC, ACT and QLD
- the costs avoided (and in particular stamp duty given AOF is a listed entity) and the time saved with replicating a portfolio of nine properties with a market value of approximately \$668.4m based on valuations as at 30 June 2019
- since those recent transactions noted in Appendix 4 and AOF obtaining valuations of its portfolio as at 30 June 2019, there has been an increase in the premium to NTA that comparable listed securities have been trading.

6.1.2 Capitalised operating costs

The strategy development, management, compliance function and reporting of AOF is undertaken by the manager on behalf of the RE, for which AOF pays a base management fee (refer to Section 3.3). We consider that any prospective buyer would incur costs associated with the management of the properties along with managing the financing of the properties (until the properties are ultimately divested) and therefore we consider it reasonable to deduct a portion of the capitalised value of such costs in assessing the value of AOF.

⁸ Properties consolidated for reporting purposes

Independent Expert's Report (continued)

We have applied the following assumptions in determining the appropriate adjustment:

- management fees of \$3.9m incurred in FY2019, representing 0.60% p.a. of the Fund's gross asset value, in accordance with the existing management arrangement
- other expenses of \$1m, relating to fees for directors, advisors, listing, compliance and administration costs and legal fees, as incurred in FY2019. We have excluded legal costs of \$0.2m incurred by the Fund in relation to the unsuccessful Starwood transaction
- capitalisation rate: 6.2%, based on the WACR of the underlying valuations of the AOF property portfolio by independent valuers as at 30 June 2019.

For the reasons noted above (namely the costs of managing the assets and the Fund, which would be incurred by any prospective buyer until the assets are disposed), we consider that a market participant would adjust for these costs when considering the acquisition of AOF. However, noting that these costs would not accrue to unitholders without some expectation of benefits the manager brings to the Fund or conversely, in the context of a buyout of the Fund or its assets, some avoidance of costs on the part of a prospective buyer, we have assumed that 25% to 50% of the costs would be incurred.

6.1.3 Number of units

The number of AOF units has been determined based on the number of units on issue of 162.8m.

Appendix 1: Context to the report

Individual circumstances

We have evaluated the Proposed Scheme for AOF unitholders as a whole and have not considered the effect of the Proposed Scheme on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Scheme from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Scheme is fair and reasonable. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

The report has been prepared at the request of the IBC and is to be included in the Explanatory Memorandum to be given to unitholders for approval of the Proposed Scheme. Accordingly, it has been prepared only for the benefit of the IBC and those persons entitled to receive the Explanatory Memorandum in their assessment of the Proposed Scheme outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the unitholders and AUIREL, in respect of this report, including any errors or omissions however caused.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Proposed Scheme is fair and reasonable to, and is in the best interests of, AOF unitholders. Deloitte Corporate Finance consents to this report being included in the Explanatory Memorandum.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by AUIREL and its officers, employees, agents or advisors (as set out below in 'Sources of Information'). Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to the Executives of AUIREL for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by AUIREL and its officers, employees, agents or advisors, AUIREL has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which AUIREL may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by AUIREL and its officers, employees, agents or advisors or the failure by AUIREL and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Scheme.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of AUIREL personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for AOF included in this report has been prepared on a reasonable basis in accordance with the requirements of ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of AOF referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employee of Deloitte Corporate Finance principally involved in the preparation of this report was Tapan Parekh, Partner, B.Bus, M.Comm, CA, F.Fin. Tapan has many years of experience in the provision of corporate financial

Independent Expert's Report (continued)

advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- AUIREL proposes to issue an Explanatory Memorandum in respect of the Proposed Scheme between the Consortium and AOF
- the Explanatory Memorandum will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Explanatory Memorandum for review (Draft Explanatory Memorandum)
- it is named in the Explanatory Memorandum as the 'independent expert' and the Explanatory Memorandum includes its independent expert's report in Attachment D of the Explanatory Memorandum.

On the basis that the Explanatory Memorandum is consistent in all material respects with the Draft Explanatory Memorandum received, Deloitte Corporate Finance Pty Limited consents to it being named in the Explanatory Memorandum in the form and context in which it is so named, to the inclusion of its independent expert's report in Attachment D of the Explanatory Memorandum and to all references to its independent expert's report in the form and context in which they are included, whether the Explanatory Memorandum is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Explanatory Memorandum and takes no responsibility for any part of the Explanatory Memorandum, other than any references to its name and the independent expert's report as included in Attachment D.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- FY2016, FY2017, FY2018 and FY2019 independent property valuations of the properties
- FY2017, FY2018 and FY2019 Property books
- AOF Sharetrak report dated 15 July 2019
- AOF FY2020 Budget
- AOF units Product Disclosure Statement dated 23 May 2016
- Audited financial statements of AOF for the years ending 30 June 2016, 30 June 2017, 30 June 2018 and 30 June 2019
- Explanatory Memorandum to be provided to the AOF unitholders
- Board minutes of AUIREL from April 2018 to July 2019
- Investment Management Agreement and Property Management Agreement
- Planning Proposal – 10 Valentine Avenue, Parramatta prepared by City of Parramatta dated May 2019
- Feasibility study of the redevelopment at 10 Valentine Avenue, Parramatta (based on Cost Plan 5 PTE prepared by Slattery dated 15 July 2019)
- Cost Plan 5 PTE prepared by Slattery dated 15 July 2019 in respect of the redevelopment at 10 Valentine Avenue, Parramatta
- NSW legislation website
- Parramatta Council website
- Draft development application in relation to the development at 10 Valentine Avenue, Parramatta (version 07.05.19)
- publicly available information, media releases, ASX announcements and broker reports on the AOF and the property industry/sectors.

In addition, we have had discussions and correspondence with Executives of AUIREL, including Mark Lumby, Tim Kemp-Bishop and Simon Beake, the directors of the Responsible Entity and members of the IBC being Peter Day, Don Marples and Eve Crestani and advisors to AOF in respect of the Proposed Scheme and the Valentine Site development.

Appendix 2: Valuation methodologies

Common market practice and the valuation methodologies which are applicable are discussed below.

Market based methods

Market based methods estimate an entity's market value by considering the market price of transactions in its units or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of an entity's recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates market value based on an entity's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the entity's earnings are relatively stable.

The most recent share trading history provides evidence of the market value of the securities in an entity where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of an entity than other valuation methods because they may not account for entity specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting an entity's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

Asset based methods

Asset based methods estimate the market value of an entity's units based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates market value by determining the amount that would be distributed to unitholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of an entity, does not take account of realisation costs, but has regard to ongoing costs that may be associated with maintaining the business or entity as a going concern.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its tangible assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of an entity's assets are liquid, or for asset holding companies.

Independent Expert's Report (continued)

Appendix 3: Valentine Site development market evidence

Market evidence for commercial office buildings (Table 31), development sites (Table 32) and rent (Table 33 and Table 34) are provided below.

Sales evidence

Table 31: Sales evidence – completed commercial office buildings

No.	Property	Sale price	Sale date	NLA (m ²)	\$/m ² NLA	Equated yield
1	60 Station Street, Parramatta	\$277.6m	August 2018	25,729.3	10,789	5.23%
	- The property comprises a modern 20 storey, A grade office building constructed in 2012. The building is configured with ground floor retail, 19 upper levels of office accommodation and two levels of basement parking for 145 vehicles. The office levels are configured with a side core and have an average floor plate size of 1,323m² - The property is located opposite from Parramatta Railway Station towards the eastern perimeter of Parramatta CBD. Surrounding office buildings include Sydney Water headquarters, NSW Police headquarters and the Parramatta Square development - At the time of sale the property was fully leased with a WALE by income of 4.05 years. The building is anchored by financial service and government tenants including QBE, Deloitte, Government Property NSW and Landcom.					
2	105 Phillip Street, Parramatta	\$229.0m	June 2017	24,997	9,161	5.54%
	- This transaction is of the acquisition of the development of a 13 storey, A grade commercial office building, due to be completed in 2018. The property is positioned in the core of the Parramatta CBD, approximately 800 metres from the Parramatta Transport interchange - Upon completion, the building will provide a ground floor commercial suite, and 12 upper levels of A grade office accommodation, and 48 car spaces. Typical floor plates will average 2,100 square metres, featuring a flexible contiguous and column free design. The building will also incorporate an expansive rooftop terrace, sports court, and end of trip facilities. The building will aim to achieve a 5 star Energy and 4 star Water NABERS rating, and 5 star Green Star rating - As at the date of sale, the office component and car spaces were pre-committed to lease to NSW Department of Education. The lease will commence at building completion, anticipated to be May 2018. The commencing net rent for the office component represents \$485 per square metre which is considered to be slightly below market. As the development was acquired early in the construction phase, stamp duty savings were achieved on the purchase. The stamp duty effective equated market yield is 5.70% and indicative IRR is 7.23%.					
3	91 Phillip Street, Parramatta	\$56.6m	October 2018	6,094.3	9,292	5.67%
	- The property comprises a nine storey commercial office building constructed in 1985 and include ground level retail, office accommodation over seven levels and four above ground parking levels for 120 vehicles - The office floors have a central core including lift services, male and female amenities and kitchenettes, with floor plates typically a mixture open plan with partitioned offices and boardrooms / meeting rooms - The property is located within the B3 Commercial Core precinct of the Parramatta CBD, within close proximity to the main retail strip along Church Street, Westfield Parramatta shopping centre and the Parramatta railway station and bus interchange - The site does have underlying redevelopment potential with underlying controls of a 10:1 FSR and 120 metre building height limit - At the date of sale, the property was fully leased to a good tenant mix with a WALE by income of 2.92 years. The main tenant is KPMG who recently renewed from October 2018 on Level 5 and who in total occupy 31.4% of NLA.					
4	33 Argyle Street, Parramatta	\$40.8m	November 2018	5,279.2	7,728	5.87%
	- The property comprises a 10 storey commercial office building constructed in 1987 and includes ground level retail, B grade office accommodation over six levels and three above ground parking levels for 131 vehicles - The office floors have a central core including lift services, male and female amenities, plant room and fire stairs positioned toward the middle of the southern elevation of the building. Floor plates are typically of regular shape and comprise a mixture open plan with partitioned offices and boardroom / meeting rooms - At the date of sale, the property was fully leased (with the exception of 31 car spaces) with a WALE by income of 3.59 years. The main occupiers are PNSW (24.1% of NLA) and the Aboriginal Land Council (28.3% of NLA) who executed a leaseback on settlement - The property is zoned B4 Mixed Use, with proposed rezoning to B3 Commercial Core precinct under the Parramatta Draft LEP. The building is located toward the south-western precinct of the Parramatta CBD and is within close proximity to the main retail strip along Church Street, Westfield Parramatta shopping centre and the Parramatta railway station and bus interchange					

No.	Property	Sale price	Sale date	NLA (m ²)	\$/m ² NLA	Equated yield
	The site appears to have some redevelopment potential (STCA) with proposed planning controls of maximum FSR of 10:1 and 120 metre building height limit (existing FSR 4.2:1) should the current Draft LEP.					
5	9 George Street, Parramatta	\$44.3m	February 2019	5,531	8,009	6.28% ⁹
	9 George Street, Parramatta was purchased in February 2019 for \$44,300,000. The building comprises a circa 2003 constructed, B grade, 7 storey commercial office building with ground floor retail and basement level parking below. At the time of sale, the property had a WALE of 2.32 years (by income) and was partially leased to a range of tenants including Westpac Banking Corporation. The property transacted with 30.71% (1,698.5m²) vacancy being levels four and five. The building reflected an initial yield of 6.28%, a rate of \$8,009 per square metre of NLA and a WALE of 2.33 years (by income).					
6	821 Pacific Highway, Chatswood	\$438.2m	June 2019	44,102	9,936	6.25%
	- US Fund manager Starwood Capital purchased the landmark twin office towers within the metropolitan office market of Chatswood in the northern region of Sydney from local fund manager Centuria - Considered 'A' Grade and arranged over two towers with views to the blue mountains and the Sydney CBD - WALE at the time of sale at 3.8 years (by income) - Sold fully leased with a range of strong lease covenants including NSW and Commonwealth Government departments, Sage Software, McCabe Curwood and Sennheiser - IRR reported at 6.7%.					

Source: Published sales information provided by RP Data

Table 32: Sales evidence – development sites

No.	Property	Sale price	Sale date	Max GFA	\$/m ² GFA	Zoning
1	32 Smith Street, Parramatta	\$31.15m	December 2016	28,198	\$1,105	B3 Commercial Core
	- Comprises an irregular shaped site of 2,452 square metres that is level at road height, occupying a corner position at the intersection of Phillip and Smith Street, Parramatta - The site is improved with three separate buildings which, at the date of sale, was occupied by the Salvation Army. The site was purchased by the GPT Group who are currently building an office tower for a targeted completion of the site around 2020, with a tenant pre-commitment of about 40% - The site falls within B3 Commercial Core zoning under the Parramatta City Centre LEP 2011 and has a prescribed maximum FSR of 11.5:1 (with design bonus) under current town planning provisions which would reflect a potential GFA of 28,198m². The site has a maximum height limit of 120 metres. - The site was purchased with vacant possession.					
2	45-61 Waterloo Road, Macquarie Park	\$110.4m	August 2017	87,660	\$1,259	n/a
	- The property comprises a commercial development site extending to a total site area of 3.198 hectares - The site is zoned B3 Commercial Core in accordance with the Ryde LEP 2014 with a prescribed FSR control of 2.26:1. We note that additional FSR allowances have been granted following a VPA by the vendors to bequeath 7,000m² of the site to Ryde Council for open space uses. As such, the total GFA permissible on the site as at the date of sale has been assessed at 117,072m², of which 72,290m² is as of right and the uplift of a further 44,782m² requiring an additional VPA with council - John Holland purchased the site without Development Approval. Concept plans have been prepared indicating commercial office accommodation will be developed over six buildings. Additional elements will include access roads and landscaping - The site was divested by Property NSW who will leave back 25,000m² of commercial office accommodation to be developed by the purchaser. We note the vendors will have first rights to lease an additional 10,000 to 35,000m² within 12 months of settlement, which is due to occur once Development Approval has been granted. Lease terms for the initial 25,000m² include an 12 year term at \$430m² with net increases fixed at 3.50% per annum. In addition, an incentive of 20% net was provided. Lease commencement is due in September 2019 when construction of the first stage is anticipated to be complete - The site is located on the north-eastern alignment of Waterloo Road within Macquarie Park, a mixed-use business park precinct of Sydney's North Shore.					

Source: Published sales information provided by RP Data

⁹ This is an initial yield.

Independent Expert's Report (continued)

Rental evidence

Table 33: Executed market leases

No.	Property	Tenant	LCD	Tenancy NLA (m ²)	Net rental \$/m ² NLA	Initial term (years)
1	60 Station Street, Parramatta	Landcom	September 2019	2,646	\$590	4
	- A more modern, A grade building located in close proximity to the Parramatta train station and public transport interchange. Overall considered a quality A grade offering in the Parramatta market - Rent reviews are fixed at 4% per annum. A 15% net incentive was provided to the tenant.					
2	60 Station Street, Parramatta	GP NSW	February 2018	3,969.6	\$550	5
	- A more modern, A grade building located in close proximity to the Parramatta train station and public transport interchange. Overall considered a quality A grade offering in the Parramatta market - Rent reviews are fixed at 4% per annum. A 15% net incentive was provided to the tenant.					

Source: Published rent information provided by RP Data

Table 34: Market lease pre-commitments

No.	Property	Tenant	Lease start date	Approximate Tenancy NLA (m ²)	Approximate net rental \$/m ² NLA	Initial term (years)
1	32 Smith Street, Parramatta	QBE Insurance	Q4 2020	13,600	\$650	10
2	3PSQ, 3 Parramatta Square, Parramatta	NAB	Around 2020	42,000	\$565	12
3	4PSQ, 4 Parramatta Square, Parramatta	GP NSW	Around 2019/2020	62,500	\$565 - \$570	12
4	1PSQ, 1 Parramatta Square, Parramatta	PwC	January 2017	1,500	\$580 ¹	5
5	1PSQ, 1 Parramatta Square, Parramatta	Water NSW	January 2017	4,300	\$580 ¹	5

Note:

1. Both of these are subtenancy arrangements on shorter leases within a university campus building and not a commercial office building and therefore we consider reflect a discount to market rates. They also occurred 20 months ago with market rents having increased since then

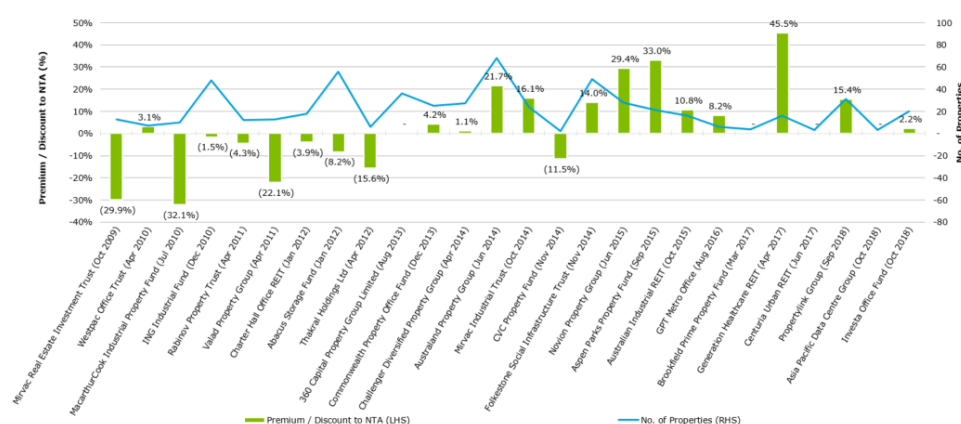
Source: Market information from various research sources

Appendix 4: Premiums and discounts to the market value of the properties

In considering the extent to which it is appropriate to apply a premium or discount to the aggregated value of the property portfolio of AOF, we have considered market evidence on the extent to which a market participant may be willing to pay a premium for a portfolio of investment properties as compared to the aggregate market value of the same investment properties on a standalone basis. In the absence of public information on unlisted REITs, we have had regard to comparable listed REITs which have been the subject of control transactions as a point of reference.

We considered the premium or discount to NTA observed in transactions involving ASX listed REITs, as set out in the figure below.

Figure 7: Premiums or discounts to NTA from transactions



Source: Capital IQ and Deloitte Corporate Finance analysis

We make the following observations in relation to the above transactions:

- given the limited number of transactions that have occurred in this sector, we have looked at transactions going back a relatively long period of time. However, we have placed the most weight in our analysis on transactions that occurred over the last three years
 - over the period 2009 to 2012, market conditions were more challenging than today. A number of REITs were in a deleveraging phase requiring capital injections and, therefore, the transactions reflect an element of distress which resulted in a number of transactions occurring at significant discounts to NTA
 - since 2012, market conditions have improved and most transactions during this period have taken place at a premium to NTA, albeit that some transactions have shown very small premiums to NTA, and that in a rising market, some element of the transaction premium could relate to time differences between the transaction announcement and the most recent property valuations
- over the past three years, most transactions have involved REITs owning more than 10 properties. In addition, the higher premium to NTA implicit in the price paid in the Generation Healthcare REIT transaction is reflective of the fact that a number of properties were under development and nearing completion, yet their valuation uplift (from the development activities) was not included in the NTA figure
- the premium implicit in the Propertylink Group transaction relates primarily to the fund management activities which were not included in the NTA.

Independent Expert's Report (continued)



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Corporate Directory

Australian Unity Office Fund

ARSN 113 369 627

Website: australianunityofficefund.com.au

Responsible Entity

Australian Unity Investment Real Estate Limited

ABN 86 606 414 368

AFSL 477434

Registered Office

271 Spring Street
Melbourne VIC 3000

Telephone: 13 29 39

Email: investments@australianunity.com.au

Registry

Boardroom Pty Limited

Grosvenor Place

Level 12, 225 George Street

Sydney NSW 2000

Telephone: +61 1300 721 637 (within Australia) or
+61 2 9290 9600 (outside Australia)

Website: www.boardroomlimited.com.au/

Email: australianunity@boardroomlimited.com.au

Financial Adviser

UBS AG, Australia Branch

Level 16, Chifley Tower,

2 Chifley Square

Sydney NSW 2000

Legal Adviser

Ashurst

Level 11, 5 Martin Place

Sydney NSW 2000

Auditor

PriceWaterhouseCoopers

2 Riverside Quay

Southbank VIC 3006

AOF Information Line

Telephone: +61 1800 179 970 (from Monday to Friday
between 8.15am and 5.30pm (Melbourne time))



Australian Unity Office Fund (AOF)
ARSN: 113 369 627

All Correspondence to:

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

☎ **By Fax:** +61 2 9290 9655

☎ **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

This Proxy Form will only be valid and accepted if it is signed and received **before 10:00am (Melbourne time) on Tuesday, 5 November 2019.**

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Scheme Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Scheme Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the Scheme Meeting, the Chair of the Scheme Meeting will be your proxy. A proxy need not be a unitholder of the company. Do not write the name of the issuer company or the registered unitholder in the space.

Appointment of a Second Proxy

If you are entitled to cast two or more votes at the Scheme Meeting, you are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the Registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the Registry. Unless the appointment has been previously provided to the Registry, the corporate representative must bring to the Scheme Meeting satisfactory evidence of their appointment, including any authority under which it was signed.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the unitholder.

Joint Holding: where the holding is in more than one name, by the relevant unitholder lodging the form. Please note that if the units are jointly held, the vote of the unitholder whose name appears first in the Register will be accepted to the exclusion of the votes of all other joint holders. If that unitholder does not vote, the next named joint unitholder may exercise the voting rights of the jointly held units.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged the original or a certified copy of the Power of Attorney or other authority with the Registry or it must accompany this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **10:00am (Melbourne time) on Tuesday, 5 November 2019.** Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

☎ **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia

👤 **In Person** Boardroom Pty Limited
Level 12, 225 George Street,
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Australian Unity Office Fund

ARSN: 113 369 627

☐

Your Address

This is your address as it appears on AOF's Register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Unitholders sponsored by a broker should advise their broker of any changes.

Please note, you cannot change ownership of your securities using this form.

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Australian Unity Office Fund** and entitled to attend and vote hereby appoint:

☐

the **Chair of the Scheme Meeting** (mark box)

OR if you are **NOT** appointing the Chair of the Scheme Meeting as your proxy, please write the name of the person or body corporate (excluding the registered unitholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Scheme Meeting as my/our proxy at the Scheme Meeting of AOF to be held at **Australian Unity Office Fund, Ground Floor, 271 Spring Street, Melbourne VIC 3000 at 10:00am (Melbourne time) on Thursday, 7 November, 2019** and at any postponement or adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chair of the Scheme Meeting intends to vote undirected proxies in favour of each of the items of business.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Resolution 1	Amendments to Constitution	☐	☐	☐
Resolution 2	Approval of the Scheme	☐	☐	☐

STEP 3 SIGNATURE OF UNITHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Unitholder 1

Sole Director and Sole Company Secretary

Unitholder 2

Director

Unitholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2019

RETURN YOUR FORM:

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

 By email: AOFScheme@boardroomlimited.com.au

In Person: Boardroom Pty Limited
Level 12, 225 George Street,
Sydney NSW 2000 Australia
During business hours (8:30am to 5:00pm AEST)

 **All enquiries to:**
(within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

**Full Name(s) of
Registered Holding**

**You are required to insert this number
Securityholder Reference Number (SRN) or
Holder Identifier Number (HIN)**

Relevant Foreign Resident Declaration Form

Capitalised terms in this declaration have the same meaning as those defined in the Notice of Meeting and Explanatory Memorandum unless otherwise stated.

Under Australian foreign resident capital gains withholding tax rules CHAB Office Pty Limited in its capacity as trustee of CHAB Office Trust (**CHAB**) is required to assess whether a registered securityholder in AOF is a foreign resident as at the Record Date.

If CHAB considers, or reasonably believes, that a registered AOF Unitholder is a foreign resident, then unless that AOF Unitholder provides an appropriate declaration regarding its residency or the size of its interest in the Fund, CHAB is required to remit to the Australian Commissioner of Taxation 12.5% of the Scheme Consideration.

If:

- CHAB does not receive the attached declaration from you on or **before 10.00am (Melbourne time) Tuesday, 5 November 2019** confirming that either you are an Australian resident, or that you and your associates will not own 10% or more of AOF's Units on the Implementation Date and have not owned 10% or more of AOF's Units over any 12 month period in the two years before the Implementation Date; and
- CHAB considers, or reasonably believes, that you are a foreign resident,

then CHAB intends to withhold, and pay to the Australian Commissioner of Taxation, 12.5% of the Scheme Consideration otherwise payable to you.

Note that if your Units are jointly held and CHAB considers, or reasonably believes, that you are a foreign resident, CHAB intends to withhold and remit 12.5% of the Scheme Consideration otherwise payable to you unless each joint holder provides the appropriate declaration. If you require an additional declaration form for a joint holder, please contact the AOF's Registry – Boardroom Pty Limited.

For further details regarding Australia's foreign resident capital gains withholding tax rules, please refer to the Australian Taxation Office website (<https://www.ato.gov.au/General/Capital-gains-tax/International-issues/Foreign-resident-capital-gains-withholding-payments/>).

If you intend to provide a declaration, please complete the vendor declaration below (including signing and dating the form in the spaces provided) and return the form via the following options:

By return post:	By email:
Boardroom Pty Limited GPO Box 3993 Sydney NSW 2001 Australia	AOFScheme@boardroomlimited.com.au

It is important that your signed declaration is received by no later than **before 10.00am (Melbourne time) Tuesday, 5 November 2019** in order to ensure that your status is correctly reflected.

If you are in doubt as to what you should do including if you are eligible to make the residency or interest declaration below, you should consult an independent and appropriately-licensed professional adviser without delay. Penalties may be imposed on you for giving false and misleading statements.

VENDOR DECLARATION ACTION REQUIRED BY AOF SHAREHOLDER

All parts of Section A and B must be completed

Section A:

AOF Unitholder Details

Place an **X** in the applicable box below.

Individual ☐ > Provide date of birth ____ / ____ / ____

Company ☐ > Provide Australian Business Number (ABN)
or Australian Company Number (ACN)
(insert N/A if not applicable)

--	--	--	--	--	--	--	--	--	--	--	--

AOF Unitholder contact details

Email address of the AOF Unitholder

--

Phone number of the AOF Unitholder (including area code)

--

Section B:

Vendor Declaration

If you wish to make a vendor declaration, please select **one** declaration only by placing an **X** in the applicable box below.

☐ The AOF Unitholder named overleaf is, and will be an Australian tax resident, for the period from and including the day that this declaration is made, until and including the Implementation Date (**residency declaration**).

OR
☐ The AOF Units held by the AOF Unitholder named overleaf are not indirect Australian real property interests for the period from and including the day that this declaration is made, until and including the Implementation Date (**interest declaration**).

Sign:

I declare as the AOF Unitholder named overleaf or authorised officer of the named AOF Unitholder, that the information contained in this form is true and correct.

Name:

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Relationship to the AOF Unitholder:

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Signature:

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(You must sign here)

Date: ____ / ____ / ____

(You must provide a date here)