Australian Unity Property Syndicate No.2

Annual Report – 30 June 2010

ARSN 115 891 364

Contents

These financial statements cover Australian Unity Property Syndicate No 2 as an individual entity.
The Responsible Entity of Australian Unity Property Syndicate No 2 is Australian Unity Property Limited (ABN 58 079 538 499).
The Responsible Entity's registered office is 114 Albert Road, South Melbourne VIC 3205.

A message from the Chairman

On behalf of the Directors of Australian Unity Property Limited, I am pleased to present the Annual Report to 30 June 2010 for the Australian Unity Property Syndicate No. 2.

Two years since the global financial crisis sparked a property downturn worldwide, Australian property values are only now beginning to stabilise.

During 2009/10 the office and industrial property sectors continued to experience volatility, with key industries impacted by uncertain business conditions and reduced imports early in the financial year.

Regarding the Syndicate, the major lease at 5/568 Church Street, Richmond expired in May 2010. A new lease will commence in July 2010 for approximately 50% of this space, however the loss of income during the interim period resulted in a slightly reduced distribution for the June 2010 quarter.

In another major leasing deal, we successfully negotiated a five-year lease renewal with the existing tenant, Wilson Sporting Goods, for the property at 18-20 Lakeside Boulevard, Braeside.

All of the properties in the Syndicate were independently re-valued during June 2010, with an overall increase of 0.85% in the Syndicate's previous book value. The effect, combined with the level of gearing in the Syndicate, resulted in an increase of approximately 1.91% to the Syndicate's net asset value.

Overall, the positive valuation at the end of the financial year reflected gradual recovery and reduced volatility in the sector.

Looking ahead

A broad property recovery is likely to be led by continued economic growth, with the industrial property sector to potentially lead the broader upturn.

At current values, we believe office and industrial properties are likely to be near or at the bottom of the property value cycle. And, while these sectors are expected to experience some ongoing volatility in the short term, values and market rents are expected to gradually increase during the next financial year.

One of the contributing factors to this will likely be the generally limited amount of vacant office and industrial space. This is due to the general lack of development in the sector over the past two years, as a result of the difficulties many have experienced when seeking development finance.

To stay up-to-date with information about your investment, I encourage you to visit our website – australianunityinvestments.com.au – or speak with a member of our Investor Services team by calling **13 29 39**.

Thank you for investing with Australian Unity Investments.

Yours sincerely

Alan Castleman
Chairman

Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Syndicate No 2, present their report together with the financial statements of Australian Unity Syndicate No 2 ("the Scheme"), for the year ended 30 June 2010 ("the reporting period").

Directors

The following persons held office as directors of Australian Unity Property Limited during the reporting period or since the end of the reporting period and up to the date of this report:

Alan Castleman (Chairman)
David Bryant (Group Executive - Investments and Chief Investment Officer)
Rohan Mead (Group Managing Director)
Glenn Barnes (Non executive Director) (appointed 11 January 2010)
Ian Ferres (Non Executive Director)
Stephen Maitland (Non Executive Director)
Warren Stretton (Non Executive Director)
Anthony Connon (Chief Financial Officer)
Bruce Siney (Non Executive Director) (ceased 27 October 2009)

Principal activities

The Scheme aims to provide investors with regular income and the opportunity for long term capital growth.

The Scheme's principal assets are 49-55 Woodlands Drive Braeside VIC, 57-61 Woodlands Drive Braeside VIC, 18-20 Lakewood Boulevard Braeside VIC, 658 Church Street Richmond VIC, and 110 Airds Road Minto NSW.

Review and results of operations

Property Valuations

The most recent valuation as at 30 June 2010 valued the properties at $24,900,000, a increase of $300,000 from the previous valuation of $24,600,000 at 31 May 2009 and an increase of $7,021,345 from the purchase price of $17,878,655.

The basis for the valuation of the assets is disclosed in note 2 to the financial statements.

Results

For the reporting period ended 30 June 2010, the Scheme's interests posted a total return of 10.72%, split between a distribution return of 5.80% and a growth return of 4.92%.

The positive return is due to a increase in the value of the Scheme's assets invested in investment properties.

Where no transaction or re-investment price is available, a price is calculated using the value of the net assets (for valuation purposes) of the scheme over the interests held in the scheme.

Net assets for investment valuation purposes at 30 June 2010 is $1.4595 per interest (2009: $1.3725 per interest).

The performance of the Scheme, as represented by the results of its operations, was as follows:

	For the year ended	
	30 June 2010 $	30 June 2009 $
Profit/(loss) before finance costs attributable to investors	**798,490**	(1,895,348)
Distribution paid and payable	**600,194**	712,542

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the reporting period.

Directors' report (continued)

Events occuring after the reporting period.

Except as disclosed in note 17 in the financial statements, no other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

(i) the operations of the Scheme in future reporting periods, or
(ii) the results of those operations in future reporting periods, or
(iii) the state of affairs of the Scheme in future reporting periods.

Likely developments and expected results of operations

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

Further information on likely developments in the operations of the Scheme and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Scheme.

Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Property Limited or the auditors of the Scheme. So long as the officers of the Australian Unity Property Limited act in accordance with the Corporations Act 2001, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Fees paid to and interests held in the Scheme by the Responsible Entity or its associates

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

No fees were paid out of Scheme property to the directors of the Responsible Entity during the reporting period.

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the reporting period are disclosed in note 15 of the financial statements.

Units in the Scheme

The movement in interests on issue in the Scheme during the reporting period is disclosed in note 7 of the financial statements.

The value of the Scheme's assets and liabilities is disclosed on the statement of financial position and derived using the basis set out in note 2 of the financial statements.

Environmental regulation

The property operations within the Scheme are subject to environmental regulations under Australian law. There have been no known reportable breaches of these regulations.

Directors' report (continued)

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the directors of Australian Unity Property Limited.

Director

Director

13 September 2010

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Auditor's Independence Declaration to the Directors of Australian Unity Property Limited, as Responsible Entity for Australian Unity Property Syndicate No 2

In relation to our audit of the financial report of Australian Unity Property Syndicate No 2 for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

AJ (Tony) Johnson
Partner
Melbourne

13 September 2010

Statement of comprehensive income

	Notes	For the year ended 30 June 2010 $	30 June 2009 $
Income			
Interest income		**12,841**	12,955
Rental income	3	**2,607,227**	2,420,715
Net fair value increment of investment properties		**164,144**	-
Total income		**2,784,212**	2,433,670
Expenses			
Responsible Entity's fees	15	**173,486**	181,744
Accrued termination/roll-over fee		**2,970**	243,540
Custody fees		**12,670**	12,500
Auditor's remuneration	4	**18,470**	20,333
Interest expense		**1,079,737**	921,606
Borrowing costs		**-**	285
Other Scheme expenses	5	**(19,363)**	126,711
Property related expenses	6	**683,252**	586,826
Registry expenses		**20,000**	2,993
Valuation expenses		**14,500**	12,000
Net fair value decrement of investment properties		**-**	2,220,480
Total expenses		**1,985,722**	4,329,018
Profit/(loss) before finance costs attributable to investors		**798,490**	(1,895,348)
Finance costs attributable to investors			
Distributions to investors	8	**(600,194)**	(712,542)
(Decrease)/increase in net assets attributable to investors	7	**(441,288)**	2,607,890
Increase in swap hedging reserve		**242,992**	-
Total comprehensive income for the reporting period attributable to investors		**-**	-

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

	Notes	As at 30 June 2010 $	30 June 2009 $
Assets			
Cash and cash equivalents		**378,408**	363,113
Receivables	10	**92,471**	250,227
Prepaid expenses		**68,654**	93,325
Investment properties	9	**24,900,000**	24,600,000
Total assets		**25,439,533**	25,306,665
Liabilities			
Distributions payable	8	**150,000**	167,720
Payables	11	**560,948**	608,652
Deferred liability		**149,698**	392,693
Borrowings	12	**13,240,000**	13,240,000
Total liabilities (excluding net assets attributable to investors)		**14,100,646**	14,409,065
Net assets attributable to investors	7	**11,338,887**	10,897,600

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

Statement of changes in net assets attributable to investors

	For the year ended	
	30 June 2010 $	30 June 2009 $
Net assets attributable to investors at the beginning of the reporting period	**10,897,600**	14,642,103
Profit/(loss) before finance costs attributable to investors	**798,490**	(1,895,348)
Distribution to investors	**(600,194)**	(712,542)
Swap hedging reserve	**242,991**	(1,136,613)
Net assets attributable to investors at the end of the reporting period	**11,338,887**	10,897,600

The above statement of changes in net assets attributable to investors should be read in conjunction with the accompanying notes.

Statement of cash flows

	Notes	For the year ended 30 June 2010 $	30 June 2009 $
Cash flows from operating activities			
Interest received		**12,841**	12,955
Rental income received		**2,689,848**	2,641,608
Payments to suppliers		**(842,744)**	(857,359)
Net cash inflow from operating activities	16(a)	**1,859,945**	1,797,204
Cash flows from investing activities			
Capital expenditure		**(135,856)**	(70,480)
Net cash (outflow) from investing activities		**(135,856)**	(70,480)
Cash flows from finance activities			
Interest costs paid		**(1,090,880)**	(951,629)
Distributions paid		**(617,914)**	(692,149)
Net cash (outflow) from finance activities		**(1,708,794)**	(1,643,778)
Net increase in cash and cash equivalents		**15,295**	82,946
Cash and cash equivalents at the beginning of the reporting period		**363,113**	280,167
Cash and cash equivalents at the end of the reporting period		**378,408**	363,113

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

Contents of the notes to the financial statements

1 General information

These financial statements cover Australian Unity Property Syndicate No 2 ("the Scheme") as an individual entity.

On 30 September 2005 the Scheme was rolled over for a further six year term expiring on 30 September 2011 unless terminated earlier in accordance with the provisions of the Constitution dated 29 May 1997 (as amended).

The Responsible Entity of the Scheme is Australian Unity Property Limited (ABN 58 079 538 499), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is 114 Albert Road, South Melbourne, VIC 3205. The Responsible Entity of the Scheme is incorporated and domiciled in Australia.

The financial statements are for the period from 1 July 2009 to 30 June 2010 ("the reporting period")

The financial statements were authorised for issue by the directors on 13 September 2010. The directors of the Responsible Entity have the power to amend and reissue the financial report.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all reporting periods presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the Scheme's Constitution, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001,* in Australia.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in investment properties and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

Compliance with International Financial Reporting Standards

The financial statements of the Scheme comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Financial Statement Presentation

AASB 101 (revised) Presentation of Financial Statements

The Scheme has applied the revised standard which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Scheme had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

AASB 7 Improving Disclosures about Financial Instruments (Amendments to AASB 7 Financial Instruments: Disclosures)

The Scheme has applied the amendment to the standard which became effective from 1 January 2009. The amendment expands the disclosures required in respect of fair value measurements and liquidity risk. The Scheme has elected not to provide comparative information for these expanded disclosures in current reporting period.

2 Summary of significant accounting policies (continued)

(b) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. There are no key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the Scheme's assets and liabilities within the next annual reporting period.

(c) Investment Properties

Initially, investment properties are measured at the cost of acquisition being the purchase consideration determined at the date of acquisition plus costs incidental to the acquisition. Costs incidental to acquisition may include legal fees, stamp duty and other government charges, professional fees preceding acquisition and where applicable financing charges incurred during the construction or development of an asset.

Subsequent to initial recognition investment properties are stated at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the sttaement of comprehensive income in the year in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use. Any gains or losses on the derecognition of an investment property are recognised in the statement of comprehensive income in the year of derecognition.

Independent valuations of investment properties are obtained at intervals of generally one year from suitably qualified valuers. Less frequent valuations are permissable, however, the intervals between such valuations are not to exceed three years. Such valuations are reflected in the financial statements of the Scheme. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount because the Scheme does not expect to be ultimately liable for capital gains tax in respect of the assets.

Expenditure capitalised to properties includes the cost of acquisition, capital and refurbishment additions, and during development, includes financing charges, related professional fees incurred and other directly attributable transaction costs.

(d) Financial instruments (other than derivatives)

(i) Classification

The Scheme's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold.

These are investments in unlisted trusts.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

Loans and receivables/payables comprise amounts due to or from the Scheme.

(ii) Recognition/derecognition

The Scheme recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

2 Summary of significant accounting policies (continued)

(d) Financial instruments (other than derivatives) (continued)

Investments are derecognised when the right to receive cash flows from the investments have expired or the Scheme has transferred substantially all risks and rewards of ownership.

(iii) Measurement

- Financial assets and liabilities held at fair value through profit or loss.

Financial assets and liabilities held at fair value through profit and loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and liabilities held at fair value through profit or loss are expensed immediatly. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their value recognised in the statement of comprehensive income.

- Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

- *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(e) Derivatives

For the purposes of hedge accounting, hedges are classified as cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

(i) Cash flow hedge

All derivative financial instruments are brought to the statement of financial position at fair value. Derivative financial instruments are initially recorded at fair value on the date on which the derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as assets when their value is positive and liabilities when their value is negative.

The Scheme uses derivative financial instruments such as interest rate swaps to hedge risk associated with interest rate fluctuations. Interest rate swaps are set up so the floating leg exactly matches the loan payment requirements. Interest rate swaps are measured based on their discounted future cash flows.

The fair values of interest rate swaps are determined by reference to market values for similar instruments.

At the inception of a hedge relationship, the Scheme formally designates and documents the hedge relationship to which the Scheme wishes to apply hedge accounting, the risk management objective, and strategy for undertaking the hedge. The documentation includes identification of the hedge instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes to cash flows and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

2 Summary of significant accounting policies (continued)

(e) Derivatives (continued)

The effective portion of the gain or loss on the hedging instrument is recognised directly in net assets attributable to unitholders, in a hedge/swap revaluation reserve, while the ineffective portion is recognised in profit or loss. Fluctuations are contained in the reserve until the maturity of the underlying loan. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the statement of comprehensive income.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Scheme's main income generating activity.

(g) Receivables

Receivables may include amounts for interest, rental income arrears, trust distributions and securities sold where settlement has not yet occurred. Trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(k) below. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Input Tax Credits and application monies receivable from unitholders.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(h) Payables

Payables include liabilities and accrued expenses owed by the Scheme which are unpaid as at the end of the reporting period.

Liabilities for trade creditors are carried at original invoice amount, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Scheme.

Payables to related parties are recognised and carried at the nominal amount due. Interest is taken up as an expense on an accrual basis.

Provisions are recognised when the Scheme has a present obligation as a result of the past event and it is probable that the Scheme will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2 Summary of significant accounting policies (continued)

(h) Payables (continued)

The distribution amount payable to investors as at the reporting date is recognised separately on the statement of financial position as investors are presently entitled to the distributable income as at the reporting date under the Scheme's Constitution.

(i) Borrowings and borrowing costs

All loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with borrowings.

After initial recognition, loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in statement of comprehensive income when liabilities are derecognised or impaired.

There were no gains or losses in relation to loans taken to profit for the current reporting year.

Borrowing costs are recognised as an expense in the period in which they incurred except for the costs that are directly attributable to the acquisition or construction of qualifying assets. Borrowing costs attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset.

(j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured. Revenue brought to account but not received at reporting date is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

Rental revenue

Rental income is recognised on a straight-line basis over the lease term.

Contingent rentals, such as turnover rent and market rent adjustments, are recognised as income in the financial period in which they are earned.

Fixed rental increases which do not represent direct compensation for underlying cost increases or capital expenditure are recognised on a straight line basis over the term of the lease.

The rental adjustments resulted from this policy are disclosed in the financial statements for financial reporting presentation purposes only.

Incidental revenues (costs) derived from an investment property undergoing construction or development but not directly related to bringing the assets to the working condition, are recognised in the statement of comprehensive income for the year.

Rent not received at reporting date is reflected in the statement of financial position as a receivable or if paid in advance, as a liability.

Interest revenue

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset.

(k) Investment income

Interest income and expenses are recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(d).

2 Summary of significant accounting policies (continued)

(k) Investment income (continued)

Scheme distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

Net gains/(losses) on financial assets held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at reporting period end and the previous valuation point. Net gains/(losses) do not include interest or distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

(l) Leasing costs and Lease incentives

Leasing costs

Costs that are directly associated with negotiating and arranging an operating lease (including commissions, legal fees and costs of preparing and processing documentation for new leases) are capitalised as part of the Scheme's assets and amortised on a straight-line basis over the lease term on the same basis as the lease income.

Lease incentives

Lease incentives which may take the form of up front payments, contributions to certain lessees costs, relocation costs and fit outs and improvements are recognised as part of the Scheme's assets. The aggregate cost of incentives is recognised on a straight-line basis over the lease term as part of lease income.

(m) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

(n) Income tax

Under current legislation, the Scheme is not subject to income tax as investors are presently entitled to the income of the Scheme.

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

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

(o) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

(p) Increase/decrease in net assets attributable to investors

Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as part of finance costs. The movements include undistributable income which may consist of undistributable unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to investors) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

2 Summary of significant accounting policies (continued)

(q) Applications and redemptions

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

Unit redemption prices are determined by reference to the net assets fo the Scheme divided by the number of interests on issue.

All units fully paid with proportionate share of distribution and equal voting rights. They are recognised at the fair value of the consideration received by the Scheme.

(r) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Scheme by third parties such as audit fees, custodial services and investment management fees have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting period. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 and 139] (effective from 1 July 2010)*

In May 2009 the AASB issued a number of improvements to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations,* AASB 8 *Operating Segments,* AASB 101 *Presentation of Financial Statements,* AASB 107 *Statement of Cash Flows,* AASB 117 *Leases,* AASB 118 *Revenue,* AASB 136 *Impairment of Assets* and AASB 139 *Financial Instruments: Recognition and Measurement.* The Scheme will apply the revised Standards from 1 July 2010. The Scheme does not expect that any adjustments will be necessary as a result of applying the revised rules.

(ii) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)*

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013. The current four categories of financial assets, stipulated in AASB 139 *Financial Instruments: Recognition and Measurement*, will be replaced with two measurement categories: fair value and amortised cost. AASB 9 only permits the recognition of fair value gains/(losses) in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains/(losses) on debt investments, for example, will therefore have to be recognised directly in profit or loss. The Scheme does not expect any significant impact on the Scheme's financial statements arising from an adoption of the Standard.

(iii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards (effective from 1 January 2011)*

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures.* It is effective from 1 January 2011. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The amendment will not have any effect on the Scheme's financial statements.

(iv) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 July 2010/1 January 2011)

2 Summary of significant accounting policies (continued)

(s) New accounting standards and interpretations (continued)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Scheme will apply the amendments from 1 July 2010. It does not expect that any adjustments will be necessary as the result of applying the revised rules.

(v) AASB1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Scheme has public accountability as defined in AASB 1053 and is therefore not eligible to adopt the new Australian Accounting Standards - Reduced Disclosure Requirements. The two standards will have no impact on the financial statements of the Scheme.

3 Rental income

	For the year ended	
	30 June 2010 $	30 June 2009 $
Rental income *	**2,068,263**	1,908,194
Outgoings income	**468,315**	445,248
Car park income	**70,649**	67,273
	2,607,227	2,420,715

* Includes income arising from recognising lease income on a straight line basis.

4 Auditor's remuneration

The auditor's remuneration is paid directly by the Responsible Enity.

During the year the following fees were paid or payable for services provided by the auditor of the Scheme:

	For the year ended 30 June 2010 $	30 June 2009 $
(a) Audit services		
Audit and review of financial reports	**15,258**	14,234
Total remuneration for audit services	**15,258**	14,234
(b) Non-audit services		
Tax compliance services	**3,212**	6,099
Total remuneration for taxation services	**3,212**	6,099
	18,470	20,333
	18,470	20,333

5 Other Scheme expenses

	For the year ended 30 June 2010 $	30 June 2009 $
Accounting fees	**33,511**	29,564
Project consulting expenses	**(59,281)**	92,977
Compliance expenses	**2,201**	4,000
Sundry expenses	**4,206**	170
	(19,363)	126,711

6 Property related expenses

	For the year ended 30 June 2010 $	30 June 2009 $
Recoverable outgoings	**388,005**	441,995
Non-recoverable outgoings	**239,896**	119,123
Legal fees	**27,483**	17,079
Consulting expenses	**6,125**	8,629
Leasing expenses	**21,743**	-
	683,252	586,826

7 Net assets attributable to investors

Movements in number of interests and net assets attributable to investors during the reporting period were as follows:

All investors' contribution are fully paid with a proportionate share of distribution and equal voting rights. An Interest, as per the Constitution, is a percentage share in the beneficial interest in the Scheme equal to the aggregate amount of the Applicant's Contribution divided by the aggregate of all the Contributions subscribed. Each Interest in the Scheme originally comprised of the Investor Cash Portion and Loan Portion. On the rollover of the Scheme the new facility has been arranged and all documentation will be executed by the Responsible Entity.

As net assets attributable to investors are classified as liability rather than equity, distributions and the movement in the net assets attributable to investors are recognised as a finance cost in the Scheme's statement of comprehensive income.

The movements in fair value of the swap are taken directly to a hedge revaluation reserve. Fluctuations would be contained in the reserve until the maturity of the underlying loan.

	As at			
	30 June 2010 No.	30 June 2009 No.	**30 June 2010 $**	30 June 2009 $
Investors' contribution				
Opening balance	**7,800,908**	7,800,908	**7,551,947**	7,551,947
Swap hedging reserve	**-**	-	**(149,698)**	(392,693)
Closing balance	**7,800,908**	7,800,908	**7,402,249**	7,159,254

	As at	
	30 June 2010 $	30 June 2009 $
Undistributed income		
Opening balance	**3,738,346**	6,346,236
Decrease in net assets attributable to investors	**441,284**	(2,607,890)
Increase in swap hedging reserve	**(242,992)**	-
Closing balance	**3,936,638**	3,738,346

	As at	
	30 June 2010 $	30 June 2009 $
Total net assets attributable to investors	**11,338,887**	10,897,600

Capital risk management

The Scheme considers its net assets attributable to investors as capital, notwithstanding net assets attributable to investors are classified as a liability. The amount of net assets attributable to investors can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of investors.

8 Distributions to investors

Timing of distributions

The distributions for the reporting period were as follows:

	For the year ended			
	30 June 2010 $	**30 June 2010 CPI**	30 June 2009 $	30 June 2009 CPI
Distribution paid during the reporting period	**450,194**	**5.771**	544,822	6.984
Distributions payable	**150,000**	**1.923**	167,720	2.150
Total distributions	**600,194**		712,542	

As investors are currently entitled to the distributable income of the Scheme, no income tax is payable to the Reponsible Entity.

9 Investment properties

30 June 2010	Opening balance $	Capital costs $	Revaluation $	Closing balance $	Latest valuation $
Investment properties					
110 Airds Road, Minto, NSW	5,600,000	3,220	(3,220)	5,600,000	5,600,000
18-20 Lakewood Boulevard, Braeside, VIC	3,900,000	3,723	(3,723)	3,900,000	3,900,000
57-61 Woodlands Drive, Braeside, VIC	3,800,000	-	-	3,800,000	3,800,000
49-55 Woodlands Drive, Braeside, VIC	3,500,000	-	200,000	3,700,000	3,700,000
658 Church street, Richmond, VIC	7,800,000	128,913	(28,913)	7,900,000	7,900,000
Total	24,600,000	135,856	164,144	24,900,000	24,900,000

30 June 2009	Opening balance $	Capital costs $	Revaluation $	Closing balance $	Latest valuation $
Investment properties					
110 Airds Road, Minto, NSW	7,250,000	-	(1,650,000)	5,600,000	5,600,000
18-20 Lakewood Boulevard, Braeside, VIC	3,600,000	1,595	298,405	3,900,000	3,900,000
57-61 Woodlands Drive, Braeside, VIC	4,200,000	46,930	(446,930)	3,800,000	3,800,000
49-55 Woodlands Drive, Braeside, VIC	3,700,000	-	(200,000)	3,500,000	3,500,000
658 Church street, Richmond, VIC	8,000,000	21,955	(221,955)	7,800,000	7,800,000
Total	26,750,000	70,480	(2,220,480)	24,600,000	24,600,000

The investment property valuation policy is to have independent valuations conducted regularly, typically annually to aid with the determination of the fair value of the assets (the latest valuations are noted below). At each reporting date the appropriateness of those valuations is assessed by the Responsible Entity.

The market for many types of real estate is being affected by volatility in financial markets. This has translated into a general weakening of market sentiment towards real estate and the number of real estate transactions has significantly reduced.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction at the date of valuation, in accordance with Australian Valuation Standards.

The current lack of comparable market evidence relating to pricing assumptions and market drivers, particularly for transactions involving willing buyers and willing sellers, means that there is less certainty in regard to valuations and the assumptions applied to valuation inputs. The period of time needed to negotiate a sale in this environment may also be significantly prolonged.

9 Investment properties (continued)

The stated fair value of each investment property at the end of the reporting period represents the Responsible Entity's best estimate as at the end of the reporting period. However, the current market uncertainty means that if an investment property is sold in the future the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the Financial Statements if that differs from the valuation.

The total portfolio of investment properties were revalued by Jones Lang LaSalle on 30 June 2010 from $24,600,000 to $24,900,000.

Since the latest valuation, no capital expenditure has been incurred.

10 Receivables

	As at	
	30 June 2010 $	30 June 2009 $
Security deposits	**10,500**	10,500
Trade receivables *	**61,463**	221,494
GST receivable	**20,508**	18,233
	92,471	250,227

*Includes receivables arising from recognising lease income on a straight line basis over the term of individual leases.

11 Payables

	As at	
	30 June 2010 $	30 June 2009 $
Accrued expenses	**489,987**	460,297
GST payable	**73,164**	75,332
Income received in advance	**(2,203)**	55,949
Interest payable	**-**	17,074
	560,948	608,652

12 Borrowings

	As at	
	30 June 2010 $	30 June 2009 $
Loan	**13,240,000**	13,240,000
	13,240,000	13,240,000

The Responsible Entity on behalf of the Scheme has entered into a Loan facility agreement totalling $13,290,000. The facility expires in conjunction with the Scheme's expiry date of 30 September 2011.

The loan is secured by a registered first mortgage over the scheme's properties and is non-recourse to investors.

The balance of the loan as at 30 June 2010 is $13,240,000. The undrawn portion of the loan facility will be drawndown as required.

12 Borrowings (continued)

The interest rate swap hedging on the borrowings as at 30 June 2010 is detailed below:

$12,990,000 at 6.85% per annum (inclusive of credit margin) and maturing 30 September 2011.

13 Derivative assets and liabilities

30 June 2010		**Fair Values**	
	Contract/ notional $	**Assets $**	**Liabilities $**
Australian exchange traded derivatives			
Interest rate swaps	**12,990,000**	**-**	**149,698**
	12,990,000	**-**	**149,698**

30 June 2009		Fair Values	
	Contract/ notional $	Assets $	Liabilities $
Interest rate swaps	12,990,000	-	392,693
	12,990,000	-	392,693

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The Scheme has entered into interest rate swap contracts to hedge future interest payments on the Scheme's borrowings.

A loss of $242,996 (2009: loss of $1,136,611) relating to the change in the fair value of the Scheme's interest rate swap contracts was recognised directly in net assets attributable to unitholders during the year ended 30 June 2009.

The Scheme's interest rate swap contracts at 30 June 2010 comprised:

A contract with a notional amount of $12,990,000 maturing on 30 September 2011 at a fixed rate of 5.85%, with quarterly interest rate resets and settlements.

The Scheme's interest rate swap contracts at 30 June 2009 comprised:

A contract with a notional amount of $12,990,000 maturing on 30 September 2011 at a fixed rate of 5.85%, with quarterly interest rate resets and settlements.

14 Financial risk management

(a) Objectives, strategies, policies and processes

The Scheme’s activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

Financial instruments of the scheme comprise borrowings, derivatives used to hedge interest rate risk, net assets attributable to investors, cash as well as cash equivalents and other financial instruments such as trade receivables and payables, which arise directly from its operations.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed. Financial risk management is carried out by an Investment Manager (Investment Manager) under policies approved by the Board of Directors of the Responsible Entity (the Board).

The Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates.

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including senior management, Risk and Investment Committees and ultimately (on an exception basis) the Board of Directors of the Responsible Entity.

As part of its risk management strategy, the Scheme uses interest rate swaps to manage exposures resulting from changes in interest rates.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: price risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Scheme’s direct investments.

The sensitivity of the Scheme’s net assets attributable to investors (and profit/(loss) before finance costs attributable to investors) to interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management’s best estimate, having regard to a number of factors, including historical levels of changes in interest rates and interest rate market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Scheme's interest-bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Scheme has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The Scheme may use derivatives to hedge against unexpected increases in interest rates. The risk is measured using sensitivity analysis.

14 Financial risk management (continued)

The following table summarises the sensitivity of the Scheme's net profit and net assets attributable to investors to interest rate risk on the Scheme's hedged borrowings and derivative assets.

	Impact on operating profit/Net assets attributable to unitholders	
	+75 bps (2009: + 50 bps)	**-75 bps (2009: - 50 bps)**
30 June 2010	**(47,189)**	**(267,344)**
30 June 2009	135,175	(136,886)

(d) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

With respect to credit risk, the Scheme’s exposure relates to trade receivables, financial assets held at fair value through profit or loss and derivative financial instruments used to hedge interest rate risk.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these investments as disclosed in the statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

Credit risk is not considered to be significant to the Scheme.

(e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme's constitution provides for the daily application and redemptions of units and it is therefore exposed to the liquidity risk of meeting unitholder redemptions at any time.

Under the terms of its Product Disclosure Statement, the scheme has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until funds are available.

The Scheme may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Scheme may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer. No such investments were held at the statement of financial position date.

14 Financial risk management (continued)

Maturity analysis for financial liabilities

The table below analyses the Scheme's financial liabilities into relevant maturity groupings based on the remaining period at the reporting period date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Financial liabilities such as trade payables, where there are no specific contractual settlement dates, have been grouped into the 'less than 1 month' maturity grouping as such liabilities are typically settled within 30 days.

	Less than 1 month	**1-3 months**	**3-12 months**	**12-60 months**
At 30 June 2010				
Distributions payable	150,000	-	-	-
Payables	560,945	-	-	-
Derivative liability	-	-	-	149,698
Borrowings	-	-	-	13,240,000
Net assets attributable to investors	-	-	-	11,338,889
Total financial liabilities	710,945	-	-	24,728,587
At 30 June 2009				
Distributions payable	167,720	-	-	-
Payables	608,852	-	-	-
Derivative liability	-	-	-	392,693
Borrowings	-	-	-	13,240,000
Net assets attributable to investors	-	-	-	10,897,600
Total financial liabilities	776,572	-	-	24,530,293

As disclosed above, the Scheme manages its liquidity risk by investing predominantly in liquid assets that it expects to be able to liquidate within 7 days or less. Liquid assets include cash and cash equivalents. As at 30 June 2010, these assets amounted to $378,408 (2009: $363,113).Investment in the Australian Unity Wholesale Cash Fund is included in the liquid assets of the Scheme above.

(f) Estimation of fair values of financial assets and financial liabilities

The Scheme's financial assets and liabilities in the statement of financial position are carried at amounts that approximate fair value.

The Scheme values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Scheme relies on information provided by independent pricing services for the valuation of its investments.

(g) Instruments used by the Scheme

The Scheme is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Scheme's financial risk management policies.

The details of the Scheme's hedging activities are detailed in note 13.

15 Related party disclosures

Responsible Entity

The Responsible Entity of Australian Unity Property Syndicate No 2 is Australian Unity Property Limited (ABN 58 079 538 499), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888).

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Australian Unity Property Limited at any time during the reporting period as follows:

Alan Castleman (Chairman)
David Bryant (Group Executive - Investments and Chief Investment Officer)
Rohan Mead (Group Managing Director)
Glenn Barnes (Non executive Director) (appointed 11 January 2010)
Ian Ferres (Non Executive Director)
Stephen Maitland (Non Executive Director)
Warren Stretton (Non Executive Director)
Anthony Connon (Chief Financial Officer)
Bruce Siney (Non Executive Director) (ceased 27 October 2009)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the reporting period.

Key management personnel compensation

Key management personnel are paid by Australian Unity Property Limited. Payments made from the Scheme to Australian Unity Property Limited do not include any amounts attributable to the compensation of key management personnel.

Key management personnel loan disclosures

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

Other transactions within the Scheme

From time to time directors of Australian Unity Property Scheme No 2, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors and are trivial in nature.

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Scheme since the end of the previous financial year and there were no material contracts involving director's interests subsisting at year end.

15 Related party disclosures (continued)

Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive fees quarterly, calculated at 0.45% per annum of the Total Assets and 2.25% of the Gross Property Income of the Scheme.

In addition to the Responsible Entity's fee, the Responsible Entity and its associates are entitled to be reimbursed out of the Scheme for costs including expenses in connection with the keeping and preparation of accounting records and the maintenance of the investor register.

	As at	
	30 June 2010 $	30 June 2009 $
Management fees for the period paid/payable by the Scheme to the Responsible Entity	**173,486**	181,744
Termination fee accrued by the Responsible Entity on the termination of the Scheme's term	**246,510**	243,540
Accounting fees for the period paid or payable to the Responsible Entity	**33,511**	27,000
Registry fees for the period paid or payable to the Australian Unity Funds Management	**20,000**	13,000

The Scheme in accordance with the Scheme Constitution has reimbursed other administration expenses incurred by the Responsible Entity in full.

Related party holdings

Parties related to the Scheme (including Australian Unity Property Limited, its related parties and other schemes managed by Australian Unity Property Limited), hold interests in the Scheme as follows:

2010			**Interest held**		
Investor	**Interest held (%)**	**Number of interests held opening (Interests)**	**Number of interest acquired (Interests)**	**Number of interests disposed (Interests)**	**Number of interests held closing (Interests)**
Australian Unity Property Income Fund	**16.68**	**1,301,487**	**-**	**-**	**1,301,487**
Australian Unity Strategic Holdings Pty Ltd	**0.64**	**50,000**	**-**	**-**	**50,000**
Total	**17**	**1,351,487**		**-**	**1,351,487**

2009			Interest held		
Investor	Interest held (%)	Number of interests held opening (Interests)]	Number of interests acquired (Interests)	Number of interests disposed (Interests)	Number of interests held closing (Interests)
Australian Unity Property Income Fund	16.68	1,301,487	-	-	1,301,487
Australian Unity Strategic Holdings Pty Ltd	0.64	50,000	-	-	50,000
Total	17	1,351,487		-	1,351,487

16 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	For the year ended	
	30 June 2010 $	30 June 2009 $
(a) Reconciliation of profit/(loss) to net cash inflow from operating activities		
Profit/(loss) for the reporting period attributable to investors	**-**	-
Increase/(decrease) in net assets attributable to investors	**198,297**	(2,607,890)
(Decrease)/increase in fair value of investment properties	**(164,144)**	2,220,480
Add back interest	**1,079,737**	921,606
Add back borrowing costs	**-**	287
Decrease in other receivables	**82,514**	197,006
Decrease in other assets	**35,823**	8,837
Increase in liabilities	**27,522**	344,336
Distributions to investors	**600,194**	712,542
Net cash inflow from operating activities	**1,859,943**	1,797,204
(b) Components of cash and cash equivalents		
Cash as at the end of the reporting period as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash and cash equivalents	**378,408**	363,113
	378,408	363,113
(c) Non-cash financing activities		
There were no non-cash financing and investing activities carried out during the current reporting year.	**-**	-

As described in note 2(p), non-distributable income is included in net assets attributable to investors. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

17 Events occurring after the end of the reporting period

No significant events have occurred since the reporting date which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2010 or on the results and cash flows of the Scheme for the reporting period ended on that date.

18 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2010 and at 30 June 2009.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 6 to 29 are in accordance with the *Corporations Act 2* including:

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

(ii) giving a true view of the Scheme's financial position as at 30 June 2009 and of its performance, for the reporting period ended on that date.

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

(c) the financial statements are in accordance with the provisions of the Scheme's Constitution.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Director

Director
13 September 2010

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Independent auditor's report to the unitholders of Australian Unity Property Syndicate No 2

We have audited the accompanying financial report of Australian Unity Property Syndicate No 2, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity an Auditor's Independence Declaration, a copy of which is included in the directors' report.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of Australian Unity Property Syndicate No 2 is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of Australian Unity Property Syndicate No 2 at 30 June 2010 and of its performance for the year ended on that date; and

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

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young

AJ (Tony) Johnson
Partner
Melbourne

13 September 2010

Contact Australian Unity Investments

Call	**13 29 39** (Australia-wide or contact your financial adviser)
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