



Australian Unity Property Investment Syndicate No.3
Annual Report – 30 June 2010



ARSN 093 243 488

Contents

- 2 Directors' Report
- 5 Auditor's independence declaration
- 6 Statement of comprehensive income
- 7 Statement of financial position
- 8 Statement of changes in net assets attributable to investors
- 9 Statement of cash flows
- 10 Notes to the financial statements
- 25 Directors' declaration
- 26 Independent auditor's report to the unitholders of Australian Unity
Investment Property Syndicate No.3

These financial statements cover Australian Unity Property Investment Syndicate No.3 as an individual entity.
The Responsible Entity of Australian Unity Property Syndicate No.3 is Australian Unity Property Limited (ABN 58 079 538 499).
The Responsible Entity's registered office is 114 Albert Road, South Melbourne VIC 3205.

Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Property Investment Syndicate No 3, present their report together with the financial report of Australian Unity Property Investment Syndicate No 3 ("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 (Non Executive 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's objective is to provide investors with regular income and the opportunity for long term capital growth.

The Scheme invests in the Australian Unity Property Syndicate No 3 (ARSN 093 243 228) ("AUPS No 3").

Following the settlement of the properties within the Scheme's primary investment AUPS No 3, the Scheme will be terminated and all proceeds paid to investors by the end of September 2010.

Review and results of operations

The following commentary relates to AUPS No. 3, the Scheme's primary investment.

On 18 September 2009, the Scheme sold 27 Commercial Drive, Dandenong, VIC for a consideration of \$3,800,000. This represented a profit on sale of \$248,859

On the 5th July 2010, a contract of sale become unconditional for the sale of 4 Redland Drive, Mitcham, VIC for a consideration of \$3,750,000. This represents a decrease of \$50,000 from the previous valuation of \$3,800,000 at 31 May 2009. Settlement occurred on 19 July 2010.

On the 5th July 2010, a contract of sale become unconditional for the sale of 2-10 Gaine Road, Dandenong South, VIC for a consideration of \$4,565,000. This represents an increase of \$165,000 from the previous valuation of \$4,400,000 at 31 May 2009. Settlement occurred on 28 July 2010.

On the 1st July 2010, a contract of sale become unconditional for the sale of 1-5 Siddons Way, Hallam, VIC for a consideration of \$7,350,000. This represents an increase of \$250,000 from the previous valuation of \$7,100,000 at 31 May 2009. Settlement occurred on 10 August 2010.

For the year ended 30 June 2010, the Scheme's interests posted a total return of 13.50%, split between a distribution return of 23.44% and a growth return of (9.94%).

The positive return is due to the capital distribution returned following the sale of 27 Commercial Drive, Dandenong, VIC.

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 \$1.2202 per interest (2009: \$1.3549 per interest).

Directors' report (continued)

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	<u>406,725</u>	<u>(676,649)</u>
Distribution paid and payable	<u>520,541</u>	<u>36,765</u>

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.

Events occurring after the reporting period

Except as disclosed in note 11 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 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 9 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 financial year are disclosed in note 9 of the financial statements.

Interests in the Scheme

The movement in interests on issue in the Scheme during the year is disclosed in note 4 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.

Directors' report (continued)

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.

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

Auditor's Independence Declaration to the Directors of Australian Unity Property Limited, as Responsible Entity for Australian Unity Property Investment Syndicate No 3

In relation to our audit of the financial report of Australian Unity Property Investment Syndicate No 3 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.

A stylized signature of the Ernst & Young logo, with the text 'Ernst & Young' written below it.A handwritten signature of AJ (Tony) Johnson, consisting of a large, stylized 'A' and 'J' followed by a horizontal line.

AJ (Tony) Johnson
Partner
Melbourne

13 September 2010

Statement of comprehensive income

	Notes	For the year ended	
		30 June 2010 \$	30 June 2009 \$
Income			
Distribution income		341,122	198,326
Net gains/(losses) on financial instruments held at fair value through profit or loss	3	<u>164,293</u>	<u>(713,414)</u>
Total income		<u>505,415</u>	<u>(515,088)</u>
Expenses			
Interest expenses	10	<u>98,690</u>	<u>161,561</u>
Total expenses		<u>98,690</u>	<u>161,561</u>
Profit/(loss) before finance costs attributable to investors		<u>406,725</u>	<u>(676,649)</u>
Finance costs attributable to investors			
Distributions to investors	5	<u>(520,541)</u>	<u>(36,765)</u>
Decrease in net assets attributable to investors	4	<u>113,816</u>	<u>713,414</u>
Total comprehensive income for the reporting period attributable to investors		<u>-</u>	<u>-</u>

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

Statement of financial position

		As at	
	Notes	30 June 2010 \$	30 June 2009 \$
Assets			
Accrued income		44,185	-
Financial assets held at fair value through profit or loss	6	<u>4,344,960</u>	<u>5,033,772</u>
Total assets		<u>4,389,145</u>	<u>5,033,772</u>
Liabilities			
Distributions payable	5	44,185	-
Borrowings	7	<u>1,988,793</u>	<u>2,563,789</u>
Total liabilities (excluding net assets attributable to investors)		<u>2,032,978</u>	<u>2,563,789</u>
Net assets attributable to investors	4	<u>2,356,167</u>	<u>2,469,983</u>

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	2,469,983	3,183,397
Profit/(loss) before finance costs attributable to investors	406,725	(676,649)
Distributions to investors	(520,541)	(36,765)
Net assets attributable to investors at the end of the reporting period	<u>2,356,167</u>	<u>2,469,983</u>

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			
Distributions received		296,937	241,850
Interest expenses paid		-	(161,561)
Net cash inflow from operating activities	10(a)	<u>296,937</u>	<u>80,289</u>
Cash flows from investing activities			
Increase in financial assets		<u>853,106</u>	-
Net cash inflow from investing activities		<u>853,106</u>	-
Cash flows from financing activities			
(Repayment) of borrowings		(574,997)	-
Interest costs paid		(98,690)	-
Distributions paid		(198,247)	(80,289)
Return of capital distribution		<u>(278,109)</u>	-
Net cash (outflow) from financing activities		<u>(1,150,043)</u>	<u>(80,289)</u>
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the reporting period		-	-
Cash acquired		-	-
Cash and cash equivalents at the end of the reporting period		<u>-</u>	<u>-</u>

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

Contents of the notes to the financial statements

	Page
1 General information	11
2 Summary of significant accounting policies	11
3 Net unrealised gains/(losses) on financial instruments held at fair value through profit or loss	16
4 Net assets attributable to investors	16
5 Distributions to investors	17
6 Financial assets held at fair value through profit or loss	17
7 Borrowings	18
8 Financial risk management	18
9 Related party disclosures	22
10 Reconciliation of profit/(loss) to net cash inflow from operating activities	23
11 Events occurring after the end of the reporting period	24
12 Contingent assets and liabilities and commitments	24

1 General information

These financial statements cover Australian Unity Property Investment Syndicate No 3 ("the Scheme") as an individual entity.

The Scheme was established on 8 December 1998. The Scheme commenced operations on 24 February 1999 when the properties were purchased. On 31 December 2005 the Scheme was rolled over for a further four year term. It was decided that it was not in the interest of investors to terminate the Scheme on 31 May 2009 and hence the Scheme's termination date was deferred until 30 November 2009 by amending the Constitution. Since 30 November 2009, the Scheme has been in the process of termination, as assets have been realised to complete termination.

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 10 September 2010. The directors of the Responsible Entity have the power to amend and reissue the financial statement.

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 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 financial assets 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 also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This financial report is presented in the local reporting currency being Australian dollars.

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)

2 Summary of significant accounting policies (continued)

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.

(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) 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 property syndicates.

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 assets 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.

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

(iii) Measurement

- Financial assets held at fair value through the profit or loss

Financial assets and liabilities held at fair value through profit or 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 financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

- Fair value that is observable by the market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

- 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 each balance sheet date to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in the statement of comprehensive income 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.

2 Summary of significant accounting policies (continued)

- *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

(d) 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.

(e) Receivables

Receivables may include amounts for interest and trust distributions. 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 above. Amounts are generally received within 30 days of being recorded as receivables.

(f) Payables

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

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. They are carried at the nominal amount due to the short term nature of the payable. 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.

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

(g) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue 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:

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.

2 Summary of significant accounting policies (continued)

(g) Revenue (continued)

Investment revenue

Interest income is 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(c).

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 year end and the fair value at 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.

(h) 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.

(i) 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 investors.

(j) 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.

(k) Investors' contribution

All investors' contribution is fully paid with proportionate share of distribution and equal voting rights. It is recognised at the fair value of the consideration received by the Scheme.

Investors' contribution is classified as a liability, and accordingly the Scheme has no equity for financial statement presentation purposes.

Any transaction costs associated with the issuance of a financial liability (e.g. establishment costs) are included in the initial measurement of financial instruments not measured at fair value. Transaction costs associated with the origination of a financial liability held at fair value are expensed to the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(l) 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 cash flow statement on a gross basis.

(m) 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)*

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) AASB 1053 *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 Net unrealised gains/(losses) on financial instruments held at fair value through profit or loss

Net unrealised gains/(losses) on financial assets held at fair value through profit or loss 164,293 (713,414)

4 Net assets attributable to investors

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

Net assets attributable to investors are classified as liability. Consequently, distributions and the movement in the net assets attributable to investors are recognised as finance costs in the Scheme's statement of comprehensive income.

All investors' contribution is fully paid with 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.

As stipulated within the Scheme Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme.

	30 June 2010 No.	30 June 2009 No.	As at 30 June 2010 \$	30 June 2009 \$
Investors' contribution				
Initial contributions	<u>1,750,710</u>	<u>1,750,710</u>	<u>1,770,821</u>	<u>1,770,821</u>
			30 June 2010 \$	30 June 2009 \$
Undistributed income				
Opening balance			699,162	1,412,576
(Decrease)/increase in net assets attributable to investors			<u>(113,816)</u>	<u>(713,414)</u>
Closing balance			<u>585,346</u>	<u>699,162</u>

Undistributed income is comprised of other income / expenses that are not yet assessable / deductible.

	30 June 2010 \$	As at 30 June 2009 \$
Total net assets attributable to investors	<u>2,356,167</u>	<u>2,469,983</u>

5 Distributions to investors

Timing of distributions

The distributions for the year were as follows:

	30 June 2010 \$	For the year ended 30 June 2010 CPI	30 June 2009 \$	30 June 2009 CPI
Distributions paid	132,404	7,563	36,765	2.100
Distributions payable	44,185	2,524	-	-
Capital distributions paid	<u>343,952</u>	<u>19,646</u>	-	-
Total distributions	<u>520,541</u>	<u>29,733</u>	<u>36,765</u>	<u>2.100</u>

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

6 Financial assets held at fair value through profit or loss

	As at	
	30 June 2010 \$	30 June 2009 \$
Unlisted property investments		
Interest in Australian Unity Property Syndicate No. 3	<u>4,344,960</u>	<u>5,033,772</u>

The Scheme's investment in Australian Unity Property Syndicate No. 3 (AUPS No. 3) is revalued at each reporting period to reflect its proportionate equity in the net assets of AUPS No 3.

On 31 December 2005 the Scheme was rolled over for a further term expiring on 31 May 2009 unless terminated earlier in accordance with the provisions of the Constitution dated 30 June 2000 (as amended). It was decided that it was not in the interest of investors to terminate the Scheme on 31 May 2009 and hence the Scheme's termination date was deferred until 30 November 2009 by amending the constitution.

The following commentary relates to AUPS No. 3, the Scheme's primary investment.

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 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.

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. This is based on sales contracts that were entered into subsequent to year end. Since reporting date, these sales have been settled. This is an increase of \$365,000 from the previous valuation of \$15,300,00 at 31 May 2009. Refer to Note 12 Events occurring after the reporting period for further detail.

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

7 Borrowings

	As at	
	30 June 2010 \$	30 June 2009 \$
Loan*	<u>1,988,793</u>	<u>2,563,789</u>
	<u>1,988,793</u>	<u>2,563,789</u>

* This liability is representative of the Scheme's proportionate share of the interest bearing borrowings of AUPS No. 3, the Scheme's primary investment.

The following commentary relates to AUPS No. 3's borrowings:

The Responsible Entity on behalf of the investors has entered into the underlying loan facility agreement totaling \$9,975,000. The facility expired on 31 May 2009 and was renewed with the same lender with expiry date 31 May 2011.

The loan is secured by a registered first mortgage over AUPS No. 3's properties and is non-recourse to investors.

The balance of loan as at 30 June 2010 is \$7,516,849. The undrawn portion of the loan facility will be drawdown as required.

The balance of loan as at 30 June 2009 is \$9,690,002. The undrawn portion of the loan facility will be drawdown as required.

The interest rate swap arrangements expired on 31 May 2009. No new swap arrangements were made and hence the loan is now unhedged.

8 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 market risk), credit risk and liquidity risk.

Financial instruments of the scheme comprise borrowings, financial investments, net assets attributable to investors, cash as well as cash equivalents and other financial instruments such as 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 and other price risks.

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.

(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.

8 Financial risk management (continued)

The Scheme's investments are managed on the basis of direct investments and not on a look through basis. Hence, the market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme. The Responsible Entity appoints an investment manager to manage the assets in accordance with the Scheme's Constitution and Product Disclosure Statement.

The sensitivity of the Scheme's net assets attributable to investors (and net operating profit/(loss)) to price risk and 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 historical correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

(i) Price risk

Equity price risk is the risk that the fair value of financial investments will fluctuate because of changes in market prices or unit prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity price risk exposure arises from the Scheme's investment portfolio. These investments are classified on the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Scheme's overall investment positions are monitored on a daily basis by the Scheme's Investment Manager.

This investment price risk is measured using sensitivity analysis.

The following paragraph summarises the sensitivity of the Scheme's operating profit and net assets attributable to investors to investment price risk.

At 30 June 2010, if investment prices had decreased by 10% (2009: decreased by 10%), with all other variables held constant, the decrease in net assets attributable to investors of the Scheme (and in net operating profit of the Scheme) for the year would amount to approximately \$435,050 (2009: \$503,377). Alternatively, if investment prices had risen by 10% (2009: increased by 10%), the increase in net assets attributable to investors (and in operating profit) would amount to approximately \$435,050 (2009: \$503,377). These decreases/increases in net assets attributable to investors are calculated on an undiscounted basis. The analysis is performed on the same basis for 2009.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme's interest bearing 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 its borrowings, which are monitored on a regular basis. The interest rate risk is measured using sensitivity analysis.

8 Financial risk management (continued)

The following table summarises the sensitivity of the Scheme's operating profit and net assets attributable to unitholders to interest rate risk.

	Interest rate risk Impact on operating profit/Net assets attributable to investors	
	+75 bps (2009: +50 bps) \$	-75 bps (2009: -50 bps) \$
	30 June 2010	14,916
30 June 2009	12,819	(12,819)

(c) 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.

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

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

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 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
At 30 June 2010			
Distributions payable	44,185	-	-
Borrowings	-	-	1,988,793
Net assets attributable to investors	-	-	2,356,167
Total financial liabilities	44,185	-	4,344,960
	Less than 1 month	1-3 months	3-12 months
At 30 June 2009			
Borrowings	-	-	2,563,789
Net assets attributable to investors	-	-	2,469,983
Total financial liabilities	-	-	5,033,772

(e) 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 net fair value.

(f) Fair value hierarchy

The Scheme has adopted the amendments to AASB 7, effective 1 July 2009. This requires the Scheme to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

8 Financial risk management (continued)

(f) Fair value hierarchy (continued)

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

The table on page sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

As at 30 June 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets designated at fair value through profit or loss at inception:				
Unlisted unit trusts	-	<u>4,344,960</u>	-	<u>4,344,960</u>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted unit trusts. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

9 Related party disclosures

Responsible Entity

The Responsible Entity of Australian Unity Property Investment Syndicate No 3 is Australian Unity Property Limited (ABN 58 079 538 499), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888).

Details of 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 (Non Executive 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 financial year.

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 compensation.

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 Investment Syndicate No 3, 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.

Responsible Entity's fees and other transactions

In accordance with the Scheme's Constitution the Responsible Entity and its associates are not entitled to any remuneration under the Investment Scheme. All costs and expenses of the Scheme are paid out of the AUPS No. 3.

Related party holdings

As at 30 June 2010 (2009: Nil) there were no holdings by Australian Unity Property Limited and its associates.

9 Related party disclosures (continued)

Investments

The Scheme held investments in the following schemes which are also managed by Australian Unity Property Limited or its related parties:

	Fair value of investment		Interest held		Distributions received/receivable	
	2010	2009	2010	2009	2010	2009
	\$	\$	%	%	\$	\$
AUPS No 3	<u>4,344,960</u>	<u>5,033,772</u>	<u>26.46</u>	26.46	<u>520,541</u>	<u>36,765</u>

10 Reconciliation of profit/(loss) to net cash inflow 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	-	-
Increase/(decrease) in net assets attributable to investors	169,833	(713,414)
Change in fair value of the investments	(169,832)	713,414
(Increase)/decrease in receivables	(44,185)	43,524
Add back financing costs - distributions	242,431	36,765
Add back financing costs - interest expenses paid on behalf of investors	98,690	-
Net cash inflow from operating activities	<u>296,937</u>	<u>80,289</u>

(b) Components of cash and cash equivalents

Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:

Cash and cash equivalents	-	-
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(c) Non-cash financing activities

There were no non-cash financing and investing activities carried out during the reporting period.

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As described in note 2(j), 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.

11 Events occurring after the end of the reporting period

On the 5th July 2010, a contract of sale become unconditional for the sale of 4 Redland Drive, Mitcham, VIC for a consideration of \$3,750,000. This represents a decrease of \$50,000 from the previous valuation of \$3,800,000 at 31 May 2009. Settlement occurred on 19 July 2010.

On the 5th July 2010, a contract of sale become unconditional for the sale of 2-10 Gaine Road, Dandenong South, VIC for a consideration of \$4,565,000. This represents an increase of \$165,000 from the previous valuation of \$4,400,000 at 31 May 2009. Settlement occurred on 28 July 2010.

On the 1st July 2010, a contract of sale become unconditional for the sale of 1-5 Siddons Way, Hallam, VIC for a consideration of \$7,350,000. This represents an increase of \$250,000 from the previous valuation of \$7,100,000 at 31 May 2009. Settlement occurred on 10 August 2010.

The scheme is expected to be terminated and all proceeds paid to investors by the end of September 2010.

12 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2010 and 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 24 are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2010 and of its performance for the reporting period ended on that date; and
- (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

Independent auditor's report to the unitholders of Australian Unity Property Investment Syndicate No 3

We have audited the accompanying financial report of Australian Unity Property Investment Syndicate No 3, 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.

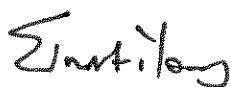
Independence

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.


Auditor's Opinion

In our opinion:

1. the financial report of Australian Unity Property Investment Syndicate No 3 is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Australian Unity Property Investment Syndicate No 3 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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