



Australian Unity High Yield Mortgage Trust

Annual Report – 30 June 2010



ARSN 113 151 705

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These financial statements cover Australian Unity High Yield Mortgage Trust as an individual entity.
The Responsible Entity of Australian Unity High Yield Mortgage Trust is Australian Unity Funds Management Limited (ABN 60 071 497 115).
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 Funds Management Limited, I am pleased to present the Annual Report to 30 June 2010 for the Australian Unity High Yield Mortgage Trust.

As an investor in the Trust, you will no doubt be aware that the past two years have been difficult for the mortgage fund sector. Despite this, we are pleased to report that the Trust has continued to provide you with three core benefits:

1. Your capital has remained secure. The Trust's unit price has remained unchanged at, or near \$1.00.
2. Monthly income distributions have been consistent.
3. You have still been able to access a portion of capital on a regular basis.

Understandably, the inability to withdraw funds during the last two years has been a source of frustration for some investors. However, conditions for well-managed mortgage funds have been gradually improving throughout 2010.

In a sign of this gradual change, in March 2010 we increased our quarterly withdrawal offer to 5%. Further, in September 2010, we raised the offer to 7.5% per quarter.

A strategy of conservative management

Our lending teams remain in place in Melbourne, Sydney and Brisbane ensuring sound management of our existing mortgage portfolios. The focus is two-fold; management of the existing mortgage book and managing down the current loan accounts in arrears.

As at 30 June, there were 24 loan accounts more than thirty days in arrears representing 17.85% of funds under management. To maintain investors' capital, our approach is to evaluate the immediate sale of the property or find a suitable tenant to lease the property.

To this end, the Trust is undertaking a sales program for the remainder of 2010 with the aim of reducing the level of arrears within the Trust. Of the loan accounts that have reached default, six properties were under contract for sale at the end of the quarter.

Some of the other assets in default are considered difficult to sell or lease, so we intend to release these properties onto the market as market conditions improve.

Looking ahead

Since the onset of the global financial crisis in late 2008, we have been working to protect your capital, maintain monthly distributions, and, as much as possible, improve liquidity arrangements.



Our increased September withdrawal offer is a result of prudent ongoing portfolio management and a gradual improvement in market conditions. Based on the assumption that current market conditions continue to improve, we expect future withdrawal offers to be at least the current levels (i.e. 7.5% per quarter) and that income levels will remain at the current rate of return over the next two quarters.

Looking even further ahead, assuming that conditions continue to improve, we look forward to the point in time when the Trust can recommence its traditional lending activities. This would potentially enable it to capitalise on the significant opportunity available for higher yielding lending services, where current demand continues to outweigh the funds available.

Nonetheless, our current priorities continue to be the careful management of loans that are in arrears and an ongoing focus on increasing liquidity to investors wherever possible. Currently, we anticipate providing a new withdrawal offer in November 2010.

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 Investors Services team by calling **13 29 39**.

Thank you for investing with Australian Unity Investments.

Yours sincerely

A handwritten signature in dark ink, appearing to read "Alan Castleman". The signature is fluid and cursive.

Alan Castleman
Chairman

Your investment – Australian Unity High Yield Mortgage Trust at 30 June 2010

Investment objective

The High Yield Mortgage Trust aims to provide investors with regular income distributions together with a high level of capital stability.

Investment strategy

The Trust primarily invests in a portfolio of loans secured by registered first mortgages over retail, commercial, investment residential, industrial property and other income producing assets.

The Trust also invests in specialised loans and construction and development loans secured by a first mortgage.

Investment performance				
	1 year %	3 years % p.a.	5 years % p.a.	Since inception % p.a.#
High Yield Mortgage Trust	2.59	4.99	6.03	6.13
Benchmark (UBSA Bank Bill Index)	3.89	5.56	5.77	5.78

Returns are calculated after fees and expenses (excluding any entry fees) and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

Inception date for performance calculations is 31 March 2005.

Active management in action

As at 30 June 2010, twenty-four loan accounts were in arrears by greater than 30 days, representing 17.85% of net asset value. Twenty-three of the twenty-four loan accounts in arrears have reached default and we have taken possession of the secured properties.

When the Trust takes possession of a property it can either recoup the loan amount by selling the property or a tenant for the property can be found and the property leased.

Quick stats	
Inception date	24 February 2005
Trust size (net asset value)	\$354.60m
Income distributions	Monthly

Strength through diversification

Having an appropriate diversification has been one of the reasons the High Yield Mortgage Income Trust has been able to navigate the volatility of the global financial crisis.

Geography		Sector		Interest rate type	
State	Actual %	Asset class	Actual %	Type	Actual %
NSW	58.22	Non - specialised non-construction		Fixed rate loans	28.46
VIC/TAS	19.54	Residential investment	15.98	Variable rate loans	71.54
QLD/NT	18.71	Retail	22.44		
WA	3.53	Office	14.67		
		Industrial	21.33		
		Vacant land	6.07		
		Specialised			
		Schools	0.46		
		Hotels	0.31		
		Clubs	11.53		
		Child minding centres	0.35		
		Car parks	2.66		
		Service stations	3.92		
		Storage units	0.28		

Directors' report

The directors of Australian Unity Funds Management Limited (ABN 60 071 497 115), the Responsible Entity of Australian Unity High Yield Mortgage Trust, present their report together with the financial statements of Australian Unity High Yield Mortgage Trust ("the Scheme") for the year ended 30 June 2010 ("the reporting period").

Directors

The following persons held office as directors of the Responsible Entity 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 attractive levels of income, together with capital stability.

The Scheme invests in a portfolio of loans secured by first registered mortgages over quality retail, commercial, investment, residential, and industrial property. The Scheme also invests in specialised loans, construction and development loans, vacant land and other income producing assets.

The Scheme is designed to spread exposure and reduce risk through diversification by geographical location, loan size, interest rate type, and loan maturity profile.

Review and results of operations

For the reporting period ended 30 June 2010 the Scheme posted a total return of 2.59%.

Unit prices (ex distribution) as at 30 June 2010 (2009) are as follows:
Retail units \$1.0000 (\$1.0000)

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

	For the year ended	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Profit/(loss) before finance costs attributable to unitholders	<u>9,446</u>	<u>20,201</u>
<i>Distributions</i>		
Distribution paid and payable	<u>9,446</u>	<u>20,201</u>

Significant changes in state of affairs

The introduction of the Bank Deposit Guarantee on 12 October 2008 by the Federal Government resulted in AUFM initially freezing all redemption requests for High Yield Mortgage Trust as a result of a significant increase in redemption requests following this announcement.

In December 2008, management of the Responsible Entity AUFM decided to allow quarterly capped redemptions. Since the first quarterly redemption payment made on 18 December 2008, the Responsible Entity AUFM has further amended the redemption process from 1 March 2010 to allow investors quarterly redemptions up to 5% of units held or a minimum of \$1,000, or full balance if less than \$1,000, to be paid within 21 days of the withdrawal offer closing date.

Directors' report (continued)

Events occurring after the reporting period

Except as disclosed in note 13 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.

Indemnification 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 Funds Management Limited or the auditors of the Scheme. So long as the officers of Australian Unity Funds Management Limited act in accordance with the Scheme's Constitution and 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 11 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 11 of the financial statements.

Units in the Scheme

The movement in units on issue in the Scheme during the reporting period is disclosed in note 6 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 Scheme operations are not subject to environmental regulation under Australian Law.

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

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 Funds Management Limited.



Director



Director
13 September 2010

Auditor's Independence Declaration to the Directors of Australian Unity Funds Management Limited, as Responsible Entity for Australian Unity High Yield Mortgage Trust

In relation to our audit of the financial report of Australian Unity High Yield Mortgage Trust 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 words 'Ernst & Young' printed below it.

Ernst & Young

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 \$'000	30 June 2009 \$'000
Investment income			
Interest income	3	17,326	26,881
Distribution income	4	3,282	2,691
Other income		1,781	1,118
Total investment income		<u>22,389</u>	<u>30,690</u>
Expenses			
Responsible Entity's fees	11	6,234	6,796
Loan loss expense		4,532	2,050
Commission expense		503	761
Legal fees		663	529
Other expenses		1,011	353
Total expenses		<u>12,943</u>	<u>10,489</u>
Profit/(loss) before finance costs attributable to unitholders		<u>9,446</u>	<u>20,201</u>
Finance costs attributable to unitholders			
Distributions to unitholders	7	9,446	20,201
Increase/(decrease) in net assets attributable to unitholders	6	-	-
Other comprehensive income for the reporting period attributable to unitholders		-	-
Total comprehensive income for the reporting period attributable to unitholders		<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	
		30 June	30 June
		2010	2009
Notes		\$'000	\$'000
Assets			
	Cash and cash equivalents	21	106
	Receivables	3,380	4,887
8	Financial assets held at fair value through profit or loss	100,702	49,885
9	Mortgage loans	258,114	329,418
	Total assets	362,217	384,296
Liabilities			
7	Distributions payable	729	822
	Payables	602	677
9	Loan loss provision	6,288	2,120
	Total liabilities (excluding net assets attributable to unitholders)	7,619	3,619
6	Net assets attributable to unitholders	354,598	380,677

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

Australian Unity High Yield Mortgage Trust
Statement of change in net assets attributable to unitholders
For the reporting period ended 30 June 2010

Statement of change in net assets attributable to unitholders

	For the year ended	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Net assets attributable to unitholders at the beginning of the reporting period	380,677	434,108
Profit/(loss) before finance costs attributable to unitholders	9,446	20,201
Distributions to unitholders	(9,446)	(20,201)
Application for units	5,676	36,889
Redemption of units	(32,429)	(100,669)
Units issued upon re-investment of distributions	674	10,349
Net assets attributable to unitholders at the end of the reporting period	<u>354,598</u>	<u>380,677</u>

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

Statement of cash flows

	For the year ended	
	30 June	30 June
	2010	2009
Notes	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Proceeds from sale of financial instruments	119,123	210,510
Purchase of financial instruments	(95,569)	(153,985)
Interest received	17,289	28,338
Other income received	1,937	1,118
Responsible Entity's fees paid	(6,736)	(7,349)
Payment of other expenses	(3,261)	(2,075)
RITC received	266	863
Net cash inflow/(outflow) from operating activities	33,049	77,420
<i>Cash flows from financing activities</i>		
Proceeds from applications by unitholders	8,166	34,714
Payments for redemptions by unitholders	(32,429)	(100,805)
Distributions paid	(8,871)	(11,772)
Net cash inflow/(outflow) from financing activities	(33,134)	(77,863)
Net increase/(decrease) in cash and cash equivalents	(85)	(443)
Cash and cash equivalents at the beginning of the reporting period	106	549
Cash and cash equivalents at the end of the reporting period	21	106

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

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1 General information

These financial statements cover Australian Unity High Yield Mortgage Trust ("the Scheme") as an individual entity. The Scheme was constituted on 24 February 2005.

The Responsible Entity of the Scheme is Australian Unity Funds Management Limited (ABN 60 071 497 115) ("the Responsible Entity"), 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 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 statements.

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 generally 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 the reporting period cannot be reliably determined.

Compliance with International Financial Reporting Standards (IFRS)

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

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

AASB 101 (revised) Presentation of Financial Statements

The Scheme has applied the revised standard which became effective from 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 the current reporting period.

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

The Scheme's investments are categorised 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 that are not held for trading purposes and which may be sold. These may include investments in exchange traded debt and equity instruments, unlisted trusts, unlisted equity instruments and commercial papers.

Financial assets 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.

The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in mortgage loans and receivables.

(ii) Recognition/derecognition

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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset; or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the reporting period the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement

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

Financial assets 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. Transaction costs on financial assets 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 in an active 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.

- Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

- *Mortgage loans*

Mortgage loans are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any.

The Responsible Entity assesses at each reporting period date whether there is any objective evidence that mortgage loans are impaired. A mortgage loan is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the mortgage loan (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the mortgage loan that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing other financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If any such indication of impairment exists, an impairment loss is recognised. The amount of impairment loss is measured as the difference between the mortgage loan's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using the loan loss provision account.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the loan loss provision account.

(iv) *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.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Scheme at any time for cash equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the statement of comprehensive income as they arise.

(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.

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest income and interest expenses are recognised in the statement of comprehensive income for all financial instruments on an accrual basis. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

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 the end of the reporting period and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

(f) Expenses

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

(g) Income tax

Under current legislation, the Scheme is not subject to income tax as unitholders 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 unitholders but are retained in the Scheme to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefit of imputation credits and foreign tax paid are passed on to unitholders.

(h) 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.

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

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs.

(j) Receivables

Receivables may include amounts for dividends, interest and securities sold where settlement has not yet occurred. Dividends and 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(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

2 Summary of significant accounting policies (continued)

(k) Payables

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

Trades are recorded on trade date and normally settled within three business days. Purchases of financial instruments that are unsettled at the end of each reporting period are included in payables.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

(l) 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 in accordance with the Scheme's Constitution by reference to the net assets of the Scheme divided by the number of units on issue.

(m) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Scheme by third parties such as Responsible Entity's fees, have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% hence Responsible Entity's fees and other expenses have been recognised in the 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.

(n) Use of estimates

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next reporting period. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(o) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting period and have not yet been applied in the financial statements. 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.

2 Summary of significant accounting policies (continued)

(o) New accounting standards and interpretations (continued)

(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 the statement of comprehensive income. 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 clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. 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.

(p) Rounding of amounts

The Scheme is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise indicated.

3 Interest income

	For the year ended	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Cash and deposits	3	13
Mortgage income	<u>17,323</u>	<u>26,868</u>
	<u>17,326</u>	<u>26,881</u>

4 Distribution income

	For the year ended	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Related unlisted managed investment schemes	<u>3,282</u>	<u>2,691</u>
	<u>3,282</u>	<u>2,691</u>

5 Auditor's remuneration

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

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

	For the year ended	
	30 June	30 June
	2010	2009
	\$	\$
(a) Audit services		
Audit services		
Audit and review of financial reports	<u>23,552</u>	19,000
Total remuneration for audit services	<u>23,552</u>	19,000
(b) Non-audit services		
Taxation services		
Tax fees	<u>2,617</u>	2,250
Total remuneration for taxation services	<u>2,617</u>	2,250

6 Net assets attributable to unitholders

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

As stipulated within the Scheme's 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. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Scheme.

	For the year ended			
	30 June 2010 No. '000	30 June 2009 No. '000	30 June 2010 \$'000	30 June 2009 \$'000
Net assets attributable to unitholders				
Opening balance	380,677	434,108	380,677	434,108
Applications	5,676	36,889	5,676	36,889
Redemptions	(32,429)	(100,669)	(32,429)	(100,669)
Units issued upon re-investment of distributions	674	10,349	674	10,349
Increase/(decrease) in net assets attributable to unitholders	-	-	-	-
Closing balance	<u>354,598</u>	<u>380,677</u>	<u>354,598</u>	<u>380,677</u>

Capital risk management

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

Daily applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

7 Distributions to unitholders

Timing of distributions

The distributions for the reporting period were as follows:

	For the year ended			
	30 June 2010 \$'000	30 June 2010 CPU	30 June 2009 \$'000	30 June 2009 CPU
Distributions				
31 July	817	0.2145	2,686	0.6161
31 August	816	0.2142	2,644	0.6171
30 September	811	0.2141	2,586	0.6143
31 October	800	0.2140	2,455	0.5885
30 November	803	0.2144	1,890	0.4626
31 December	798	0.2143	1,866	0.4675
31 January	787	0.2138	1,523	0.3870
28 February	788	0.2142	980	0.2489
31 March	778	0.2138	980	0.2492
30 April	760	0.2144	915	0.2369
31 May	759	0.2142	854	0.2210
30 June (payable)	729	0.2057	822	0.2139
	<u>9,446</u>		<u>20,201</u>	

As unitholders are presently entitled to the distributable income of the Scheme, no income tax is payable by the Scheme.

8 Financial assets held at fair value through profit or loss

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Designated at fair value through profit or loss		
Related unlisted managed investment schemes	<u>100,702</u>	49,885
Total financial assets held at fair value through profit or loss	<u>100,702</u>	49,885

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 10.

9 Mortgage loans

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Mortgage loans	<u>258,114</u>	<u>329,418</u>
Total mortgage loans	<u>258,114</u>	<u>329,418</u>

Gross impaired assets represent those assets that are contractually past due with security insufficient to cover the principal and arrears. The Scheme holds certain gross assets that are considered impaired at 30 June 2010. The expected loss on these assets less anticipated recoveries including security (being real property held as collateral) has been provided for through the loan loss provision.

The Scheme's assets past due but with adequate security is shown below:

	As at 30 June 2010				
	Days past due \$'000				
	<30	30-60	60-90	>90	Total
Mortgage loans	4,575	1,235	-	66,101	71,911

	As at 30 June 2009				
	Days past due \$'000				
	<30	30-60	60-90	>90	Total
Mortgage loans	4,276	-	870	37,076	42,222

The fair value of collateral held for total assets past due with adequate security was \$94,915,318 as at 30 June 2010 (2009: \$53,405,471).

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Loan loss reconciliation		
Balance as at 30 June 2009	2,120	329
Charge for the reporting period	4,621	2,050
Loan loss utilised	<u>(453)</u>	<u>(259)</u>
Balance as at 30 June 2010	<u>6,288</u>	<u>2,120</u>

10 Financial risk management

(a) Objectives, strategies, policies and processes

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

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 rate, foreign exchange and other price risks, and ratings analysis for credit risk.

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including fund manager, compliance manager, other key management, Risk and Investment Committees, and ultimately the Board of Directors of the Responsible Entity.

As part of its risk management strategy, the Scheme may use derivatives and other investments, including share price and bond futures, interest rate swaps and forward currency contracts, to manage exposures resulting from changes in interest rates, foreign currencies, equity price risks, and exposures arising from forecast transactions.

(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 three types of risk: price risk, foreign currency 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 and not on a look through basis for investments held in the Scheme.

The sensitivity of the Scheme's net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) to price risk, foreign exchange 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 foreign exchange rates, 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.

At 30 June 2010, the overall market exposures were as follows:

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Mortgage loans	258,114	329,418
Securities designated at fair value through profit or loss	100,702	49,885

(i) Price risk

There was no significant price risk in this Scheme as at 30 June 2010 (2009: Nil).

(ii) Foreign exchange risk

There was no significant direct foreign exchange risk in this Scheme as at 30 June 2010 (2009: Nil).

10 Financial risk management (continued)

(iii) 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 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 and/or multiple rollover dates for debt instruments to manage repricing risk. The interest rate risk is measured using sensitivity analysis.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's overall interest exposure on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

The Scheme has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain equities in which the Scheme invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model. Therefore, the sensitivity analysis may not be fully indicate the total effect on the Scheme's net assets attributable to unitholders of future movements in interest rates.

The table below summarises the Scheme's exposure to interest rate risks. It includes the Scheme's assets and liabilities at carrying values, categorised by the maturity dates:

30 June 2010	Floating interest rate \$'000	3 months or less \$'000	Fixed interest rate		Over 5 years \$'000	Non-interest bearing \$'000	Total \$'000
			4 to 12 months \$'000	1 to 5 years \$'000			
Assets							
Cash and cash equivalents	21	-	-	-	-	-	21
Receivables	-	-	-	-	-	3,380	3,380
Financial assets held at fair value through profit or loss							
Designated as at fair value through profit or loss							
Related unlisted managed investment schemes	-	-	-	-	-	100,702	100,702
Mortgage loans	<u>238,928</u>	<u>5,011</u>	<u>2,932</u>	<u>11,243</u>	-	-	<u>258,114</u>
Total assets	<u>238,949</u>	<u>5,011</u>	<u>2,932</u>	<u>11,243</u>	-	<u>104,082</u>	<u>362,217</u>
Liabilities							
Distributions payable	-	-	-	-	-	729	729
Payables	-	-	-	-	-	6,890	6,890
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,619</u>	<u>7,619</u>
Net assets attributable to unitholders	<u>238,949</u>	<u>5,011</u>	<u>2,932</u>	<u>11,243</u>	-	<u>96,463</u>	<u>354,598</u>

10 Financial risk management (continued)

30 June 2009	Floating interest rate \$'000	3 months or less \$'000	Fixed interest rate 4 to 12 months \$'000	Fixed interest rate 1 to 5 years \$'000	Over 5 years \$'000	Non-interest bearing \$'000	Total \$'000
Assets							
Cash and cash equivalents	106	-	-	-	-	-	106
Receivables	-	-	-	-	-	4,887	4,887
Financial assets held at fair value through profit or loss							
Designated as at fair value through profit or loss							
Related unlisted managed investment schemes	-	-	-	-	-	49,885	49,885
Mortgage loans	311,860	-	1,175	16,383	-	-	329,418
Total assets	<u>311,966</u>	<u>-</u>	<u>1,175</u>	<u>16,383</u>	<u>-</u>	<u>54,772</u>	<u>384,296</u>
Liabilities							
Distributions payable	-	-	-	-	-	822	822
Payables	-	-	-	-	-	2,797	2,797
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,619</u>	<u>3,619</u>
Net assets attributable to unitholders	<u>311,966</u>	<u>-</u>	<u>1,175</u>	<u>16,383</u>	<u>-</u>	<u>51,153</u>	<u>380,677</u>

At 30 June 2010, should interest rates have (decreased)/increased by the basis points indicated below, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

	As at 30 June 2010		As at 30 June 2009	
	Increased by 75 bps	Decreased by 75 bps	Increased by 50 bps	Decreased by 50 bps
Net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)	<u>1,791,958</u>	<u>(1,791,958)</u>	1,559,299	(1,559,299)

These changes are calculated on an undiscounted basis. The analysis is performed on the same basis for 2010 and 2009.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk primarily arises from cash and cash equivalents, deposits with banks and other financial institutions.

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 end of the reporting period.

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

The Scheme holds collateral as security for its investments.

10 Financial risk management (continued)

Counterparty credit limits and the list of authorised brokers are reviewed by the relevant parties within the Responsible Entity on a regular basis as deemed appropriate.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's credit position on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board. All contracts are with counterparties included in the Board's Approved Counterparties list.

Credit quality per class of instrument

The credit quality of mortgage loans is managed by the Scheme using LVR analysis. The table below shows the LVR of the loan portfolio based on the Scheme's credit rating system:

30 June 2010

Loan to valuation ratios	<40%	40%-60%	60%-80%	80%-85%	Total
\$'000					
Mortgage loans	3,500	19,115	136,263	99,236	258,114

30 June 2009

Loan to valuation ratios	<40%	40%-60%	60%-80%	80%-85%	Total
\$'000					
Mortgage loans	16,030	27,943	185,642	99,803	329,418

(d) Concentrations of risk

Concentrations of risk arise when a number of financial instruments are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic conditions. These similarities would cause the counterparties' liabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

The concentrations of risk are monitored by the Investment Manager to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Concentrations of risk are managed by industry sector for equity instruments and by counterparty for debt instruments and selected derivatives.

Based on the concentrations of risk that are managed by industry sector and/or counterparty, the following investments can be analysed by the industry sector and/or counterparty as at 30 June 2010 and 30 June 2009:

	\$'000
At 30 June 2010	
Mortgage loans	258,114
Unlisted managed investment scheme cash - wholesale	100,702
	\$'000
At 30 June 2009	
Mortgage loans	329,418
Unlisted managed investment scheme cash - wholesale	49,885

(e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's investment in financial instruments at fair value through profit and loss, 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 may be exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. It therefore primarily holds investments that are traded in active markets and can be readily disposed of.

10 Financial risk management (continued)

The Scheme's investments may include listed securities that are considered readily realisable, as they are listed on recognised stock exchanges.

The Scheme may invest in investments in unlisted unit trusts that expose the Scheme to the risk that the Scheme or Investment Manager of those trusts may be unwilling or unable to fulfil the redemption requests within the timeframe requested by the Scheme.

The Scheme's policy is to hold a significant proportion of its investments in liquid assets.

Under the terms of its constitution, the Scheme has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them.

Units are redeemed on demand at the unitholder's option. However, the Board of Directors does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's liquidity position on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

The table below analyses the Scheme's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
At 30 June 2010				
Distribution payable	729	-	-	-
Payables	602	-	-	-
Net assets attributable to unitholders	<u>354,598</u>	-	-	-
Total financial liabilities	<u>355,929</u>	-	-	-
	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
At 30 June 2009				
Distribution payable	822	-	-	-
Payables	677	-	-	-
Net assets attributable to unitholders	<u>380,677</u>	-	-	-
Total financial liabilities	<u>382,176</u>	-	-	-

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 and listed equities. As at 30 June 2010, these assets amounted to \$100,723,174 (2009: \$49,991,539).

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 carrying amounts of all the Scheme's financial assets and financial liabilities at the end of the reporting period approximated their fair values.

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.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

As a result of events in global markets in the past reporting period and the comparative period, liquidity in some investment markets decreased significantly. As a result, the volume of trading in some of the investments held by the Scheme decreased significantly, and accordingly the valuation of those investments is subject to a greater uncertainty and requires greater judgement than would be the case in normal investment market conditions.

10 Financial risk management (continued)

(g) 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:

- 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 Scheme. The Scheme 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. The Scheme has elected not to provide comparative information in the current reporting period.

As at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss at inception:				
Related unlisted managed investment schemes	-	<u>100,702</u>	-	<u>100,702</u>
Total	<u>-</u>	<u>100,702</u>	<u>-</u>	<u>100,702</u>

The pricing for the majority of the Scheme's investments is generally sourced from independent pricing sources, the relevant Investment Managers or reliable brokers' quotes.

Investments whose values are based on quoted market prices in active markets, eg recognised stock exchanges, and therefore classified within level 1, include active listed equities and exchange traded derivatives.

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. The observable inputs include prices and/or those derived from prices. The level 2 instruments include investment-grade corporate bonds, and over-the-counter derivatives. 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.

11 Related party transactions

Responsible Entity

The Responsible Entity of Australian Unity High Yield Mortgage Trust is Australian Unity Funds Management Limited (ABN 60 071 497 115) whose immediate and ultimate parent entity is Australian Unity Limited (ABN 23 087 648 888).

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Australian Unity Funds Management 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 unitholdings

From time to time, key management personnel may purchase or subscribe to the various products offered by its related entities. These transactions are on similar terms and conditions as those entered into by other employees or customers and are trivial or domestic in nature.

Key management personnel compensation

Key management personnel are paid by Australian Unity Funds Management Limited. Payments made from the Scheme to Australian Unity Funds Management Limited do not include any amounts directly 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 Funds Management Limited, 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 during the reporting period and there were no material contracts involving directors' interests subsisting at reporting period end.

11 Related party transactions (continued)

Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive Responsible Entity fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Scheme's Constitution as follows:

	30 June 2010 \$	As at 30 June 2009 \$
Responsible Entity's fees for the reporting period paid by the Scheme to the Responsible Entity	<u>6,234,240</u>	<u>6,795,817</u>
Aggregate amounts payable to/(receivable from) to the Responsible Entity at the end of the reporting period	<u>527,685</u>	<u>573,585</u>

Related party unitholdings

Parties related to the Scheme (including Australian Unity Funds Management Limited, its related parties and other schemes managed by Australian Unity Funds Management Limited), held units in the Scheme as follows:

30 June 2010

Unitholder	Interest held (%)	Number of units held opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held closing (Units)	Distributions paid/payable by the Scheme (\$)
Australian Unity Wholesale High Yield Mortgage Trust	61.51	236,171,762	5,000,000	(23,072,145)	218,099,617	5,838,306
Australian Unity Conservative Growth Portfolio	0.19	759,957	-	(73,644)	686,313	18,597
Australian Unity Discovery Core Income Fund	2.80	9,930,210	-	-	9,930,210	254,372
Australian Unity Balanced Growth Portfolio	0.51	2,007,250	-	(194,515)	1,812,735	49,121
Australian Unity Balanced Growth Bond	0.49	1,923,882	-	(186,436)	1,737,446	47,080
Australian Unity Capital Guaranteed Bond	2.34	9,192,144	-	(890,776)	8,301,368	224,946
Australian Unity Capital Guaranteed Funeral Bond (Taxed)	0.60	2,370,614	-	(229,728)	2,140,886	58,013
Australian Unity Capital Guaranteed Funeral Bond (Untaxed)	0.62	2,449,166	-	(237,339)	2,211,827	59,935
Australian Unity Capital Guaranteed Mortgage Bond	0.57	2,236,690	-	(216,749)	2,019,941	54,735
Australian Unity Capital Secure Funeral Bond	0.48	1,876,023	-	(181,798)	1,694,225	45,928
Australian Unity Conservative Growth Bond	0.40	1,569,403	-	(152,085)	1,417,318	38,406

11 Related party transactions (continued)

30 June 2009

Unitholder	Interest held (%)	Number of units held opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held closing (Units)	Distributions paid/payable by the Scheme (\$)
Australian Unity Wholesale High Yield Mortgage Trust	61.44	283,052,610	13,254,651	(60,135,499)	236,171,762	8,032,811
Australian Unity Conservative Growth Portfolio	0.20	504,637	350,000	(94,680)	759,957	9,205
Australian Unity Discovery Core Income Fund	2.58	12,575,066	2,249,482	(4,894,338)	9,930,210	362,018
Australian Unity Balanced Growth Portfolio	0.52	2,006,872	390,000	(389,622)	2,007,250	24,314
Australian Unity Balanced Growth Bond	0.50	-	2,109,309	(185,427)	1,923,882	77,576
Australian Unity Capital Guaranteed Bond	2.39	-	9,923,487	(731,343)	9,192,144	292,692
Australian Unity Capital Guaranteed Funeral Bond (Taxed)	0.62	-	2,556,894	(186,280)	2,370,614	79,402
Australian Unity Capital Guaranteed Funeral Bond (Untaxed)	0.64	-	2,659,018	(209,852)	2,449,166	82,272
Australian Unity Capital Guaranteed Mortgage Bond	0.58	-	2,352,862	(116,172)	2,236,690	74,099
Australian Unity Capital Secure Funeral Bond	0.49	-	2,045,321	(169,298)	1,876,023	64,276
Australian Unity Conservative Growth Bond	0.41	-	1,708,352	(138,949)	1,569,403	63,253

Investments

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

	Fair value of investment		Interest held		Distributions received/receivable	
	2010 \$	2009 \$	2010 %	2009 %	2010 \$	2009 \$
Australian Unity Wholesale Cash Fund	<u>100,701,696</u>	<u>49,885,113</u>	<u>12.05</u>	<u>10.71</u>	<u>3,281,913</u>	<u>2,633,295</u>

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

	For the year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the reporting period attributable to unitholders	-	-
Proceeds from sale of financial instruments	119,123	210,510
Purchase of financial instruments	(95,569)	(153,985)
Net change in accrued income and receivables	(983)	1,875
Net change in payables and other liabilities	4,099	1,727
Distribution to unitholders	9,446	20,201
Reinvested income	(3,067)	(2,908)
Net cash inflow/(outflow) from operating activities	33,049	77,420
(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	<u>21</u>	<u>106</u>
	21	106
(c) Non-cash financing and investing activities		
During the reporting period, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan		
	<u>674</u>	<u>10,349</u>
	674	10,349

13 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period 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.

14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or liabilities 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 30 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true view and fair of the Scheme's financial position as at 30 June 2010 and of its performance, as represented by the results of their operations and cash flows 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 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 High Yield Mortgage Trust

We have audited the accompanying financial report of Australian Unity High Yield Mortgage Trust, 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 High Yield Mortgage Trust is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Australian Unity High Yield Mortgage Trust 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.

A handwritten signature in black ink, appearing to read 'Ernst & Young', positioned above the printed text 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'AJ (Tony) Johnson', positioned above the printed text 'AJ (Tony) Johnson Partner Melbourne'.

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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