



Australian Unity Industrial Property Investment Trust
Annual Report – 30 June 2010



ARSN 087 738 449

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These financial statements cover Australian Unity Industrial Property Investment Trust as an individual entity.

The Responsible Entity of Australian Unity Industrial Property Investment Trust is Australian Unity Property Limited (ABN 58 079 538 499).

The Responsible Entity's registered office is 114 Albert Road, South Melbourne, VIC, 3205.

A message from the Chairman

On behalf of the Directors of Australian Unity Property Limited, I am pleased to present the Annual Report to 30 June 2010 for the Australian Unity Industrial Property Investment Trust.

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

During 2009/10, the industrial property sector continued to experience some volatility, with businesses impacted by uncertain economic conditions and reduced imports early in the financial year. This resulted in reduced demand for industrial space, and an easing of both sales and leasing activity during the past 12 months.

The limited availability of financing and the higher costs associated with it – another impact of the global financial crisis – was also a significant issue for the direct property sector. Despite relatively low interest rates, banks became increasingly selective and were able to charge higher credit margins on loans, leading to substantial jumps in borrowing costs.

How the Trust performed

Weaker leasing conditions during the financial year led to a decision to sell three of the underlying Trust's properties, which were vacant or with leases that were due to expire. The sales have enabled the underlying Trust to reduce some of its borrowings.

All of the properties in the underlying Trust were re-valued in June 2010, with an overall increase of 0.74% on their previous book value. This contributed positively to the Trust's unit price prior to distributions in June 2010.

Looking ahead

At current values, we believe industrial properties are likely to be near or at the bottom of the property value cycle. And, while the sector is expected to experience some ongoing volatility during the short term, we believe conditions will gradually improve over the next financial year.



More generally, a recovery in the Australian property market is likely to be led by continued economic growth, with the industrial property sector benefiting from this broader upturn. One of the contributing factors to this will likely be the generally limited amount of vacant industrial space in some areas. This is due to the lack of development in the sector over the past two years, as a result of the difficulties many have experienced when seeking development finance.

In the new financial year, we also expect to complete a new loan facility for the underlying Trust. The current facility was extended from August 2010 and now expires in October 2010. While borrowing costs are expected to be higher under new lending arrangements, investors will be largely protected from further increases in costs due to rising interest rates. This is because we have fixed the interest rate cost for approximately 93% of the total loan outstanding for varying terms of up to three years.

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

Thank you for investing with Australian Unity Investments.

Yours sincerely

A handwritten signature in dark ink, which appears to read "Alan Castleman". The signature is written in a cursive style.

Alan Castleman
Chairman

Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Industrial Property Investment Trust, present their report together with the financial statements of Australian Unity Industrial Property Investment 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's objective is to provide unitholders with regular income and the opportunity for long term capital growth.

The Scheme invests in the Australian Unity Industrial Property Trust (ARSN 087 738 609) ("AUIPT").

Review and results of operations

The following commentary relates to AUIPT (ARSN 087 738 609), this Scheme's primary investment.

The most recent valuations in June 2010 valued the properties at \$38,300,000 in total. This was a combined increase of \$350,000 from the previous valuations. The previous valuations were carried out in June 2009. This recent valuation was also an increase of \$2,387,000 on the properties original purchase price of \$35,913,000.

The Scheme disposed of the investment properties at 44 Sparks Avenue, 1 Redland Drive and 27 HiTech Court during the financial year for a combined gain on disposal of \$1,383,415.

For the reporting period ended 30 June 2010 the Scheme's units posted a total return of 6.43%, split between a distribution return of 18.12% and a growth return of (11.69%).

The negative return is due to a reduction in value of the Scheme's assets invested in Australian Unity Industrial Property Trust.

Unit price (ex-distribution) as at 30 June 2010 is \$0.9603 (2009: \$0.9542).

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 financing costs attributable to unitholders	<u>338,994</u>	<u>(865,204)</u>
Distribution paid and payable	<u>968,187</u>	<u>439,251</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.

Directors' report (continued)

Events occurring after the reporting period

Except as disclosed in note 12 in the financial statements, no matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

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

Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Property Limited or the auditors of the Scheme. So long as the officers of Australian Unity Property Limited act in accordance with the Scheme 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 units 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 10 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 units in the Scheme held by the Responsible Entity or its associates as at the end of the reporting period are disclosed in note 10 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 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.

Environmental regulation

The property operations within AUIPT 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.

Directors' report (continued)

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 Industrial Property Investment Trust

In relation to our audit of the financial report of Australian Unity Industrial Property Investment 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, consisting of the letters 'EY' in a cursive script, with the text 'Ernst & Young' printed below it.A handwritten signature in black ink, appearing to read 'AJ Johnson', written over a large, stylized circular flourish.

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		1,245,342	1,016,741
Net (losses)/gains on financial instruments held at fair value through profit or loss	3	<u>(629,193)</u>	<u>(1,304,455)</u>
Total income		<u>616,149</u>	<u>(287,714)</u>
Expenses			
Interest expense		<u>277,155</u>	<u>577,490</u>
Total expenses		<u>277,155</u>	<u>577,490</u>
Profit/(loss) before financing costs attributable to unitholders		<u>338,994</u>	<u>(865,204)</u>
Finance costs attributable to unitholders			
Distributions to unitholders	5	968,187	439,251
(Decrease)/increase in swap hedging reserve		(68,600)	68,600
(Decrease) in net assets attributable to unitholders	4	<u>(697,793)</u>	<u>(1,235,855)</u>
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	
	Notes	30 June 2010 \$	30 June 2009 \$
Assets			
Distribution receivable		769,723	106,238
Derivative assets		-	68,600
Financial assets held at fair value through profit or loss	6	<u>4,826,767</u>	<u>14,434,251</u>
Total assets		<u>5,596,490</u>	<u>14,609,089</u>
Liabilities			
Distributions payable	5	769,723	106,238
Borrowings	7	-	8,978,291
Total liabilities (excluding net assets attributable to unitholders)		<u>769,723</u>	<u>9,084,529</u>
Net assets attributable to unitholders	4	<u>4,826,767</u>	<u>5,524,560</u>

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

Statement of changes in net assets attributable to unitholders

	For the year ended	
	30 June 2010	30 June 2009
	\$	\$
Net assets attributable to unitholders at the beginning of the reporting period	5,524,560	6,760,415
Profit/(loss) before financing costs attributable to unitholders	338,994	(865,204)
Distributions to unitholders	(968,187)	(439,251)
Swap hedging reserve	(68,600)	68,600
Net assets attributable to unitholders at the end of the reporting period	<u>4,826,767</u>	<u>5,524,560</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

	Notes	For the year ended	
		30 June 2010 \$	30 June 2009 \$
Cash flows from operating activities			
Distributions received		581,857	993,481
Interest expenses paid		<u>(277,155)</u>	<u>(577,490)</u>
Net cash inflow from operating activities	11(a)	<u>304,702</u>	<u>415,991</u>
Cash flows from investing activities			
Decrease in financial assets		<u>8,978,291</u>	-
Net cash inflow/(outflow) from investing activities		<u>8,978,291</u>	-
Cash flows from financing activities			
(Repayment) of borrowings		(8,978,291)	-
Distributions paid		<u>(304,702)</u>	<u>(415,991)</u>
Net cash inflow/(outflow) from financing activities		<u>(9,282,993)</u>	<u>(415,991)</u>
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the reporting period		-	-
Cash and cash equivalents at the end of the reporting period		-	-

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

Contents of the notes to the financial statements

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1 General information

These financial statements cover Australian Unity Industrial Property Investment Trust ("the Scheme") as an individual entity. The Scheme was established on 30 August 1999 with the termination date of 31 August 2006 in accordance with the provisions of the Constitution dated 21 May 1999 (as amended). The Scheme commenced operations on 30 August 1999 when the properties were purchased. The Scheme was converted to the open ended trust on 31 August 2006 with the new expiry date of 21 May 2078 in accordance with the Scheme Constitution (as amended).

The Responsible Entity of the Scheme is Australian Unity Property Limited (ABN 58 079 538 499) (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 of the Scheme is incorporated and domiciled in Australia.

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

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

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 current reporting period.

2 Summary of significant accounting policies (continued)

(b) Significant accounting estimates and assumptions

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

(c) Financial instruments

(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 that are not held for trading purposes and which may be sold. The Scheme's investment in unlisted trusts, units in AUIPT, is classified at fair value through profit or loss type.

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

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

(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.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Cash and short-term deposits are stated at nominal values.

2 Summary of significant accounting policies (continued)

(e) Trade and other receivables

Receivables may include amounts for distributions, interest and other items where settlement has not yet occurred. They are recognised and carried at the original amount.

(f) Trade and other payables

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

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

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

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

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

(g) Borrowings

As a result of the AUIPT restructure of borrowings in February 2010, the borrowings in the name of the investors were replaced by borrowings in the name of AUIPT.

AUIPT made a return of capital distribution equal to the value of the proportionate share of loan liability. This amount was applied against the loan liability to extinguish the loan liability. The net value of the investment in AUIPT remained unchanged.

(h) Revenue

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

Investment income

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 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 distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

2 Summary of significant accounting policies (continued)

(i) 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 future realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

(j) 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.

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

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 unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same reporting period in which it becomes assessable for tax.

(l) Unitholders' contribution

All unitholders' 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.

Unitholders' contributions and funds are classified as a liability. 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.

(m) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Scheme by third parties such as 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 profit or loss 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) 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:

2 Summary of significant accounting policies (continued)

(n) New accounting standards and interpretations (continued)

(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 and 1 January 2011 respectively)

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 gains/(losses) on financial instruments held at fair value through profit or loss

	For the year ended	
	30 June 2010	30 June 2009
	\$	\$
Net unrealised (loss) on financial instruments designated as at fair value through profit or loss	(629,193)	(1,304,455)

4 Net assets attributable to unitholders

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

All unitholders' contribution is fully paid with proportionate share of distribution and equal voting rights. A unit, 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.

	30 June 2010 No.	30 June 2009 No.	For the year ended 30 June 2010 \$	30 June 2009 \$
Unitholders' contribution				
Opening balance	5,742,614	5,740,555	5,536,612	5,536,612
Applications	2,064	2,059	-	-
Redemptions	-	-	-	-
Closing balance	<u>5,744,678</u>	<u>5,742,614</u>	<u>5,536,612</u>	<u>5,536,612</u>

	As at	
	30 June 2010 \$	30 June 2009 \$
Undistributed income		
Opening balance	(12,052)	1,292,403
(Decrease) in net assets attributable to unitholders	<u>(697,793)</u>	<u>(1,304,455)</u>
Closing balance	<u>(709,845)</u>	<u>(12,052)</u>

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

	As at	
	30 June 2010 \$	30 June 2009 \$
Total net assets attributable to unitholders	<u>4,826,767</u>	<u>5,524,560</u>

5 Distributions to unitholders

Timing of distributions

The distributions for the reporting period were as follows:

	30 June 2010 \$	For the year ended 30 June 2010 CPU	30 June 2009 \$	30 June 2009 CPU
Distributions paid	198,464	3.456	333,013	5.800
Distributions payable	769,723	13.399	106,238	1.850
Total distributions	<u>968,187</u>	<u>16.855</u>	<u>439,251</u>	<u>7.650</u>

6 Financial assets held at fair value through profit or loss

	As at	
	30 June 2010	30 June 2009
	\$	\$
Investment in the Australian Unity Industrial Property Trust (AUIPT)	4,826,767	14,434,251

The Scheme's investment in AUIPT is revalued at each balance date to reflect its proportionate equity in the net assets of AUIPT.

The following commentary relates to AUIPT, this Scheme's primary investment.

The amounts included in this report are a true indication of fair market value, which is determined based on an independent valuation obtained from certified property valuers.

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

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

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

The most recent valuations in June 2010 valued the properties at \$38,300,000 in total. This was a combined increase of \$350,000 from the previous valuations. The previous valuations were carried out in June 2009. This recent valuation was also an increase of \$2,387,000 on the properties original purchase price of \$35,913,000.

The Scheme disposed of the investment properties at 44 Sparks Avenue, 1 Redland Drive and 27 HiTech Court during the financial year for a combined gain on disposal of \$1,383,415.

7 Borrowings

	As at	
	30 June 2010	30 June 2009
	\$	\$
Loan*	-	8,978,291
	-	8,978,291

* This liability was representative of the Scheme's proportionate share of the interest bearing borrowings of AUIPT, the Scheme's primary investment.

As a result of the AUIPT restructure of borrowings in February 2010, the borrowings in the name of the investors were replaced by borrowings in the name of AUIPT.

AUIPT made a return of capital distribution equal to the value of the proportionate share of loan liability. This amount was applied against the loan liability to extinguish the loan liability. The net value of the investment in AUIPT remained unchanged.

8 Derivative financial instruments

(a) Swaps

30 June 2009	Contract/ notional \$	Fair Values	
		Assets \$	Liabilities \$
Interest rate swaps	<u>8,978,290</u>	<u>68,600</u>	<u>-</u>

* This derivative was representative of the Scheme's proportionate share of the interest swaps of AUIPT, the Scheme's primary investment.

As a result of the AUIPT restructure of borrowings in February 2010, the borrowings in the name of the investors were replaced by borrowings in the name of AUIPT. The proportionate share of the interest rate swap was cleared from the Scheme at this date.

9 Financial risk management

(a) Objectives, strategies, policies and processes

The Scheme's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Financial instruments of the scheme comprise borrowings, financial investments, net assets attributable to unitholders, 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.

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 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 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.

9 Financial risk management (continued)

The sensitivity of the Scheme's net assets attributable to unitholders (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 unitholders 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 unitholders of the Scheme (and in net operating profit of the Scheme) for the year would amount to approximately \$482,677 (2009: \$1,443,425). Alternatively, if investment prices had risen by 10% (2009: increased by 10%), the increase in net assets attributable to unitholders (and in net operating profit) would amount to approximately \$482,677 (2009: \$1,443,425). These decreases/increases in net assets attributable to unitholders are calculated on an undiscounted basis. The analysis is performed on the same basis for 2009.

(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.

With respect to credit risk, the Scheme's exposure relates to financial assets held at fair value through profit or loss.

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

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

9 Financial risk management (continued)

(d) Liquidity risk

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

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 end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Financial liabilities such as trade payables, where there are no specific contractual settlement dates, have been grouped into the 'less than 1 month' maturity grouping as such liabilities are typically settled within 30 days.

	Less than 1 month	1-3 months	3-12 months	12-60 months
At 30 June 2010				
Distributions payable	769,723	-	-	-
Net assets attributable to unitholders	-	-	-	4,826,767
Total financial liabilities	<u>769,723</u>	<u>-</u>	<u>-</u>	<u>4,826,767</u>
	Less than 1 month	1-3 months	3-12 months	12-60 months
At 30 June 2009				
Distributions payable	106,238	-	-	-
Borrowings	-	-	-	8,978,289
Net assets attributable to unitholders	-	-	-	5,455,961
Total financial liabilities	<u>106,238</u>	<u>-</u>	<u>-</u>	<u>14,434,250</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 \$0 (2009: \$0).

Investment in the Australian Unity Wholesale Cash Fund is included in the liquid assets of the Scheme above.

(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 fair value.

The Scheme values its investments in accordance with the accounting policies set out in note 2.

10 Related party transactions

Responsible Entity

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).

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Australian Unity Property Limited at any time during the financial year 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 financial year.

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 attributable to the compensation of key management personnel.

Loans to directors and other key management personnel

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 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 unitholders 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 key management personnel's interests existing at the end of the reporting period.

Units in the Scheme held by key management personnel

At 30 June 2010 no key management personnel held material interests in the Scheme (2009: Nil).

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 Scheme. All costs and expenses of the Scheme are paid out of the AUIPT.

10 Related party transactions (continued)

Related party holdings

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

2010

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Units held (%)
Australian Unity Strategic Holdings Pty. Ltd. (formerly Strode Four Pty. Ltd.)	109,000	109,000	-	-	1.90

2009

Unitholder

Australian Unity Strategic Holdings Pty. Ltd. (formerly Strode Four Pty. Ltd.)	109,000	109,000	-	-	1.90
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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		Unit held		Distributions received/receivable	
	2010	2009	2010	2009	2010	2009
	\$	\$	%	%	\$	\$
Australian Unity Industrial Property Trust	<u>4,826,767</u>	<u>14,434,251</u>	<u>29.31</u>	<u>29.31</u>	<u>1,245,342</u>	<u>1,016,741</u>

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

	For the year ended	
	30 June 2010 \$	30 June 2009 \$
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the reporting period attributable to unitholders	-	-
Net fair value decrement of investments	629,193	1,304,455
(Decrease) in net assets attributable to investors	(629,193)	(1,304,455)
(Increase) in receivables	(663,485)	(23,260)
Add back financing costs - distributions	968,187	439,251
Net cash inflow/(outflow) from operating activities	<u>304,702</u>	<u>415,991</u>

(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:

	-	-
	-	-

(c) Non-cash financing and investing activities

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

	-	-
	-	-

As described in note 2(k), income not distributed is included in net assets attributable to unitholders. 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 (ie taxable).

12 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.

13 Contingent assets and liabilities and commitments

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

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 23 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, as represented by the results of its operations and cash flow 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 Industrial Property Investment Trust

We have audited the accompanying financial report of Australian Unity Industrial Property Investment 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 Industrial Property Investment Trust is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Australian Unity Industrial Property Investment 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 stylized, handwritten signature of Ernst & Young.

Ernst & Young

A handwritten signature of AJ (Tony) Johnson.

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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