



Australian Unity Industrial Property Trust  
Annual Report – 30 June 2010



**ARSN 087 738 609**

**Contents**

- 2** Directors' report
- 5** Auditor's independence declaration
- 6** Statement of comprehensive income
- 7** Statement of financial position
- 8** Statement of changes in net assets attributable to unitholders
- 9** Statement of cash flows
- 10** Notes to the financial statements
- 29** Directors' declaration
- 30** Independent auditor's report to the unitholders of Australian Unity Industrial Property Trust

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

The Responsible Entity of Australian Unity Industrial Property 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 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

During the financial year, important changes were introduced to the Trust that led to a restructure of its borrowings and new features being offered to investors. These changes, we believe, will strengthen the financial position of the Trust.

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

All of the properties in the 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 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](http://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 written in a cursive, flowing style.

Alan Castleman  
Chairman

## Your investment – Australian Unity Industrial Property Trust

at 30 June 2010

### Investment objective

The Australian Unity Industrial Property Trust aims to provide investors with regular income and the opportunity for long-term capital growth. Through a diversified tenant base, the Fund aims to achieve stability of income through periods of economic and individual property change.

### Investment strategy

The Trust is an unlisted property fund that invests in industrial property and related assets, with a portfolio that currently comprises industrial properties located in New South Wales, Victoria and Queensland.

When managing the Fund, our key priorities include acquiring quality industrial properties, developing suitable long-term expansion and/or improvement strategies for properties, diversifying the portfolio by geographic location and tenant profile, and building strong relationships with tenants.

Investment performance*				
	1 year %	3 years % p.a.	5 years % p.a.	Since inception % p.a. <sup>1</sup>
Distribution return	18.12	10.34	10.09	10.52
Growth return	(11.69)	(10.57)	(4.14)	(1.76)
<b>Total investment return</b>	<b>6.43</b>	<b>(0.23)</b>	<b>5.95</b>	<b>8.76</b>

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.

\* Please note, the unusually large Distribution and Growth returns in the 2009/10 financial year, which flow through to other quoted periods, occurred because capital gains were distributed to investors as a result of the three property sales.

<sup>1</sup> Inception date for performance calculations is 15 September 1999. On 31 August 2006 the syndicate was converted to an open ended trust.

Quick stats	
<b>Inception date</b>	31 August 2006
<b>Fund size</b> (gross asset value)	\$ 41.87 million
<b>Income distributions</b>	Quarterly

Industrial property holdings	
<b>NSW</b>	
50-52 Redfern Street, Wetherill Park	
114 Kurrajong Ave / 9 Coventry Place, Mt Druitt	
<b>VIC</b>	
104 Woodlands Drive, Braeside	
38-40 Vella Drive, Sunshine	
<b>QLD</b>	
3 Hi Tech Court, Eight Mile Plain	
23 Hi Tech Court, Eight Mile Plain	

Asset allocation		
Asset class	Range %	Actual %
Direct property	70 – 100	93.49
Unlisted property	0 – 30	0.00
Cash and other assets	0 – 20	6.51

Geographic allocation	
State	Actual %
NSW	59.27
VIC	18.41
QLD	22.32
Total	100.00

## Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Industrial Property Trust, present their report together with the financial statements of Australian Unity Industrial Property 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 industrial properties generally located in the major cities and regional centres of Australia.

### Review and results of operations

#### *Property Valuations*

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

#### *Property Disposals*

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.

#### *Results*

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%).

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:

	<b>For the year ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Profit/(loss) before financing costs attributable to unitholders	<u>2,335,800</u>	<u>(1,052,157)</u>
Distribution paid and payable (excluding interest expenses paid on behalf of unitholders)	<u>3,301,687</u>	<u>1,377,457</u>

## **Directors' report (continued)**

### **Significant changes in state of affairs**

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

### **Events occurring after the reporting period**

Except as disclosed in note 18 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 16 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 financial year are disclosed in note 16 the financial statements.

### **Units in the Scheme**

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

The movement in interests on issue in the Scheme during the period is set out below:

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

### **Environmental regulation**

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

**Directors' report (continued)**

**Auditor's independence declaration**

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

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



Director

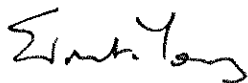


Director

13 September 2009

## Auditor's Independence Declaration to the Directors of Australian Unity Property Limited, as Responsible Entity for Australian Unity Industrial Property Trust

In relation to our audit of the financial report of Australian Unity Industrial Property 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 handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'AJ Johnson'.

AJ (Tony) Johnson  
Partner  
Melbourne

13 September 2010

## Statement of comprehensive income

	Notes	For the year ended	
		30 June 2010 \$	30 June 2009 \$
<b>Income</b>			
Interest income		34,220	16,862
Distribution income		45,000	-
Net gains on disposal of investment properties		1,383,415	-
Rental income	3	4,151,795	5,080,533
Other income		-	3,264
<b>Total income</b>		<u>5,614,430</u>	<u>5,100,659</u>
<b>Expenses</b>			
Responsible Entity's fees	16	335,294	365,861
Custody fees		23,766	26,570
Auditor's remuneration	4	21,000	21,000
Borrowing costs		487,621	36,315
Other scheme expenses	5	117,629	270,576
Property related expenses	6	1,061,985	886,429
Valuation expenses		39,998	41,010
Net fair value decrement of investment properties		1,191,337	4,505,055
<b>Total expenses</b>		<u>3,278,630</u>	<u>6,152,816</u>
<b>Profit/(loss) before finance costs attributable to unitholders</b>		<u>2,335,800</u>	<u>(1,052,157)</u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	8	(4,247,338)	(3,171,041)
Decrease/(increase) in swap hedging reserve		(6,659)	(234,087)
Decrease in net assets attributable to unitholders	7	1,918,197	4,457,285
<b>Total comprehensive income for the reporting period</b>		<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 \$
<b>Assets</b>			
Cash and cash equivalents		2,698,067	2,164,371
Distributions receivable		10,331	-
Trade and other receivables	10	373,374	285,629
Prepaid expenses		150,677	155,977
Lease incentives	11	231,213	210,195
Investment properties	9	38,300,000	47,450,000
Derivative asset	14	111,327	-
<b>Total assets</b>		<u>41,874,989</u>	<u>50,266,172</u>
<b>Liabilities</b>			
Distributions payable	8	2,626,035	362,525
Trade and other payables	12	863,823	882,698
Borrowings	13	21,917,843	-
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>25,407,701</u>	<u>1,245,223</u>
<b>Net assets attributable to unitholders</b>	7	<u>16,467,288</u>	<u>49,020,949</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 \$
<b>Net assets attributable to unitholders at the beginning of the reporting period</b>	<b>49,020,949</b>	51,843,567
Hedge revaluation reserve	<b>(6,659)</b>	-
Profit/(loss) before financing costs attributable to unitholders	<b>2,335,800</b>	(1,052,157)
Distributions to unitholders	<b>(3,301,687)</b>	(1,377,457)
Interest expenses paid on behalf of unitholders	<b>(945,651)</b>	(1,793,584)
(Repayment) of borrowings	-	(600,000)
Applications for interests in the Scheme	<b>1,806</b>	2,000,580
Taking up debt within Scheme	<b>(30,637,270)</b>	-
<b>Net assets attributable to unitholders at the end of the reporting period</b>	<b><u>16,467,288</u></b>	<u>49,020,949</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 \$
<b>Cash flows from operating activities</b>			
Interest received		34,220	16,862
Distribution income		34,668	-
Rental income received		4,245,697	5,109,061
Payments to suppliers		<u>(1,815,910)</u>	<u>(1,445,820)</u>
<b>Net cash inflow from operating activities</b>	17(a)	<u>2,498,675</u>	<u>3,680,103</u>
<b>Cash flows from investing activities</b>			
Capital expenditure		(80,484)	(36,797)
Disposal of investments		<u>9,422,562</u>	<u>-</u>
<b>Net cash inflow/(outflow) from investing activities</b>		<u>9,342,078</u>	<u>(36,797)</u>
<b>Cash flows from financing activities</b>			
Proceeds of borrowings		(8,719,427)	(600,000)
Applications		1,806	2,079,740
Interest costs paid		(1,433,272)	(1,874,247)
Distributions paid		(1,200,510)	(1,268,815)
Borrowing costs		<u>44,346</u>	<u>-</u>
<b>Net cash inflow/(outflow) from financing activities</b>		<u>(11,307,057)</u>	<u>(1,663,322)</u>
<b>Net increase in cash and cash equivalents</b>		<b>533,696</b>	1,979,984
Cash and cash equivalents at the beginning of the reporting period		<u>2,164,371</u>	<u>184,387</u>
<b>Cash and cash equivalents at the end of the reporting period</b>		<u>2,698,067</u>	<u>2,164,371</u>

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

## Contents of the notes to the financial statements

	Page	
1	General information	11
2	Summary of significant accounting policies	11
3	Rental income	17
4	Auditor's remuneration	17
5	Other Scheme expenses	17
6	Property related expenses	18
7	Net assets attributable to unitholders	18
8	Distributions to unitholders	19
9	Investment properties	20
10	Trade and other receivables	21
11	Lease incentives	21
12	Trade and other payables	22
13	Borrowings	22
14	Derivative assets and liabilities	23
15	Financial risk management	23
16	Related party transactions	26
17	Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities	28
18	Events occurring after the reporting period	28
19	Contingent assets and liabilities and commitments	28

## 1 General information

These financial statements cover Australian Unity Industrial Property Trust (the "Scheme") as an individual entity.

On 31 August 2006 the syndicate was converted to an open-ended trust with the 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), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). 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 in the following text.

### (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) Investment Properties

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

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

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

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

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

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

### (d) Derivatives

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

#### **Cash flow hedge**

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

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

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

## 2 Summary of significant accounting policies (continued)

### (d) Derivatives (continued)

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

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

### (e) 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.

### (f) Trade and other receivables

Receivables may include amounts for rental income arrears, interest and other items where settlement has not yet occurred. They are recognised and carried at the original amount. An allowance for doubtful debt is made when there is objective evidence that the Trust will not be able to recover the debts. Bad debts are written off when identified.

### (g) 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 to the short term nature of the payable. Interest is taken up as an expense on an accrual basis.

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

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

### (h) Borrowings and borrowing costs

In accordance with the Constitution and Loan Agreement documents, the Responsible Entity had arranged and executed loans in prior reporting periods from the Financier on behalf of unitholders. The loans, therefore, had formed part of each unitholders' Contribution. The Scheme, on behalf of the unitholders, had paid to the bank interest due on the borrowings. The principal amount of the loan was recorded in the balance sheet as part of the net assets attributable to unitholders (see note 7). The interest expense on the loan represented part of the distribution to unitholders (see note 8).

## 2 Summary of significant accounting policies (continued)

### (h) Borrowings and borrowing costs (continued)

In accordance with the Constitution and Loan Agreement documents, the Responsible Entity arranged and executed a restructure of borrowings in February 2010. The borrowings in the name of the investors were replaced by borrowings in the name of the Scheme.

The Scheme 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 unitholders investment in the Scheme remained unchanged.

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

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

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

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

### (i) 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:

#### **Rental revenue**

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

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

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

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

Incidental incomes (costs) derived from an investment property undergoing construction or development but not directly related to bringing the assets to the working condition, are recognised in net profit for the reporting period.

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

#### **Interest revenue**

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

### (j) Leases, Leasing costs and Lease incentives

#### **Leasing costs**

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

## 2 Summary of significant accounting policies (continued)

### (j) Leases, Leasing costs and Lease incentives (continued)

#### **Lease incentives**

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

### (k) Expenses

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

### (l) Income tax

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

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 investors.

### (m) 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.

### (n) 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.

### (o) Unitholders' contribution, establishment and rollover costs

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 income statement.

## 2 Summary of significant accounting policies (continued)

### (p) Goods and Services Tax (GST)

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

### (q) New accounting standards and interpretations

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

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

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

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

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

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

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

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

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

(v) *AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)*

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

### 3 Rental income

	For the year ended	
	30 June 2010 \$	30 June 2009 \$
Rental income	3,455,217	4,437,941
Outgoings income	<u>696,578</u>	<u>642,592</u>
	<u>4,151,795</u>	<u>5,080,533</u>

### 4 Auditor's remuneration

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 2010 \$	30 June 2009 \$
<b>(a) Audit services</b>		
Audit and review of financial statements	<u>17,000</u>	<u>17,000</u>
Total remuneration for audit services	<u>17,000</u>	<u>17,000</u>
<b>(b) Non-audit services</b>		
<i>Taxation services</i>		
Tax compliance services	<u>4,000</u>	<u>4,000</u>
Total remuneration for taxation services	<u>4,000</u>	<u>4,000</u>
	<u>21,000</u>	<u>21,000</u>

### 5 Other Scheme expenses

	For the year ended	
	30 June 2010 \$	30 June 2009 \$
Accounting expenses	66,000	72,832
Project consulting expenses	13,350	182,253
Registry fees	29,708	(7,432)
Sundry expenses	-	14,310
Compliance expenses	8,498	8,539
Bank charges	<u>73</u>	<u>74</u>
	<u>117,629</u>	<u>270,576</u>

## 6 Property related expenses

	For the year ended	
	30 June 2010 \$	30 June 2009 \$
Recoverable outgoings	733,338	661,854
Non-recoverable outgoings	166,968	170,076
Lease incentive amortisation	75,570	10,648
Doubtful debts	24,657	-
Legal and leasing expenses	17,550	43,851
Lease commission amortisation	43,902	-
	<u>1,061,985</u>	<u>886,429</u>

## 7 Net assets attributable to unitholders

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

All units are fully paid with a proportionate share of distribution and equal voting rights.

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

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

In the event of the ineffectiveness of the swap, any gains or losses will be taken directly to the statement of comprehensive income for the reporting period.

	30 June 2010 No.	For the year ended		30 June 2009 No.
		30 June 2009 No.	30 June 2010 \$	30 June 2009 \$
<b>Unitholders' contribution</b>				
Opening balance	19,595,935	17,497,683	18,706,290	16,705,710
Applications	2,390	2,098,252	1,806	2,000,580
Swap hedging reserve	-	-	-	-
Borrowings	-	-	-	30,637,270
Closing balance	<u>19,598,325</u>	<u>19,595,935</u>	<u>18,708,096</u>	<u>49,343,560</u>

	30 June 2010 \$	30 June 2009 \$
	<b>Undistributed income</b>	
Opening balance	(322,611)	4,134,674
(Decrease) in net assets attributable to unitholders	(1,918,197)	(4,457,285)
Closing balance	<u>(2,240,808)</u>	<u>(322,611)</u>

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

## 7 Net assets attributable to unitholders (continued)

	As at	
	30 June 2010 \$	30 June 2009 \$
Total net assets attributable to unitholders	<u>16,467,288</u>	<u>49,020,949</u>

## 8 Distributions to unitholders

### Timing of distributions

The distributions for the reporting period were as follows:

	For the year ended			
	30 June 2010 \$	30 June 2010 CPU	30 June 2009 \$	30 June 2009 CPU
Distributions paid	675,652	3.456	1,014,932	5.800
Distributions payable	2,626,035	13.399	362,525	1.850
Interest expenses paid on behalf of unitholders	<u>945,651</u>	<u>-</u>	<u>1,793,584</u>	<u>-</u>
Total distributions	<u>4,247,338</u>	<u>16.855</u>	<u>3,171,041</u>	<u>7.650</u>

## 9 Investment properties

<b>30 June 2010</b>	Opening balance \$	Disposal cost base \$	Capital costs \$	Revaluation \$	Closing balance \$	Latest valuation \$
<b>Investment properties</b>						
44 Sparks Avenue, Fairfield, VIC	5,100,000	(4,196,095)	-	(903,905)	-	-
1 Redland Drive, Mitcham, VIC	2,900,000	(2,927,878)	30,228	(2,350)	-	-
Vella Drive, Sunshine, VIC	4,100,000	-	-	1,200,000	5,300,000	5,300,000
104 Woodlands Drive, Braside, VIC	1,750,000	-	-	-	1,750,000	1,750,000
Coventry Place & Kurrajong Ave, Mt Druitt, NSW	17,750,000	-	18,182	31,818	17,800,000	17,800,000
50-52 Redfern Street, Wetherhill Park, NSW	5,000,000	-	17,224	(117,224)	4,900,000	4,900,000
23 High Tech Court, Eight Mile Plains, QLD	6,000,000	-	-	(1,000,000)	5,000,000	5,000,000
27 High Tech Court, Eight Mile Plains, QLD	1,500,000	(915,174)	14,850	(599,676)	-	-
3 Hi Tech Court, Eight Mile Plains, QLD	<u>3,350,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>3,550,000</u>	<u>3,550,000</u>
<b>Total</b>	<u>47,450,000</u>	<u>(8,039,147)</u>	<u>80,484</u>	<u>(1,191,337)</u>	<u>38,300,000</u>	<u>38,300,000</u>
<b>30 June 2009</b>	Opening balance \$	Disposal cost base \$	Capital costs \$	Revaluation \$	Closing balance \$	Latest valuation \$
<b>Investment properties</b>						
Sparks Avenue, Fairfield, VIC	5,238,782	-	1,980	(141,063)	5,099,699	5,100,000
Redland Drive, Mitcham, VIC	2,703,935	-	-	196,215	2,900,150	2,900,000
Vella Drive, Sunshine, VIC	4,750,000	-	1,850	(651,850)	4,100,000	4,100,000
104 Woodlands Drive, Braside, VIC	1,800,000	-	6,972	(56,973)	1,749,999	1,750,000
Coventry Place & Kurrajong Ave, Mt Druitt, NSW	18,875,000	-	-	(1,125,000)	17,750,000	17,750,000
50-52 Redfern Street, Wetherhill Park, NSW	7,400,000	-	21,664	(2,421,514)	5,000,150	5,000,000
23 Hi Tech Court, Eight Mile Plains, QLD	5,883,905	-	-	83,905	5,967,810	6,000,000
27 Hi Tech Court, Eight Mile Plains, QLD	1,258,391	-	4,331	252,980	1,515,702	1,500,000
3 Hi Tech Court, Eight Mile Plains, QLD	<u>4,008,245</u>	<u>-</u>	<u>-</u>	<u>(641,755)</u>	<u>3,366,490</u>	<u>3,350,000</u>
<b>Total</b>	<u>51,918,258</u>	<u>-</u>	<u>36,797</u>	<u>(4,505,055)</u>	<u>47,450,000</u>	<u>47,450,000</u>

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.

In June 2010, the property at 38-40 Vella Drive, VIC was independently valued to \$5,300,000 by Knight Frank. This represents an increase of \$1,200,000 from the previous valuation in May 2009 of \$4,100,000.

In June 2010, the property at 104 Woodlands Drive, VIC was independently valued to \$1,750,000 by Jones Lang LaSalle. This represents nil movement from the previous valuation in December 2008 of \$1,750,000.

## 9 Investment properties (continued)

In June 2010, the property at 9 Coventry Place & Kurrajong Avenue, NSW was independently valued to \$17,800,000 by Savills. This represents an increase of \$50,000 from the previous valuation in December 2008 of \$17,750,000.

In June 2010, the property at 50-52 Redfern Street, NSW was independently valued to \$4,900,000 by Savills. This represents a decrease of \$100,000 from the previous valuation in December 2008 of \$5,000,000.

In June 2010, the property at 23 Hi Tech Court, QLD was independently valued to \$5,000,000 by Knight Frank. This represents a decrease of \$1,000,000 from the previous valuation in December 2008 of \$6,000,000.

In June 2010, the property at 3 Hi Tech Court, QLD was independently valued to \$3,550,000 by Knight Frank. This represents an increase of \$200,000 from the previous valuation in December 2008 of \$3,350,000.

In April 2010, the property at 27 Hi Tech Court, QLD was sold for \$1,500,000. The carrying value was increased to that value in April 2010 when the contract of sale became unconditional.

In May 2010, the property at 44 Sparks Avenue, VIC was sold for \$5,600,000. The carrying value was increased to that value in March 2010 when the contract of sale became unconditional.

In February 2010, the property at 1 Redland Drive, VIC was sold for \$2,770,000. The carrying value was increased to that value in February 2010 when the contract of sale became unconditional.

## 10 Trade and other receivables

	As at	
	30 June 2010 \$	30 June 2009 \$
Trade receivables*	257,678	215,236
GST receivable	<u>115,696</u>	<u>70,393</u>
	<u><b>373,374</b></u>	<u><b>285,629</b></u>

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

## 11 Lease incentives

	As at	
	30 June 2010 \$	30 June 2009 \$
Lease incentives*	229,563	265,342
Less accumulated amortisation	(94,938)	(55,147)
Lease commissions	132,324	-
less accumulated amortisation	<u>(35,736)</u>	<u>-</u>
	<u><b>231,213</b></u>	<u><b>210,195</b></u>

\* Includes assets arising from recognising rent free periods as lease incentives.

## 12 Trade and other payables

	As at	
	30 June 2010 \$	30 June 2009 \$
Accrued expenses	334,953	554,630
GST payable	506,888	269,275
Income received in advance	20,328	57,139
Tenants' security deposits	1,654	1,654
	<b>863,823</b>	<b>882,698</b>

## 13 Borrowings

	As at	
	30 June 2010 \$	30 June 2009 \$
Loan	<b>21,917,843</b>	-
	<b>21,917,843</b>	-

In accordance with the Constitution and Loan Agreement documents, the Responsible Entity arranged and executed a restructure of borrowings in February 2010. The borrowings in the name of the investors were replaced by borrowings in the name of the Scheme.

The Scheme 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 unitholders investment in the Scheme remained unchanged.

As at 30 June 2010, the facility limit was \$23,500,000.

The loan as at 30 June 2010 expired on 31 August 2010. The Responsible Entity on behalf of the unitholders, executed an amending letter to extend the maturity date to 31 October 2010.

Based on current lending value ratio, the loan has an interest rate of BBSY + 0.60%.

The loan is secured by a first registered mortgage over the Scheme's properties and is non recourse to unitholders.

The above loan is 92.64% hedged at an average rate of 4.6338% as at 30 June 2010. Interest rate swap arrangements as at 30 June 2010 are detailed in note 14.

## 14 Derivative assets and liabilities

30 June 2010

	Contract/ notional \$	Fair Values	
		Assets \$	Liabilities \$
Interest rate swaps - 2 years	1,562,000	13,558	-
Interest rate swaps - 3 years	9,371,000	73,389	-
Interest rate swaps - 4 years	9,371,000	24,380	-
	<u>20,304,000</u>	<u>111,327</u>	<u>-</u>

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

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

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

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

\$1,562,000 maturing on 9 June 2011 at floating rate of 4.76% and fixed rate of 3.90%, with interests payable/receivable on a monthly basis. Interest receivable as at 30 June 2010 was \$834.

\$9,371,000 maturing on 12 June 2012 at floating rate of 4.76% and fixed rate of 4.50%, with interests payable/receivable on a monthly basis. Interest receivable as at 30 June 2010 was \$1,466.

\$9,371,000 maturing on 11 June 2013 at floating rate of 4.76% and fixed rate of 4.89%, with interests payable/receivable on a monthly basis. Interest payable as at 30 June 2010 was \$837.

## 15 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, net assets attributable to unitholders, cash as well as cash equivalents and other financial instruments such as trade receivables and payables, which arise directly from its operations.

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

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

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

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

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

## 15 Financial risk management (continued)

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

#### (i) Interest rate risk

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

The Scheme's interest bearing financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Scheme has established limits on its borrowings, which are monitored on a regular basis. The Scheme uses derivatives to hedge against unexpected increases in interest rates. This reduced interest rate risk, represented by the portion of liabilities that are not covered by interest rate swaps, is measured using sensitivity analysis.

At 30 June 2010, if interest rates had decreased by 75 basis points (2009: decreased by 50 basis points) with all other variables held constant, the increase in net assets attributable to unitholders of the Scheme for the year would amount to approximately \$12,104 (2009: \$51,666). If interest rates had risen by 75 basis points (2009: increased by 50 basis points), the decrease in net assets attributable to unitholders would amount to approximately \$12,104 (2009: \$51,666). These increases/(decreases) in net profit attributable to unitholders are calculated on an undiscounted basis. The analysis is performed on the same basis for 2009.

Further to the above analysis, the following paragraph summarises sensitivity of the Scheme's net assets attributable to unitholders to interest rate risk of derivative assets of the Scheme.

At 30 June 2010, if interest rates had decreased by 75 basis points with all other variables held constant, the decrease in net assets attributable to unitholders of the Scheme for the year would amount to approximately \$216,702. If interest rates had risen by 75 basis points, the increase in net assets attributable to unitholders would amount to approximately \$435,213. These increases/(decreases) in net assets attributable to unitholders are calculated on an undiscounted basis.

### (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 trade receivables, financial assets held at fair value through profit or loss and derivative financial instruments used to hedge interest rate risk.

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

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

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

## 15 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.

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

#### **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
<b>At 30 June 2010</b>				
Distributions payable	2,626,035	-	-	-
Payables	863,823	-	-	-
Borrowings	-	21,917,843	-	-
Net assets attributable to unitholders	-	-	-	16,467,298
<b>Total financial liabilities</b>	<u>3,489,858</u>	<u>21,917,843</u>	<u>-</u>	<u>16,467,298</u>
<b>At 30 June 2009</b>				
Distributions payable	362,525	-	-	-
Payables	882,698	-	-	-
Borrowings	-	-	-	-
Net assets attributable to unitholders	-	-	-	49,020,950
<b>Total financial liabilities</b>	<u>1,245,223</u>	<u>-</u>	<u>-</u>	<u>49,020,950</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 \$2,698,067 (2009: \$2,164,371).

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. For the majority of its investments, the Scheme relies on information provided by independent pricing services for the valuation of its investments.

### (f) Instruments used by the Scheme

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

The details of the Scheme's hedging activities are detailed in note 14.

## **16 Related party transactions**

### **Responsible Entity**

The Responsible Entity of Australian Unity Industrial Property Trust is Australian Unity Property Limited (ABN 58 079 538 499), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888).

### **Key management personnel**

#### (a) Directors

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

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

#### (b) Other key management personnel

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

### **Key management personnel compensation**

Key management personnel are paid by Australian Unity 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.

### **Key management personnel loan disclosures**

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

### **Other transactions within the Scheme**

From time to time directors of Australian Unity Property 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**

Under the terms of the Scheme Constitution, the Responsible Entity is entitled to receive fees quarterly, calculated at 0.70% per annum of the total assets of the Scheme.

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

## 16 Related party transactions (continued)

	As at	
	30 June 2010 \$	30 June 2009 \$
Management fees for the reporting period paid/payable by the Scheme to the Responsible Entity	<u>335,294</u>	<u>365,861</u>
Accounting fees for the reporting period paid/payable by the Scheme to the Responsible Entity	<u>66,000</u>	<u>60,000</u>
Registry fees for the reporting period paid/payable by the Scheme to the Responsible Entity	<u>29,708</u>	<u>16,000</u>

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

### Related party holdings

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

#### 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)
Australian Unity Property Income Fund	10.30	2,017,684	48	-	2,017,732
Australian Unity Property Securities Fund	18.82	3,689,075	-	-	3,689,075
Australian Unity Strategic Holdings Pty Ltd (formerly Strode 4 Pty Ltd)	0.05	10,000	-	-	10,000
Australian Unity Industrial Property Investment Trust	29.31	5,742,613	1,890	-	5,744,503

#### 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)
Australian Unity Property Income Fund	10.28	969,641	1,048,043	-	2,017,684
Australian Unity Property Securities Fund	18.83	2,641,078	1,047,997	-	3,689,075
Australian Unity Strategic Holdings Pty Ltd (formerly Strode 4 Pty Ltd)	0.05	10,000	-	-	10,000
Australian Unity Industrial Property Investment Trust	29.30	-	5,842,613	-	5,742,613

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

	For the year ended	
	30 June 2010	30 June 2009
	\$	\$
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the reporting period attributable to unitholders	-	-
Increase/(decrease) in net assets attributable to unitholders	1,390,159	(4,223,198)
Change in fair value of investment properties - revaluation increment	1,191,337	4,505,055
Gain on disposal of investment properties	(1,383,415)	-
(Increase)/decrease in other receivables	(99,117)	33,329
(Increase)/decrease in lease incentives	(56,796)	10,648
Decrease/(increase) in other assets	5,300	(23,076)
Net change in accounts payable and accrued liabilities	17,935	206,304
Add back financing costs - distributions paid/payable to unitholders	487,621	1,377,457
Add back financing costs - interest expenses paid on behalf of unitholders	945,651	1,793,584
<b>Net cash inflow from operating activities</b>	<b>2,498,675</b>	<b>3,680,103</b>

### (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	2,698,067	2,164,371
	2,698,067	2,164,371

### (c) Non-cash financing activities and investing activities

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

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As described in note 2(n), income not distributed is included in net assets attributable to unitholders. The change in this amount each reporting period (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.

## 18 Events occurring after the reporting period

The loan as at 30 June 2010 expired on 31 August 2010. The Responsible Entity on behalf of the unitholders, executed an amending letter to extend the maturity date to 31 October 2010.

No other 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.

## 19 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:

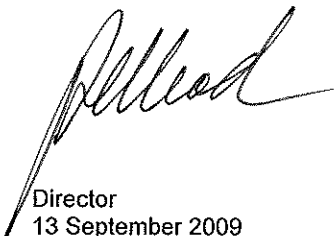
- (a) the financial statement and notes set out on pages 6 to 28 are in accordance with the *Corporations Act 2006* including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair 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 flows 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 2009

## Independent auditor's report to the unitholders of Australian Unity Industrial Property Trust

We have audited the accompanying financial report of Australian Unity Industrial Property 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.

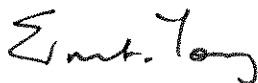
### *Independence*

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 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 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 that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'AJ Johnson'.

AJ (Tony) Johnson  
Partner  
Melbourne

13 September 2010



## Contact Australian Unity Investments

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

Website [australianunityinvestments.com.au](http://australianunityinvestments.com.au)

Email [investments@australianunity.com.au](mailto:investments@australianunity.com.au)

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