



Australian Unity Mortgage Income Trust
Annual Report – 30 June 2010



ARSN 090 082 803

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These financial statements cover Australian Unity Mortgage Income Trust as an individual entity.

The Responsible Entity of Australian Unity Mortgage Income Trust is Australian Unity Funds Management Limited (ABN 60 071 497 115).

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

A message from the Chairman

On behalf of the Directors of Australian Unity Funds Management Limited, I am pleased to present the Annual Report to 30 June 2010 for the Australian Unity Mortgage Income Trust.

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

1. Your capital has remained secure. The Trust's unit price has remained unchanged at, or near \$1.00.
2. Monthly income distributions have been consistent and have risen during 2010.
3. You have still been able to access a portion of capital on a regular basis.

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

In a sign of this gradual change, in December 2009 we increased our withdrawal facility to 2% per month. Further, in August 2010, we raised the monthly withdrawal facility to 3% per month.

A strategy of conservative management

Investment performance steadily improved during the year. This was a result of variable rate loan mortgages (71.5% of the Trust's mortgage allocation) benefiting from progressive interest rate rises during the year, as well extensions granted to a limited number of loans at higher credit margins.

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

As at 30 June, there were five accounts more than 30 days in arrears, representing 1.42% of funds under management. To maintain investors' capital, our approach is to evaluate the immediate sale of the secured property or to lease the property until market conditions become more favourable.

Looking ahead

At the conclusion of the 2009/10 financial year, we believe financial markets are showing signs of gradual improvement. This, combined with the winding back of the Government's bank guarantee, means investors may look forward to more predictability from their mortgage investments.



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

Nonetheless, our current priorities continue to be the careful management of loans that are in arrears and an ongoing focus on increasing liquidity to investors wherever possible.

Australian Unity believes that mortgage funds have a strong future, and that they will continue to meet the needs of investors requiring regular income.

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

Thank you for investing with Australian Unity Investments.

Yours sincerely

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

Alan Castleman
Chairman

Your investment – Australian Unity Mortgage Income Trust

at 30 June 2010

Investment objective

The Australian Unity Mortgage Income Trust aims to provide investors with regular income distributions together with a high level of capital stability.

Investment strategy

The Trust primarily invests in loans secured by registered first mortgages over retail, commercial, investment residential and industrial property.

Investment performance				
	1 year %	5 years % p.a.	7 years % p.a.	Since inception % p.a. ¹
Mortgage Income Trust	4.47	5.63	5.60	5.57
Benchmark (UBSA Bank Bill Index)	3.89	5.77	5.69	5.50

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.

¹ Inception date for performance calculations is 31 December 2002.

Successful and active management in action

At 30 June there were 202 mortgagors within the Mortgage Income Trust representing 241 loan accounts. Five loan accounts were in arrears by greater than 30 days, representing 1.42% of net asset value. Four of the five loan accounts in arrears have reached default and we have taken possession of the security properties. When the Trust takes possession of a property it can either recoup the loan amount by selling the property or a tenant for the property can be found and the property leased.

Quick stats	
Inception	30 July 1997
Trust size (net asset value)	\$742.70m
Income distributions	Monthly

Strength through diversification

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

Diverse by design					
Geography		Sector		Interest rate type	
State	Actual %	Asset class	Actual %	Type	Actual %
NSW	37.76	Retail	33.46	Fixed rate loans	28.46
VIC	25.11	Industrial	29.71	Variable rate loans	71.54
QLD	34.05	Office	26.69		
WA	2.33	Residential	9.47		
SA	0.75	Other	0.67		

Important information

Despite the challenges confronting the Mortgage Income Trust over the past two years, prudent management has meant:

1. **Investor's capital has remained secure.** The Trust's unit value remains at or very near \$1.00 and this value has remained consistent since the Trust's inception.
2. **Monthly income distributions have continued and income has been paid regularly.**
3. **Investors have been able access a portion of their capital.** The withdrawal facility available in August 2010 presents investors with two options to access a portion of their investment.

Directors' report

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

Directors

The following persons held office as directors of the Responsible Entity during the reporting period or since the end of the reporting period and up to the date of this report:

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

Principal activities

The Scheme aims to provide investors with regular and stable income, together with a high level of capital stability.

The Scheme is a traditional style mortgage trust, which pools investor's money together to lend to borrowers. The Scheme invests in a portfolio of loans secured by first registered mortgages over quality retail, commercial, investment, residential, and industrial property.

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

Review and results of operations

For the reporting period ended 30 June 2010 the Scheme posted a total return of 4.47%.

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

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

	For the year ended	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Profit/(loss) before finance costs attributable to unitholders	36,003	52,079
<i>Distributions</i>		
Distribution paid and payable	36,003	52,079

Significant changes in state of affairs

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

In December 2008, management of the Responsible Entity AUFM decided to allow quarterly capped redemptions. Since the first quarterly redemption payment made on 18 December 2008, the Scheme has further amended the redemption process and from October 2009 allow investors monthly redemptions up to 2% of units held or a minimum of \$2,000 or full balance if less than \$2,000 to be paid within 21 days of the withdrawal offer closing date. We also offered a one off \$50 million redemption offer during the quarter.

Directors' report (continued)

Events occurring after the reporting period

Except as disclosed in note 13 in the financial statements, no other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

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

Indemnification and insurance of officers and auditors

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

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

Fees paid to the Responsible Entity and its associates out of Scheme property during the reporting period are disclosed in note 11 of the financial statements.

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

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the reporting period are disclosed in note 11 of the financial statements.

Units in the Scheme

The movement in units on issue in the Scheme during the reporting period is disclosed in note 6 of the financial statements.

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

Environmental regulation

The Scheme operations are not subject to environmental regulations under Australian Law.

Rounding of amounts to the nearest thousand dollars

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

Directors' report (continued)

Auditor's independence declaration

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

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



Director




Director
13 September 2010

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

In relation to our audit of the financial report of Australian Unity Mortgage Income 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 firm, consisting of the letters 'EY' in a cursive, handwritten style.

Ernst & Young

A handwritten signature of AJ (Tony) Johnson, appearing as 'AJ' in a cursive style.

AJ (Tony) Johnson
Partner
Melbourne

13 September 2010

Statement of comprehensive income

		For the year ended	
		30 June	30 June
		2010	2009
	Notes	\$'000	\$'000
Investment income			
Interest income	3	42,186	57,796
Distribution income	4	6,994	8,793
Other income		537	181
Total investment income		49,717	66,770
Expenses			
Responsible Entity's fees	11	10,576	12,183
Loan loss expense	9	1,584	841
Commission expense		1,151	1,475
Other expenses		403	192
Total expenses		13,714	14,691
Profit/(loss) before finance costs attributable to unitholders		36,003	52,079
Finance costs attributable to unitholders			
Distributions to unitholders	7	36,003	52,079
Increase/(decrease) in net assets attributable to unitholders	6	-	-
Other comprehensive income for the reporting period attributable to unitholders		-	-
Total comprehensive income for the reporting period attributable to unitholders		-	-

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

Statement of financial position

		As at	
	30 June	30 June	
	2010	2009	
Notes	\$'000	\$'000	
Assets			
Cash and cash equivalents	153	46	
Receivables	4,388	7,570	
Financial assets held at fair value through profit or loss	8 134,322	146,679	
Mortgage loans	9 610,973	756,949	
Total assets	749,836	911,244	
Liabilities			
Distributions payable	3,041	3,106	
Loan loss provision	9 3,134	1,704	
Payables	959	1,158	
Total liabilities (excluding net assets attributable to unitholders)	7,134	5,968	
Net assets attributable to unitholders	6 742,702	905,276	

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 \$'000	30 June 2009 \$'000
Net assets attributable to unitholders at the beginning of the reporting period	905,276	1,027,278
Profit/(loss) before finance costs attributable to unitholders	36,003	52,079
Distributions to unitholders	(36,003)	(52,079)
Application for units	53,695	11,914
Redemption of units	(218,327)	(159,098)
Units issued upon re-investment of distributions	2,058	25,182
Net assets attributable to unitholders at the end of the reporting period	<u>742,702</u>	<u>905,276</u>

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

Statement of cash flows

	For the year ended	
	30 June	30 June
	2010	2009
Notes	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Proceeds from sale of financial instruments	364,525	324,235
Purchase of financial instruments	(199,229)	(192,129)
Interest received	42,300	60,104
Other income received	576	181
Responsible Entity's fees paid	(11,524)	(13,205)
Payment of other expenses	(1,765)	(1,137)
RITC received	876	1,304
Net cash inflow/(outflow) from operating activities	12(a) <u>195,759</u>	<u>179,353</u>
<i>Cash flows from financing activities</i>		
Proceeds from applications by unitholders	56,692	9,421
Payments for redemptions by unitholders	(218,332)	(159,138)
Distributions paid	(34,012)	(29,640)
Net cash inflow/(outflow) from financing activities	<u>(195,652)</u>	<u>(179,357)</u>
Net increase/(decrease) in cash and cash equivalents	107	(4)
Cash and cash equivalents at the beginning of the reporting period	<u>46</u>	<u>50</u>
Cash and cash equivalents at the end of the reporting period	12(b) <u>153</u>	<u>46</u>

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

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1 General information

These financial statements cover Australian Unity Mortgage Income Trust ("the Scheme") as an individual entity. The Scheme was constituted on 30 July 1997.

The Responsible Entity of the Scheme is Australian Unity Funds Management Limited (ABN 60 071 497 115) ("the Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

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

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

Compliance with International Financial Reporting Standards (IFRS)

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

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

AASB 101 (revised) Presentation of Financial Statements

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

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

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

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

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

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

These include financial assets that are not held for trading purposes and which may be sold. These may include investments in exchange traded debt and equity instruments, unlisted trusts, unlisted equity instruments and commercial papers.

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

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

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

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

(ii) Recognition/derecognition

The Scheme recognises financial assets 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.

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

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

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

(iii) Measurement

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

Financial assets 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.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

- *Fair value in an active market*

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

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

- *Mortgage loans*

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

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

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

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

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

(iv) *Offsetting financial instruments*

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

(c) Net assets attributable to unitholders

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

2 Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

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

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

(e) Investment income

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

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

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

(f) Expenses

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

(g) Income tax

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

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

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

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

(h) Distributions

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

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

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

2 Summary of significant accounting policies (continued)

(j) Receivables

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

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

(k) Payables

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

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

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

(l) Applications and redemptions

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

Unit redemption prices are determined in accordance with the Scheme's Constitution by reference to the net assets of the Scheme divided by the number of units on issue.

(m) Goods and Services Tax (GST)

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

(n) Use of estimates

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

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

(o) New accounting standards and interpretations

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

2 Summary of significant accounting policies (continued)

(o) 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 the statement of comprehensive income. The Scheme does not expect any significant impact on the Scheme's financial statements arising from an adoption of the Standard.

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

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

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

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

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

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

(p) Rounding of amounts

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

3 Interest income

	For the year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Cash and deposits	6	22
Mortgage income	<u>42,180</u>	<u>57,774</u>
	<u>42,186</u>	<u>57,796</u>

4 Distribution income

	For the year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Related unlisted managed investment schemes	<u>6,994</u>	<u>8,793</u>
	<u>6,994</u>	<u>8,793</u>

5 Auditor's remuneration

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

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

	For the year ended	
	30 June 2010 \$	30 June 2009 \$
(a) Audit services		
Audit services		
Audit and review of financial statements	<u>44,626</u>	<u>36,000</u>
Total remuneration for audit services	<u>44,626</u>	<u>36,000</u>
(b) Non-audit services		
Taxation services		
Tax fees	<u>3,198</u>	<u>2,750</u>
Total remuneration for taxation services	<u>3,198</u>	<u>2,750</u>

6 Net assets attributable to unitholders

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

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Scheme.

	30 June		As at	
	2010 No. '000	30 June 2009 No. '000	2010 \$'000	30 June 2009 \$'000
Net assets attributable to unitholders				
Opening balance	905,276	1,027,278	905,276	1,027,278
Applications	53,695	11,914	53,695	11,914
Redemptions	(218,327)	(159,098)	(218,327)	(159,098)
Units issued upon re-investment of distributions	2,058	25,182	2,058	25,182
Increase/(decrease) in net assets attributable to unitholders	-	-	-	-
Closing balance	742,702	905,276	742,702	905,276

Capital risk management

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

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

7 Distributions to unitholders

Timing of distributions

The distributions for the reporting period were as follows:

	For the year ended			
	30 June 2010 \$'000	30 June 2010 CPU	30 June 2009 \$'000	30 June 2009 CPU
Distributions				
31 July	3,085	0.3415	5,840	0.5787
31 August	3,083	0.3434	5,818	0.5809
30 September	3,057	0.3431	5,742	0.5812
31 October	3,008	0.3401	5,452	0.5574
30 November	3,076	0.3597	4,581	0.4711
31 December	2,976	0.3662	4,456	0.4710
31 January	2,932	0.3657	4,228	0.4574
28 February	2,972	0.3751	3,214	0.3437
31 March	2,909	0.3758	3,310	0.3578
30 April	2,937	0.3795	3,218	0.3537
31 May	2,927	0.3834	3,114	0.3422
30 June (payable)	3,041	0.4044	3,106	0.3419
	<u>36,003</u>		<u>52,079</u>	

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

8 Financial assets held at fair value through profit or loss

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Designated at fair value through profit or loss		
Related unlisted managed investment schemes	<u>134,322</u>	146,679
Total financial assets held at fair value through profit or loss	<u>134,322</u>	146,679

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

9 Mortgage loans

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Mortgage loans	<u>610,973</u>	<u>756,949</u>
Total Mortgage loans	<u>610,973</u>	<u>756,949</u>

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

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

	As at 30 June 2010				
	Days past due \$'000				
	<30	30-60	60-90	>90	Total
Mortgage Loans	1,755	-	-	15,981	17,736

	As at 30 June 2009				
	Days past due \$'000				
	<30	30-60	60-90	>90	Total
Mortgage Loans	1,008	-	2,695	-	3,703

The fair value of collateral held for total assets past due with adequate security was \$25,295,900 as at 30 June 2010 (2009: \$5,435,000).

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Loan loss reconciliation		
Balance as at 30 June 2009	1,704	253
Charge for the year	1,584	841
Loan loss utilised	<u>(154)</u>	<u>610</u>
Balance as at 30 June 2010	<u>3,134</u>	<u>1,704</u>

The Scheme does not issue credit commitments to any third parties.

10 Financial risk management

(a) Objectives, strategies, policies and processes

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

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

The Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ratings analysis for credit risk.

The 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 may use derivatives and other investments, including share price and bond futures, interest rate swaps and forward currency contracts, to manage exposures resulting from changes in interest rates, foreign currencies, equity price risks, and exposures arising from forecast transactions.

(b) Market risk

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

The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look-through basis for investments held in the Scheme.

The sensitivity of the Scheme's net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) to price risk, foreign exchange risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

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

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Mortgage loans	610,973	756,949
Securities designated at fair value through profit or loss	134,322	146,679

(i) Price risk

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

(ii) Foreign exchange risk

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

10 Financial risk management (continued)

(iii) Interest rate risk

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

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

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

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

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

30 June 2010	Floating interest rate \$'000	3 months or less \$'000	Fixed interest rate 4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Non-interest bearing \$'000	Total \$'000
Assets							
Cash and cash equivalents	153	-	-	-	-	-	153
Receivables	-	-	-	-	-	4,388	4,388
Designated as at fair value through profit or loss							
Related unlisted managed investment schemes	-	-	-	-	-	134,322	134,322
Mortgage loans	<u>437,096</u>	<u>3,672</u>	<u>13,010</u>	<u>157,195</u>	-	-	<u>610,973</u>
Total assets	<u>437,249</u>	<u>3,672</u>	<u>13,010</u>	<u>157,195</u>	-	<u>138,710</u>	<u>749,836</u>
Liabilities							
Distributions payable	-	-	-	-	-	3,041	3,041
Payables	-	-	-	-	-	4,093	4,093
Total liabilities	-	-	-	-	-	<u>7,134</u>	<u>7,134</u>
Net assets attributable to unitholders	<u>437,249</u>	<u>3,672</u>	<u>13,010</u>	<u>157,195</u>	-	<u>131,576</u>	<u>742,702</u>

10 Financial risk management (continued)

30 June 2009	Floating interest rate \$'000	3 months or less \$'000	Fixed interest rate		Over 5 years \$'000	Non-interest bearing \$'000	Total \$'000
			4 to 12 months \$'000	1 to 5 years \$'000			
Assets							
Cash and cash equivalents	46	-	-	-	-	-	46
Margin accounts	-	-	-	-	-	7,570	7,570
Designated as at fair value through profit or loss							
Related unlisted managed investment schemes	-	-	-	-	-	146,679	146,679
Mortgage loans	486,271	-	89,897	180,781	-	-	756,949
Total assets	<u>486,317</u>	<u>-</u>	<u>89,897</u>	<u>180,781</u>	<u>-</u>	<u>154,249</u>	<u>911,244</u>
Liabilities							
Distributions payable	-	-	-	-	-	3,106	3,106
Payables	-	-	-	-	-	2,862	2,862
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,968</u>	<u>5,968</u>
Net assets attributable to unitholders	<u>486,317</u>	<u>-</u>	<u>89,897</u>	<u>180,781</u>	<u>-</u>	<u>148,281</u>	<u>905,276</u>

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

	As at 30 June 2010		As at 30 June 2009	
	Increased by 75 bps	Decreased by 75 bps	Increased by 50bps	Decreased by 50bps
Net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)	<u>3,278,219</u>	<u>(3,278,219)</u>	<u>2,431,353</u>	<u>(2,431,353)</u>

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

(c) Credit risk

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

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

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

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

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase of the securities has been received by the broker. The trade will fail if either party fails to meet its obligations.

10 Financial risk management (continued)

The Scheme holds collateral as security for its investments.

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

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

Credit quality per class of instrument

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

As at 30 June 2010

Loan to valuation ratios	<40%	40%-60%	60%-80%	80%-85%	Total
\$'000					
Mortgage loans	13,785	142,347	454,841	-	610,973

As at 30 June 2009

Loan to valuation ratios	<40%	40%-60%	60%-80%	80%-85%	Total
\$'000					
Mortgage loans	20,969	142,775	593,205	-	756,949

(d) Concentrations of risk

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

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

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

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

	\$'000
At 30 June 2010	
Mortgage loans	610,973
Unlisted managed investment scheme cash - wholesale	134,322
	\$'000
At 30 June 2009	
Mortgage loans	756,949
Unlisted managed investment scheme cash - wholesale	146,679

10 Financial risk management (continued)

(e) Liquidity risk

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

The Scheme may be exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. It therefore primarily holds investments that are traded in active markets and can be readily disposed of.

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

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

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

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

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

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

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

	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
At 30 June 2010				
Distribution payable	3,041	-	-	-
Payables	959	-	-	-
Net assets attributable to unitholders	<u>742,702</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>746,702</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
At 30 June 2009				
Distribution payable	3,106	-	-	-
Payables	1,158	-	-	-
Net assets attributable to unitholders	<u>905,276</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>909,540</u>	<u>-</u>	<u>-</u>	<u>-</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 \$134,474,709 (2009: \$146,724,549).

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

10 Financial risk management (continued)

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

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

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

For the reporting periods ended 30 June 2010 and 30 June 2009, the Scheme did not include financial assets that were determined using valuation techniques. The fair values of the Scheme's financial assets for the years then ended were determined directly, in full or in part, by reference to quoted prices that were available from various sources, such as exchanges, dealers, brokers, industry groups and pricing services

(g) Fair value hierarchy

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

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

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

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

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2010. The Scheme has elected not to provide comparative information in the current reporting period.

As at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss at inception:				
Related unlisted managed investment schemes	-	<u>134,322</u>	-	<u>134,322</u>
Total	<u>-</u>	<u>134,322</u>	<u>-</u>	<u>134,322</u>

10 Financial risk management (continued)

(g) Fair value hierarchy (continued)

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

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

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. The observable inputs include prices and/or those derived from prices. The level 2 instruments include investment-grade corporate bonds, and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

11 Related party transactions

Responsible Entity

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

Key management personnel

(a) Directors

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

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

(b) Other key management personnel

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

Key management personnel unitholdings

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

Key management personnel compensation

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

11 Related party transactions (continued)

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 Mortgage Income Trust, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors and are trivial in nature.

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Scheme during the reporting period and there were no material contracts involving key management personnel's interests existing at reporting period end.

Related party transactions

The Mortgage Income Trust has entered into pari-passu arrangements with other Australian Unity entities. The Mortgage Income Trust ranks as equal first for the loans which are conducted on normal commercial terms and conditions.

Responsible Entity's fees and other transactions

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

	As at	
	30 June 2010 \$	30 June 2009 \$
Responsible Entity fees for the reporting period paid by the Scheme to the Responsible Entity	10,575,626	12,182,742
Aggregate amounts payable to/(receivable from) the Responsible Entity at the reporting date	850,354	1,024,994

Related party unitholdings

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

11 Related party transactions (continued)

30 June 2010

Unitholder	Interest held (%)	Number of units held opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held closing (Units)	Distributions paid/payable by the Scheme (\$)
Australian Unity Capital Guaranteed Bond	5.63	52,395,961	-	(10,596,824)	41,799,137	2,078,779
Australian Unity Wholesale Mortgage Income Trust	64.64	606,889,081	24,350,000	(151,169,526)	480,069,555	23,708,559
Australian Unity Capital Guaranteed Mortgage Bond	3.82	33,408,451	1,000,000	(6,042,986)	28,365,465	1,324,809
Australian Unity Capital Secure Funeral Bond	1.11	11,782,217	-	(3,519,441)	8,262,776	432,347
Australian Unity Capital Guaranteed Funeral Bond - Non Taxable	1.51	15,558,311	-	(4,320,208)	11,238,103	580,737
Australian Unity Balanced Growth Bond	0.19	1,899,390	-	(464,499)	1,434,891	71,096
Australian Unity Conservative Growth Bond	0.37	3,031,249	-	(290,680)	2,740,569	126,044
Australian Unity Capital Guaranteed Funeral Bond - Taxable	1.83	14,765,640	-	(1,143,504)	13,622,136	617,419
Australian Unity Balanced Growth Portfolio	0.34	2,039,289	600,000	(119,535)	2,519,754	96,174
Australian Unity Conservative Growth Portfolio	0.13	1,622,329	-	(636,803)	985,526	55,052
Australian Unity Traditional Funds Reserve Account	0.04	252,370	11,109	-	263,479	11,311
Australian Unity Education Savings Plan Short Term	-	51,152	-	(16,000)	35,152	1,954
Australian Unity Education Savings Plan Medium Term	0.02	195,766	-	(35,779)	159,987	7,880
Australian Unity Discovery Core Income Trust	0.42	3,261,416	-	(129,152)	3,132,264	142,174
LP Flexigrowth Cap Guarantee Untaxed	0.65	-	7,061,165	(2,199,982)	4,861,183	181,131
LP Flexigrowth Cap Guarantee Taxed	0.26	-	2,000,000	(40,000)	1,960,000	12,503

11 Related party transactions (continued)

30 June 2009

Unitholder	Interest held (%)	Number of units held opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held closing (Units)	Distributions paid/payable by the Scheme (\$)
Australian Unity Capital Guaranteed Bond	5.79	52,194,054	4,062,575	(3,860,668)	52,395,961	2,828,951
Australian Unity Wholesale Mortgage Income Trust	67.04	692,000,544	19,299,332	(104,410,795)	606,889,081	35,336,591
Australian Unity Capital Guaranteed Mortgage Bond	3.69	37,483,699	1,687,811	(5,763,059)	33,408,451	1,956,217
Australian Unity Capital Secure Funeral Bond	1.30	12,095,337	555,707	(868,827)	11,782,217	654,348
Australian Unity Capital Guaranteed Funeral Bond	1.72	16,001,161	732,798	(1,175,648)	15,558,311	862,866
Australian Unity Balanced Growth Bond	0.21	3,850,241	488,541	(2,439,392)	1,899,390	124,245
Australian Unity Conservative Growth Bond	0.33	5,045,512	360,130	(2,374,393)	3,031,249	194,435
Australian Unity Capital Guaranteed Funeral Bond Taxable	1.63	14,513,632	783,586	(531,578)	14,765,640	812,487
Australian Unity Balanced Growth Portfolio	0.23	1,997,883	410,000	(368,594)	2,039,289	114,923
Australian Unity Conservative Growth Portfolio	0.18	2,020,494	90,000	(488,165)	1,622,329	94,552
Australian Unity Traditional Funds Reserve Account	0.03	238,530	13,840	-	252,370	13,355
Australian Unity Education Savings Plan Short Term	0.01	55,478	8,625	(12,951)	51,152	3,043
Australian Unity Education Savings Plan Medium Term	0.02	171,858	44,004	(20,096)	195,766	10,808
Australian Unity High Yield Mortgage Trust	-	10,076,008	114,651	(10,190,659)	-	10,808
Australian Unity Discovery Core Income Trust	0.36	4,163,996	696,937	(1,599,517)	3,261,416	199,787

11 Related party transactions (continued)

Investments

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

	Fair value of investment		Interest held		Distributions received/receivable	
	2010 \$	2009 \$	2010 %	2009 %	2010 \$	2009 \$
Australian Unity Wholesale Cash Fund	134,321,785	146,678,899	16.07	31.49	6,993,583	8,793,033
	134,321,785	146,678,899			6,993,583	8,793,033

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

For the year ended	
30 June 2010 \$'000	30 June 2009 \$'000

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

Profit/(loss) for the reporting period attributable to unitholders	-	-
Proceeds from sale of financial instruments	364,525	324,236
Purchase of financial instruments	(199,229)	(192,129)
Net change in accrued income and receivables	189	3,309
Net change in payables and other liabilities	1,234	1,295
Distribution to unitholders	36,003	52,079
Reinvested income	(6,963)	(9,437)
Net cash inflow/(outflow) from operating activities	195,759	179,353

(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	153	46
	153	46

(c) Non-cash financing activities

During the period, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan

	2,058	25,182
	2,058	25,182

13 Events occurring after the reporting period

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

14 Contingent assets and liabilities and commitments

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

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 31 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true 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 on that date;
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.
- (c) the financial statements are in accordance with the Scheme's Constitution.

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

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



Director



Director
13 September 2010

Independent auditor's report to the unitholders of Australian Unity Mortgage Income Trust

We have audited the accompanying financial report of Australian Unity Mortgage Income 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 cash 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 Mortgage Income Trust is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Australian Unity Mortgage Income 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 signature of the Ernst & Young firm, consisting of the letters 'EY' in a cursive, handwritten style.

Ernst & Young

A handwritten signature of AJ (Tony) Johnson, appearing as a stylized 'AJ' followed by a flourish.

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

Email investments@australianunity.com.au

Australian Unity Funds Management Limited
ABN 60 071 497 115, AFS Licence No. 234454
114 Albert Road, South Melbourne VIC 3205