

Australian Unity Investments Office Property Trust

ARSN 102 283 312

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

The Responsible Entity of Australian Unity Investments Office 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.

Chairman's report

On behalf of the Directors of Australian Unity Property Limited, I am pleased to present the Annual Report to 30 June 2011 for the Australian Unity Investments Office Property Trust.

The Trust achieved a return of 7.12% for the 2010–11 financial year.

Over the past three years we have deployed a dynamic and active approach to our management strategy for the Trust. Pleasingly, this has seen the Trust's assets achieve full occupancy at 30 June 2011.

Active management delivers a stronger investment

During the 2010–11 financial year, we continued to focus on strengthening the Trust's financial position and its leasing profile, directing Trust income to reduce borrowings and to fund capital works that would retain and attract quality tenants. The success of this approach was highlighted in the recent retention of two major tenants at the Olderfleet Buildings at 477 Collins St, Melbourne.

At 30 June 2011, the Trust's gearing ratio was 52.7%. By comparison, the ratio was 62.10% at 30 June 2010.

The year in review

Since late 2009, the commercial property market has been gradually improving, successfully and slowly rebuilding investor returns that had been previously buffeted by the global financial crisis.

During the 2010–11 financial year, Melbourne and Adelaide office markets led the recovery, with Sydney, Brisbane and other office markets both expected to improve over the coming financial year.

At the close of 2010–11, the Melbourne office market was continuing to perform strongly, due primarily to restricted supply and growing demand. Already, tight supply from the lack of recent office construction, along with high levels of employment, had resulted in the Melbourne CBD recording significant rental growth over the year. As well, with the metropolitan area being in demand, increased enquiries in the CBD fringe markets were also observed.



Outlook

We believe that the Melbourne office property market presents a good opportunity for commercial property sellers. Because of strong demand, tight supply and a lack of development over the past three years, we believe there is potentially a unique window of opportunity to sell the Trust's properties.

The Trust has already received enquiries about its properties and we are now actively seeking 'expressions of interest' from potential buyers within the market. We believe this activity demonstrates good and diligent management and that this may potentially achieve a good outcome for investors.

In addition to seeking 'expressions of interest' from the market, we continue to investigate a range of other options regarding the future of the assets and the Trust. Importantly, any sale of the assets would only be completed if we believe the result is in the best interest of investors in the Trust.

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

Thank you for investing with Australian Unity Investments.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Alan Castleman'.

Alan Castleman
Chairman

Your investment – Australian Unity Investments Office Property Trust

Investment objective

The Australian Unity Investments Office Property Trust aims to provide investors with income and the potential for capital growth from a portfolio of office property over the long term.

Investment strategy

The Trust is an unlisted property fund that invests primarily in office property in Victoria.

Investment performance (at 30 June 2011)				
	1 year %	3 years % p.a.	5 years % p.a.	Since inception % p.a. ¹
Distribution return	0.62	1.99	4.56	7.23
Growth return	6.50	(1.92)	(1.17)	0.06
Total investment return	7.12	0.07	3.39	7.29

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.

Quick stats	
Date the Scheme was established	24 December 2002
Fund size (gross asset value)	\$83.20 million

Direct property holdings (at 30 June 2011)
Olderfleet Building, 477 Collins Street, Melbourne Victoria
172 Moreland Rd, Brunswick, Victoria

Asset allocation		
Asset class	Range %	Actual %
Direct property	70 – 100	96.08
Cash and other assets	0 – 20	3.92

Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Investments Office Property Trust present their report together with the financial statements of Australian Unity Investments Office Property Trust ('the Scheme') for the year ended 30 June 2011 ("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 (Chief Executive Officer and Chief Investment Officer)
Rohan Mead (Group Managing Director)
Glenn Barnes (Non-Executive Director)
Ian Ferres (Non-Executive Director)
Stephen Maitland (Non-Executive Director)
Warren Stretton (Non-Executive Director)
Anthony Connon (Chief Financial Officer)

Principal activities

The Scheme's principal objective is to maximise unitholder value through investment in quality office properties with strong lease covenants, secure income streams and the potential for capital growth.

The Scheme invests in direct property assets and cash-type assets.

The Scheme's principal assets are the Olderfleet building at 477 Collins Street, Melbourne VIC, and 172-186 Moreland Road, Brunswick VIC.

Review and results of operations

Property Acquisitions

On 31 August 2010, the Scheme completed the purchase of the property at 172-186 Moreland Road, Brunswick, VIC at a consideration of \$12,500,000 plus acquisition costs of \$695,926.

Property Valuations

During the reporting period, 477 Collins Street, Melbourne was revalued to \$65,400,000, an increase of \$2,400,000 from the previous valuation in October 2009.

The property at 172 Moreland Road, Brunswick was revalued to \$12,700,000 in June 2010. The revaluation was below the Property's carrying value resulting in recording a revaluation decrement of \$495,926.

Results

For the reporting period ended 30 June 2011 the Scheme's units posted a total return of 7.12%, split between a distribution return of 0.62% and a growth return of 6.50%.

Unit price (ex-distribution) as at 30 June 2011 is \$1.0054 (2010: \$0.9440).

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

	For the reporting period ended	
	30 June 2011	30 June 2010
	\$	\$
Profit/(loss) before financing costs attributable to unitholders	<u>1,877,254</u>	(70,601)
Distribution paid and payable	<u>200,988</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 16, no other matter or circumstance has arisen since 30 June 2011 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

Australian Unity Property Limited in its capacity as Responsible Entity is currently seeking 'expressions of interest' from the market to sell the properties, as well as continuing to investigate a range of other options regarding the future of the assets and the Trust.

In the meantime, 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 Property Limited or the auditors of the Scheme. So long as the officers of Australian Unity Property 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 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 15 of the financial statements.

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

The number of units in the Scheme held by the Responsible Entity or its associates as at the end of the reporting period are disclosed in note 15 of the financial statements.

Units in the Scheme

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

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

Environmental regulation

The 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)

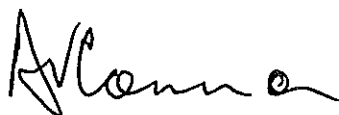
Auditor's independence declaration

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

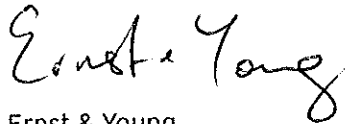


Director

12 September 2011

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

In relation to our audit of the financial report of Australian Unity Investments Office Property Trust for the financial year ended 30 June 2011, 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, handwritten signature of the Ernst & Young firm.

Ernst & Young

A handwritten signature of Tim Barber.

Tim Barber
Partner
Melbourne

12 September 2011

Statement of comprehensive income

	Notes	For the reporting period ended	
		30 June	30 June
		2011	2010
		\$	\$
Investment income			
Interest income		27,566	45,827
Rental income	3	7,664,651	5,617,116
Registry reimbursement		-	4,418
Distribution income		51,145	4,962
Total investment income		<u>7,743,362</u>	<u>5,672,323</u>
Expenses			
Responsible Entity's fees	15	592,915	491,739
Custody fees		13,112	12,722
Auditor's remuneration	4	15,825	16,084
Property related expenses	5	1,846,750	2,290,130
Other Scheme expenses		5,056	44,749
Valuation expenses		23,650	21,500
Net fair value decrement of investment property	8	96,234	104,390
Interest expense		3,272,566	2,761,610
Total expenses		<u>5,866,108</u>	<u>5,742,924</u>
Profit/(loss) before financing costs attributable to unitholders		<u>1,877,254</u>	<u>(70,601)</u>
Financing costs attributable to unitholders			
Distributions to unitholders	7	(200,988)	-
Decrease in swap hedging reserve		(237,756)	(60,627)
(Increase)/decrease in net assets attributable to unitholders	6	(1,438,510)	131,228
Total comprehensive income for the reporting period attributable to unitholders		<u>-</u>	<u>-</u>

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

Statement of financial position

		As at	
	Notes	30 June 2011 \$	30 June 2010 \$
Assets			
Cash and cash equivalents	9	2,087,454	577,569
Trade and other receivables	10	119,748	891,405
Prepaid expenses		290,652	711,491
Derivative assets		-	164,265
Investment property	8	<u>78,130,090</u>	<u>63,237,407</u>
Total assets		<u>80,627,944</u>	<u>65,582,137</u>
Liabilities			
Trade and other payables	11	911,789	1,669,123
Derivative liabilities		73,491	-
Borrowings	12	<u>42,636,405</u>	<u>39,120,265</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>43,621,685</u>	<u>40,789,388</u>
Net assets attributable to unitholders	6	<u>37,006,259</u>	<u>24,792,749</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 reporting period ended	
	30 June	30 June
	2011	2010
	\$	\$
Net assets attributable to unitholders at the beginning of the reporting period	24,792,749	23,923,977
Profit/(loss) before financing costs attributable to unitholders	1,877,254	(70,601)
Swap hedging reserve	(237,756)	(60,627)
Distribution to unitholders	(200,988)	-
Applications by investors	10,775,000	1,000,000
Net assets attributable to unitholders at the end of the reporting period	<u>37,006,259</u>	<u>24,792,749</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 reporting period ended	
		30 June 2011	30 June 2010
Notes		\$	\$
Cash flows from operating activities			
	Interest received	27,566	45,827
	Distributions received	45,038	4,942
	Rental income received	6,784,847	6,249,132
	Payments to suppliers	<u>(2,833,804)</u>	<u>(2,602,366)</u>
16(a)	Net cash inflow from operating activities	<u>4,023,647</u>	<u>3,697,535</u>
Cash flows from investing activities			
	Capital expenditure	(135,423)	(341,797)
	Purchase of investment property	(12,500,000)	-
	Acquisition costs of purchase property	<u>(695,926)</u>	<u>-</u>
	Net cash outflow from investing activities	<u>(13,331,349)</u>	<u>(341,797)</u>
Cash flows from financing activities			
	Proceeds/(repayments) of borrowings	3,650,000	(1,700,000)
	Interest costs paid	(3,272,566)	(2,410,456)
	Distributions paid	(200,988)	(308,896)
	Finance establishment costs paid	(133,859)	(233,789)
	Proceeds from applications by investors	<u>10,775,000</u>	<u>1,000,000</u>
	Net cash inflow/(outflow) from financing activities	<u>10,817,587</u>	<u>(3,653,141)</u>
	Net increase/(decrease) in cash and cash equivalents	1,509,885	(297,403)
	Cash and cash equivalents at the beginning of the reporting period	<u>577,569</u>	<u>874,972</u>
	Cash and cash equivalents at the end of the reporting period	<u>9</u> 2,087,454	<u>577,569</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 Investments Office Property Trust (the "Scheme") as an individual entity. The scheme was established on 24 December 2002 with the term being the 80th anniversary of the day before the scheme commenced 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's registered office is 114 Albert Road, South Melbourne, VIC 3205. The Responsible Entity of the Scheme is incorporated and domiciled in Australia.

The financial statements are for the period from 1 July 2010 to 30 June 2011 ("the reporting period").

The financial statements were authorised for issue by the directors on 12 September 2011. The directors of the Responsible Entity have the power to amend and reissue the financial report.

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's Constitution, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia.

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

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non current. All balances are expected to be recovered or settled within twelve months, except for investments in investment properties, financial assets held at fair value through profit or loss and net assets attributable to investors. 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.

(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. The Scheme's significant accounting estimates include valuation of investment properties, valuation of financial assets held at fair value through profit and loss and collectability of receivables. Actual results could vary from the Scheme's estimates which could result in material adjustment to the Scheme's assets and liabilities.

(c) Investment property

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.

2 Summary of significant accounting policies (continued)

(c) Investment property (continued)

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, related professional fees incurred and other directly attributable transaction costs.

(d) Financial instruments (other than derivatives)

(i) Classification

- *Financial assets and liabilities held at fair value through profit and loss*

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*

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

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 including borrowings*

Loans and receivables/payables are non derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. This category includes short term receivables/payables.

(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

2 Summary of significant accounting policies (continued)

(d) Financial instruments (other than derivatives) (continued)

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

- Fair value in 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.

- Borrowings and receivables*

Borrowings and receivables/payables including borrowings are measured initially at fair value plus transaction costs.

Subsequently, borrowings are carried at amortised cost using the effective interest method. Short term receivables/payables are carried at their initial fair values.

(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.

(e) 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.

(i) 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.

2 Summary of significant accounting policies (continued)

(e) Derivatives (continued)

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

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.

(f) 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.

(g) Investment income

Interest income is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(d).

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

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

(h) Expenses

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

(i) Income tax

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

2 Summary of significant accounting policies (continued)

(i) Income tax (continued)

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

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

(j) Distributions

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

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

Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as part of finance costs. The movements include undistributable income which may consist of undistributable unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to investors) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

(l) 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 original amount. An allowance for doubtful debt is made when there is objective evidence that the Scheme will not be able to recover the debts. Bad debts are written off when identified. in note 2(q) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Input Tax Credits and application monies receivable from unitholders.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(m) 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.

2 Summary of significant accounting policies (continued)

(m) Payables (continued)

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

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

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

(n) 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 interests on issue. All units fully paid with proportionate share of distribution and equal voting rights. They are recognised at the fair value of the consideration received by the Scheme.

(o) Goods and Services Tax ("GST")

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

(p) Borrowings and borrowing costs

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 statement of comprehensive income 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 incurred.

(q) 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.

2 Summary of significant accounting policies (continued)

(q) Revenue (continued)

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 income

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.

(r) 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.

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.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period and have not yet been applied in the financial statements. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. The Standard is not applicable until 1 January 2013. AASB 9 only permits the recognition of fair value gains/(losses) in other comprehensive income if they relate to equity investments that are not traded. Fair value gains/(losses) on debt investments are 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.

(ii) 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.

2 Summary of significant accounting policies (continued)

(s) New accounting standards and interpretations (continued)

(iii) AASB 2010-4 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. 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 does not expect that any adjustments will be necessary as the result of applying the revised rules.

(iv) AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (effective from 1 January 2011)

In October 2010, the AASB issued the above Standard. The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. These amendments have no major impact on the requirements of the amended pronouncements. The Scheme does not expect that any adjustments will be necessary as the result of applying the amendments.

(v) AASB 2010-6 Amendments to Australian Accounting Standards Disclosures on Transfers of Financial Assets (effective from 1 July 2011)

In November 2010, the AASB issued the above Standard amending the disclosure requirements in AASB 7 *Financial Instruments: Disclosures*. The Standard introduces additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The Scheme will apply the amendment from 1 July 2011 with no comparative information being required for the reporting period ending on 30 June 2012. It does not expect any significant impact as the result of applying the amendments.

(vi) IFRS 13 Fair Value Measurement (effective 1 January 2013)

IFRS 13 was released in May 2011. The AASB is expected to issue an equivalent Australian standard shortly. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Scheme has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Scheme does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(vii) AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project (effective 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the Scheme's current disclosures. The Scheme intends to adopt the standards from 1 July 2011.

(viii) Revised IAS 1 Presentation of Financial Statements (effective 1 July 2012)

In June 2011, the IASB made an amendment to IAS 1 *Presentation of Financial Statements*. The AASB is expected to make the equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to the statement of comprehensive income in the future. It will not affect the measurement of any of the items recognised in the statement of financial position or the statement of comprehensive income in the current period. The Scheme intends to adopt the new standard from 1 July 2012.

3 Rental income

	For the reporting period ended	
	30 June 2011 \$	30 June 2010 \$
Rental income *	6,466,400	4,182,577
Outgoings income	<u>1,198,251</u>	<u>1,434,539</u>
	<u>7,664,651</u>	<u>5,617,116</u>

*Includes income arising from recognising lease income on straight-line basis.

4 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 reporting period ended	
	30 June 2011 \$	30 June 2010 \$
(a) Audit services		
Audit and review of financial reports	<u>13,625</u>	13,625
Total remuneration for audit services	<u>13,625</u>	<u>13,625</u>
(b) Audit-related services		
Tax compliance services	<u>2,200</u>	2,459
Total remuneration for taxation services	<u>2,200</u>	<u>2,459</u>
Total remuneration for audit services	<u>15,825</u>	<u>16,084</u>

5 Property related expenses

	For the reporting period ended	
	30 June 2011 \$	30 June 2010 \$
Recoverable outgoings	422,380	1,637,904
Non recoverable outgoings	1,331,437	468,842
Amortisation of lease commissions	<u>92,933</u>	<u>183,384</u>
	<u>1,846,750</u>	<u>2,290,130</u>

6 Net assets attributable to unitholders

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

As net assets attributable to unitholders are classified as a 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 income statement.

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.

Movement in number of units and net assets attributable to unitholders during the year were as follows:

	For the reporting period ended			
	30 June 2011 No.	30 June 2010 No.	30 June 2011 \$	30 June 2010 \$
Unitholders' funds				
Opening balance	25,711,669	24,711,669	22,694,314	21,694,314
Applications	<u>11,687,818</u>	<u>1,000,000</u>	<u>10,775,000</u>	<u>1,000,000</u>
Closing balance	<u>37,399,487</u>	<u>25,711,669</u>	<u>33,469,314</u>	<u>22,694,314</u>
			As at	
			30 June 2011 \$	30 June 2010 \$
Undistributed income				
Opening balance			2,098,435	2,229,663
Increase/(decrease) in net assets attributable to unitholders			<u>1,438,510</u>	<u>(131,228)</u>
Closing balance			<u>3,536,945</u>	<u>2,098,435</u>
Total net assets attributable to unitholders			<u>37,006,259</u>	<u>24,792,749</u>

Capital risk management

The Scheme considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a 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 reporting period ended			
	30 June 2011 \$	30 June 2011 CPU	30 June 2010 \$	30 June 2010 CPU
Distributions paid during the year	<u>200,988</u>	<u>0.537</u>	-	-
Distribution paid and payable	<u>200,988</u>	<u>0.537</u>	-	-

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

8 Investment properties

30 June 2011	Opening balance \$	Purchase price \$	Acquisition costs \$	Capital costs \$	Revaluation* \$	Closing balance \$	Latest valuation \$
Investment property							
477 Collins Street, Melbourne, VIC	63,237,407	-	-	135,423	2,057,260	65,430,090	65,400,000
172-186 Moreland Road, Brunswick, VIC	-	12,500,000	695,926	-	(495,926)	12,700,000	12,700,000
Total	<u>63,237,407</u>	<u>12,500,000</u>	<u>695,926</u>	<u>135,423</u>	<u>1,561,334</u>	<u>78,130,090</u>	<u>78,100,000</u>

30 June 2010	Opening balance \$	Purchase price \$	Acquisition costs \$	Capital costs \$	Revaluation \$	Closing balance \$	Latest valuation \$
Investment property							
477 Collins Street, Melbourne, VIC	63,000,000	-	-	341,797	(104,390)	63,237,407	63,000,000
Total	<u>63,000,000</u>	<u>-</u>	<u>-</u>	<u>341,797</u>	<u>(104,390)</u>	<u>63,237,407</u>	<u>63,000,000</u>

* For the reporting period ended 30 June 2011, the net fair value increment of investment in properties in the Statement of comprehensive income of \$96,234 includes unamortised cost of lease incentives, unamortised leasing costs and the impact of straight-lining rental income of \$1,657,568 as seen below:

The accounting policies adopted and the description of straight lining rental income received by the Scheme have been disclosed in note 2(r).

Revaluation of investment properties	1,561,334
Adjustment for straight-lining rental income	(1,029,293)
Adjustment for lease incentives	<u>(628,275)</u>
	<u>96,234</u>

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 valuation is 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.

8 Investment properties (continued)

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

The 'Olderfleet Building' at 447 Collins Street, Melbourne, VIC was revalued in October 2010 by Savills at \$65,400,000, up from \$63,000,000. Since latest valuation, capital expenditure of \$30,090 has been incurred which has increased the carrying value of the property.

On 31 August 2010, the Scheme purchase the property at 172-186 Moreland Road, Brunswick, VIC for a purchase price of \$12,500,000 from Australian Unity Property Income Fund (a related entity). As part of the transaction, Australian Unity Property Income Fund applied for \$5,300,000 worth of the units in Australian Unity Investments Office Property Trust. Upon acquisition on 31 August 2010, the Scheme revalued the property to \$12,700,000 as valued by CBRE.

9 Cash and cash equivalents

	As at	
	30 June 2011	30 June 2010
	\$	\$
Cash at bank	686,933	572,627
Australian Unity Wholesale Cash Fund	<u>1,400,521</u>	<u>4,942</u>
	<u>2,087,454</u>	<u>577,569</u>

10 Trade and other receivables

	As at	
	30 June 2011	30 June 2010
	\$	\$
Trade receivables *	57,296	761,240
Distribution receivable	6,127	20
GST receivable	<u>56,325</u>	<u>130,145</u>
	<u>119,748</u>	<u>891,405</u>

* Prior year, includes receivables arising from recognising lease income on a straight line basis over the term of individual leases.

11 Trade and other payables

	As at	
	30 June 2011 \$	30 June 2010 \$
Accrued expenses	685,890	1,196,621
Interest payable	-	67,399
GST payable	225,899	405,103
	911,789	1,669,123

12 Borrowings

	As at	
	30 June 2011 \$	30 June 2010 \$
Loan	42,770,265	39,120,265
Unamortised transaction costs	(133,860)	-
	42,636,405	39,120,265

As at 30 June 2011, the facility limit was \$43,300,000. (30 June 2010: \$39,650,000)

The loan was refinanced during the reporting period and with the amount owing of \$42,770,265 as at 30 June 2011. The facility limit has an expiring date of 31 December 2011.

The drawdown loan is at a floating rate of BBSY + 1.48%.

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

The above loan is 91.57% hedged at an average rate of 5.03% as at 30 June 2011. Interest rate swap arrangements as at 30 June 2011 are detailed in note 13.

13 Derivatives

30 June 2011

	Contract/ notional \$	Fair Values	
		Assets \$	Liabilities \$
Interest rate swap contracts			
Interest rate swaps - maturity 6 June 2012	18,000,000	-	26,079
Interest rate swaps - maturity 6 June 2012	8,164,000	46,289	-
Interest rate swaps - maturity 10 June 2014	6,500,000	-	18,481
Interest rate swaps - maturity 9 June 2015	6,500,000	-	12,773
	<u>39,164,000</u>	<u>46,289</u>	<u>57,333</u>
Forward starting interest rate swap contracts			
Interest rate swaps - commencing 6 June 2012, maturity 6 June 2013	18,000,000	-	63,983
	<u>18,000,000</u>	<u>-</u>	<u>63,983</u>
TOTAL	<u>57,164,000</u>	<u>46,289</u>	<u>121,316</u>

30 June 2010

	Contract/ notional \$	Fair Values	
		Assets \$	Liabilities \$
Interest rate swaps - 2 year	12,246,000	127,066	-
Interest rate swaps - 3 year	8,164,000	87,390	-
Interest rate swaps - 4 year	6,500,000	-	(16,653)
Interest rate swaps - 5 year	6,500,000	-	(28,128)
	<u>33,410,000</u>	<u>214,456</u>	<u>(44,781)</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 balance sheet date, 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 as at 30 June 2011 comprised:

A contract with a notional amount of \$18,000,000 maturing on 6 June 2012 at a fixed rate of 4.98%.

A contract with a notional amount of \$8,164,000 maturing on 6 June 2012 at a fixed rate of 4.36%.

A contract with a notional amount of \$6,500,000 maturing on 10 June 2014 at a fixed rate of 5.17%.

A contract with a notional amount of \$6,500,000 maturing on 9 June 2015 at a fixed rate of 5.31%.

A forward starting contract with a notional amount of \$18,000,000 commencing 6 June 2012 and maturing on 6 June 2013 at a fixed rate of 5.35%.

14 Financial risk management

(a) Objectives, strategies, policies and processes

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

Financial instruments of the Scheme comprise borrowings, derivative assets used to hedge interest rate risk, 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 programme 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 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 uses interest rate swaps to manage exposures resulting from changes in interest rates.

(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 unitholders) 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) Price risk

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

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

The Investment Manager mitigates this price risk through careful selection of investments and other financial instruments within the specified investment limits set by the Board.

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

This investment price risk is measured using sensitivity analysis.

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

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

14 Financial risk management (continued)

(ii) Interest Rate risk

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

The Scheme's interest bearing financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Scheme has established limits on its borrowings, which are monitored on a regular basis. The 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.

The following table summarises the sensitivity of the Scheme's profit/(loss) and net assets attributable to investors to interest rate risk on the Scheme's unhedged borrowings and derivative assets.

	Impact on net assets attributable to unitholders	
	2011 (+50 bps) 2010 (+75 bps) \$	2011 (-50 bps) 2010 (-75 bps) \$
30 June 2011	330,447	(469,210)
30 June 2010	728,277	(410,210)

(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.

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.

(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's constitution provides for the daily application and redemptions of units and it is therefore exposed to the liquidity risk of meeting unitholder redemptions at any time.

Under the terms of its Product Disclosure Statement, the scheme has the ability to manage liquidity risk by delaying redemptions to investors, if necessary, until funds are available.

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.

14 Financial risk management (continued)

Maturity analysis for financial liabilities

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

	Less than 1 month	1-3 months	3-12 months	12-60 months
	\$	\$	\$	\$
At 30 June 2011				
Trade and other payables	911,789	-	-	-
Borrowings	-	-	42,636,405	-
Net assets attributable to unitholders	<u>37,006,259</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>37,918,048</u>	<u>-</u>	<u>42,636,405</u>	<u>-</u>
	Less than 1 month	1-3 months	3-12 months	12-60 months
	\$	\$	\$	\$
At 30 June 2010				
Trade and other payables	1,669,123	-	-	-
Borrowings	-	-	39,120,265	-
Net assets attributable to unitholders	<u>24,792,748</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>26,461,871</u>	<u>-</u>	<u>39,120,265</u>	<u>-</u>

As disclosed above, the Scheme manages its liquidity risk by investing 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 2011, these assets amounted to \$2,087,453 (2010: \$577,569).

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

(e) Estimation of 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.

(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 rates in accordance with the Scheme's financial risk management policies.

The details of the Scheme's hedging activities are detailed in note 11 and note 13.

15 Related party transactions

Responsible Entity

The Responsible Entity of Australian Unity Investments Office 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 financial year as follows:

Alan Castleman (Chairman)
David Bryant (Chief Executive Officer and Chief Investment Officer)
Rohan Mead (Group Managing Director)
Glenn Barnes (Non-Executive Director)
Ian Ferres (Non-Executive Director)
Stephen Maitland (Non-Executive Director)
Warren Stretton (Non-Executive Director)
Anthony Connon (Chief Financial Officer)

(b) Other key management personnel

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

Key management personnel 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 interests

At 30 June 2011 no key management personnel held material units in the Scheme (2010: nil).

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 personal 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 year.

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 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 director's interests subsisting at reporting period end.

15 Related party transactions (continued)

Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive fees quarterly, calculated at 0.75% per annum of the total assets of the Scheme. The Scheme's Constitution sets out maximum fees can be charged. Currently, the Scheme sets the fee structures for its units at a level below the maximum allowed for in the Constitution.

For the reporting period ended 30 June 2011, all expenses in connection with the preparation of accounting records and the maintenance of the unitholder register have been fully borne by the Responsible Entity and its associates.

	As at	
	30 June 2011	30 June 2010
	\$	\$
Management fees for the year paid/payable by the Scheme to the Responsible Entity	592,915	491,739

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

Other related party transactions

Australian Unity Property Management Pty Ltd (a related party of the Responsible Entity) has been appointed to provide a number of services to the Scheme. These services include:

- Leasing and Agency Services;
- Market Rent Reviews;
- Property Management Services;
- Project Management Services;
- Development Management Services; and
- Debt Arrangement Services

The total fees paid/payable to Australian Unity Property Management Pty Ltd for the reporting period ended 30 June 2011 was \$170,333. Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2011 is \$170,333.

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), held interests in the scheme as follows:

2011

Unitholder	Number of units held opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held closing (Units)	Interest held (%)
Australian Unity Property Income Fund	1,000,000	5,748,997	-	6,748,997	18.05
Capital Guaranteed Funeral Bond (Taxed)	-	933,494	-	933,464	2.50
Capital Guaranteed Funeral Bond (Untaxed)	-	754,267	-	754,267	2.02
Capital Secure Funeral Bond	-	549,061	-	549,061	1.47
LP Funeral Benefit No2 Untaxed (L3FB2U)	-	3,702,000	-	3,702,000	9.90

15 Related party transactions (continued)

2010

Unitholder	Number of units held opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held closing (Units)	Interest held (%)
Australian Unity Property Income Fund	-	1,000,000	-	1,000,000	3.89

Investments

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

	Fair value of investment \$	Interest held %	Units acquired No.	Units disposed No.
30 June 2011				
Australian Unity Wholesale Cash Fund	<u>1,400,521</u>	0.185	<u>2,095,579</u>	<u>700,000</u>

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

	For the reporting period ended	
	30 June 2011 \$	30 June 2010 \$
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the reporting period attributable to unitholders	-	-
Increase/(decrease) in net assets attributable to unitholders	1,676,266	(70,601)
Change in fair value of the investment properties - revaluation decrement/(increment)	96,234	104,390
Adjustments to straightline rental and lease incentive	(1,657,568)	-
Decrease/(increase) in receivables	771,657	304,327
Decrease/(increase) in other assets	420,839	(128,850)
Increase/(decrease) in liabilities	(757,335)	1,162,530
Add back interest expense	3,272,566	2,527,822
Increase in net lease incentives	-	(435,872)
Add back financing costs - distributions	200,988	-
Add back establishment costs	-	233,789
Net cash inflow/(outflow) from operating activities	<u>4,023,647</u>	<u>3,697,535</u>

(b) Reconciliation of cash and cash equivalents

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

Cash and cash equivalents	686,932	572,627
Australian Unity Wholesale Cash Fund	1,400,521	4,942
	<u>2,087,453</u>	<u>577,569</u>

(c) Non-cash financing activities

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

- -

As described in note 2(k), 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 (i.e. taxable).

17 Events occurring after the reporting period

Australian Unity Property Limited in its capacity as Responsible Entity is currently seeking 'expressions of interest' from the market to sell the properties, as well as continuing to investigate a range of other options regarding the future of the assets and the Trust.

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 2011 or on the results and cash flows of the Scheme for the reporting period ended on that date.

18 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2011 and at 30 June 2010.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 32 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2011 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

12 September 2011

Independent auditor's report to the unitholders of Australian Unity Investments Office Property Trust

We have audited the accompanying financial report of Australian Unity Investments Office Property Trust, which comprises the statement of financial position as at 30 June 2011, 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.

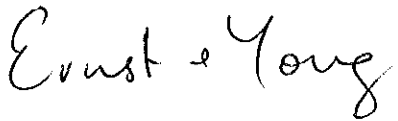
Independence

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 Investments Office 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 Investments Office Property Trust as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.



Ernst & Young



Tim Barber
Partner
Melbourne
12 September 2011



Contact Australian Unity Investments

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