



Australian Unity Property Income Fund
Annual Report – 30 June 2010



ARSN 094 220 498

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These financial statements cover Australian Unity Property Income Fund as an individual entity.

The Responsible Entity of Australian Unity Property Income Fund is Australian Unity Property Limited (ABN 58 079 538 499).

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

A message from the Chairman

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

In 2009/10, both the direct and listed property sectors showed signs of recovery.

Improved sentiment for direct property was underpinned by reports of better conditions for office, industrial and retail properties. As a result, values for prime properties appeared to have stabilised, with secondary properties at or near the bottom of the valuation cycle.

The listed Australian Real Estate Investment Trust (A-REIT) sector also partially recovered from its steep decline during 2008/09. For the one-year period to 30 June 2010, the S&P/ASX300 A-REIT Accumulation Index returned 20.34%. The improvement in the sector's performance reflects more favourable economic conditions, increased investor confidence and, more specifically, the result of A-REITs strengthening their balance sheets.

Against this, however, the A-REIT sector did experience significant volatility during the last six months of the 2009/10 financial year. This was predominately a result of investor uncertainty resulting from global issues, such as contagion effects of debt issues in Europe.

How the Fund performed

During the financial year, all direct property assets were re-valued, resulting in modest reductions in valuations in most cases. A number of downward valuations within unlisted investments also impacted the Fund.

In January 2010, the Fund invested into the Corval Industry House Trust and, in April 2010, it also invested in the Australian Unity Office Property Trust. In addition, applications into the Australian Unity Retail Property Fund were made throughout the year to better target yield and growth prospects.

The Victoria Street, Brunswick (Vic) property was sold on 1 June 2010 for \$6.8m, with the net sale proceeds being primarily invested into listed A-REITs and unlisted property trusts. More recently, in August 2010 the industrial property in Moreland Road, Brunswick (Vic) was also sold for \$12.5 million.



Looking ahead

Following the significant valuation declines through 2008 and much of 2009/10, we consider direct and unlisted property investments for the broader sector are likely to be near or at the bottom of the property value cycle. Future performance for direct and unlisted property assets will likely be influenced by asset-specific factors and management quality.

In the A-REIT sector, we believe stocks are currently priced at or near fair value, with any significant uplift in prices likely to come from earnings upgrades (for example, increased rental income) or clear evidence of increasing property values.

Nonetheless, we believe there is still opportunity for the A-REIT sector to improve further over the medium to long term, for example through potential mergers and acquisition. However, we expect the sector will experience further volatility until market confidence and sentiment in the wake of the global financial crisis can be fully restored.

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 Property Income Fund

at 30 June 2010

Investment objective

The Fund aims to provide investors with consistent income returns, as well as liquidity. In addition, the Fund is also designed to benefit from capital growth over the medium to long term.

Investment strategy

The Fund purchases direct properties and blends them with investments in listed Australian Real Estate Investment Trusts (A-REITs) and unlisted property trusts. This maintains a core exposure to direct property assets that provide consistent income and the potential for capital growth.

Investment performance			
	1 year %	3 years % p.a.	5 years % p.a.
Retail units performance	4.40	(3.09)	3.23
Wholesale units performance	5.35	(2.22)	4.14

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.

Quick stats		
	Retail units	Wholesale units
Inception date	March 2005	December 1998
Fund size (net asset value)	\$138.12m	
Income distributions	Quarterly	Quarterly

Geographic asset allocation	
State	Actual %
VIC/TAS	40.76
NSW/ACT	29.88
QLD	19.68
SA	6.83
WA	2.22
Overseas	0.63

Asset allocation		
Asset class	Range %	Actual %
Direct property and unlisted property securities	40 – 70	74.76
A-REITs	20 – 50	23.00
Cash and other assets	0 – 30	2.24

Underlying Fund holdings		
Direct property	Indirect property	
40 Allara Street Canberra, ACT	Australian Unity Retail Property Fund	CorVal Industry House Trust
172-186 Moreland Road, Brunswick, VIC	MAB Diversified Property Trust	Australian Social Infrastructure Trust
98 Ingleston Rd, Wakerley, QLD	Australian Unity Property Syndicate #1	Australian Unity Healthcare Property Trust
Salisbury Cinema Complex, Salisbury, SA	Australian Unity Property Syndicate #2	Australian Unity Office Property Trust
15 Telford Place, Arundel, QLD	Australian Unity Industrial Property Trust	Becton Retail Property Trust
65 Beverage Drive, Tullamarine, VIC	Becton Industrial Property Trust	Australian Unity Property Securities Fund - Growth Units
11 Dansu Court, Hallam, VIC	Orchard Childcare Property Trust	Australian Unity Property Securities Fund - Income Units
7-9 Siddons Way, Hallam, VIC	Investa Second Industrial Trust	

Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Property Income Fund, present their report together with the financial statements of Australian Unity Property Income Fund ("the Scheme"), for the year ended 30 June 2010 ("the reporting period").

Directors

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

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

Principal activities

The Scheme's objective is to provide relatively high income on a quarterly basis, with some potential for capital growth over the medium to long term.

The Scheme provides two separate classes of units, Retail units and Wholesale units.

The Scheme invests in direct property assets, listed and unlisted property trusts, property syndicates and cash type assets.

Review and results of operations

Property Valuations

During the year nine properties were revalued at a total of \$65.83m, down from their previous aggregated valuations of \$70.25m in the 2009 financial year. The current financial year revaluations were in total below the revalued properties carrying values resulting in recording a net revaluation fair value decrement of \$2.24m.

Results

For the reporting period ended 30 June 2010 the Scheme's retail units posted a total return of 4.40%, split between a distribution return of 5.30% and a growth return of (0.90%).

For the reporting period ended 30 June 2010 the Scheme's wholesale units posted a total return of 5.35%, split between a distribution return of 6.26% and a growth return of (0.91%).

Unit prices (ex-distribution) at 30 June 2010 (30 June 2009) are as follows:

Retail units \$0.7974 (\$0.8030)

Wholesale units \$0.8405 (\$0.8465)

Directors' report (continued)

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 financing costs attributable to unitholders	7,877	(18,097)
<i>Distributions - wholesale</i>		
Distribution paid and payable	6,738	8,278
<i>Distributions - retail</i>		
Distribution paid and payable	1,620	1,617

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 under review.

Events occurring after the reporting period

On the 30th of August, 2010 the Scheme accepted an offer from Australian Unity Investments Office Property Trust (a related entity) on the property at 172-186 Moreland Road, Brunswick, Victoria for a sale price of \$12.5 million.

As part of the transaction, \$5.3 million of the net sales proceeds will be invested into the Australian Unity Investments Office Property Trust, providing the Scheme enhanced diversification in the office property sector. The remaining sales proceeds will be reinvested in other attractive investment opportunities.

Except as disclosed above and in note 17 of these financial statements, no matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

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

Indemnity and insurance of officers and auditors

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

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

Fees paid to the Responsible Entity and its associates out of Scheme property during the reporting period are disclosed in note 16 of the financial statements.

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

Directors' report (continued)

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 16 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 8 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.

Rounding of amounts to the nearest thousand dollars

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

Auditor's independence declaration

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

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



Director



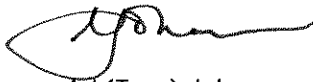
Director
13 September 2010

Auditor's Independence Declaration to the Directors of Australian Unity Property Limited, as Responsible Entity for Australian Unity Property Income Fund

In relation to our audit of the financial report of Australian Unity Property Income Fund 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.



Ernst & Young



AJ (Tony) Johnson
Partner
Melbourne

13 September 2010

Statement of comprehensive income

	Notes	For the year ended	
		30 June 2010 \$'000	30 June 2009 \$'000
Income			
Interest income		33	184
Distribution income		3,091	4,390
Net gains/(losses) on financial instruments held at fair value through profit or loss	3	1,509	(24,210)
Rental income	4	7,353	7,409
Other operating income	5	523	1,001
Total income		<u>12,509</u>	<u>(11,226)</u>
Expenses			
Responsible entity's fees	16	792	759
Other Trust expenses		15	100
Property related expenses	7	1,586	1,735
Net fair value decrement of investment properties		2,239	4,277
Total expenses		<u>4,632</u>	<u>6,871</u>
Profit/(loss) before finance costs attributable to unitholders		<u>7,877</u>	<u>(18,097)</u>
Finance costs attributable to unitholders			
Distributions to unitholders	9	8,358	9,894
Decrease in net assets attributable to unitholders	8	(481)	(27,991)
Other comprehensive income for the reporting period attributable to unitholders		-	-
Total comprehensive income for the reporting period attributable to unitholders		<u>-</u>	<u>-</u>

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

Statement of financial position

		As at	
	Notes	30 June 2010 \$'000	30 June 2009 \$'000
Assets			
Cash and cash equivalents	17	3,862	2,340
Distribution receivable		1,008	1,111
Trade and other receivables	12	970	523
Prepaid expenses		187	131
Lease incentives	13	40	61
Financial assets held at fair value through profit or loss	11	65,886	70,214
Investment properties	10	66,164	71,118
Total assets		138,117	145,498
Liabilities			
Distributions payable	9	2,232	2,174
Trade and other payables	14	1,739	953
Total liabilities (excluding net assets attributable to unitholders)		3,971	3,127
Net assets attributable to unitholders	8	134,146	142,371

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	142,371	156,817
Profit/(loss) for the reporting period before financing costs attributable to unitholders	7,877	(18,097)
Distribution to unitholders	(8,358)	(9,894)
Application for units	18,682	44,536
Units issued upon re-investment of distributions	1,746	2,262
Redemption of units	(28,172)	(33,253)
Net assets attributable to unitholders at the end of the reporting period	<u>134,146</u>	<u>142,371</u>

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

Statement of cash flows

	Notes	For the year ended	
		30 June 2010 \$'000	30 June 2009 \$'000
Cash flows from operating activities			
Distribution received		3,193	5,425
Interest received		33	184
Rental income received		7,160	7,224
Payments to suppliers		<u>(1,978)</u>	<u>(2,534)</u>
Net cash inflow from operating activities	17(a)	<u>8,408</u>	<u>10,299</u>
Cash flows from investing activities			
Proceeds from sale of financial investments		32,008	30,323
Proceeds from sale of investment property		6,800	-
Purchase of financial investments		(25,566)	(42,717)
Payments for capital expenditure on investment properties		<u>(4,085)</u>	<u>(1,093)</u>
Net cash (outflow) from investing activities		<u>9,157</u>	<u>(13,487)</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		20,164	44,536
Payments for redemptions to unitholders		(28,172)	(33,253)
Distributions paid		<u>(8,035)</u>	<u>(7,718)</u>
Net cash inflow/(outflow) from financing activities		<u>(16,043)</u>	<u>3,565</u>
Net increase in cash and cash equivalents		1,522	377
Cash and cash equivalents at the beginning of the reporting period		<u>2,340</u>	<u>1,963</u>
Cash and cash equivalents at the end of the reporting period	17(b)	<u>3,862</u>	<u>2,340</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 Property Income Fund (the "Scheme") as an individual entity. The Scheme was constituted on 1 December 1998. The Scheme began the date the Responsible Entity accepted the first application for units and will end 80 years (less 1 day) after that date or at such a time as the Scheme Constitution or law provides.

The Responsible Entity of the Scheme is Australian Unity Property Limited (ABN 58 079 538 499) (The "Responsible Entity") a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity of the Scheme is incorporated and domiciled in Australia.

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

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non current. All balances are generally expected to be recovered or settled within twelve months, except for investments in investment properties, financial assets held at fair value through profit or loss and net assets attributable to unitholders. The amount expected to be recovered or settled within 12 months after the end of the year 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.

These financial statements are presented in the local reporting currency being Australian dollars.

AASB 101 Presentation of Financial Statements

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

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

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

(b) Significant accounting estimates and assumptions

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

2 Summary of significant accounting policies (continued)

(c) Investment Properties

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

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

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the statement of comprehensive income in the year 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 Trust does not expect to be ultimately liable for capital gains tax in respect of the assets.

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

(d) Financial instruments

(i) Classification

The Scheme's investments are classified as at fair value through profit or loss.

(ii) Recognition/derecognition

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

Investments are derecognised when the right to receive cashflows from the investments have expired or the Scheme has transferred substantially all risks and rewards of ownership.

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

- Fair value that is observable by the market

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

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

2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

- Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

(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) 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 Trust 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 unit holders. Changes in the value of this financial liability are recognised in the statement of comprehensive income as they arise.

(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.

(g) Trade and other receivables

Receivables may include amounts for interest, rental income arrears, trust distributions and securities sold where settlement has not yet occurred. 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 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.

Collectibility 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.

2 Summary of significant accounting policies (continued)

(g) Trade and other receivables (continued)

The amount of the impairment loss is recognised in the statement of comprehensive income 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.

(h) Trade and other payables

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

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.

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

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

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.

(i) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue brought to account but not received at balance date is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

Rental revenue

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

Contingent rentals, such as turnover rent and market rent adjustments, are recognised as income in the financial year 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 income (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 year.

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

Interest revenue

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

Investment income

Interest income is recognised in profit or loss 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).

2 Summary of significant accounting policies (continued)

(i) Revenue (continued)

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 year end 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.

(j) Leases, Leasing costs and Lease incentives

Leasing costs

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

Lease incentives

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

(k) Income tax

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

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

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

(l) 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.

(m) 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 unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

2 Summary of significant accounting policies (continued)

(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 by reference to the net assets of the Scheme divided by the number of units on issue.

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

(p) Expenses

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

(q) New accounting standards and interpretations

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

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

(iv) AASB 2010-03 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and AASB 2010-04 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 July 2010/1 January 2011)* (effective from 1 January 2009 and 1 July 2009, respectively)

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

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

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

(r) 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 to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(s) Government grants

Grants from the government (including Green Building Fund Grants) are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Scheme will comply with all attached conditions.

Government grants (including Green Building Fund Grants) relating to expenses are deferred and recognised in profit or loss over the period necessary to match them with the expenses that they are intended to compensate.

Government grants relating to the purchase of assets and capital expenditure are included as a deduction from the cost of the asset.

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

	For the year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Net unrealised gains/(losses) on financial instruments designated as at fair value through profit or loss	<u>(570)</u>	<u>(26,278)</u>
Net realised gains/(losses) on financial instruments designated as at fair value through profit or loss	<u>2,079</u>	<u>2,068</u>
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>1,509</u>	<u>(24,210)</u>

4 Rental income

	For the year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Rental income	6,819	6,641
Outgoings income	<u>534</u>	<u>768</u>
	<u>7,353</u>	<u>7,409</u>

5 Other operating income

	For the year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Other operating income	423	1,001
Green building fund grants *	<u>100</u>	<u>-</u>
	<u>523</u>	<u>1,001</u>

* The accounting policies adopted and the description of government grants received by the Scheme, including the conditions attached to the grant, have been disclosed in note 2(s).

6 Auditor's remuneration

All monies paid and payable to the Auditor are paid by the Responsible Entity on behalf of the Scheme.

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

6 Auditor's remuneration (continued)

	For the year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
(a) Audit services		
<i>Audit services</i>		
Audit and review of financial reports	19	15
Total remuneration for audit services	19	15
(b) Non-audit services		
<i>Taxation services</i>		
Tax compliance services	10	32
Total remuneration for taxation services	10	32
	29	47

7 Property related expenses

	For the year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Property outgoings	1,523	1,614
Consulting expenses	41	96
Lease incentive amortisation	22	22
Leasing Fees	-	3
	1,586	1,735

8 Net assets attributable to unitholders

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

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

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

	For the year ended			
	30 June 2010 No. '000	30 June 2009 No. '000	30 June 2010 \$'000	30 June 2009 \$'000
Opening balance	169,726	155,841	181,160	167,614
Net assets attributable to unitholders - Retail				
Applications	4,669	17,481	3,856	16,123
Redemptions	(6,652)	(2,969)	(5,449)	(2,628)
Units issued upon reinvestment of distributions	435	963	351	832
	(1,548)	15,475	(1,242)	14,327

8 Net assets attributable to unitholders (continued)

Net assets attributable to unitholders -

Wholesale

Applications	16,998	31,772	14,825	28,413
Redemptions	(26,068)	(34,973)	(22,723)	(30,625)
Units issued upon reinvestment of distributions	1,638	1,611	1,395	1,430
	<u>(7,432)</u>	<u>(1,590)</u>	<u>(6,503)</u>	<u>(782)</u>
Closing balance	<u>160,746</u>	<u>169,726</u>	<u>173,415</u>	<u>181,159</u>

Movements in unitholders' funds during the period were as follows:

	30 June 2010 \$'000	30 June 2009 \$'000
Undistributed income		
Opening balance	(38,788)	(10,797)
Decrease in net assets attributable to unitholders	<u>(481)</u>	<u>(27,991)</u>
Closing balance	<u>(39,269)</u>	<u>(38,788)</u>
	For the year ended	
	30 June 2010 \$'000	30 June 2009 \$'000
Total net assets attributable to unitholders	<u>134,146</u>	<u>142,371</u>

9 Distributions to unitholders

Timing of distributions

The distributions for the reporting period were as follows:

	30 June 2010 \$'000	For the year ended 30 June 2010 CPU	30 June 2009 \$'000	30 June 2009 CPU
Distribution paid - Wholesale units	4,913	3,8775	6,492	4,7300
Distribution paid - Retail units	1,213	3,1198	1,227	3,9726
Distribution payable - Wholesale units	1,824	1,4491	1,785	1,3395
Distribution payable - Retail units	408	1,1692	390	1,0680
	<u>8,358</u>	<u>9,6156</u>	<u>9,894</u>	<u>11,1101</u>

10 Investment properties

30 June 2010	Opening balance \$'000	Disposal price \$'000	Acquisition costs \$'000	Capital costs \$'000	Revaluation/ (Devaluation) \$'000	Closing balance \$'000	Latest valuation \$'000
Investment properties							
65 Beverage Drive, Tullamarine, VIC	4,900	-	-	19	-	4,919	4,900
Crn James & Gawler Streets, Salisbury, SA	6,750	-	-	24	(174)	6,600	6,600
98 Ingleston Road, Wakerley, QLD	7,513	-	-	78	(13)	7,578	7,500
40 Allara Street, Canberra, ACT	17,455	-	-	3,964	(1,332)	20,087	19,850
421 Victoria Street, Brunswick, VIC	6,900	(6,800)	-	-	(100)	-	-
7-9 Siddons Way, Hallam, VIC	3,300	-	-	-	(20)	3,280	3,280
11 Dansu Court, Hallam, VIC	5,250	-	-	-	(450)	4,800	4,800
15 Telford Place, Arundal, QLD	6,900	-	-	-	(500)	6,400	6,400
172-186 Moreland Road, Brunswick, VIC	12,150	-	-	-	350	12,500	12,500
Total	71,118	(6,800)	-	4,085	(2,239)	66,164	65,830
30 June 2009	Opening balance \$'000	Purchase price \$'000	Acquisition costs \$'000	Capital costs \$'000	Revaluation/ (Devaluation) \$'000	Closing balance \$'000	Latest valuation \$'000
Investment properties							
65 Beverage Drive, Tullamarine, VIC	5,375	-	-	-	(475)	4,900	4,900
Crn James & Gawler Streets, Salisbury, SA	6,916	-	-	-	(166)	6,750	6,750
98 Ingleston Road, Wakerley, QLD	6,252	-	-	13	1,248	7,513	7,500
40 Allara Street, Canberra, ACT	17,000	-	-	855	(400)	17,455	16,600
421 Victoria Street, Brunswick, VIC	8,200	-	-	-	(1,300)	6,900	6,900
7-9 Siddons Way, Hallam, VIC	3,738	-	-	-	(438)	3,300	3,300
11 Dansu Court, Hallam, VIC	5,614	-	-	3	(367)	5,250	5,250
15 Telford Place, Arundal, QLD	7,455	-	-	-	(555)	6,900	6,900
172-186 Moreland Road, Brunswick, VIC	13,751	-	-	222	(1,823)	12,150	12,150
Total	74,301	-	-	1,093	(4,276)	71,118	70,250

The investment property valuation policy is to have independent valuations conducted regularly, typically annually to aid with the determination of the fair value of the assets (the latest valuations are noted below). At each reporting date the appropriateness of those valuations is assessed by the Responsible Entity.

The market for many types of real estate is being affected by volatility in financial markets. This has translated into a general weakening of market sentiment towards real estate and the number of real estate transactions has significantly reduced.

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

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

In January 2010, the property at Beverage Drive, Tullamarine, VIC was independently valued to \$4,900,000 by Jones Lang LaSalle. This represents nil movement from the previous valuation in October 2008 of \$4,900,000.

In November 2009, the property at Cnr James & Gawler Streets, Salisbury, SA was independently valued to \$6,600,000 by Knight Frank. This represents a decrease of \$150,000 from the previous valuation in November 2008 of \$6,750,000.

In December 2009, the property at 40 Allara Street, Canberra, ACT was independently valued to \$19,850,000 by Jones Lang LaSalle. This represents an increase of \$3,250,000 from the previous valuation in October 2008 of \$16,600,000.

In December 2009, the property at 98 Ingelston Road, Wakerley, QLD was independently valued to \$7,500,000 by Savills. This represents nil movement from the previous valuation in December 2008 of \$7,500,000.

In March 2010, the property at 7-9 Siddons Way, Hallam, VIC was independently valued to \$3,280,000 by Jones Lang LaSalle. This represents a decrease of \$20,000 from the previous valuation in March 2009 of \$3,300,000.

In March 2010, the property at 11 Dansu Court, Hallam, VIC was independently valued to \$4,800,000 by Jones Lang LaSalle. This represents a decrease of \$450,000 from the previous valuation in March 2009 of \$5,250,000.

In March 2010, the property at 15 Telford Place, Arundal, QLD was independently valued to \$6,400,000 by LandMark White. This represents a decrease of \$500,000 from the previous valuation in February 2009 of \$6,900,000.

In June 2010, the property at 172-186 Moreland Road, Brunswick, VIC was independently valued to \$12,500,000 by PRP Valuers and Consultants. This represents an increase of \$350,000 from the previous valuation in June 2009 of \$12,150,000.

11 Financial assets held at fair value through profit or loss

	As at	
	30 June	30 June
	2010	2009
	\$'000	\$'000
Investment in Property Syndicates		
Australian Unity Property Syndicate No.2	1,910	1,892
Australian Unity Property Syndicate No.1	<u>1,427</u>	<u>1,445</u>
Total Investment in Property Syndicates	<u>3,337</u>	<u>3,337</u>

11 Financial assets held at fair value through profit or loss (continued)

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Investment in property trusts		
Becton Retail Property Trust	705	1,413
Becton Industrial Property Trust	1,886	2,845
Investa Second Industrial Property Trust	1,252	1,401
MAB Diversified Property Trust	2,444	2,652
Australian Unity Property Securities Fund	30,970	34,589
Australian Unity Healthcare Property Trust	942	4,480
Orchard Childcare Property Trust	1,815	2,097
Australian Social Infrastructure Fund	1,012	1,074
Australian Unity Retail Property Fund	17,705	14,442
Corval Industry House Trust	1,100	-
Australian Unity Office Property Trust	956	-
Australian Unity Industrial Property Trust	1,762	1,884
Total investment in property trusts	<u>62,549</u>	<u>66,877</u>
Total financial assets held at fair value through profit or loss	<u>65,886</u>	<u>70,214</u>

12 Trade and other receivables

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Rental receivables*	456	-
Other receivables	31	48
GST receivable	483	475
	<u>970</u>	<u>523</u>

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

13 Lease incentives

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Lease incentives*	128	128
less accumulated amortisation	<u>(88)</u>	<u>(67)</u>
	<u>40</u>	<u>61</u>

*Assets arising from recognising rent-free periods as lease incentives at cost less accumulated amortisation over the lease periods.

14 Trade and other payables

	As at	
	30 June 2010 \$'000	30 June 2009 \$'000
Accrued expenses	1,126	454
GST payable	613	577
Other payables	-	(78)
	1,739	953

15 Financial risk management

(a) Objectives, strategies, policies and processes

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

Financial instruments of the scheme comprise financial investments, net assets attributable to unitholders, cash as well as cash equivalents and other financial instruments such as trade receivables and payables, which arise directly from its operations.

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

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

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

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

(b) Market risk

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

The Scheme's investments are managed on the basis of direct investments and not on a look through basis. Hence, the market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme. The Responsible Entity appoints an investment manager to manage the assets in accordance with the Scheme's Constitution and Product Disclosure Statement.

The sensitivity of the Scheme's net assets attributable to unitholders (and net operating profit/(loss)) to price 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 correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

(i) Price risk

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

15 Financial risk management (continued)

Equity price risk exposure arises from the Scheme's investment portfolio. The 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 securities and other financial instruments within the specified 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.

At 30 June 2010, if investment prices had decreased by 10% (2009: decreased by 10%), with all other variables held constant, the decrease in net assets attributable to unitholders of the Scheme (and in net operating profit of the Scheme) for the year would amount to approximately \$6,588,628 (2009: \$7,021,438). Alternatively, if investment prices had risen by 10% (2009: increased by 10%), the increase in net assets attributable to unitholders (and in net operating profit) would amount to approximately \$6,588,628 (2009: \$7,021,438). These decreases/increases in net assets attributable to unitholders are calculated on an undiscounted basis. The analysis is performed on the same basis for 2009.

(c) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

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

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

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

(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 redemption 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 unitholders, if necessary, until funds are available.

In accordance with the Scheme's policy, the Responsible Entity monitors the Scheme's liquidity position on a daily basis.

15 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. Net assets attributable to unitholders are also grouped into the 'less than 1 month' maturity grouping as such liabilities are redeemable, in terms of the Scheme's constitution, on a daily basis.

	Less than 1 month	1-3 months	3-12 months	12-60 months
At 30 June 2010				
Distributions payable	2,232	-	-	-
Trade and other payables	1,739	-	-	-
Net assets attributable to unitholders	<u>134,146</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>138,117</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June 2009				
Distributions payable	2,174	-	-	-
Trade and other payables	1,031	-	-	-
Net assets attributable to unitholders	<u>142,371</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>145,576</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 \$3,861,645 (2009: \$2,340,025).

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

(e) Fair values of financial assets and financial liabilities

The Scheme's financial assets and liabilities in the statement of financial position are carried at amounts that approximate fair value.

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

For the years ended 30 June 2010 and 30 June 2009, the Scheme did not include financial assets and financial liabilities that were determined using valuation techniques. The fair values of the Scheme's financial assets and financial liabilities 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.

(f) Fair value hierarchy

The Scheme has adopted the amendments to AASB 7, effective 1 July 2009. This requires the Trust 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).

15 Financial risk management (continued)

(f) Fair value hierarchy (continued)

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 Responsible Entity. The Responsible Entity 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 Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

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:				
Unlisted Unit Trusts	-	<u>65,886</u>	-	<u>65,886</u>
Total	<u>-</u>	<u>65,886</u>	<u>-</u>	<u>65,886</u>

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

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and certain unlisted unit trust 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. These include, investment-grade corporate bonds and certain non-US sovereign obligations, listed equities 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.

16 Related party disclosures

Responsible Entity

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

16 Related party disclosures (continued)

Key management personnel

(a) Directors

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

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

(b) Other key management personnel

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

Compensation of key management personnel

The directors and key management personnel are not provided with any remuneration by the Scheme itself, but are separately paid by the Australian Unity Group.

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 with the Scheme

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.

Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive fees monthly calculated by reference to the monthly Total Assets of the Scheme as follows:

- (i) Retail unit class: 1.85% of the Net Assets of the unit class; and
- (ii) Wholesale unit class: 0.90% of the Net Assets of the unit class.

For the period ended 30 June 2010, all expenses in connection with the preparation of accounting records and the maintenance of the register have been fully borne by the Responsible Entity and its associates.

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

Management fees for the period paid/payable by the Scheme to the Responsible Entity	657		620
Administration fees for the period paid/payable by the Scheme to the Responsible Entity	135		139

16 Related party disclosures (continued)

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

Related party holdings

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

2010

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)
Australian Unity Geared Property Income Fund - Wholesale	71,128,855	79,301,782	49.82	14,861,916	6,688,989
Australian Unity Geared Property Income Fund - Retail	<u>22,294,182</u>	<u>22,296,713</u>	13.25	<u>4,896,546</u>	<u>4,894,015</u>
Total	<u>93,423,037</u>	<u>101,598,495</u>		<u>19,758,462</u>	<u>11,583,004</u>

2009

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)
Australian Unity Geared Property Income Fund - Wholesale	58,276,199	71,128,855	53.38	13,538,292	685,636
Australian Unity Geared Property Income Fund - Retail	<u>4,455,437</u>	<u>22,294,182</u>	61.12	<u>17,838,745</u>	-
Total	<u>62,731,636</u>	<u>93,423,037</u>		<u>31,377,037</u>	<u>685,636</u>

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		Distributions received/receivable	
	2010 \$'000	2009 \$'000	2010 %	2009 %	2010 \$'000	2009 \$'000
Australian Unity Property Syndicate No.2	1,910	1,892	16.69	16.68	100	119
Australian Unity Industrial Property Trust	1,908	1,884	10.30	10.31	216	93
Australian Unity Property Securities Fund	30,970	34,589	41.76	57.28	1,088	2,134
Australian Unity Healthcare Property Trust	956	4,480	0.42	1.92	99	639
Australian Unity Retail Property Trust	-	-	-	-	-	43
Australian Unity Property Syndicate No.1	1,427	1,445	17.08	11.91	-	82
Australian Unity Retail Property Fund	15,815	12,150	11.35	7.93	1,096	384
Australian Unity Retail Property Fund - Funding Units	2,195	2,290	100.00	100.00	200	53
Australian Unity Office Property Trust	956	-	3.89	-	-	-
Australian Unity Wholesale Cash Fund	<u>2,751</u>	<u>1,419</u>	<u>0.33</u>	-	<u>37</u>	<u>116</u>
Total	<u>58,888</u>	<u>60,149</u>			<u>2,836</u>	<u>3,663</u>

17 Reconciliation of net 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 net profit/(loss) to net cash inflow/(outflow) from operating activities		
Net profit/(loss) for the reporting period attributable to unitholders	-	-
Decrease in net assets attributable to unitholders	(481)	(27,991)
Net (gains)/losses on financial instruments held at fair value through profit and loss	(1,509)	24,210
Decrease in fair value of investment properties	2,239	4,277
Net changes in income receivables	(227)	297
Net changes in accounts payable	28	(388)
Add back financing costs - distributions	8,358	9,894
Net cash inflow from operating activities	8,408	10,299
(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	3,862	2,340
	3,862	2,340
(c) Non-cash financing activities		
There were no non-cash financing and investing activities carried out during the current reporting period.		
	-	-

As described in note 2(m), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable (ie taxable).

18 Events occurring after the reporting period

On the 30th of August, 2010 the Scheme accepted an offer from Australian Unity Investments Office Property Trust (a related entity) on the property at 172-186 Moreland Road, Brunswick, Victoria for a sale price of \$12.5 million.

As part of the transaction, \$5.3 million of the net sales proceeds will be invested into the Australian Unity Investments Office Property Trust, providing the Scheme enhanced diversification in the office property sector. The remaining sales proceeds will be reinvested in other attractive investment opportunities.

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

19 Contingent assets and liabilities and commitments

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

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 30 are in accordance with the provisions of the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2010 and of its performance as represented by the results of its operations and cashflows, for the reporting period ended on that date; and
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.
- (c) the financial statements are in accordance with the provisions of the Scheme's Constitution.

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

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



Director



Director
13 September 2010

Independent auditor's report to the unitholders of Australian Unity Property Income Fund

We have audited the accompanying financial report of Australian Unity Property Income Fund, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity an Auditor's Independence Declaration, a copy of which is included in the directors' report.


Auditor's Opinion

In our opinion:

1. the financial report of Australian Unity Property Income Fund is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Australian Unity Property Income Fund 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 logo, written in a cursive script.

Ernst & Young

A handwritten signature in cursive script, appearing to read 'A.J. Johnson'.

A.J. (Tony) Johnson
Partner
Melbourne

13 September 2010



Contact Australian Unity Investments

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

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