



**ANNUAL REPORT**  
30 June 2011



## **Australian Unity Property Income Fund**

**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.

## 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 Property Income Fund.

For more than 11 years, this Fund has successfully blended direct properties and unlisted property trusts with listed Australian Real Estate Investment Trusts (A-REITS) and Cash to provide consistent distributions and the potential for capital gains.

### How the Fund performed

The Fund's Wholesale and Retail units delivered total returns of 3.98% and 3.15% respectively for the 2010-11 financial year. These total returns consisted of Distribution returns of 6.04% and 5.05% and Growth returns of (2.06)% and (1.90)%.

One of the reasons for the Fund's consistent distribution returns has been its active management of its direct properties. A number of positive outcomes were achieved during the 2010-11 financial year, including:

- 40 Allara Street, Canberra, ACT (office property) – This is the largest direct property owned by the Fund. Following a substantial refurbishment, we successfully secured two long-term Government leases in May 2011. Further, in August 2011 we leased the remaining vacant space at the property for four years to a Commonwealth Government tenant. This is a significant result for investors and is expected to result in increased distributions from December 2011.
- 11 Dansu Court, Hallam, Victoria (industrial property) – A seven-year lease extension was exercised with existing tenant and now expires in February 2019.
- 98 Ingleston Road, Wakerley, Queensland (industrial property) – we have obtained approval to develop an additional 6,000 sqm of industrial space at the rear of the property, which has the potential to add significant long-term value to the property.

Pleasingly, the Fund's weighted average lease expiry profile increased throughout the year. At 30 June 2011 it was 3.3 years.

The Fund's unlisted property investment achieved solid results during 2010-11. During the year, the Fund furthered its investment in the Australian Unity Retail Property Fund and Australian Unity Diversified Property Fund at a discount to both of the Funds' net asset values.



Prior to, and during, the global financial crisis the Fund had positioned itself defensively, adopting an underweight A-REIT exposure. Recently, it has moved to increase this exposure but still remains modestly underweight at 30 June 2011.

### Outlook

We believe the commercial property sector presents a significant investment opportunity over the next three to five years. The Fund is positioned to capture this opportunity, with significant investments in preferred assets and markets across direct property and unlisted property trust holdings. In addition, it is poised to capture the potential benefit from medium-term improvement in the listed A-REIT market.

For the year ahead, we expect the appetite for commercial office, industrial and retail property will continue to grow. Combined with the slow pace of commercial development over the last three years, this means rents can be expected to firm, vacancies will likely continue to fall and valuations gradually appreciate.

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

Thank you for investing with Australian Unity Investments.

Yours sincerely

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

Alan Castleman  
Chairman

## Your investment – Australian Unity Property Income Fund

### Investment objective

The Australian Unity Property Income 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 (at 30 June 2011)				
	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
<b>Retail units</b>	3.15	(1.68)	1.64	3.43
<b>Wholesale units</b>	3.98	(0.82)	2.52	6.78

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.

\* The inception date for performance figures is 31 March 2005 for Retail and 31 May 1999 for Wholesale.

Quick stats	
<b>Date the Scheme was constituted</b>	1 December 1998
<b>Fund size (net asset value)</b>	\$129.27m
<b>Income distributions</b>	Quarterly

Geographic asset allocation	
State	Actual %
VIC/TAS	35.53
NSW/ACT	30.81
QLD	19.69
SA	7.21
WA	6.18
Overseas	0.59

Asset allocation		
Asset class	Range %	Actual %
Direct property and unlisted property securities	40 – 70	75.84
A-REITs	20 – 50	24.01
Cash and other assets	0 – 30	0.15

Direct and Indirect Fund property holdings		
Direct property	Indirect property	
40 Allara Street Canberra, ACT	AU Retail Property Fund	Becton Industrial Property Trust
98 Ingleston Rd, Wakerley, QLD	AU Industrial Property Trust	Orchard Childcare Property Trust
Salisbury Cinema Complex, Salisbury, SA	AU Office Property Trust	Investa Second Industrial Trust
15 Telford Place, Arundel, QLD	AU Diversified Property Fund	CorVal Industry House Trust
65 Beverage Drive, Tullamarine, VIC	AU Property Syndicate #2	Becton Retail Property Trust
11 Dansu Court, Hallam, VIC	AU Property Syndicate #1	Australian Social Infrastructure Trust
7-9 Siddons Way, Hallam, VIC	MAB Diversified Property 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 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 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 reporting period seven properties were revalued at a total of \$50,300,000, marginally down from their previous aggregated valuations of \$53,330,000 in the reporting period ended 30 June 2010.

The current reporting period revaluations were in total below the revalued properties carrying values resulting in recording a net revaluation fair value decrement of \$3,387,966.

#### *Property Disposals*

During the reporting period, 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 \$12,500,000.

As part of the transaction \$5,300,000 of the net sales proceeds were invested into the Australian Unity Investments Office Property Trust, providing the Scheme enhanced diversification in the office property sector. The remaining sales proceeds were re-invested into other attractive investment opportunities.

#### *Results*

For the reporting period ended 30 June 2011 the Scheme's retail units posted a total return of 3.15%, split between a distribution return of 5.05% and a growth return of (1.90%). For the reporting period ended 30 June 2010 the Scheme's wholesale units posted a total return of 3.98%, split between a distribution return of 6.04% and a growth return of (2.06%).

Unit prices (ex distribution) as at 30 June 2011 (2010) are as follows:

Retail units \$0.7823 (\$0.7974)

Wholesale units \$0.8232 (\$0.8405)

## Directors' report (continued)

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

	For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Profit before financing costs attributable to unitholders	<b>4,477</b>	7,877
<i>Distributions - wholesale</i>		
Distribution paid and payable	<b>6,220</b>	6,738
<i>Distributions - retail</i>		
Distribution paid and payable	<b>1,398</b>	1,620

### 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 19, no 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

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.

### 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 17 to 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 17 to the financial statements.

## Directors' report (continued)

### Units in the Scheme

The movement in units on issue in the Scheme during the reporting period is disclosed in Note 8 to 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 the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### 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

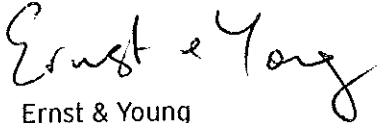


Director

12 September 2011

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



Ernst & Young



Tim Barber  
Partner  
Melbourne

12 September 2011

## Statement of comprehensive income

	Notes	For the reporting period ended	
		30 June 2011 \$'000	30 June 2010 \$'000
<b>Investment income</b>			
Interest income		36	33
Rental income	3	5,148	7,353
Other operating income	4	658	523
Net (losses)/gains on financial instruments held at fair value through profit or loss	5	(2,270)	1,509
Distribution income		<u>6,494</u>	<u>3,091</u>
<b>Total investment income</b>		<u><b>10,066</b></u>	<u><b>12,509</b></u>
<b>Expenses</b>			
Responsible entity's fees	17	425	792
Other Trust expenses		-	15
Property related expenses	7	1,442	1,586
Net fair value decrement of investment properties	10	<u>3,722</u>	<u>2,239</u>
<b>Total expenses</b>		<u><b>5,589</b></u>	<u><b>4,632</b></u>
<b>Profit before finance costs attributable to unitholders</b>		<u><b>4,477</b></u>	<u><b>7,877</b></u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	9	(7,618)	(8,358)
Decrease in net assets attributable to unitholders	8	<u>3,141</u>	<u>481</u>
<b>Total comprehensive income for the reporting period attributable to unitholders</b>		<u><b>-</b></u>	<u><b>-</b></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 \$'000	30 June 2010 \$'000
<b>Assets</b>			
Cash and cash equivalents	11,18	445	3,862
Distribution receivable		3,627	1,008
Trade and other receivables	13	685	970
Prepaid expenses		41	187
Lease incentives	14	-	40
Financial assets held at fair value through profit or loss	12	74,126	65,886
Investment properties	10	50,447	66,164
<b>Total assets</b>		<b>129,371</b>	138,117
<b>Liabilities</b>			
Distributions payable	9	1,867	2,232
Trade and other payables	15	937	1,739
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>2,804</b>	3,971
<b>Net assets attributable to unitholders</b>	8	<b>126,567</b>	134,146

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

**Statement of changes in net assets attributable to unitholders**

	<b>For the reporting period ended</b>	
	<b>30 June 2011 \$'000</b>	<b>30 June 2010 \$'000</b>
<b>Net assets attributable to unitholders at the beginning of the reporting period</b>	<b>134,146</b>	142,371
Profit for the reporting period before financing costs attributable to unitholders	<b>4,477</b>	7,877
Distribution to unitholders	<b>(7,618)</b>	(8,358)
Application for units	<b>4,119</b>	18,682
Units issued upon re-investment of distributions	<b>5,592</b>	1,746
Redemption of units	<b>(14,149)</b>	(28,172)
<b>Net assets attributable to unitholders at the end of the reporting period</b>	<b><u>126,567</u></b>	<u>134,146</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		\$'000	\$'000
<b>Cash flows from operating activities</b>			
	Distribution received	3,875	3,193
	Interest received	36	33
	Rental income received	5,797	7,160
	Payments to suppliers	<u>(2,523)</u>	<u>(1,978)</u>
18(a)	<b>Net cash inflow from operating activities</b>	<u>7,185</u>	<u>8,408</u>
<b>Cash flows from investing activities</b>			
	Proceeds from sale of financial investments	-	32,008
	Proceeds from sale of investment property	12,500	6,800
	Purchase of financial investments	<u>(10,510)</u>	<u>(25,566)</u>
	Payments for capital expenditure on investment properties	<u>(171)</u>	<u>(4,085)</u>
	<b>Net cash inflow from investing activities</b>	<u>1,819</u>	<u>9,157</u>
<b>Cash flows from financing activities</b>			
	Proceeds from applications by unitholders	4,119	20,164
	Payments for redemptions to unitholders	<u>(14,149)</u>	<u>(28,172)</u>
	Distributions paid	<u>(2,391)</u>	<u>(8,035)</u>
	<b>Net cash outflow from financing activities</b>	<u>(12,421)</u>	<u>(16,043)</u>
	<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(3,417)</b>	1,522
	Cash and cash equivalents at the beginning of the reporting period	<u>3,862</u>	2,340
11	<b>Cash and cash equivalents at the end of the reporting period</b>	<u>445</u>	<u>3,862</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's Constitution or law provides.

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 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'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 unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

#### *Compliance with International Financial Reporting Standards*

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

These financial statements are 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 collectibility 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 classified as at fair value through profit or loss. They comprise:

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

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These may include investments in listed property trusts, unlisted property trusts and other unlisted trusts.

Financial assets designated at fair value through profit or losses 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/payables*

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 financial 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 the statement of comprehensive income. 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) Net assets attributable to unitholders

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

### (g) 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.

### (h) 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).

Trust 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 the end of the reporting period and the fair value at the previous valuation point. Net gains/(losses) do not include interest or distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

## 2 Summary of significant accounting policies (continued)

### (i) Expenses

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

### (j) 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.

### (k) 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.

### (l) Increase/(decrease) in net assets attributable to unitholders

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

### (m) 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(h) 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 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.

## 2 Summary of significant accounting policies (continued)

### (n) Payables

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

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

Payables to related parties are recognised and carried at the nominal amount due. 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 requested to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

### (o) Applications and redemptions

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

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

### (p) 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 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.

### (q) 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 net profit or loss when liabilities are derecognised or impaired.

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

Borrowing costs are recognised as an expense over the shorter of 5 years or the life of the loan, consistent with the Scheme's unit pricing policy.

## 2 Summary of significant accounting policies (continued)

### (r) 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 the end of the reporting period 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 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 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 the end of the reporting period 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.

### (s) Leases

#### **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.

### (t) 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)*

## 2 Summary of significant accounting policies (continued)

### (t) New accounting standards and interpretations (continued)

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 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.

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

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Scheme 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.

## 2 Summary of significant accounting policies (continued)

### (t) New accounting standards and interpretations (continued)

(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.

### (u) 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.

### (v) 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 Rental income

	For the reporting period ended	
	30 June 2011	30 June 2010
	\$'000	\$'000
Rental income	4,504	6,819
Outgoings income	<u>644</u>	<u>534</u>
	<u>5,148</u>	<u>7,353</u>

## 4 Other operating income

	For the reporting period ended	
	30 June 2011	30 June 2010
	\$'000	\$'000
Other operating income	358	423
Green building fund grants *	<u>300</u>	<u>100</u>
	<u>658</u>	<u>523</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(v).

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

	For the reporting period ended	
	30 June 2011	30 June 2010
	\$'000	\$'000
Net unrealised gains/(losses) on financial instruments designated as at fair value through profit or loss	(2,348)	2,079
Net realised gains/(losses) on financial instruments designated as at fair value through profit or loss	<u>78</u>	<u>(570)</u>
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>(2,270)</u>	<u>1,509</u>

## 6 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
	\$'000	\$'000
<b>(a) Audit services</b>		
<b>Audit services</b>		
Audit and review of financial reports	<u>19</u>	<u>19</u>
Total remuneration for audit services	<u>19</u>	<u>19</u>
<b>(b) Non-audit services</b>		
<b>Taxation services</b>		
Tax compliance services	<u>11</u>	<u>10</u>
Total remuneration for taxation services	<u>11</u>	<u>10</u>
	<u>30</u>	<u>29</u>

## 7 Property related expenses

	For the reporting period ended	
	30 June 2011	30 June 2010
	\$'000	\$'000
Property outgoings	1,353	1,523
Consulting expenses	67	41
Lease incentive amortisation	<u>22</u>	<u>22</u>
	<u>1,442</u>	<u>1,586</u>

## 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 reporting period ended			
	30 June 2011 No. '000	30 June 2010 No. '000	30 June 2011 \$'000	30 June 2010 \$'000
<b>Opening balance</b>	<b>160,746</b>	169,726	<b>173,415</b>	181,160
<b>Net assets attributable to unitholders - Retail</b>				
Applications	1,644	4,669	1,294	3,856
Redemptions	(4,003)	(6,652)	(3,195)	(5,449)
Units issued upon reinvestment of distributions	1,348	435	1,070	351
	<u>(1,011)</u>	<u>(1,548)</u>	<u>(831)</u>	<u>(1,242)</u>
<b>Net assets attributable to unitholders - Wholesale</b>				
Applications	3,788	16,998	2,825	14,825
Redemptions	(13,011)	(26,068)	(10,954)	(22,723)
Units issued upon reinvestment of distributions	4,963	1,638	4,522	1,395
	<u>(4,260)</u>	<u>(7,432)</u>	<u>(3,607)</u>	<u>(6,503)</u>
<b>Closing balance</b>	<b>155,475</b>	160,746	<b>168,977</b>	173,415
			<b>As at</b>	
			<b>30 June</b>	<b>30 June</b>
			<b>2011</b>	<b>2010</b>
			<b>\$'000</b>	<b>\$'000</b>
<b>Undistributed income</b>				
Opening balance			(39,269)	(38,788)
Decrease in net assets attributable to unitholders			(3,141)	(481)
Closing balance			<u>(42,410)</u>	<u>(39,269)</u>
<b>Total net assets attributable to unitholders</b>			<b>126,567</b>	134,146

### 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.

## 9 Distributions to unitholders

### Timing of distributions

The distributions for the reporting period were as follows:

	For the reporting period ended			
	30 June 2011 \$'000	30 June 2011 CPU	30 June 2010 \$'000	30 June 2010 CPU
Distribution paid - Retail units	1,058	2,983	1,213	3,120
Distribution payable - Retail units	340	1,006	408	1,169
Distribution paid - Wholesale units	4,693	3,756	4,913	3,878
Distribution payable - Wholesale units	1,527	1,255	1,824	1,449
Total distributions	<u>7,618</u>	<u>9,000</u>	<u>8,358</u>	<u>9,616</u>

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

## 10 Investment properties

30 June 2011	Opening balance \$'000	Disposal price \$'000	Capital costs \$'000	Revaluation* \$'000	Closing balance \$'000	Latest valuation \$'000
<b>Investment properties</b>						
65 Beverage Drive, Tullamarine, VIC	4,919	-	8	(27)	4,900	4,900
Crn James & Gawler Streets, Salisbury, SA	6,600	-	-	150	6,750	6,750
98 Ingleston Road, Wakerley, QLD	7,578	-	34	(295)	7,317	7,300
40 Allara Street, Canberra, ACT	20,087	-	75	(2,086)	18,076	18,000
7-9 Siddons Way, Hallam, VIC	3,280	-	54	(480)	2,854	2,800
11 Dansu Court, Hallam, VIC	4,800	-	-	200	5,000	5,000
15 Telford Place, Arundal, QLD	6,400	-	-	(850)	5,550	5,550
172-186 Moreland Road, Brunswick, VIC	12,500	(12,500)	-	-	-	-
<b>Total</b>	<b>66,164</b>	<b>(12,500)</b>	<b>171</b>	<b>(3,388)</b>	<b>50,447</b>	<b>50,300</b>
30 June 2010	Opening balance \$'000	Disposal price \$'000	Capital costs \$'000	Revaluation \$'000	Closing balance \$'000	Latest valuation \$'000
<b>Investment properties</b>						
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
<b>Total</b>	<b>71,118</b>	<b>(6,800)</b>	<b>4,085</b>	<b>(2,239)</b>	<b>66,164</b>	<b>65,830</b>

\* For the reporting period ended 30 June 2011, the net fair value decrement of investment in properties in the Statement of comprehensive income of \$3.7m includes unamortised cost of lease incentives, unamortised leasing costs and the impact of straight-lining rental income of \$0.3m 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).

	\$'000
Revaluation of investment properties	(3,388)
Adjustment for straight-lining rental income	(267)
Adjustment for lease incentives	(67)
	<u>(3,722)</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 valuations are noted below). At each reporting date the appropriateness of those valuations is assessed by the Responsible Entity.

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

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.

## 10 Investment properties (continued)

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

In June 2011, 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 January 2010 of \$4,900,000.

In December 2010, the property at Cnr James & Gawler Streets, Salisbury, SA was independently valued to \$6,750,000 by Knight Frank. This represents an increase of \$150,000 from the previous valuation in November 2009 of \$6,600,000.

In December 2010, the property at 98 Ingelston Road, Wakerley, QLD was independently valued to \$7,300,000 by Savills. This represents a decrease of \$200,000 from the previous valuation in December 2009 of \$7,500,000. Since the latest valuation, capital expenditure of \$16,995 had been incurred which has increased the carrying value of the property.

In November 2010, the property at 40 Allara Street, Canberra, ACT was independently valued to \$18,000,000 by Knight Frank. This represents a decrease of \$1,850,000 from the previous valuation in December 2009 of \$19,850,000. Since the latest valuation, capital expenditure of \$75,337 had been incurred which has increased the carrying value of the property.

In March 2011, the property at 7-9 Siddons Way, Hallam, VIC was independently valued to \$2,800,000 by Jones Lang LaSalle. This represents a decrease of \$480,000 from the previous valuation in March 2010 of \$3,280,000. Since the latest valuation, capital expenditure of \$54,256 had been incurred which has increased the carrying value of the property.

In March 2010, the property at 11 Dansu Court, Hallam, VIC was independently valued to \$5,000,000 by Jones Lang LaSalle. This represents an increase of \$200,000 from the previous valuation in March 2010 of \$4,800,000.

In June 2011, the property at 15 Telford Place, Arundal, QLD was independently valued to \$5,550,000 by LandMark White. This represents a decrease of \$850,000 from the previous valuation in March 2010 of \$6,400,000.

During the reporting period, 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 \$12,500,000.

As part of the transaction \$5,300,000 of the net sales proceeds were invested into the Australian Unity Investments Office Property Trust, providing the Scheme enhanced diversification in the office property sector. The remaining sales proceeds were re-invested into other attractive investment opportunities.

## 11 Cash and cash equivalents

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Cash at bank	22	1,111
Australian Unity Wholesale Cash Fund	<u>423</u>	<u>2,751</u>
	<u>445</u>	<u>3,862</u>

## 12 Financial assets held at fair value through profit or loss

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Investment in Property Syndicates</b>		
Australian Unity Property Syndicate No.2	508	1,910
Australian Unity Property Syndicate No.1	400	1,427
Total Investment in Property Syndicates	908	3,337
	As at	
	30 June 2011	30 June 2010
<b>Investment in property trusts</b>		
Australian Unity Diversified Property Fund	6,313	-
Becton Retail Property Trust	404	705
Becton Industrial Property Trust	1,940	1,886
Investa Second Industrial Property Trust	1,272	1,252
MAB Diversified Property Trust	2,122	2,444
Australian Unity Property Securities Fund	29,745	30,970
Australian Unity Healthcare Property Trust	-	942
Orchard Childcare Property Trust	1,847	1,815
Australian Social Infrastructure Fund	659	1,012
Australian Unity Retail Property Fund	19,186	17,705
Corval Industry House Trust	1,166	1,100
Australian Unity Office Property Trust	6,785	956
Australian Unity Industrial Property Trust	1,779	1,762
Total investment in property trusts	73,218	62,549
<b>Total financial assets held at fair value through profit or loss</b>	<b>74,126</b>	<b>65,886</b>

## 13 Receivables

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Rental receivables*	43	456
Other receivables	166	31
GST receivable	476	483
	685	970

\*In prior year, includes receivables arising from recognising lease income on straight-line basis over the term of individual leases.

## 14 Lease incentives

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Lease incentives*	-	128
less accumulated amortisation	-	(88)
	-	40

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

## 15 Payables

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Accrued expenses	285	1,124
GST payable	652	613
Other payables	-	2
	937	1,739

## 16 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 rate risk), credit risk and liquidity risk.

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

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

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

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

#### (i) Price risk

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.

## 16 Financial risk management (continued)

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 2011, if investment prices had decreased by 10% (2010: 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 reporting would amount to approximately \$7,412,644 (2010: \$6,588,628). Alternatively, if investment prices had risen by 10% (2010: increased by 10%), the increase in net assets attributable to unitholders (and in net operating profit) would amount to approximately \$7,412,644 (2010: \$6,588,628). These decreases/increases in net assets attributable to unitholders are calculated on an undiscounted basis. The analysis is performed on the same basis for 2010.

### (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.

Interest rate risk is not considered to be significant to the Scheme.

### (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 period.

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 unitholders, 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.

## 16 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 \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000
<b>At 30 June 2011</b>				
Distributions payable	1,867	-	-	-
Trade and other payables	670	-	-	-
Net assets attributable to unitholders	<u>126,902</u>	-	-	-
<b>Total financial liabilities</b>	<u>129,439</u>	-	-	-
	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000
<b>At 30 June 2010</b>				
Distributions payable	2,232	-	-	-
Trade and other payables	1,739	-	-	-
Net assets attributable to unitholders	<u>134,146</u>	-	-	-
<b>Total financial liabilities</b>	<u>138,117</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 2011, these assets amounted to \$445,699 (2010: \$3,861,645).

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

### **(e) Fair values of financial assets and financial liabilities**

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

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

### **(f) 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).

## 16 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 Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2011. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
Unlisted Unit Trusts	-	74,126	-	74,126
<b>Total</b>	<b>-</b>	<b>74,126</b>	<b>-</b>	<b>74,126</b>

30 June 2010	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss at inception:				
Unlisted unit trusts	-	65,886	-	65,886
<b>Total</b>	<b>-</b>	<b>65,886</b>	<b>-</b>	<b>65,886</b>

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.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted property trusts. 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.

### (g) 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.

## 17 Related party transactions

### Responsible Entity

The Responsible Entity of Australian Unity Property Income Fund is Australian Unity Property Limited (ABN 58 079 538 499) whose immediate and ultimate parent entity is Australian Unity Limited (ABN 23 087 648 888).

### Key management personnel

#### (a) Directors

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

### Key management personnel unitholdings

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

### Key management personnel compensation

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

### Key management personnel loan disclosures

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

### Other transactions with the Scheme

From time to time directors of Australian Unity Property Limited, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme unitholders and are trivial in nature.

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

### 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. 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.

- (i) 1.85% (2010: 1.85%) per annum charged on retail class net assets;

## 17 Related party transactions (continued)

(ii) 0.90% (2010: 0.90%) per annum charged on wholesale class net assets; and

For the reporting period ended 30 June 2011, 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.

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Management fees for the period paid/payable by the Scheme to the Responsible Entity	290	657
Administration fees for the period paid/payable by the Scheme to the Responsible Entity	135	135

The Scheme in accordance with the Scheme's 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 trust. 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 the reporting period ended 30 June 2011 was \$249,366. Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2011 is \$249,366.

### 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:

#### 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 Geared Property Income Fund - Wholesale	79,301,782	6,633,521	2,447,244	83,488,463	53.70
Australian Unity Geared Property Income Fund - Retail	22,296,713	2,635,108	745,856	24,185,966	15.56

## 17 Related party transactions (continued)

### Related party holdings (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 Geared Property Income Fund - Wholesale	71,128,855	14,861,916	6,688,989	79,301,782	49.82
Australian Unity Geared Property Income Fund - Retail	22,294,182	4,896,546	4,894,015	22,296,713	13.25

### 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	
	2011 \$'000	2010 \$'000	2011 %	2010 %	2011 \$'000	2010 \$'000
Australian Unity Property Syndicate No.2	508	1,910	16.68	16.69	-	100
Australian Unity Industrial Property Trust	1,779	1,762	10.26	10.30	185	216
Australian Unity Property Securities Fund	29,745	30,970	42.97	41.76	-	1,088
Australian Unity Healthcare Property Trust	-	942	-	0.42	-	99
Australian Unity Diversified Property Fund	6,313	-	3.48	-	-	-
Australian Unity Property Syndicate No.1	400	1,427	11.91	17.08	-	-
Australian Unity Retail Property Fund	19,186	15,510	10.53	11.35	-	1,096
Australian Unity Retail Property Fund - Funding Units	-	2,195	-	100	-	200
Australian Unity Office Property Trust	6,785	956	18.05	3.89	-	-
Australian Unity Wholesale Cash Fund	423	2,751	0.06	0.33	76	37
<b>Total</b>	<b>65,139</b>	<b>58,423</b>			<b>261</b>	<b>2,836</b>

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

	For the reporting period ended	
	30 June 2011	30 June 2010
	\$'000	\$'000
<b>(a) Reconciliation of net profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Net profit/(loss) for the reporting period attributable to unitholders	-	-
Decrease in net assets attributable to unitholders	(3,141)	(481)
Net (gains)/losses on financial instruments held at fair value through profit and loss	2,270	(1,509)
Decrease in fair value of investment properties	3,722	2,239
Adjustments to straightline rental and lease incentive	(334)	-
Increase in receivables	(2,334)	(227)
Decrease in prepayment	186	-
(Decrease)/increase in payables	(802)	28
Add back financing costs - distributions	7,618	8,358
<b>Net cash inflow from operating activities</b>	<b>7,185</b>	<b>8,408</b>

### (b) Reconciliation of cash and cash equivalents

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

Cash and cash equivalents	22	1,111
Australian Unity Wholesale Cash Fund	423	2,751
	<b>445</b>	<b>3,862</b>

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

## 19 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2011 or on the results and cash flows of the Scheme for the reporting period ended on that date other than as detailed above.

## 20 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2011 and 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 34 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 2011 and of its performance, as represented by the results of its operations and cash flows for the financial 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 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 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.

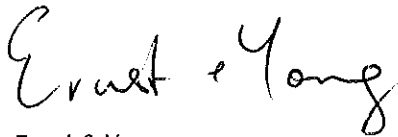
### *Independence*

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 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 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

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

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

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

Australian Unity Property Limited  
ABN 58 079 538 499, AFS Licence No. 234455  
114 Albert Road, South Melbourne VIC 3205