

## Australian Unity Retail Property Fund

ARSN 133 632 765 and 086 218 199

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These financial statements cover Australian Unity Retail Property Fund (Parent Australian Unity Retail Property Trust) as an individual entity and the consolidated entity consisting of Australian Unity Retail Property Fund (Parent Australian Unity Retail Property Trust) and its subsidiaries.

The responsible entity of Australian Unity Retail Property 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 Retail Property Fund.

### The year in review

Towards the end of 2010, the Fund conducted a Priority Rights Offer to existing investors, raising just under \$30 million.

More than 630 existing investors in the Fund chose to take up some or all of their offer entitlement. In addition, more than 10% of the investors who took up their entitlement also elected to invest over and above their rights allocation. Subsequently, the Fund opened the offer to the public to raise the additional capital required to proceed with its strategy to purchase the fully developed and expanded Waurm Ponds Shopping Centre.

We believe the success of this offer clearly shows that, despite the ongoing global economic volatility, investors are prepared to invest in quality property funds that have a clear growth strategy.

During the financial year, the Fund also sold the Thornlie Square Shopping Centre in Western Australia. The Centre was sold for an amount below its book value, which negatively impacted the Fund's growth return for the 2010–11 financial year. Our long-term view for Thornlie Square Shopping Centre was that it would struggle against existing and emerging competition in the area. Our decision to exit the property at the best possible price enabled us to pay down a measure of Fund borrowings and to further invest in the Waurm Ponds Shopping Centre, where we see greater long-term benefits. Settlement was completed in July 2011.

Actively managing the Fund's properties during the year is one of our most critical activities. All properties in the Fund were independently re-valued. Overall, excluding the impact of the sale of Thornlie Square Shopping Centre, the Fund achieved modest growth in property values.

### Outlook

At the close of the financial year it is certainly noticeable that Australians have curtailed their discretionary retail spending habits.



Contributing factors are many but include the economic and financial uncertainty in global markets, increases in petrol and basic food prices, as well as some measure of political unease about the impact of a new carbon tax. How this unfolds in the new financial year will largely depend on the actions of the Reserve Bank of Australia and the Federal Government over the first six months of 2011–12.

Our view for the retail commercial property sector is that it will likely continue to be broadly positive, due mostly to low levels of supply that came about because of the minimal development during the global financial crisis. As well as the ongoing active management of existing Fund assets, we believe the sale of the less competitive Thornlie Square Shopping Centre, and the future intended acquisition of the Waurm Ponds Shopping Centre expansion, which is located in one of Victoria's fastest growing regions, will position the Fund for strong future growth.

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 Investor 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 fluid and cursive.

Alan Castleman  
Chairman

## Your investment – Australian Unity Retail Property Fund

### Investment objective

The Australian Unity Retail Property Fund aims to provide investors with a total return (income and capital growth) above the benchmark (Property Council/IPD Australian Retail property index), while providing a steady level of income. It also aims to deliver an attractive level of tax-advantaged income.

### Investment strategy

The Fund predominantly invests in Australian direct retail property assets. It may also invest in unlisted retail property trusts (as appropriate) and retail sector Australian-REITs to enhance geographic and sector diversification.

A small amount of its asset allocation is invested in Cash to support ongoing liquidity and cash flow management.

Investment performance (at 30 June 2011)			
	6 months %	1 year %	Since inception % p.a. <sup>1</sup>
<b>Retail units</b>	1.43	0.08	(4.05)

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.

<sup>1</sup> Inception date for performance calculations is 28 February 2009.

Quick stats	
<b>Date the Stapled Scheme was established</b>	28 February 2009
<b>Fund size</b> (gross asset value)	\$391.70 million
<b>Income distributions</b>	Quarterly

Geographic asset allocation	
State	Actual %
VIC	55.83
NSW	25.84
QLD	18.33

Asset allocation		
Asset class	Range %	Actual %
Direct property	75-100	86.41
Unlisted property investments	0-5	3.95
Listed A-REIT	0-10	N/A
Cash and cash equivalents	0-20	9.64

Direct properties
Caltex Twin Service Centres, NSW
Tamworth City Plaza, NSW
North Blackburn Square Shopping Centre, Victoria
Waurm Ponds Shopping Centre, Victoria
Wendouree Homemaker Centre and Telstra Call Centre, Victoria
Sunshine Homemaker Centre, Queensland

Diversification by tenant type	
Tenant type	% of area (sqm)
Bulky goods	36.67
Majors	31.54
Speciality	23.89
Other	3.69
Vacant	4.21

## **Directors' report**

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Retail Property Fund, present their report together with the financial statements of Australian Unity Retail Property Fund ("the Stapled Scheme") and of the Australian Unity Retail Property Trust ("the Parent 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 Stapled Scheme was formed on 28 February 2009 following the stapling of three Australian Unity Property Limited managed retail property schemes, being the Australian Unity Retail Property Trust, the Australian Unity Property Syndicate - East West and the Australian Unity Gillies Street Trust.

The above mentioned stapling and formation of the Retail Property Fund also included on the same date Australian Unity Retail Property Trust acquiring full control and ownership of three retail property managed schemes comprising Australian Unity Tamworth Trust, Australian Unity Property Syndicate - Wyong and the Australian Unity Retail Property Trust - Sunshine Homemaker Centre.

The Stapled Scheme is an open unlisted property fund with a primary focus on retail related property investments. The aim of the Stapled Scheme is to deliver a total return (both income and capital growth) above the Property Council/IPD Australian Retail property index whilst providing a steady level of income.

The Stapled Scheme's current property portfolio has seven retail properties and is further detailed in the Stapled Scheme's financial statements for the reporting period ended 30 June 2011.

### **Review and results of operations**

#### *Property Valuations*

During the reporting period, all of the Stapled Scheme's properties were revalued at a total of \$348,300,000, marginally up from their previous aggregated valuations of \$347,850,000.

The current reporting period revaluations were in total below the revalued properties carrying values resulting in recording a net revaluation fair value decrement of \$1,968,000.

#### *Property Disposals*

On 20 April 2011, a contract of sale become unconditional for the sale of Thornlie Square Shopping Centre for a consideration of \$21,000,000. Settlement occurred on 20 July 2011.

#### *Results*

For the reporting period ended 30 June 2011, the Stapled Scheme's retail units posted a total return of 0.08%, split between a distribution return of 6.54% and a growth return of (6.46%).

The Stapled Scheme's unit price (ex distribution) as at 30 June 2011 was \$0.7756 (2010: \$0.8123).

## Directors' report (continued)

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

	For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000
	Profit before finance costs attributable to unitholders	4,549
Distribution paid and payable	13,617	12,665

### Significant changes in state of affairs

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

### Events occurring after the reporting period

Except as disclosed in note 22, no other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

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

### Likely developments and expected results of operations

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

Further information on likely developments in the operations of the Stapled 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 Stapled Scheme.

### Indemnification and insurance of officers and auditors

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

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

Fees paid to the Responsible Entity and its associates out of Stapled Scheme property during the reporting period are disclosed in note 20 to the financial statements.

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

The number of units in the Stapled Scheme held by the Responsible Entity or its associates as at the end of the reporting period are disclosed in note 20 to the financial statements.

### Units in the Stapled Scheme

The movement in units on issue in the Stapled Scheme during the reporting period is disclosed in note 8 to the financial statements.

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

## Directors' report (continued)

### Environmental regulation

The property operations within the Stapled 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

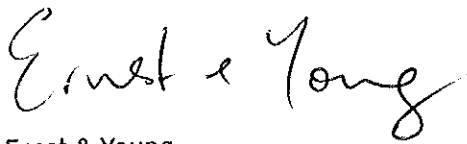


Director

12 September 2011

## **Auditor's Independence Declaration to the Directors of Australian Unity Property Limited, as Responsible Entity for Australian Unity Retail Property Fund (Parent - Australian Unity Retail Property Trust)**

In relation to our audit of the financial report of Australian Unity Retail Property Fund (Parent - Australian Unity Retail Property Trust) for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



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>Income</b>			
Interest income		139	85
Rental income	4	40,137	38,648
Net (losses)/gains on financial instruments held at fair value through profit or loss	3	(24)	137
Distribution income		<u>2,312</u>	<u>90</u>
<b>Total income</b>		<u>42,564</u>	<u>38,960</u>
<b>Expenses</b>			
Responsible entity's fees	20	4,320	3,430
Debt establishment costs		119	1,436
Property related expenses	6	11,792	11,175
Other Scheme expenses	7	675	305
Interest expenses		12,856	11,571
Decrease in fair value of deferred payables		190	455
Net fair value decrement of investment properties	15	<u>8,063</u>	<u>6,966</u>
<b>Total expenses</b>		<u>38,015</u>	<u>35,338</u>
<b>Profit before finance costs attributable to unitholders</b>		<u>4,549</u>	<u>3,622</u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	9	(13,617)	(12,665)
Decrease in swaps hedge reserve		(1,200)	(1,725)
Decrease in net assets attributable to unitholders	8	<u>10,268</u>	<u>10,768</u>
<b>Total comprehensive income for the reporting period attributable to unitholders</b>		<u>-</u>	<u>-</u>

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

**Statement of financial position**

		As at	
	Notes	30 June 2011 \$'000	30 June 2010 \$'000
<b>Assets</b>			
Cash and cash equivalents	10	17,163	4,686
Receivables	11	3,951	8,304
Derivative assets		1,530	2,731
Prepaid expenses		543	999
Lease incentives	12	-	677
Financial assets held at fair value through profit or loss	13	15,283	14,458
Investment properties	15	348,477	349,250
<b>Total assets</b>		<b>386,947</b>	<b>381,105</b>
<b>Liabilities</b>			
Distributions payable	9	4,874	3,024
Payables	16	6,554	10,508
Deferred payables	17	4,421	6,151
Borrowings	18	191,431	202,662
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>207,280</b>	<b>222,345</b>
<b>Net assets attributable to unitholders</b>	8	<b>179,667</b>	<b>158,760</b>

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</b>	<b>30 June</b>
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Net assets attributable to unitholders at the beginning of the reporting period</b>	<b>158,760</b>	162,575
Profit before finance costs attributable to unitholders	<b>4,549</b>	3,622
Distributions to unitholders	<b>(13,617)</b>	(12,665)
Applications for units	<b>43,478</b>	30,890
Redemptions of units	<b>(13,779)</b>	(25,999)
Units issued upon reinvestment of distributions	<b>1,476</b>	2,062
Swap hedging reserve	<b>(1,200)</b>	(1,725)
<b>Net assets attributable to unitholders at the end of the reporting period</b>	<b><u>179,667</u></b>	<u>158,760</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**

		<b>For the reporting period ended</b>	
		<b>30 June</b>	<b>30 June</b>
		<b>2011</b>	<b>2010</b>
Notes		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
	Interest received	139	85
	Distributions received	251	99
	Rental income received	40,456	41,338
	Payments to suppliers	<u>(34,384)</u>	<u>(13,088)</u>
	<b>Net cash inflow from operating activities</b>	<b>21(a) <u>6,462</u></b>	<b><u>28,434</u></b>
<b>Cash flows from investing activities</b>			
	Purchase of financial assets	(849)	(14,320)
	Payments on improvements to investment properties	<u>(1,195)</u>	<u>(2,116)</u>
	<b>Net cash outflow from investing activities</b>	<b><u>(2,044)</u></b>	<b><u>(16,436)</u></b>
<b>Cash flows from financing activities</b>			
	Proceeds from borrowings	(11,231)	1,494
	Interest costs and swap termination costs paid	-	(11,051)
	Borrowing facility extension costs paid	(119)	(1,436)
	Distributions paid	(10,291)	(11,663)
	Proceeds from applications by unitholders	43,479	31,183
	Payments from redemptions by unitholders	<u>(13,779)</u>	<u>(25,840)</u>
	<b>Net cash inflow/(outflow) from financing activities</b>	<b><u>8,059</u></b>	<b><u>(17,313)</u></b>
	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>12,477</b>	<b>(5,315)</b>
	Cash and cash equivalents at the beginning of the reporting period	<u>4,686</u>	<u>10,001</u>
	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>10 <u>17,163</u></b>	<b><u>4,686</u></b>

The above cash flow statements should be read in conjunction with the accompanying notes.

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## 1 General information

These financial statements includes separate financial statements for the Australian Unity Retail Property Trust as an individual entity and Australian Unity Retail Property Fund ("the Stapled Scheme") as the consolidated entity consisting of the Australian Unity Retail Property Trust, the Australian Unity Property Syndicate - East West and the Australian Unity Gillies Street Trust

The Stapled Scheme was formed on 28 February 2009 following the stapling of three Australian Unity Property Limited managed retail property schemes, being the Australian Unity Retail Property Trust, the Australian Unity Property Syndicate - East West and the Australian Unity Gillies Street Trust.

The Australian Unity Retail Property Trust was constituted on 28 January 1999 (amended by Supplemental Deeds dated 19 May 2005 and 27 November 2008). This Trust will terminate on the 80th anniversary of the day before the scheme commenced unless terminated earlier in accordance with the provisions of the Scheme's Constitution.

The Australian Unity Gillies Street Trust was constituted on 27 May 2002 (amended by Supplemental Deeds dated 13 November 2002 and 27 November 2008). This Trust will terminate on the 80th anniversary of the day before the scheme commenced unless terminated earlier in accordance with the provisions of the Scheme's Constitution.

The Australian Unity Property Syndicate - East West Retail was constituted on 8 March 2000 (amended by Supplemental Deeds dated 9 May 2006 and 27 November 2008). This Trust will terminate on the 80th anniversary of the day before the scheme commenced unless terminated earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Stapled Scheme is Australian Unity Property Limited (ABN 58 079 538 499) (the "Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity of the Stapled Scheme is incorporated and domiciled in Australia. The Responsible Entity's registered office is 114 Albert Road, South Melbourne, VIC, 3205.

These 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 Stapled 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 statements of financial position are 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 consolidated financial statements of the Stapled Scheme and the separate financial statements of the Stapled 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.

## 2 Summary of significant accounting policies (continued)

### (b) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The Scheme's significant accounting estimates include valuation of investment properties, valuation of financial assets held at fair value through profit and loss and collectability of receivables. Actual results could vary from the Scheme's estimates which could result in material adjustment to the Scheme's assets and liabilities.

### (c) Investment property

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

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

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*

## 2 Summary of significant accounting policies (continued)

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

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 Stapled 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 Stapled Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Stapled 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 loss are measured at fair value with changes in their value recognised in the statement of comprehensive income.

- *Fair value in an active market*

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

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

- *Borrowings and receivables*

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

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

#### (iv) Offsetting financial instruments

## 2 Summary of significant accounting policies (continued)

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

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

At the inception of a hedge relationship, the Stapled Scheme formally designates and documents the hedge relationship to which the Stapled 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 Stapled Scheme at any time for cash equal to a proportionate share of the Stapled 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 Stapled Scheme. Because the Stapled 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 are shown within borrowings in the statement of financial position.

## 2 Summary of significant accounting policies (continued)

### (g) Cash and cash equivalents (continued)

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 Stapled 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.

### (i) Expenses

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

### (j) Income tax

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

Realised capital losses are not distributed to unitholders but are retained in the Stapled 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 Stapled Scheme's Constitution, the Stapled 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 year in which it becomes assessable for tax.

## 2 Summary of significant accounting policies (continued)

### (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) below. 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 Stapled 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 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.

### (n) Payables

Payables include liabilities and accrued expenses owing by the Stapled 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 Stapled 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 Stapled Scheme has a present obligation as a result of the past event and it is probable that the Scheme will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

### (o) Applications and redemptions

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

Unit redemption prices are determined by reference to the net assets of the Stapled 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 Stapled Scheme.

## 2 Summary of significant accounting policies (continued)

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

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

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

Borrowing costs are recognised as an expense in the period in which they are incurred.

### (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 balance date is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

#### **Rental revenue**

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

Contingent rentals, such as turnover rent and market rent adjustments, are recognised as income in the financial 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 profit for the reporting period.

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.

## 2 Summary of significant accounting policies (continued)

### (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 Stapled Scheme's assets and amortised on a straight-line basis over the lease term on the same basis as the lease income.

#### *Lease incentives*

Lease incentives which may take the form of up front payments, contributions to certain lessee's costs, relocation costs and fit outs and improvements are recognised as part of the Stapled 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) Parent entity financial information

The financial information for the parent entity, Australian Unity Retail Property Fund (Parent - Australian Unity Retail Property Trust), disclosed in note 23 has been prepared on the same basis as the consolidated financial statements.

### (u) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Unity Retail Property Fund (Parent - Australian Unity Retail Property Trust) ("the parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Australian Unity Retail Property Fund (Parent - Australian Unity Retail Property Trust) and its subsidiaries together are referred to in these financial statements as the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Stapled Scheme has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Stapled Scheme controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Stapled Scheme. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for obtaining control of subsidiaries by the Stapled Scheme.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Stapled Scheme.

Minority interests in the results and net assets of subsidiaries are shown separately in the consolidated statement of comprehensive income and the statement of financial position respectively.

Investments in subsidiaries are accounted for at fair value through profit or loss in the individual financial statements of Australian Unity Retail Property Trust.

AASB Interpretation 1002 (Post-Date-of-Transition Stapling Arrangements) provides guidance on stapling arrangements. In applying AASB Interpretation 1002, the Stapled Scheme has identified the Australian Unity Retail Property Trust as the acquirer and the parent for the purpose of preparing the consolidated financial report. This has been determined by reference to the guidance contained in AASB 3 Business Combinations and AASB 127 Consolidated and Separate Financial Statements relating to identifying an acquirer. The other entities combining under the stapling arrangement are therefore identified as acquirees. In preparing the consolidated financial statements, the consolidated entity has applied AASB 3 and AASB 127.

## 2 Summary of significant accounting policies (continued)

### (v) New accounting standards and interpretations

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

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

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. The Standard is not applicable until 1 January 2013. AASB 9 only permits the recognition of fair value gains/(losses) in other comprehensive income if they relate to equity investments that are not traded. Fair value gains/(losses) on debt investments are recognised directly in profit or loss. The Scheme does not expect any significant impact on the Scheme's financial statements arising from an adoption of the Standard.

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

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective from 1 January 2011. The amendment 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 Stapled 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.

## 2 Summary of significant accounting policies (continued)

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

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

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

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

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

### (w) Rounding of amounts

The Stapled 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.

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

	For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Net unrealised gains/(losses) on financial instruments designated at fair value through profit or loss	(24)	137

## 4 Rental income

	For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Rental income	38,193	32,713
Outgoings income	1,944	5,935
	40,137	38,648

## 5 Auditor's remuneration

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

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

	For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Audit services</b>		
Audit and review of financial reports	<u>73</u>	<u>73</u>
Total remuneration for audit services	<u>73</u>	<u>73</u>
<b>Non-audit services</b>		
Tax compliance services	<u>21</u>	<u>18</u>
Total remuneration for taxation services	<u>21</u>	<u>18</u>

## 6 Property related expenses

	For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Non-recoverable outgoings	1,573	1,550
Recoverable outgoings	9,853	9,148
Property legal and consulting expenses	124	208
Impairment loss re trade receivables	8	40
Amortisation of lease incentives	<u>234</u>	<u>229</u>
	<u>11,792</u>	<u>11,175</u>

## 7 Other Scheme expenses

	For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Valuation fees	92	88
Funding unitholders fee	91	202
Bank charges	1	2
Sundry expenses	<u>491</u>	<u>13</u>
	<u>675</u>	<u>305</u>

## 8 Net assets attributable to unitholders

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

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

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

As stipulated within the Stapled Scheme's Constitution, each unit represents a right to an individual share in the Stapled Scheme and does not extend to a right to the underlying assets of the Stapled Scheme.

There are currently two classes of units in the Stapled scheme, ordinary securities and funding securities. Each unit class has identical rights except that the funding unit class is not entitled to income from the assets of the Stapled Scheme. Instead funding securities are entitled to a fee determined with reference to the Stapled Scheme's cost of borrowings.

Each ordinary security or funding security in the Stapled Scheme, owned by a unitholder, consists of the following, stapled together:

one unit in the Australian Unity Retail Property Trust

one unit in the Australian Unity Property Syndicate - East West Retail

one unit in the Australian Unity Gillies Street Trust.

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

	For the reporting period ended			
	30 June 2011 No. '000	30 June 2010 No. '000	30 June 2011 \$'000	30 June 2010 \$'000
<b>Unitholders' funds</b>				
Opening balance	191,692	183,652	148,114	141,161
Applications	60,614	35,791	43,478	30,890
Redemptions	(14,474)	(30,165)	(13,779)	(25,999)
Units issued upon reinvestment of distributions	2,163	2,414	1,476	2,062
Closing balance	<u>239,995</u>	<u>191,692</u>	<u>179,289</u>	<u>148,114</u>

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Undistributed income</b>		
Opening balance	10,646	21,414
Increase/(decrease) in net assets attributable to unitholders	<u>(10,268)</u>	<u>(10,768)</u>
Closing balance	<u>378</u>	<u>10,646</u>

<b>Total net assets attributable to unitholders</b>	<u>179,667</u>	<u>158,760</u>
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## 8 Net assets attributable to unitholders (continued)

### Capital risk management

The Stapled 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 Stapled 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 Stapled Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Stapled 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
Distributions paid during the reporting period	8,743	4,110	9,641	5,210
Distributions payable at end of the reporting period	<u>4,874</u>	<u>1,184</u>	<u>3,024</u>	<u>1,600</u>
Distribution paid and payable	<u>13,617</u>	<u>5,294</u>	<u>12,665</u>	<u>6,810</u>

## 10 Cash and cash equivalents

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Cash at bank	12,268	2,997
Cash management trusts	<u>4,895</u>	<u>1,689</u>
	<u>17,163</u>	<u>4,686</u>

## 11 Receivables

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Trade receivables*	1,625	6,756
GST receivable	354	1,644
Distribution and interest receivables	2,082	6
Provision for impairment loss re trade receivables	(110)	(102)
	<b>3,951</b>	<b>8,304</b>

\*In prior year, includes assets arising from recognising lease income on a straight line basis.

## 12 Lease incentives

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Lease incentives*	1,341	1,539
Less accumulated amortisation	(1,341)	(862)
	<b>-</b>	<b>677</b>

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

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

	As at	
	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000
Unlisted Property Scheme - HAL Property Trust	15,283	14,458
Total designated at fair value through profit or loss	<b>15,283</b>	<b>14,458</b>

On 15 December 2009, the Stapled Scheme acquired half of the issued units (14,083,516 units) in a joint controlled unlisted property trust, the HAL Property Trust for a purchase consideration of \$13,100,000. As at 30 June 2011, the unit held were 15,495,935 units, which represents half of the issued units.

As at 30 June 2011, the net assets of the HAL Property Trust equated to \$0.9859 per unit (2010: \$0.9911 per unit).

The HAL Property Trust's principal asset is the property in 137-177 Colac Road, Grovedale, Victoria. This Trust's objective is to pursue a rezoning application for the property, which can then be used for retail purposes.

## 14 Derivative assets

30 June 2011

	Contract/ notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
Interest rate swap contracts			
Interest rate swaps - maturing in 2012	84,478	706	-
Interest rate swaps - maturing in 2014	64,898	824	-
	<u>149,376</u>	<u>1,530</u>	<u>-</u>

Consolidation  
30 June 2010

	Contract/ notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
Interest rate swap contracts			
Interest rate swaps - 2 years contract	14,630	180	-
Interest rate swaps - 3 years contract	84,478	1,391	-
Interest rate swaps - 5 years contract	64,897	1,160	-
	<u>164,005</u>	<u>2,731</u>	<u>-</u>

An overview of the risk exposures relating to derivatives is included in note 19.

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

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

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

A loss of \$1,199,973 (2010: loss \$1,725,410) relating to the change in the fair value of the Stapled Scheme's interest rate swap contracts was recognised directly in net assets attributable to unitholders during the reporting period ended 30 June 2010.

A loss of \$491,675 (2010: loss \$971,872) relating to the change in the fair value of the Parent Scheme's interest rate swap contracts was recognised directly in net assets attributable to unitholders during the reporting period ended 30 June 2010.

The Stapled Scheme's interest rate swap contracts at 30 June 2011 comprised:

A contract (involving the Australian Unity Retail Property Trust) with a notional amount of \$36,000,000 maturing on 2 July 2012 at a fixed rate of 4.06%, with monthly interest rate resets and settlements.

A contract (involving the Australian Unity Retail Property Trust) with a notional amount of \$36,000,000 maturing on 1 July 2014 at a fixed rate of 4.62%, with monthly interest rate resets and settlements.

A contract (involving the Australian Unity Property Syndicate - East West) with a notional amount of \$19,580,000 maturing on 8 May 2012 at a fixed rate of 3.915%, with monthly interest rate resets and settlements.

A contract (involving the Australian Unity Retail Property Trust - Sunshine Homemaker Centre) with a notional amount of \$17,125,000 maturing on 8 May 2012 at a fixed rate of 4.08%, with monthly interest rate resets and settlements.

A contract (involving the Australian Unity Retail Property Trust - Sunshine Homemaker Centre) with a notional amount of \$17,125,000 maturing on 8 May 2014 at a fixed rate of 4.71%, with monthly interest rate resets and settlements.

## 14 Derivative assets (continued)

A contract (involving the Australian Unity Property Syndicate - Wyong) with a notional amount of \$11,772,500 maturing on 4 May 2012 at a fixed rate of 4.09%, with monthly interest rate resets and settlements.

A contract (involving the Australian Unity Property Syndicate - Wyong) with a notional amount of \$11,772,500 maturing on 4 May 2014 at a fixed rate of 4.63%, with monthly interest rate resets and settlements.

## 15 Investment properties

30 June 2011	Opening balance \$'000	Capital costs \$'000	Revaluation* \$'000	Closing balance \$'000	Latest valuation \$'000
<b>Investment properties</b>					
Waurm Ponds Shopping Centre, corner of Princess Highway and Pioneer Road, Grovedale, VIC.	119,009	64	1,427	120,500	120,500
Tamworth City Plaza Shopping Centre, Tamworth, NSW	37,500	54	(2,042)	35,512	35,500
Sunshine Homemaker Centre, Maroochydore, QLD	58,200	112	1,688	60,000	60,000
Caltex Twin Service Centres, Wyong, NSW	46,350	-	2,750	49,100	49,100
Telstra Call Centre and Wendouree Homemaker Centre, 333 Gillies Street, Ballarat, VIC	27,889	72	(1,372)	26,589	26,500
North Blackburn Shopping Centre, North Blackburn, VIC	34,500	76	1,200	35,776	35,700
Thornlie Square Shopping Centre, Thornlie, WA	<u>25,802</u>	<u>817</u>	<u>(5,619)</u>	<u>21,000</u>	<u>21,000</u>
	<u>349,250</u>	<u>1,195</u>	<u>(1,968)</u>	<u>348,477</u>	<u>348,300</u>
30 June 2010	Opening balance \$'000	Capital costs \$'000	Revaluation \$'000	Closing balance \$'000	Latest valuation \$'000
<b>Investment properties</b>					
Waurm Ponds Shopping Centre, corner of Princess Highway and Pioneer Road, Grovedale, VIC.	122,000	93	(3,084)	119,009	119,000
Tamworth City Plaza Shopping Centre, Tamworth, NSW	40,000	268	(2,768)	37,500	37,500
Sunshine Homemaker Centre, Maroochydore, QLD	60,000	121	(1,921)	58,200	58,200
Caltex Twin Service Centres, Wyong, NSW	43,250	-	3,100	46,350	46,350
Telstra Call Centre and Wendouree Homemaker Centre, 333 Gillies Street, Ballarat, VIC	29,650	112	(1,873)	27,889	27,800
North Blackburn Shopping Centre, North Blackburn, VIC	35,200	118	(818)	34,500	34,500
Thornlie Square Shopping Centre, Thornlie, WA	<u>24,000</u>	<u>1,404</u>	<u>398</u>	<u>25,802</u>	<u>24,500</u>
Total	<u>354,100</u>	<u>2,116</u>	<u>(6,966)</u>	<u>349,250</u>	<u>347,850</u>

\* For the reporting period ended 30 June 2011, the net fair value decrement of investment in properties in the Statement of comprehensive income of \$8.06m includes unamortised cost of lease incentives, unamortised leasing costs and the impact of straight-lining rental income of \$6.10m as seen below:

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

Revaluation of investment properties	(1,968)
Adjustment for straight-lining rental income	(4,950)
Adjustment for lease incentives	<u>(1,145)</u>
	<u>(8,063)</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.

## 15 Investment properties (continued)

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.

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.

Waurm Ponds Shopping Centre was revalued on 15 June 2011 by Colliers International at \$120.5m, up from \$119m.

Tamworth City Plaza was revalued by Savills in November 2010 at \$35,500,000, down from \$37,500,000. Since the latest valuation, capital expenditure of \$12,216 has been incurred which has increased the carrying value of the property.

Sunshine Homemaker Centre was independently valued in June 2011 by Knight Frank at \$60,000,000.

Caltex Twin Service Centres were revalued by Land Mark White on 30 November 2010 from \$46,350,000 to \$49,100,000.

Telstra Call Centre and Wendouree Homemaker Centre were revalued in 15 June 2011 by Colliers International at \$26,500,000, down from \$27,800,000. Since the latest valuation, capital expenditure of \$88,915 has been incurred which has increased the carrying value of the property.

North Blackburn Shopping Centre was revalued in February 2011 by CBRE at \$35,700,000, up from \$34,500,000.

On 20 April 2011, a contract of sale become unconditional for the sale of Thornlie Square Shopping Centre for a consideration of \$21,000,000. Settlement occurred on 20 July 2011.

## 16 Payables

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Trade payables	747	463
Accrued expenses	5,095	5,186
GST Payable	712	4,859
	<b>6,554</b>	10,508

## 17 Deferred payables

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Deferred payables	<b>4,421</b>	6,151

The above liability to Australian Unity Property Limited in its capacity as the Stapled Scheme's Responsible Entity arose on 28 February 2009 from the crystallising of performance fees earned by the Responsible Entity upon conversion of six property investment schemes into the consolidated and stapled Australian Unity Investments Retail Property Fund.

These performance fees amounted to \$6,631,120 and the Stapled Scheme made payment of \$2,210,373 during the reporting period. The remaining balance is payable by 30 June 2012.

## 18 Borrowings

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Secured bank loans	191,542	202,662
Unamortised transaction costs	(111)	-
	191,431	202,662

As at 30 June 2011, the Stapled Scheme's facility limit was \$193,500,000 (2010: \$208,000,000).

As at 30 June 2011 the Stapled Schemes had the following borrowing facilities and related obligations:

The Australian Unity Retail Property Fund has a loan facility limit (known as the RPF Club Facility) of \$145,000,000 and is made of Tranche A (with facility limit of \$67.50m) and Tranche B (with facility limit of \$77.50m). The tranches will expire on 30 April 2012 and 30 April 2013 respectively. Interest costs are charged at the BBSY rate plus a margin of 2.50% (Tranche A) and 2.90% (Tranche B). At 30 June 2011 the drawn down balance of this facility was \$144,300,000. The loan is secured by first registered mortgages over the Stapled Scheme's Waurn Ponds Shopping Centre, Telstra Call Centre and Wendouree Homemaker Centre, Tamworth City Plaza and Caltex Twin Service Centres properties and is non-recourse to unitholders.

Australian Unity Property Syndicate - East West has a loan facility of \$13,500,000 with an interest rate of BBSY plus credit margin of 1.00% maturing on the 31 July 2011. This loan facility was repaid on 21 July 2011.

The Responsible Entity, on behalf of the Australian Unity Retail Property Trust - Sunshine Homemaker Centre, entered into a loan facility agreement totalling \$38,000,000 on 17 October 2008. The facility expired on 31 July 2011. A new loan facility agreement totalling \$35,000,000 was refinanced on the 12 August 2011, into the RPF Club Facility Tranche B. The Tranche B facility expires on 30 April 2013. As at 30 June 2011, the drawn down loan balance was \$34,250,000 with an interest rate of BBSY plus a margin of 1%.

## 19 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.

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

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

## 19 Financial risk management (continued)

### (b) Market risk

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

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

The sensitivity of the Stapled Scheme's net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) to interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and historical correlation of the Stapled 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 Stapled 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 Stapled 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 Stapled Scheme's overall investment positions are monitored on a daily basis by the Stapled Scheme's Investment Manager.

This investment price risk is measured using sensitivity analysis.

The following paragraph summarises the sensitivity of the Stapled 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 Stapled Scheme (and in net operating profit of the Stapled Scheme) for the reporting period would amount to approximately \$1,528,340 (2010: \$1,445,774). Alternatively, if investment prices had risen by 10% (2010: increase by 10%), the increase in net assets attributable to unitholders (and in net operating profit) would amount to approximately \$1,528,340 (2010: \$1,445,774). These decreases/increases in net assets attributable 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 Stapled 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 Stapled Scheme has established limits on its borrowings, which are monitored on a regular basis. The Stapled 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.

## 19 Financial risk management (continued)

### (b) Market risk (continued)

Securities designated at fair value through profit or loss

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

Consolidated	Impact on net assets attributable to unitholders	
	+50 bps (2010: +75 bps)	-50 bps (2010: -75 bps)
	\$'000	\$'000
<b>30 June 2011</b>	<b>2,825</b>	<b>351</b>
30 June 2010	5,661	(143)

### (c) Credit risk

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

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

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

Credit risk is not considered to be significant to the Stapled 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 Stapled Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Stapled Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Stapled 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 Stapled Scheme has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until funds are available.

The Stapled 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 Stapled Scheme may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer. No such investments were held at the end of the reporting period.

#### ***Maturity analysis for financial liabilities***

## 19 Financial risk management (continued)

### (d) Liquidity risk (continued)

The table below analyses the Stapled 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.

Consolidated	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	4,874	-	-	-
Payables	6,054	-	-	-
Deferred payables	-	-	4,920	-
Borrowings	-	-	-	191,542
Net assets attributable to unitholders	185,761	-	-	-
Total financial liabilities	<u>196,689</u>	<u>-</u>	<u>4,920</u>	<u>191,542</u>

Consolidated	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	3,024	-	-	-
Payables	10,508	-	-	-
Deferred payables	-	2,210	2,211	2,210
Borrowings	-	-	34,212	168,450
Net assets attributable to unitholders	79,380	-	-	-
Total financial liabilities	<u>92,912</u>	<u>2,210</u>	<u>36,423</u>	<u>170,660</u>

As disclosed above, the Scheme manages its liquidity risk by investing in liquid assets that it expects to be able to liquidate within 7 days or less. Liquid assets include cash and cash equivalents, listed property trusts, unlisted property trusts and unlisted unit trusts. As at 30 June 2011, these assets amounted to \$17,163k (2010: \$4,686k).

### (e) Estimation of fair values of financial assets and financial liabilities

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

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

The details of the Stapled Scheme's hedging activities are detailed in note 14 and note 18.

### (f) Instruments used by the Stapled Scheme

The Stapled 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 Stapled Scheme's financial risk management policies.

The details of the Stapled Scheme's hedging activities are detailed in note 14 and note 18.

### (g) Fair value hierarchy

The Stapled Scheme is required 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).

## 19 Financial risk management (continued)

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

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

The determination of what constitutes 'observable' requires significant judgement by the 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 Stapled Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets held for trading:				
Derivatives	-	1,530	-	1,530
Financial assets designated at fair value through profit or loss at inception:				
Unlisted property trusts	-	<u>15,283</u>	-	<u>15,283</u>
<b>Total</b>	<u>-</u>	<u>16,813</u>	<u>-</u>	<u>16,813</u>
30 June 2010	Level 1	Level 2	Level 3	Total
Financial assets held for trading:				
Derivatives	-	2,731	-	2,731
Financial assets designated at fair value through profit or loss at inception:				
Unlisted property trusts	-	<u>14,458</u>	-	<u>14,458</u>
<b>Total</b>	<u>-</u>	<u>17,189</u>	<u>-</u>	<u>17,189</u>

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

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.

## 20 Related party transactions

### Responsible Entity

The Responsible Entity of Australian Unity Retail Property Fund (Parent - Australian Unity Retail Property Trust) 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)

### Details of key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of Australian Unity Property Limited at any time during the financial 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 Stapled Scheme, directly or indirectly during the financial 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 Stapled Scheme to Australian Unity Funds Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

### Key management personnel loan disclosures

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

### Other transactions within the Scheme

From time to time directors of Australian Unity Property Limited, or their director related entities, may invest in or withdraw from the Stapled Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Stapled 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 Stapled Scheme during the financial reporting period and there were no material contracts involving key management personnel's interests existing at end of the reporting period.

### Responsible Entity's fees and other transactions

Under the terms of the Stapled Schemes' Constitutions, the Responsible Entity is entitled to receive fees monthly, calculated at 0.93% per annum of the total assets of the Stapled Scheme. The Stapled Scheme's Constitution sets out maximum fees can be charged. Currently, the Stapled Scheme sets the fee structures for its units at a level below the maximum allowed for in the Constitution.

## 20 Related party transactions (continued)

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

	As at	30 June
	30 June	2010
	2011	2010
	\$	\$
Management fees for the reporting period paid/payable by the Stapled Scheme to the Responsible Entity	4,320	3,430

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

### Other related party transactions

Australian Unity Property Management Pty Ltd (a related party of the Responsible Entity) has been appointed to provide a number of services to the fund. 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 year ended 30 June 2011 was \$280,135. Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2011 is \$280,135.

### Related party unitholdings

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

#### 2011

Unitholder	Number of units held opening No. '000	Number of units acquired No. '000	Number of units disposed No. '000	Number of units held at closing No. '000	Interest held %
Australian Unity Property Income	19,094	6,011	-	25,105	30.16
Australian Unity Property Securities Fund	10,921	6,112	-	17,034	7.15
Australian Unity Health Limited	1,832	1,025	-	2,857	1.20
Lifepan Funeral Benefit No. 2 (Taxed)	18,388	5,681	-	24,069	10.10
Grand United Corporate Health Ltd	-	156	-	156	0.07

## 20 Related party transactions (continued)

### Related party unitholdings (continued)

2010

Unitholder	Number of units held opening No. '000	Number of units acquired No. '000	Number of units disposed No. '000	Number of units held closing No. '000	Interest held (%)
Australian Unity Property Income Fund	17,063	10,059	5,319	21,803	11.35
Australian Unity Property Securities Fund	6,771	10,333	6,183	10,921	5.70
Australian Unity Health Limited	2,522	70	760	1,832	0.96
Lifeplan Funeral Benefit No. 2 (Taxed)	-	18,388	-	18,388	9.60

### Investments

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

	Fair value of investment		Interest held	
	2011 \$	2010 \$	2011 %	2010 %
Australian Unity Retail Opportunities Trust	13,629	15,054	91.16	100.00
Australian Unity Wholesale Cash Fund	4,895	1,689	0.61	0.002

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

	For the reporting period ended	
	30 June	30 June
	2011	2010
	\$'000	\$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the reporting period attributable to unitholders	-	-
(Decrease)/increase in net assets attributable to unitholders	<b>(10,268)</b>	(10,768)
(Increase)/decrease in swap hedging reserve	<b>1,200</b>	1,725
Change in fair value of the investment properties - revaluation decrement/(increment)	<b>8,063</b>	6,966
Unrealised gains/(losses) on financial investment assets	<b>24</b>	(137)
Decrease/(increase) in receivables	<b>5,030</b>	(1,895)
Decrease/(increase) in other assets	<b>456</b>	32
Increase/(decrease) in liabilities	<b>(5,684)</b>	6,839
Add back interest expenses and debt establishment costs	<b>119</b>	13,007
Distribution to unitholders	<b>13,617</b>	12,665
Adjustments to straightline rental and lease incentives	<b>(6,095)</b>	-
<b>Net cash inflow/(outflow) from operating activities</b>	<b><u>6,462</u></b>	<b><u>28,434</u></b>

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

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

Cash and cash equivalents	<b>12,268</b>	2,997
Units in Australian Unity Wholesale Cash Fund	<b>4,895</b>	1,689
	<b><u>17,163</u></b>	<b><u>4,686</u></b>

### (c) Non-cash financing activities

There were no non-cash financing and investing activities carried out during the 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 reporting period (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

## 22 Events occurring after the end of the reporting period

On 20 April 2011, a contract of sale become unconditional for the sale of Thornlie Square Shopping Centre for a consideration of \$21,000,000. Settlement occurred on 20 July 2011.

A new loan facility agreement totalling \$35,000,000 was re financed on the 12 August 2011, into the RPF Club Facility Tranche B. The Tranche B facility expires on 30 April 2013.

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

## 23 Parent entity financial information

	Parent As at	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Statement of financial position</b>		
Cash and cash equivalents	8,534	972
Trade and other receivables	3,595	3,421
Lease incentives	-	51
Prepaid expenses	74	185
Investment properties	120,500	119,009
Derivative assets	812	1,304
Loan Receivable	1,917	1,917
Financial assets held at fair value through profit or loss	<u>85,732</u>	<u>71,207</u>
<b>Total assets</b>	<u>221,164</u>	<u>198,066</u>
Distributions payable	2,144	2,894
Trade and other liabilities	1,766	3,104
Borrowings	<u>72,000</u>	<u>72,962</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<u>75,910</u>	<u>78,960</u>
<b>Net assets attributable to unitholders</b>	<u>145,257</u>	<u>119,106</u>
	<b>For the reporting period ended</b>	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Statement of comprehensive income</b>		
<b>Profit/(loss) before finance costs attributable to unitholders</b>	<u>10,956</u>	<u>5,898</u>
<b>Finance costs attributable to unitholders</b>		
Distributions to unitholders	(8,558)	(11,355)
Increase/(decrease) in swaps hedge reserve	(492)	(972)
(Increase)/decrease in net assets attributable to unitholders	<u>(1,906)</u>	<u>6,429</u>
<b>Total comprehensive income for the reporting period</b>	<u>-</u>	<u>-</u>

## 24 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:

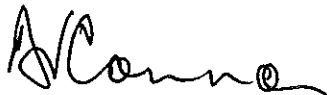
- (a) the financial statements and notes set out on pages 6 to 38 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Stapled Scheme's financial position as at 30 June 2010 and of its performance, as represented by the results of its operations for the financial reporting period ended on that date; and
- (b) there are reasonable grounds to believe that the Trust 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 Stapled Scheme's Constitutions.

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 Retail Property Fund (Parent - Australian Unity Retail Property Trust)

We have audited the accompanying financial report of Australian Unity Retail Property Fund (Parent - Australian Unity Retail Property Trust), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Australian Unity Retail Property Fund (Parent - Australian Unity Retail Property Trust) and the entities it controlled at the year's end or from time to time during the financial year.

### *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.

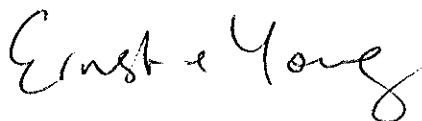
### *Independence*

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 Retail Property Fund (Parent - Australian Unity Retail Property Trust) is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the financial position of Australian Unity Retail Property Fund (Parent - Australian Unity Retail Property Trust) and the consolidated entity at 30 June 2011 and of their 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)

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