

Australian Unity Diversified Property Fund

ARSN 119 620 674

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These financial statements cover Australian Unity Diversified Property Fund ("the Stapled Scheme") as the consolidated entity consisting of the AUDPF No. 1 Trust and AUDPF No. 2 Trust.

The Responsible Entity of Australian Unity Diversified Property Fund is Australian Unity Property Funds Management Limited (ABN 28 085 352 405). 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 Funds Management Limited, I am pleased to present the Annual Report to 30 June 2011 for the Australian Unity Diversified Property Fund.

The Fund achieved a return of 9.86% for the 2010–11 financial year. This total return consists of a Distribution return of 6.84% and a Growth return of 3.02%.

Since becoming the Responsible Entity for the Fund in October 2010, we have been working to improve all aspects of the Fund. Within these nine months, the Fund has already significantly benefited from our strong active management decisions.

Our strategy has been simply to deliver exactly what a quality, diversified and direct property investment should – that is, stable tax-advantaged income and solid prospects for capital growth.

One of the most critical elements in our approach has been to focus on strengthening the leasing profile of the Fund, primarily through active lease management and capital works. These efforts have delivered positive results, including:

- Negotiating a new five-year lease for the Penrith property with the Australian Taxation Office (ATO), one of the Fund's major tenants. Previously, the ATO had indicated their intention to vacate the property.
- Undertaking a master planning and feasibility study to amalgamate the three adjoining Busselton properties to leverage scale, and to improve costs and leasing conditions.
- Starting minor capital works on the Port Melbourne property to secure better income. During the year, the previous major tenant had their lease terminated. As a result, the costs involved in dealing with this tenant negatively impacted on the Fund's fourth quarter distribution. A new tenant has now leased a portion of the vacated space.
- Constructing a 2,500sqm meat cold storage facility at the Canningvale property.
- Advancing discussion with tenants about additional development and/or expansion of the Balcatta property.

We have also sought to reinstate a number of benefits for investors. This includes the Fund's distribution reinvestment plan, which enables investors to reinvest their distributions from the Fund into additional securities without incurring a 'buy spread' and at a 2.5% discount to the Net Asset Value (NAV) security price.



As well, we have run a successful offer to raise additional capital for the Fund and held two ad hoc withdrawal offers, which have provided a measure of liquidity to investors.

Further, we successfully refinanced the Fund's \$230.1 million loan in March 2011. As at 30 June 2011, approximately 79% of the Fund's borrowings are hedged against future interest rate rises.

Outlook

Our longer term strategy for the Fund is to realign its geographic allocation along Australia's eastern seaboard and to diversify its sector allocation.

To achieve this, we will selectively purchase and potentially sell assets to rectify both the current concentration in Western Australia and the Fund's overweight position to industrial property. Specifically, our plan is to broaden the Fund's asset allocation towards commercial office property, where we see significant opportunity.

To stay up-to-date with information about your investment, I encourage you to visit our website – australianunityinvestments.com.au – or speak with a member of our Investor Services team on **13 29 39**. You can also find details relating to your investment by visiting linkmarketservices.com.au or telephoning 1300 363 136.

Thank you for investing with Australian Unity Investments.

Yours sincerely

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

Alan Castleman
Chairman

Your investment – Australian Unity Diversified Property Fund

Investment objective

The Australian Unity Diversified Property Fund is an open unlisted property fund focusing on industrial, office and retail property investments. It aims to build a diversified portfolio of income-producing properties and property securities which will deliver:

- Total Return that is in line with or exceeds the Total Return Benchmark Index (generally the Mercer/IPD Australian Pooled Property Fund Index); and
- Stable income stream that is at least 1% p.a. above the average Commonwealth Government 10-year bond yield calculated on a rolling basis over the previous 5-year period.

Investment strategy

The investment strategy of the Fund is to acquire, manage and grow an underlying property portfolio of industrial, office and retail properties in Australia. The Fund may also invest in Australian Real Estate Investment Trusts (A-REITs) and unlisted property trusts where appropriate. 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)			
	1 year %	3 years % p.a.	Since inception % p.a. ¹
Diversified Property Fund	9.86	(2.06)	3.17

Returns are calculated after fees and expenses (excluding any entry fees) and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

¹ Inception date for performance calculations is 31 August 2006.

Quick stats	
Date the Scheme was constituted	22 May 2006
Fund size (gross asset value)	\$379.02 million
Income distributions	Quarterly

Geographic asset allocation	
State	Actual %
WA	60.9
NSW/ACT	20.6
QLD	12.2
VIC/TAS	6.3

Asset allocation	
Asset class	Actual %
Direct property	94.42
Unlisted property investments	0.55
Listed A-REITs	NA
Cash and cash equivalents	3.40
Other	1.63

Top 5 tenants by rental revenue	
Tenant	%
Metcash	49.12
Australian Tax Office	16.00
Woolworths	4.2
ANZ	3.4
Fitness First (Rockdale)	3.2

Direct Properties				
Office	Industrial		Retail	
20 Smith St, Parramatta, NSW	218 Bannister Road, Canning Vale, WA	278 Orchard Rd, Richlands, Qld	Woodvale Shopping Centre, WA	Busselton Target, WA
121-125 Henry St, Penrith, NSW	7 Geddes St, Balcatta, WA	10 Clarke St, O'Connor, WA	Dog Swamp Shopping Centre, Yokine, WA	19 Prince St, Busselton, WA
	706 Lorimer St, Port Melbourne, VIC		Busselton Central Shopping Centre, WA	395 West Botany St, Rockdale, NSW

Directors' report

The directors of Australian Unity Property Funds Management Limited (ABN 28 085 352 405), the Responsible Entity of Australian Unity Diversified Property Fund ("AUDPF"), present their report together with the consolidated financial statements of AUDPF ("the Stapled Scheme"), consisting of the stapled entities, AUDPF No. 1 Trust ("AUDPF1") and AUDPF No. 2 Trust ("AUDPF2") and the controlled entities of the stapled entities for the year ended 30 June 2011 ("the reporting period").

Responsible entity

The Responsible Entity for the Trust is Australian Unity Property Funds Management Limited ("AUPFML") which was previously known as Westpac Funds Management Limited ("WFML").

On 24 September 2010, Westpac Banking Corporation ("Westpac"), the ultimate parent entity of WFML, sold WFML to Australian Unity Limited.

On 24 September 2010, WFML changed its name to AUPFML.

On 24 September 2010, the Responsible Entity changed its registered office address from Level 16, 90 Collins Street, Melbourne VIC 3000 to Level 14, 114 Albert Road, South Melbourne, VIC 3205.

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)	Appointed 24 September 2010
David Bryant (Chief Executive Officer and Chief Investment Officer)	Appointed 24 September 2010
Rohan Mead (Group Managing Director)	Appointed 24 September 2010
Glenn Barnes (Non-Executive Director)	Appointed 24 September 2010
Ian Ferrer (Non-Executive Director)	Appointed 24 September 2010
Stephen Maitland (Non-Executive Director)	Appointed 24 September 2010
Warren Stretton (Non-Executive Director)	Appointed 24 September 2010
Anthony Cannon (Chief Financial Officer)	Appointed 24 September 2010

Alan Cameron	Resigned 24 September 2010
Steve Boulton	Resigned 24 September 2010
Jim Evans	Resigned 24 September 2010
William Forde	Resigned 24 September 2010
Steven Gibbs	Resigned 24 September 2010
Jim McDonald	Resigned 24 September 2010
Les Vance	Resigned 24 September 2010

Principal activities

AUDPF is an unlisted property fund registered with the Australian Securities & Investments Commission ("ASIC") and was established to invest in direct property assets, listed property securities and unlisted property securities. The aim of the Stapled Scheme is to build a diversified portfolio of income producing properties delivering stable income streams and having the potential for capital growth.

The Stapled Scheme's current property portfolio numbers thirteen properties and is further detailed in the Stapled Scheme's financial report for the reporting period ended 31 December 2010.

AUDPF1 was established on 13 October 2003 and was registered as a managed investment scheme with ASIC on 22 May 2006 for the purpose of investing in high quality properties that have a secure income stream and the potential for capital growth.

AUDPF2 was established on 22 May 2006 and was registered as a managed investment scheme with ASIC on 22 May 2006 for the purpose of taking advantage of investment opportunities that AUDPF1 does not currently participate in, including limited property development roles, and to provide opportunity for potential future profitability and capital growth.

Directors' report (continued)

Review and results of operations

Property revaluations

During the reporting period thirteen properties were revalued at a total of \$357.25m, an increase from their previous aggregated valuations of \$353.6m in the reporting period ended 30 June 2010.

The current reporting period revaluations were in total above the revalued properties carrying values resulting in recording a net revaluation fair value increment of \$3.3m.

Results

(a) AUDPF

For the reporting period ended 30 June 2011 the Stapled Scheme's ordinary units posted a total return of (9.86%), split between a distribution return of (6.84%) and a growth return of (3.02%).

The Stapled Scheme's ordinary units unit price (ex distribution) as at 30 June 2011 was \$0.8080 (2010: \$0.7966).

(b) Consolidated AUDPF2

Consolidated AUDPF2 continues to be non-operating. For the reporting year ended 30 June 2011, Consolidated AUDPF2 recorded a net operating loss of \$Nil (2010: \$Nil) and accumulated net liabilities of \$4,000 (2010: \$4,000). Consolidated AUDPF2's net liability position is due to annual administration fees being funded by AUDPF1, whilst AUDPF2 remains inactive. It is contemplated that any outstanding balances be repaid as soon as AUDPF2 generates positive cash flow through future initiatives. As a consequence the financial statements of AUDPF2 have been prepared on a going concern basis.

The performance of the Stapled Scheme and the Consolidated AUDPF2 is represented by the results of its performance as follows:

	Consolidated AUDPF1		Consolidated AUDPF2	
	For the reporting period ended		For the reporting period ended	
	30 June	30 June	30 June	30 June
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Profit before financing costs attributable to unitholders	<u>12,856</u>	14,011	<u>-</u>	-
<i>Distributions</i>				
Distribution paid and payable	<u>14,058</u>	13,192	<u>-</u>	-

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 other than those mentioned below that occurred during the reporting period.

On 24 September 2010, Westpac Banking Corporation ("Westpac"), the ultimate parent entity of WFML, sold WFML to Australian Unity Limited. The responsible entity ("formerly WFML") changed its name to AUPFML.

On 4 November 2010, the Responsible Entity, on behalf of the Fund, is seeking to raise up to \$40m through a Priority Rights Offer and a Public Offer.

A limited withdrawal offer capped at \$10m opened on 22 November 2010.

There were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial period under review.

Directors' report (continued)

Events occurring after the reporting period

Except as disclosed in note 20 of these financial statements, 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 Scheme and in accordance with the provisions of the Stapled Scheme's Constitution.

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.

Indemnity 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 Funds Management Limited or the auditors of the Stapled Scheme. So long as the officers of Australian Unity Property Funds Management 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 of the Stapled Scheme 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 18 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 18 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 9 to the financial statements.

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

Environmental regulation

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

Directors' report (continued)

Auditor's Independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

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



Director

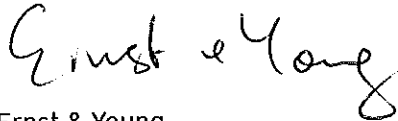


Director

12 September 2011

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

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



Ernst & Young



Tim Barber
Partner
Melbourne

12 September 2011

Statement of comprehensive income

	Notes	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
		30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Investment income					
Rental Income	5	38,743	42,125	-	-
Interest income		361	297	-	-
Other operating income	6	460	-	-	-
Net gains on financial instruments held at fair value through profit or loss	4	2,400	6,491	-	-
Distribution income	3	447	3,885	-	-
Realised gain on disposal of investment properties		-	1,496	-	-
Net fair value increment of investment properties	11	3,306	(9,937)	-	-
Total income		45,717	44,357	-	-
Expenses					
Responsible Entity's fees	18	1,139	1,318	-	-
Auditor's remuneration	7	209	64	-	-
Other Trust expenses		860	1,408	-	-
Property related expenses	8	10,938	9,410	-	-
Interest expenses		19,715	18,146	-	-
Total expenses		32,861	30,346	-	-
Profit before finance costs attributable to unitholders and non-controlling interests		12,856	14,011	-	-
Finance costs attributable to unitholders					
Distributions to unitholders	10	(14,058)	(13,192)	-	-
Decrease/(increase) in net assets attributable to unitholders	9	1,202	(819)	-	-
Total comprehensive income for the reporting period		-	-	-	-

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

Statement of financial position

	Notes	Consolidated AUDPF1		Consolidated AUDPF2	
		As at		As at	
		30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Assets					
Cash and cash equivalents	19	13,213	9,007	-	-
Trade and other receivables	13	1,074	2,778	-	-
Prepaid expenses		350	346	-	-
Financial assets held at fair value through profit or loss	12	2,072	42,989	-	-
Investment property	11	357,764	353,625	-	-
Total assets		374,473	408,745	-	-
Liabilities					
Distributions payable	10	2,237	-	-	-
Derivative liabilities	16	3,625	5,059	-	-
Payables	14	6,270	15,779	4	4
Borrowings	15	191,100	218,174	-	-
Total liabilities (excluding net assets attributable to unitholders of the parent entity)		203,232	239,012	4	4
Net assets attributable to unitholders	9	171,241	169,733	(4)	(4)

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

Statement of changes in net assets attributable to unitholders

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Net assets attributable to unitholders at the beginning of the reporting period	169,733	165,797	4	4
Profit before finance costs attributable to unitholders and non-controlling interests	12,856	14,011	-	-
Distribution to unitholders	(14,058)	(13,192)	-	-
Return of capital	-	(190)	-	-
Application for units	12,640	-	-	-
Units issued upon re investment of distributions	70	3,307	-	-
Redemption of units	(10,000)	-	-	-
Net assets attributable to unitholders at the end of the reporting period	171,241	169,733	4	4

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

Statement of cash flows

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Notes				
Cash flows from operating activities				
Distribution received	447	3,540	-	-
Rental income received	40,907	44,102	-	-
Interest received	361	294	-	-
Payment to suppliers	<u>(30,874)</u>	<u>(33,838)</u>	-	-
Net cash (outflow)/inflow from operating activities	10,841	14,098	-	-
19(a)				
Cash flows from investing activities				
Capital expenditure on investment properties	(833)	(2,425)	-	-
Increase in financial assets	30,383	-	-	-
Proceeds from sale of investment properties	-	12,096	-	-
Lease paid and capitalised	<u>-</u>	<u>(656)</u>	<u>-</u>	<u>-</u>
Net cash inflow from investing activities	29,550	9,015	-	-
Cash flows from financing activities				
Proceeds/(repayment) of borrowings	(27,074)	(12,100)	-	-
Proceeds from issue of stapled securities	-	3,410	-	-
Distributions paid	(11,751)	(13,380)	-	-
Proceeds from applications by unitholders	12,640	-	-	-
Payments for redemptions to unitholders	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash outflow from financing activities	(36,185)	(22,070)	-	-
Net increase in cash and cash equivalents	4,206	1,043	-	-
Cash and cash equivalents at the beginning of the reporting period	<u>9,007</u>	<u>7,964</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at the end of the reporting period	13,213	9,007	-	-

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

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1 General information

These financial statements cover Australian Unity Diversified Property Fund ("the Stapled Scheme") as the consolidated entity consisting of the AUDPF No.1 Trust and AUDPF No.2 Trust together with the controlled entities of the stapled entities.

Australian Unity Diversified Property Fund ("AUDPF") was established in Australia under the Constitution dated 22 May 2006 with Australian Unity Property Funds Management Limited ("AUPFML") as its Responsible Entity.

AUDPF No.1 Trust ("AUDPF1") was established in Australia under the Constitution dated 14 October 2003 with Australian Unity Property Funds Management Limited ("AUPFML") as its Responsible Entity.

AUDPF No. 2 Trust ("AUDPF2") was established in Australia under the Constitution dated 22 May 2006 with AUPFML as its Responsible Entity.

The registered office of the Responsible Entity is located at 114 Albert Road, South Melbourne, VIC 3205.

For the purpose of preparing consolidated financial statements that combine the assets and liabilities of AUDPF1 and its controlled entities and AUDPF2 and its controlled entity, AUDPF1 is identified as the parent entity.

The consolidated financial statements presented therefore comprise:

Consolidated AUDPF1 ("AUDPF"):

These are the consolidated financial statements for AUDPF1 which incorporates the assets and liabilities of the entities controlled by AUDPF1 and combine the assets and liabilities of the stapled entity, AUDPF2 and its controlled entity. These entities are referred to in this report and in the financial statements as Consolidated AUDPF1 or AUDPF.

Consolidated AUDPF2:

These are the consolidated financial statements for AUDPF2 which incorporates the assets and liabilities of AUDPF2 and its controlled entity. These entities are referred to in this report and in the financial statements as Consolidated AUDPF2.

The controlled entities of AUDPF1 comprise:

AUDPF No. 1 Sub-Trust No. 1 (AUDPF-ST1) which was established in Australia Under the Trust Deed dated 21 August 2006.

AUDPF No. 1 Sub-Trust No. 2 (AUDPF-ST2) which was established in Australia Under the Trust Deed dated 21 August 2006.

AUDPF No. 1 Sub-Trust No. 3 (AUDPF-ST3) which was established in Australia Under the Trust Deed dated 21 August 2006.

AUDPF No. 1 Sub-Trust No. 4 (AUDPF-ST4) which was established in Australia Under the Trust Deed dated 25 October 2006.

AUDPF No. 1 Sub-Trust No. 5 (AUDPF-ST5) which was established in Australia Under the Trust Deed dated 26 October 2006.

AUDPF No. 1 Sub-Trust No. 6 (AUDPF-ST6) which was established in Australia Under the Trust Deed dated 11 October 2006.

AUDPF No. 1 Sub-Trust No. 7 (AUDPF-ST7) which was established in Australia Under the Trust Deed dated 30 August 2007.

AUDPF No. 1 Sub-Trust No. 8 (AUDPF-ST8) which was established in Australia Under the Trust Deed dated 3 October 2007.

AUDPF No. 1 Sub-Trust No. 9 (AUDPF-ST9) which was established in Australia Under the Trust Deed dated 3 October 2007.

AUDPF No. 1 Sub-Trust No. 10 (AUDPF-ST10) which was established in Australia Under the Trust Deed dated 17 December 2007.

AUDPF No. 1 Sub-Trust No. 11 (AUDPF-ST11) which was established in Australia Under the Trust Deed dated 23 October 2007.

AUDPF No. 1 Sub-Trust No. 12 (AUDPF-ST12) which was established in Australia Under the Trust Deed dated 17 December 2007.

The controlled entity of AUDPF No.2 Sub-Trust No.1 (AUDPF2 - ST1) which was established in Australia under the Trust Deed dated 17 December 2007.

1 General information (continued)

The constitution of AUDPF provides that the Fund is not a trust, and that all property of the Fund must be held in either AUDPF1 or AUDPF2. Accordingly, AUDPF itself cannot hold any assets or property on a stand-alone basis. Although the Fund cannot hold any assets or property on a stand-alone basis, as a registered scheme under the Corporations Act 2001 it is still required to provide financial reports to its members. The financial report for Consolidated AUDPF1 presented in the first column in the attached financial statements, serves as a summary of the financial performance and position of AUDPF as a whole.

As the securities held by investors are stapled units, the financial statements for Consolidated AUDPF1 ("AUDPF") provide the most relevant information regarding the performance of investors' funds.

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

The financial statements were authorised for issue by the directors on 14 September 2011. The directors of the Responsible Entity have the power to amend and reissue the financial report.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are 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.

Consolidated AUDPF2 had a net liability position of \$4,000 as at 30 June 2011 (2010: \$4,000). Consolidated AUDPF2's net liability position is due to annual administration fees being funded by AUDPF1, whilst AUDPF2 remains inactive. It is contemplated that any outstanding balances be repaid as soon as AUDPF2 generates positive cash flow through future initiatives. As a consequence the financial statements of AUDPF2 have been prepared on a going concern basis.

Stapled securities

The ordinary securities issued by AUDPF1 are stapled to the ordinary securities issued by AUDPF2. The combined entity of AUDPF1 and AUDPF2 is known as the Stapled Funds.

The securities will only be unstapled in accordance with the determination of the Responsible Entity for AUDPF1 and AUDPF2 if:

- the security holders of AUDPF1 and AUDPF2 have approved the unstapling by special resolution; and
- the unstapling period commences within three months after the later of the dates on which the approval of securityholders is obtained.

AASB Interpretation 1002 "Post-Date-of-Transition Stapling Arrangements"

The stapling arrangements between the AUDPF entities was affected post the date of transition to Australian equivalents to International Financial Reporting Standards, therefore AASB Interpretation 1002 applies. In accordance with this interpretation, for the purpose of preparing the consolidated financial statements that combines the assets and liabilities of the stapled entities, AUDPF1 is identified as the parent entity.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Compliance with International Financial Reporting Standards

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

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

(b) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The Stapled 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 Stapled Scheme's assets and liabilities.

(c) Principles of consolidation

The consolidated financial statements of AUDPF1 combine the assets and liabilities of AUDPF1 and the entities AUDPF1 controls, AUDPF2 and the entities AUDPF2 controls as at 30 June 2011. These entities are referred to in these financial statements as Consolidated AUDPF1 or AUDPF. The effects of all transactions between entities in the AUDPF1 consolidated group are eliminated in full.

The consolidated financial statements of AUDPF2 combine the assets and liabilities of AUDPF2 and the entity it controls as at 30 June 2011. These entities are referred to in these financial statements as Consolidated AUDPF2. The effects of all transactions between entities in the AUDPF2 consolidated group are eliminated in full.

Controlled entities are those entities (including special purpose entities) over which AUDPF1 and AUDPF2 have 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 AUDPF1 or AUDPF2 controls another entity.

Where control of an entity is obtained during the reporting period, its results are included in the condensed consolidated interim financial statements from the date on which control commences. Where control of an entity ceases during a period its results are included for that part of the period during which control existed.

The financial statements of controlled entities are prepared for the same reporting period as that of AUDPF1 and AUDPF2, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are fully consolidated from the date on which control is transferred to the AUDPF1 or AUDPF2. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by AUDPF1 or AUDPF2.

All transactions (including gains and losses) and balances between entities in AUDPF and Consolidated AUDPF2 are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

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

Investments in subsidiaries are accounted for at fair value in the individual financial statements of the parent entity.

(d) 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.

2 Summary of significant accounting policies (continued)

(d) Investment Property (continued)

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 Stapled 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.

The fair value of the investment properties includes the unamortised cost of lease incentives, unamortised leasing costs and the impact of straight-lining rental income.

(e) Financial instruments

(i) Classification

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

The Stapled 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 Stapled Scheme's documented investment strategy. The Stapled 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 Stapled Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Loans and receivables/payables including borrowings*

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

(ii) Recognition/derecognition

The 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:

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

- 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 losses are measured at fair value with changes in their value recognised in the statement of comprehensive income.

- *Fair value that is observable by the market*

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

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

- *Borrowings and receivables/payables*

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

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

(iv) Offsetting financial instruments

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

2 Summary of significant accounting policies (continued)

(f) Derivatives

All derivative financial instruments are brought to statement of the 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.

(g) 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.

(h) Cash and cash equivalents

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

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

(i) 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(e).

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.

(j) Expenses

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

2 Summary of significant accounting policies (continued)

(k) 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.

(l) 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.

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

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

(n) 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(i) above. Amounts are generally received within 30 days of being recorded as receivables.

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the 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 the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable 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.

(o) Payables

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

2 Summary of significant accounting policies (continued)

(o) Payables (continued)

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 requested to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

(p) 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 in accordance with the Stapled Scheme's constitution 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.

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

(r) Borrowings and borrowing costs

All loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with borrowings.

After initial recognition, loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in net profit or loss when liabilities are derecognised or impaired.

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

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

2 Summary of significant accounting policies (continued)

(s) Revenue

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

Rental revenue

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

Contingent rentals, such as turnover rent and market rent adjustments, are recognised as income in the financial reporting period in which they are earned.

Fixed rental increases which do not represent direct compensation for underlying cost increases or capital expenditure are recognised on a straight line basis over the term of the lease.

The rental adjustments resulted from this policy are disclosed in the financial statements for financial reporting presentation purposes only.

Incidental income (costs) derived from an investment property undergoing construction or development but not directly related to bringing the assets to the working condition, are recognised in 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.

(t) 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 upfront 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.

(u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting period and have not yet been applied in the financial statements. The directors' assessment of the impact of these new standards (to the extent relevant to the Stapled 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 Stapled Scheme's financial statements arising from an adoption of the Standard.

2 Summary of significant accounting policies (continued)

(u) New accounting standards and interpretations (continued)

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

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective from 1 January 2011. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The amendment will not have any effect on the 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 Stapled 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 Stapled 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 Stapled Scheme will apply the amendment from 1 July 2011 with no comparative information being required for the reporting period ending on 30 June 2012. It does not expect any significant impact as the result of applying the amendments.

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

(v) Government grants

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

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

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

(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 Dividend/Distribution income

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Distribution income - Australian Unity Wholesale Cash Fund	129	-	-	-
Distribution income - Property trusts	318	3,885	-	-
	447	3,885	-	-

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

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Net unrealised gain on financial instruments designated as at fair value through profit or loss	242	5,322	-	-
Net realised gain on financial instruments designated as at fair value through profit or loss	790	-	-	-
Net unrealised gain on derivative liabilities	1,368	1,169	-	-
Net gains on financial instruments held at fair value through profit or loss	2,400	6,491	-	-

5 Rental income

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	\$'000	\$'000	\$'000	\$'000
Rental income	33,573	36,552	-	-
Outgoings income	5,170	5,573	-	-
	<u>38,743</u>	<u>42,125</u>	<u>-</u>	<u>-</u>

6 Other operating income

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	\$'000	\$'000	\$'000	\$'000
Other income	1	-	-	-
Green building fund grants *	459	-	-	-
	<u>460</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

7 Auditor's remuneration

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

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	\$'000	\$'000	\$	\$
(a) Audit services				
Audit services				
Audit and review of financial statements	80	64	-	-
Total remuneration for audit services	<u>80</u>	<u>64</u>	<u>-</u>	<u>-</u>
(b) Non-audit services				
Taxation services				
Tax compliance services	129	-	-	-
Total remuneration for taxation services	<u>129</u>	<u>-</u>	<u>-</u>	<u>-</u>

8 Property related expenses

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Recoverable outgoings	8,132	8,190	-	-
Non-recoverable outgoings	1,586	723	-	-
Lease incentive amortisation	430	497	-	-
Asset services fees	790	-	-	-
	10,938	9,410	-	-

9 Net assets attributable to unitholders

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

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF1 For the reporting period ended	
	30 June 2011 No. '000	30 June 2010 No. '000	30 June 2011 \$'000	30 June 2010 \$'000
Opening balance	212,684	208,371	213,829	210,712
Applications	17,030	-	12,640	-
Redemptions	(12,517)	-	(10,000)	-
Reinvestment / Issued costs	90	4,313	70	3,307
Return of Capital	-	-	-	(190)
	217,287	212,684	216,539	213,829

	Consolidated AUDPF1 As at		Consolidated AUDPF2 As at	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Undistributed income				
Opening balance	(44,096)	(44,915)	-	-
Increase/(decrease) in net assets attributable to unitholders	(1,202)	819	-	-
Closing balance	(45,298)	(44,096)	-	-

Undistributed income is comprised of other income / expenses that are not yet assessable / deductible.

Total net assets attributable to unitholders	171,241	169,733	-	-
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10 Distributions to unitholders

Timing of distributions

The distributions for the reporting period were as follows:

	Consolidated AUDPF1 For the reporting period ended			
	30 June 2011 \$'000	30 June 2011 CPU	30 June 2010 \$'000	30 June 2010 CPU
Distributions paid	11,821	5,500	13,192	6,372
Distributions payable	2,237	1,030	-	-
	<u>14,058</u>	<u>6,530</u>	<u>13,192</u>	<u>6,372</u>

11 Investment properties of consolidated entity

30 June 2011	Opening balance \$'000	Movement in lease incentives \$'000	Capital costs \$'000	Revaluation* \$'000	Closing balance \$'000	Latest valuation \$'000
Investment properties						
23-30 Kent St, Busselton WA	23,000	(38)	-	38	23,000	23,000
6 Wanneroo Rd, Yokine WA	24,000	35	119	864	25,018	25,000
218 Bannister Rd, Canning Vale WA	118,000	-	43	43	118,086	118,000
10 Clarke St, O'Connor WA	13,100	-	51	150	13,301	13,300
278 Orchard Rd, Richlands QLD	43,000	200	-	300	43,500	43,500
Lots 7, 10 & 33, Geddes St, Balcatta WA	8,800	-	(94)	94	8,800	8,800
Target Country Busselton, 21 Prince St, Busselton WA	4,000	-	-	-	4,000	4,000
Rivers Busselton, 19 Prince St, Busselton WA	1,250	-	-	-	1,250	1,250
121-125 Henry St, Penrith NSW	27,000	170	42	1,297	28,509	28,500
20 Smith St, Parramatta NSW	32,000	364	421	915	33,700	33,300
395 West Botany St, Rockdale NSW	14,100	-	30	270	14,400	14,400
704-744 Lorimer st, Port Melbourne VIC	22,375	117	-	(1,792)	20,700	20,700
Woodvale Boulevard Shopping Centre, Woodvale WA	23,000	5	18	477	23,500	23,500
Total	<u>353,625</u>	<u>853</u>	<u>630</u>	<u>2,656</u>	<u>357,764</u>	<u>357,250</u>

11 Investment properties of consolidated entity (continued)

30 June 2010	Opening balance \$'000	Movement in lease incentives \$'000	Proceeds from disposal \$'000	Capital costs \$'000	Revaluation* \$'000	Closing balance \$'000	Latest valuation \$'000
Investment properties							
23-30 Kent St, Busselton WA	20,700	(20)	-	44	2,276	23,000	23,000
6 Wanneroo Rd, Yokine WA	22,150	(12)	-	67	1,795	24,000	24,000
218 Bannister Rd, Canning Vale WA	113,000	113	-	929	3,958	118,000	118,000
10 Clarke St, O'Connor WA	13,100	-	-	36	(36)	13,100	13,100
278 Orchard Rd, Richlands QLD	42,500	-	-	(98)	598	43,000	43,000
Lots 7, 10 & 33, Geddes St, Balcatta WA	8,500	-	-	153	147	8,800	8,800
Target Country Busselton, 21 Prince St, Busselton WA	4,500	-	-	-	(500)	4,000	4,000
Rivers Busselton, 19 Prince St, Busselton WA	1,500	-	-	-	(250)	1,250	1,250
121-125 Henry St, Penrith NSW	37,000	-	-	1,198	(11,198)	27,000	27,000
Telstra House, 22 Henley Beach Rd, Mile End SA	10,600	-	(10,600)	-	-	-	-
20 Smith St, Parramatta NSW	32,750	9	-	96	(855)	32,000	32,000
395 West Botany St, Rockdale NSW	13,200	32	-	-	868	14,100	14,100
704-744 Lorimer st, Port Melbourne VIC	27,300	-	-	-	(4,925)	22,375	22,375
Woodvale Boulevard Shopping Centre, Woodvale WA	23,750	145	-	17	(912)	23,000	23,000
Total	370,550	267	(10,600)	2,442	(9,034)	353,625	353,625

* The net fair value increment (decrement) of investment in properties in the Statement of comprehensive income includes the impact of straight-lining rental income 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(s).

	Consolidated AUDPF1		Consolidated AUDPF2	
	As at		As at	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Revaluation of investment properties	2,656	(9,034)	-	-
Adjustment for straight-lining rental income	650	(903)	-	-
	3,306	(9,937)	-	-

11 Investment properties of consolidated entity (continued)

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

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's 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.

23-30 Kent St, Busselton WA was independently valued in May 2011 at \$23,000,000 by Jones Lang LaSalle. This represents nil movement from the previous valuation in June 2010 of \$23,000,000.

6 Wanneroo Rd, Yokine WA was independently valued in May 2011 at \$25,000,000 by Savills. This represents an increase of \$1,000,000 from the previous valuation in June 2010 of \$24,000,000.

218 Bannister Rd, Canning Vale WA was independently valued in May 2011 at \$118,000,000 by Knight Frank. This represents nil movement from the previous valuation in June 2010 of \$118,000,000.

10 Clarke St, O'Connor WA was independently valued in May 2011 at \$13,300,000 by Knight Frank. This represents an increase of \$200,000 from the previous valuation in June 2010 of \$13,100,000.

278 Orchard Rd, Richlands QLD was independently valued in March 2011 at \$43,500,000 by CBRE. This represents an increase of \$500,000 from the previous valuation in June 2010 of \$43,000,000.

Lots 7, 10 & 33, Geddes St, Balcatta WA was independently valued in May 2011 at \$8,800,000 by Jones Lang LaSalle. This represents nil movement from the previous valuation in June 2010 of \$8,800,000.

Target Country Busselton, 21 Prince St, Busselton WA was independently valued in May 2011 at \$4,000,000 by Jones Lang LaSalle. This represents nil movement from the previous valuation in June 2010 of \$4,000,000.

Rivers Busselton, 19 Prince St, Busselton WA was independently valued in May 2011 at \$1,250,000 by Jones Lang LaSalle. This represents nil movement from the previous valuation in June 2010 of \$1,250,000.

121-125 Henry St, Penrith NSW was independently valued in May 2011 at \$28,500,000 by CBRE. This represents an increase of \$1,500,000 from the previous valuation in June 2010 of \$27,000,000.

20 Smith St, Parramatta NSW was independently valued in March 2011 at \$33,300,000 by CBRE. This represents an increase of \$1,300,000 from the previous valuation in June 2010 of \$32,000,000.

395 West Botany St, Rockdale NSW was independently valued in May 2011 at \$14,400,000 by Colliers. This represents an increase of \$300,000 from the previous valuation in June 2010 of \$14,100,000.

704-744 Lorimer st, Port Melbourne VIC was independently valued in March 2011 at \$20,700,000 by CBRE. This represents a decrease of \$1,675,000 from the previous valuation in June 2010 of \$22,375,000.

Woodvale Boulevard Shopping Centre, Woodvale WA was independently valued in March 2011 at \$23,500,000 by CBRE. This represents an increase of \$500,000 from the previous valuation in June 2010 of \$23,000,000.

12 Financial assets held at fair value through profit or loss

	Consolidated AUDPF1		Consolidated AUDPF2	
	As at		As at	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
				\$'000
Listed Property Scheme - Westpac Office Trust	-	18,975	-	-
Unlisted Property Scheme	2,072	24,014	-	-
Total financial assets held at fair value through profit or loss	2,072	42,989	-	-

Listed property scheme

The AUDPF1 held an investment at 30 June 2010 of 23,000,000 instalment receipts in Westpac Office Trust (WOT) evidencing AUDPF1's beneficial interest in 23,000,000 WOT units paid to \$0.50 per unit. The WOT Security Trustee held legal title to these WOT units until the instalments totalling \$0.50 per instalment receipt are paid by AUDPF1. Following the final instalment payment, AUDPF1 will be issued 23,000,000 fully paid \$1 units in WOT.

Under the original deferred payment arrangements, the final instalment payment of \$0.50 per instalment receipt (\$11,500,000), was payable on 1 November 2011.

WOT instalment receipts are carried at a value of \$0.825 per instalment receipt at 30 June 2010.

On 21 July 2010 the unitholders of WOT approved the acquisition by the Mirvac Group of all the issued units of WOT by way of a trust scheme. In consideration for the AUDPF1's 23,000,000 WOT instalment receipts held on record date, the Stapled Scheme was issued 3,470,708 Mirvac instalment receipts on 4 August 2010; received cash consideration of \$6,187,108; and repayment on its behalf \$8,593,213 of instalment debt.

On 27 September 2010 sold the 3,470,708 Mirvac instalment receipts for a cash consideration of \$1,783,915 and repayment on its behalf \$2,906,787 of instalment debt.

Unlisted property scheme

AUDPF1 has an investment at 30 June 2011 of 2,204,050 units (2010: 2,204,050) in Stockland Direct Office Trust No. 2 (SDOT2). The units price as at 30 June 2011 is \$0.94 (2010: \$0.83). AUDPF1's beneficial interest in the 2,204,050 SDOT2 units paid to \$0.40 per unit. The SDOT2 Security Trustee will hold legal title to these SDOT2 units until the final instalment of \$0.60/unit is paid by AUDPF1 at which time AUDPF1 will be issued 2,204,050 fully paid \$1 units in SDOT2. The final instalment of \$0.60 per unit (\$1,322,430) is due by 30 June 2013 and has therefore been recognised as a payable as at 30 June 2011 (2010 - payable of \$1,322,430).

AUDPF1 held 50% interest comprising 22,700,936 units in North Ryde Office Trust (NROT), which owns the Westpac Data Centre on the corner of Talavera and Khartoum Roads at Macquarie Park, NSW. AUDPF1 jointly owned this investment with Westpac Office Trust, a scheme for which Australian Unity Funds Management Limited also acted as the Responsible Entity.

NROT is valued at \$0.9952 per unit at 30 June 2010 which reflects the 30 June 2010 unit price for NROT.

On 16 June 2010 AUDPF1 entered into a Unit Sale Side Deed with Mirvac Property Trust to sell its units in NROT for \$22.5 million. The sale was effective on 4 August 2010.

13 Receivables

	Consolidated AUDPF1		Consolidated AUDPF2	
	As at		As at	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	\$'000	\$'000	\$'000	\$'000
Trade receivables	997	1,962	-	-
Distribution and interest receivables	77	816	-	-
	1,074	2,778	-	-

14 Payables

	Consolidated AUDPF1		Consolidated AUDPF2	
	As At		As at	
	30 June	30 June	30 June	30 June
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Trade payables	956	1,845	4	4
Accrued expenses	3,221	686	-	-
GST Payable	496	426	-	-
Capital expenditure funding received in advance	275	-	-	-
Instalment payable on financial assets (note 12)	1,322	12,822	-	-
	6,270	15,779	4	4

15 Borrowings

	Consolidated AUDPF1		Consolidated AUDPF2	
	As at		As at	
	30 June	30 June	30 June	30 June
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Loan	191,100	218,174	-	-
	191,100	218,174	-	-

As at 30 June 2011 the facility limit was \$230,100,000 (2010: \$300,100,000). Effective 18 July 2011, the facility limit was reduced from \$230,100,000 to \$215,000,000.

The loan was refinanced during the reporting period and is scheduled to expire on 31 October 2013.

The drawdown loan is at a floating rate of BBSY + 1.40%.

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

The above loan is 78.79% hedged at an average rate of 5.95% as at 30 June 2011. Interest rate swap arrangements as at 30 June 2011 are detailed in note 16.

16 Derivative liabilities

Consolidated AUDPF1 30 June 2011

	Contract/ notional \$'000	Fair Values Liabilities \$'000
Interest rate swap contracts		
Interest rate swaps - maturity 30 Sept 2011	21,000	15
Interest rate swaps - maturity 30 Nov 2011	20,000	77
Interest rate swaps - maturity 31 Jan 2012	13,600	75
Interest rate swaps - maturity 19 Dec 2014	17,000	725
Interest rate swaps - maturity 20 Dec 2014	37,962	1,506
Interest rate swaps - maturity 7 Sept 2015	41,000	1,227
	<u>150,562</u>	<u>3,625</u>

Consolidated AUDPF1 30 June 2010

	Contract/ notional \$'000	Fair Values Liabilities \$'000
Interest rate swap contracts		
Interest rate swaps - maturity 20 Dec 2010	37,962	178
Interest rate swaps - maturity 20 Dec 2010	37,962	178
Interest rate swaps - maturity 30 Sept 2011	21,000	247
Interest rate swaps - maturity 30 Nov 2011	20,000	263
Interest rate swaps - maturity 31 Jan 2012	13,600	197
Interest rate swaps - maturity 19 Dec 2014	17,000	838
Interest rate swaps - maturity 20 Dec 2014	37,962	1,852
Interest rate swaps - maturity 7 Sept 2015	41,000	1,306
	<u>226,486</u>	<u>5,059</u>

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

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

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

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

A contract with a notional amount of \$21,000,000, maturing on 30 September 2011 at a fixed rate of 5.73%.

A contract with a notional amount of \$20,000,000, maturing on 30 November 2011 at a fixed rate of 5.72%.

A contract with a notional amount of \$13,600,000, maturing on 31 January 2012 at a fixed rate of 5.74%.

A contract with a notional amount of \$17,000,000, maturing on 19 December 2014 at a fixed rate of 6.36%.

A contract with a notional amount of \$37,961,667, maturing on 20 December 2014 at a fixed rate of 6.26%.

A contract with a notional amount of \$41,000,000, maturing on 7 September 2015 at a fixed rate of 5.89%.

17 Financial risk management

(a) Objectives, strategies, policies and processes

The Stapled 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 Stapled 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 Stapled Scheme's overall risk management program focuses on ensuring compliance with the Stapled Scheme's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Stapled 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 Stapled Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates and other price risks.

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

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

(b) Market risk

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

The market risk disclosures are prepared on the basis of the 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 price risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and historical correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the 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 Scheme's Investment Manager.

17 Financial risk management (continued)

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 would amount to approximately \$207,181 (2010: \$4,298,898). Alternatively, if investment prices had risen by 10% (2010: increased by 10%), the increase in net assets attributable to unitholders (and in net operating profit) would amount to approximately \$207,181 (2010: \$4,298,898). These decreases/increases in net assets attributable to unitholders are calculated on an undiscounted basis. The analysis is performed on the same basis for 2010.

(ii) Interest rate risk

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

The 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.

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 AUDPF1	Impact on net profit/(loss) attributable to unitholders	
	+50 bps \$'000	-50 bps \$'000
30 June 2011	(1,898,367)	(5,307,212)

(c) Credit risk

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

With respect to credit risk, the Stapled Scheme's exposure relates to trade receivables, financial assets held at fair value through profit or loss and derivative financial instruments used to hedge interest rate risk.

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

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

Credit risk is not considered to be significant to the 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.

17 Financial risk management (continued)

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

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 AUDPF1	Less than 1 month	1-3 months	3-12 months	12-60 months
At 30 June 2011				
Distributions payable	2,237	-	-	-
Payables	4,948	-	-	1,322
Borrowings	-	-	-	191,100
Net assets attributable to unitholders	<u>171,241</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>178,426</u>	<u>-</u>	<u>-</u>	<u>192,422</u>
	Less than 1 month	1-3 months	3-12 months	12-60 months
At 30 June 2010				
Trade and other payables	2,957	-	11,500	1,322
Borrowings	218,174	-	-	-
Net assets attributable to unitholders	<u>169,733</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>390,864</u>	<u>-</u>	<u>11,500</u>	<u>1,322</u>

As disclosed above, the Scheme manages its liquidity risk by investing predominantly in liquid assets that it expects to be able to liquidate within 7 days or less. Liquid assets include cash and cash equivalents and listed equities. As at 30 June 2011, these assets amounted to \$13.213m (2010: \$9.007m).

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

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

The 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.

(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 16.

(g) Fair value hierarchy

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

17 Financial risk management (continued)

(g) Fair value hierarchy (continued)

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

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

The determination of what constitutes "observable" requires significant judgement by the 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 2011. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Consolidated AUDPF1- as at 30 June 2011

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets designated at fair value through profit or loss at inception:				
Unlisted unit trusts	-	<u>2,072</u>	-	<u>2,072</u>
Total	<u>-</u>	<u>2,072</u>	<u>-</u>	<u>2,072</u>
Financial liabilities held for trading:				
Derivative	-	<u>3,625</u>	-	<u>3,625</u>
Total	<u>-</u>	<u>3,625</u>	<u>-</u>	<u>3,625</u>

Consolidated AUDPF1- as at 30 June 2010

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets designated at fair value through profit or loss at inception:				
Unlisted unit trusts	<u>18,975</u>	<u>24,014</u>	-	<u>42,989</u>
Total	<u>18,975</u>	<u>24,014</u>	<u>-</u>	<u>42,989</u>
Financial liabilities held for trading:				
Derivative	-	<u>5,059</u>	-	<u>5,059</u>
Total	<u>-</u>	<u>5,059</u>	<u>-</u>	<u>5,059</u>

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

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed property trusts, certain unlisted unit trusts and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices 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.

18 Related party transactions

Responsible Entity

The Responsible Entity of Australian Unity Diversified Property Fund is Australian Unity Property Funds Management Limited (ABN 28 085 352 405) whose immediate ultimate parent entity is Australian Unity Limited (ABN 23 087 648 888).

Key management personnel

(a) Directors

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

Alan Castleman (Chairman)	Appointed 24 September 2010
David Bryant (Chief Executive Officer and Chief Investment Officer)	Appointed 24 September 2010
Rohan Mead (Group Managing Director)	Appointed 24 September 2010
Glenn Barnes (Non-Executive Director)	Appointed 24 September 2010
Ian Ferres (Non-Executive Director)	Appointed 24 September 2010
Stephen Maitland (Non-Executive Director)	Appointed 24 September 2010
Warren Stretton (Non-Executive Director)	Appointed 24 September 2010
Anthony Connon (Chief Financial Officer)	Appointed 24 September 2010
Alan Cameron	Resigned 24 September 2010
Steve Boulton	Resigned 24 September 2010
Jim Evans	Resigned 24 September 2010
William Forde	Resigned 24 September 2010
Steven Gibbs	Resigned 24 September 2010
Jim McDonald	Resigned 24 September 2010
Les Vance	Resigned 24 September 2010

(b) Other key management personnel

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

Key management personnel unitholdings

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

Key management personnel compensation

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

Key management personnel loan disclosures

The 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 Stapled Scheme

From time to time directors of Australian Unity Funds Management 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 reporting period and there were no material contracts involving key management personnel's interests existing at the end of the reporting period.

18 Related party transactions (continued)

Responsible Entity's fees and other transactions

Under the terms of the Stapled Scheme's Constitution, the Responsible Entity is entitled to receive fees monthly calculated as follows. The Scheme's Constitution sets out maximum fees can be charged. Currently, the Scheme sets the fee structures for its units at a level below the maximum allowed for in the Constitution.

- (i) 0.25% (2010: 0.25%) per annum of the gross asset value of the initial properties;
- (ii) 0.40% (2010: 0.40%) per annum of the gross asset value of new direct properties;
- (iii) 0.31% (2010: 0.31%) per annum of the gross asset value of property securities; and
- (iv) 0.41% (2010: 0.41%) per annum of the gross asset value of other assets.

The Responsible Entity is also entitled to charge an annual performance fee in the form of cash or stapled units in the event that the Total Return of AUDPF outperforms the Total Return Benchmark Index, being the Mercer/IPD Australian Pooled Property Fund Index.

The Total Return of AUDPF is calculated by dividing the NAV per stapled unit at the end of the financial year, adjusted by adding any income and/or capital distributions during that period, by the NAV per stapled unit at the commencement of that period, converted to a percentage and assuming distribution reinvestment.

If the Total Return of AUDPF exceeds the Total Return Benchmark Index, the Responsible Entity is entitled to 20% of the outperformance. In accordance with the Stapled Scheme PDS and the AUDPF1 and AUDPF2 Constitutions, the outperformance will be calculated by multiplying the value of the gross assets of ADPF as at the last day of the performance fee period by the percentage amount that the Total Return for that performance fee period exceeds the percentage change in the Total Return Benchmark Index for that financial year.

Performance against the Total Return Benchmark Index is measured on a cumulative basis. This means any underperformance of AUDPF against the Total Return Benchmark Index will need to be recovered before any performance fee is payable.

The Responsible Entity has limited the amount of performance fees payable in any one year to 1.025% of the gross assets of AUDPF. Any performance fee that exceeds the 1.025% limit will be determined and subsequently paid in a year when it can be paid within the 1.025% limit.

Any performance fee that is payable is required to be levied annually in arrears. No performance fee is payable for the year ended 30 June 2011 (2010: Nil).

Consolidated AUDPF1		Consolidated AUDPF2	
As at		As at	
30 June 2011	30 June 2010	30 June 2011	30 June 2010
\$	\$	\$	\$

Management fees for the reporting period paid/payable by the Stapled Scheme to the Responsible Entity

	1,139	1,318	-	-
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The Stapled Scheme in accordance with the Stapled Scheme's Constitution has reimbursed other administration expenses incurred by the Responsible Entity in full.

18 Related party transactions (continued)

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;
- Asset Management Service;
- Market Rent Reviews;
- Property Management Services;
- Project Management Services;
- Development Management Services; and
- Debt Arrangement Services

The total fees paid/payable to Australian Unity Property Management Pty Ltd for the reporting period ended 30 June 2011 was \$2,239,405. Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2011 is \$2,239,405.

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	Consolidated				
	Number of units held at opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held at closing (Units)	Interest held (%)
Unitholder					
Capital Guaranteed Funeral Bond (Taxed)	-	5,982,325	-	5,982,325	2.67
Capital Guaranteed Funeral Bond (Untaxed)	-	4,350,782	-	4,350,782	1.94
Capital Secure Funeral Bond	-	3,263,086	-	3,263,086	1.46
Property Income Fund	-	7,793,743	-	7,793,743	3.48

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

	Consolidated AUDPF1 For the reporting period ended		Consolidated AUDPF2 For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities				
Profit/(loss) for the reporting period attributable to unitholders	-	-	-	-
(Increase)/decrease in net assets attributable to unitholders	(1,202)	819	-	-
Add back distribution to unitholders	14,058	13,192	-	-
(Increase)/decrease in receivables	1,704	(1,509)	-	-
Change in fair value of the investment properties				
- revaluation increment	(3,306)	7,538	-	-
Add back lease amortisation	-	497	-	-
Add back borrowing costs amortisation	-	668	-	-
(Increase)/decrease in other assets / prepayments	(4)	(245)	-	-
Increase/(decrease) in accounts payable/liabilities	1,991	(408)	-	-
Unrealised changes in net fair value of financial assets held at fair value through profit & loss	(2,400)	(6,490)	-	-
Other non-cash operating items	-	36	-	-
Net cash inflow/(outflow) from operating activities	10,841	14,098	-	-
(b) Components of cash and cash equivalents				
Cash as at the end of the reporting period as shown in the statement of cash flows is reconciled to the statement of financial position as follows:				
Cash in bank	4,124	9,007	-	-
Australian Unity Wholesale Cash Fund	9,089	-	-	-
	13,213	9,007	-	-
(c) Non-cash investing activities				
Repayment of WOT instalment debt	11,500	-	-	-

As described in note 2(l), income not distributed is included in net assets attributable to unitholders. The change in this amount each 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.

20 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Stapled Scheme disclosed in the statement 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, other than those mentioned below.

Effective 18 July 2011, the facility limit was reduced from \$230,100,000 to \$215,000,000.

AUDPF-ST1 entered in an unconditional contract of sale of the property at 121-125 Henry Street, Penrith on 19 August 2011, for a consideration of \$31,025,000. Settlement is scheduled on 2 December 2011.

On 9 August 2011 the Stapled Scheme entered in a forward starting interest rate swap contract with a notional amount of \$35,000,000 maturing on 7 December 2015 at a fixed rate of 4.52, with monthly interest rate resets and settlements.

21 Parent entity financial information

Statement of financial position	Parent - AUDPF1	
	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Cash and cash equivalents	12,768	7,966
Trade and other receivables	13,878	13,798
Prepaid expense	18	82
Investment in subsidiaries	113,310	138,006
Investment properties	236,955	235,150
Total assets	376,929	395,002
Distributions payable	2,237	-
Derivative liabilities	3,625	5,059
Payables	3,938	2,032
Borrowings	191,100	218,174
Total liabilities (excluding net assets attributable to unitholders)	200,900	225,265
Net assets attributable to unitholders	176,029	169,737

Statement of comprehensive income	Parent - AUDPF 1	
	For the reporting period ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Profit/(loss) before finance costs attributable to unitholders	12,160	14,016
Finance costs attributable to unitholders		
Distributions to unitholders	14,058	13,192
(Increase)/decrease in net assets attributable to unitholders	(1,898)	824
Total comprehensive income for the period	-	-

22 Contingent assets and liabilities and commitments

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

Directors' declaration

In the opinion of the directors of the Responsible Entity:

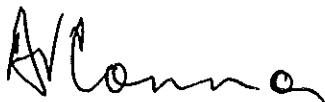
- (a) the financial statements and notes set out on pages 7 to 42 are in accordance with the *Corporations Act 2001*, including
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Consolidated Entity and Scheme's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations and cashflows for the reporting period ended on that date.
- (b) there are reasonable grounds to believe that both the Consolidated Entity and the Scheme will be able to pay its debts as and when they become due and payable.
- (c) the financial statements are in accordance with the Scheme's Constitution.

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

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



Director



Director

12 September 2011

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

We have audited the accompanying financial report of Australian Unity Diversified Property Fund, which comprises the statement of financial position as at 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 Diversified Property Fund 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 Diversified Property Fund is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Australian Unity Diversified Property Fund 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 **1300 739 091** (Australia-wide or contact your financial adviser)
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