Australian Unity Property Income Fund

ARSN 094 220 498

Annual financial statements for the reporting period ended 30 June 2014

Investments

Australian Unity

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ARSN 094 220 498

Annual financial statements for the reporting period ended 30 June 2014

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

The Responsible Entity of Australian Unity Property Income Fund is Australian Unity Property Limited (ABN 58 079 538 499). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Property Income Fund ("the Scheme"), present their report together with the financial statements of the Scheme for the year ended 30 June 2014 ("the reporting period").

Directors

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

Glenn Barnes (Chairman)
David Bryant (Chief Executive Officer and Chief Investment Officer)
Melinda Cilento (Non-Executive Director) (appointed 28 May 2014)
Stephen Maitland (Non-Executive Director)
Kevin McCoy (Chief Financial Officer) (appointed 24 March 2014)
Rohan Mead (Group Managing Director)
Peter Promnitz (Non-Executive Director) (appointed 1 August 2014)
Warren Stretton (Non-Executive Director)
Anthony Connon (Executive Director) (ceased 24 March 2014)
Ian Ferres (Non-Executive Director) (ceased 1 August 2014)
Amanda Hagan (appointed alternate for Rohan Mead for the period 1 September 2013 to 27 October 2013)

Principal activities

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

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

Review and results of operations

Property valuations

The current reporting period revaluations were in total below the revalued properties carrying values resulting in recording a net revaluation fair value decrement of $4,410,232.

Property disposals

The Scheme sold 98 Ingleston Road, Wakerley, QLD on 26 February 2014 for a consideration of $7,300,000 excluding selling costs of $146,501. This represented a realised loss on sale of $162,103.

Results

For the reporting period, the Scheme's:

- Retail units posted a total return of 3.93%, (split between a distribution return of 5.58% and a growth return of -1.65%)*.
- Wholesale units posted a total return of 4.81%, (split between a distribution return of 7.16% and a growth return of -2.35%)*.

Unit prices (ex distribution) as at 30 June 2014 (2013) are as follows:

Retail units $0.8085 ($0.8221)*
Wholesale units $0.8427 ($0.8630)*

*The reported performance numbers and reported unit prices (which are not audited) have been derived based on the declared unit prices calculated in accordance with the Responsible Entity's unit pricing policy and are not based on the net assets of these IFRS compliant financial statements.

Results (continued)

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

	For the reporting period ended	
	30 June 2014 $'000	30 June 2013 $'000
Profit before finance costs attributable to unitholders	**3,726**	11,562
Distributions - Retail units		
Distribution paid and payable	**813**	1,923
Distributions - Wholesale units		
Distribution paid and payable	**5,404**	5,638

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the reporting period, except those mentioned elsewhere in the report.

Events occurring after the reporting period

Except as disclosed in note 20 to the financial statements, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

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

Indemnification and insurance of officers and auditors

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

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

Fees paid to the Responsible Entity and its associates out of Scheme property during the reporting period are disclosed in note 18 to the financial statements.

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

The number of interests in the 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 Scheme

The movement in units on issue in the 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 in the statement of financial position and derived using the basis set out in note 2 to the financial statements.

Environmental regulation

The property operations within the Scheme are subject to environmental regulations under Australian law. There have been no known reportable breaches of these regulations.

Rounding of amounts to the nearest thousand dollars

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

Auditor's independence declaration

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

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

Director

Director

11 September 2014

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

In relation to our audit of the financial report of Australian Unity Property Income Fund for the financial year ended 30 June 2014, 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

Ernst & Young

JW MacDonald
Partner
Melbourne

11 September 2014

Statement of comprehensive income

		For the reporting period ended	
	Notes	**30 June 2014 $'000**	30 June 2013 $'000
Income			
Rental income	3	**5,205**	5,345
Property expenses	4	**(1,246)**	(1,563)
Net property income		**3,959**	3,782
Interest income		**7**	8
Distribution income	5	**8,044**	6,678
Other investment income		**40**	291
Net (losses)/gains on financial instruments held at fair value through profit or loss	6	**(3,326)**	2,350
Realised loss on disposal of investment property		**(162)**	(292)
Net fair value decrement of investment properties	14	**(4,410)**	(821)
Total income net of property expenses		**4,152**	11,996
Expenses			
Responsible Entity's fees	18	**424**	438
Other expenses	8	**2**	(4)
Total expenses		**426**	434
Profit before finance costs attributable to unitholders		**3,726**	11,562
Finance costs attributable to unitholders			
Distributions to unitholders	10	**(6,217)**	(7,561)
Decrease/(increase) in net assets attributable to unitholders	9	**2,491**	(4,001)
Total comprehensive income for the reporting period attributable to unitholders		**-**	-

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

Statement of financial position

	Notes	As at 30 June 2014 $'000	30 June 2013 $'000
Assets			
Cash and cash equivalents	11	**1,134**	662
Receivables	12	**2,890**	3,369
Prepaid expenses		**55**	25
Financial assets held at fair value through profit or loss	13	**46,992**	56,764
Investment properties	14	**32,662**	44,247
Total assets		**83,733**	105,067
Liabilities			
Distributions payable	10	**1,695**	1,702
Payables	15	**1,177**	469
Total liabilities (excluding net assets attributable to unitholders)		**2,872**	2,171
Net assets attributable to unitholders	9	**80,861**	102,896

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

Statement of changes in net assets attributable to unitholders

	For the reporting period ended	
	30 June 2014	30 June 2013
	$'000	$'000
Net assets attributable to unitholders at the beginning of the reporting period	**102,896**	128,999
Profit before finance costs attributable to unitholders	**3,726**	11,562
Distributions to unitholders	**(6,217)**	(7,561)
Applications for units	**37,990**	27,066
Redemptions of units	**(59,735)**	(57,550)
Units issued upon re-investment of distributions	**2,201**	380
Net assets attributable to unitholders at the end of the reporting period	**80,861**	102,896

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

Statement of cash flows

	Notes	For the reporting period ended 30 June 2014 $'000	30 June 2013 $'000
Cash flows from operating activities			
Interest received		**7**	8
Distributions received		**8,595**	7,275
Rental income received		**5,100**	5,743
Payments to suppliers		**(981)**	(2,404)
Net cash inflow from operating activities	19(a)	**12,721**	10,622
Cash flows from investing activities			
Net proceeds from sale of financial instruments held at fair value through profit or loss		**6,445**	22,199
Capital expenditure on owned investment properties		**(79)**	12
Proceeds from sale of investment property		**7,300**	5,000
Disposal costs paid		**(147)**	-
Net cash inflow from investing activities		**13,519**	27,211
Cash flows from financing activities			
Proceeds from applications by unitholders		**37,990**	27,479
Payments for redemptions by unitholders		**(59,735)**	(57,583)
Distributions paid		**(4,023)**	(8,296)
Net cash outflow from financing activities		**(25,768)**	(38,400)
Net increase/(decrease) in cash and cash equivalents		**472**	(567)
Cash and cash equivalents at the beginning of the reporting period		**662**	1,229
Cash and cash equivalents at the end of the reporting period	11	**1,134**	662

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

Contents

1 General information

These financial statements cover Australian Unity Property Income Fund ("the Scheme") as an individual entity. The Scheme was constituted on 1 December 1998 and will terminate on the 80th anniversary or earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Property Limited (ABN 58 079 538 499) ('the Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

The financial statements are for the period from 1 July 2013 to 30 June 2014 ("the reporting period").

The financial statements were authorised for issue by the directors of the Responsible Entity on 11 September 2014. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

The Scheme is a for-profit unit trust for the purposes of preparing the financial statements.

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

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

Compliance with Australian Accounting Standards and International Financial Reporting Standards

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

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

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

New and amended standards adopted by the Scheme

None of the new standards and amendments to standards that are mandatory for the first time for the reporting period affected any of the amounts recognised in the current or past reporting periods and are not likely to affect future periods with the exception of the following:

- AASB 13 *Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*

  AASB 13 establishes a single source of guidance under AASB for all fair value measurements. AASB does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under AASB when fair value is required or permitted. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

  The adoption of AASB 13 did not affect any of the amounts recognised in the current or past reporting periods and is not likely to affect future periods. The adoption of the new disclosure requirements resulted in additional disclosure being included, refer to note 17.

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

  AASB 124 *Related Party Disclosures* was amended whereby the individual key management personnel disclosures are no longer required. Therefore the Scheme has no longer disclosed these disclosures in its financial statements for the reporting period.

- AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*

  AASB 2012-2 amends AASB 7 *Financial Instruments: Disclosures* requiring expanded disclosures about recognised financial instruments that are currently offset in the statement of financial position and/or are subject to enforceable master netting agreements (or similar) irrespective of whether they are currently offset. Where applicable, the additional disclosures are provided in the notes to the financial statements for the reporting period.

(b) Investment properties

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

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

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use. Any gains or losses on the derecognition of an investment property are recognised in the statement of comprehensive income in the reporting period of derecognition.

Independent valuations of investment properties are obtained at intervals of generally one year from suitably qualified valuers. Less frequent valuations are permissible, however the intervals between such valuations are not to exceed three years. Such valuations are reflected in the financial statements of the Scheme. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

2 Summary of significant accounting policies (continued)

(b) Investment properties (continued)

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

(c) Financial instruments

(i) ***Classification***

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

The Scheme's investments are categorised as held at fair value through profit or loss. They comprise:

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

  The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Receivables/payables*

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

(ii) ***Recognition/derecognition***

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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
  (a) has transferred substantially all the risks and rewards of the asset; or
  (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the reporting period the asset is derecognised as realised gains or losses on financial instruments.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

*(iii) **Measurement***

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

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

- *Fair value in an active market*

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

*(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.

(d) Net assets attributable to unitholders

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

(e) Cash and cash equivalents

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

2 Summary of significant accounting policies (continued)

(f) 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. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(c).

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 dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

(g) Expenses

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

(h) Income tax

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

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

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

The benefits of imputation credits and foreign tax paid (if any) are passed on to unitholders.

(i) Distributions

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

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

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs.

(k) Receivables

Receivables may include amounts for interest, rental income arrears, trust distributions, and securities sold where settlement has not yet occurred. Dividends and 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(f) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

2 Summary of significant accounting policies (continued)

(k) Receivables (continued)

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

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

(l) Payables

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

Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at the end of each reporting period are included in payables.

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

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

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

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

(m) Applications and redemptions

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

Unit redemption prices are determined in accordance with the Scheme’s Constitution by reference to the net assets of the Scheme divided by the number of units on issue. All units are fully paid with proportionate share of distribution and equal voting rights. They are recognised at the fair value of the consideration received by the Scheme.

2 Summary of significant accounting policies (continued)

(n) Goods and Services Tax (GST)

The statement of comprehensive income is shown exclusive of GST, unless the GST incurred (or part thereof) on expenses that are not recoverable. Expenses of various services provided to the Scheme by third parties, such as custodial services and investment management fees, may have non-recoverable GST components, as applicable. In these cases, the non-recoverable GST component is recognised as part of the particular expense in the statement of comprehensive income.

Accounts payable and receivable are stated inclusive of the GST receivable and payable, respectively. The net amount of GST recoverable, or payable, is included in receivables or payables in the statement of financial position.

Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(o) 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 resulting 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.

2 Summary of significant accounting policies (continued)

(p) Leases

Leasing costs

Lease costs are 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). These costs are capitalised and are amortised on a straight-line basis over the term of the lease as a reduction of rental income or an increase in property outgoings. The carrying amount of the leasing cost is reflected in the fair value of investment properties.

Lease incentives

Incentives such as cash, rent-free periods, lessee or lessor owned fitouts may be provided to lessees to enter into an operating lease. These incentives are capitalised and are amortised on a straight-line basis over the term of the lease as a reduction of rental income or an increase in property outgoings. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

(q) Use of judgements and estimates

The preparation of the Scheme's financial statements requires it to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. However, estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements are made by the Scheme in respect of the fair values of investment properties. These investments are reviewed regularly by reference to external independent property valuations and market conditions, using generally accepted market practices.

The key weighted average assumptions used by the external independent property valuers in the latest valuations have been used by the Scheme for the investment properties and the weighted average total for all properties, including the weighted average lease expiry (WALE), have been disclosed in note 17.

The Scheme's financial instruments are valued primarily based on the prices provided by independent pricing services.

When the fair values of the reported financial instruments cannot be derived from active markets, they are determined using prices obtained from inactive or unquoted markets and/or other valuation techniques. The inputs to these valuation techniques (if applicable) are taken from observable markets to the extent practicable. Where observable inputs are not available, the inputs may be estimated based on a degree of judgements and assumptions in establishing fair values.

Where appropriate, the outcomes of the valuation techniques that are used in establishing fair values are validated using prices from observable current market transactions for similar instruments (without modification or repackaging) or based on relevant available observable market data.

The determination of what constitutes 'observable' requires significant judgement by the Scheme. The Scheme considers observable data to be 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.

2 Summary of significant accounting policies (continued)

(q) Use of judgements and estimates (continued)

In addition, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates and judgements. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

(r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been early adopted by the Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* (2009 or 2010 version), AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures*, AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments*, and AASB 2014-1 *Amendments to Australian Accounting Standards, Part E Financial Instruments* (effective from 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting. The Standard is not applicable until 1 January 2018 but is available for early adoption. The Scheme does not expect this to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Scheme does not apply hedge accounting. The Scheme does not intend to early adopt AASB 9.

(ii) AASB 2012-3 *Amendments to Australian Accounting Standard Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014)

In June 2012, the AASB approved amendments to the application guidance in AASB 132 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. These amendments are effective from 1 January 2014. The adoption of the amendments will not have a significant impact on the financial statements of the Scheme. The Scheme does not intend to early adopt the amendments.

(iii) AASB 1031 *Materiality*, AASB 2013-9 *Amendments to Australian Accounting Standards Conceptual Framework, Materiality and Financial Instruments, Part B Materiality* (effective 1 January 2014), and AASB 2014-1 *Amendments to Australian Accounting Standards, Part C Materiality* (effective 1 July 2014)

The AASB decided to withdraw AASB 1031. Part B of AASB 2013-9 deletes references to AASB 1031 in various Australian Accounting Standards (including Interpretations). Part C of AASB 2014-1 deletes references to AASB 1031 in various other Australian Accounting Standards. Once all references to AASB 1031 have been deleted from all Australian Accounting Standards, AASB 1031 will be withdrawn. The adoption of the new rules will not impact the financial statements of the Scheme. Early adoption is not permitted.

(iv) AASB 2014-1 A*mendments to Australian Accounting Standards, Part A Annual Improvements 2010-2012 and 2011-2013 Cycles* (effective 1 July 2014)

Part A of AASB 2014-1 makes various amendments and editorial corrections to a number of Australian Accounting Standards, particularly in relation to the meaning of effective IFRSs and in relation to the clarification of the definition of a related party. The adoption of the amendments will not impact the financial statements of the Scheme.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (continued)

(s) Rounding of amounts

The Scheme is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by 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, where indicated.

3 Rental income

	For the reporting period ended	
	30 June 2014 $'000	30 June 2013 $'000
Rental income	**4,969**	5,123
Outgoings income	**236**	222
	5,205	5,345

Rental income includes an adjustment for the straight lining of rental income of $113,166 (2013: $(48,018)).

4 Property expenses

	For the reporting period ended	
	30 June 2014 $'000	30 June 2013 $'000
Recoverable outgoings	**432**	505
Non-recoverable outgoings	**762**	1,010
Amortisation of lease commissions & lease incentives	**52**	48
	1,246	1,563

5 Distribution income

	For the reporting period ended	
	30 June 2014 $'000	30 June 2013 $'000
Related unlisted managed investment scheme	**7,691**	6,411
Non-related unlisted managed investment scheme	**353**	267
	8,044	6,678

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

	For the reporting period ended	
	30 June 2014 $'000	30 June 2013 $'000
Non-related unlisted managed investment scheme	**104**	145
Related unlisted managed investment scheme	**(3,027)**	2,024
Net unrealised (loss)/gain on financial assets held at fair value through profit or loss	**(2,923)**	2,169
Listed property trust	**2**	-
Non-related unlisted managed investment scheme	**(218)**	-
Related unlisted managed investment scheme	**(187)**	181
Net realised (loss)/gain on financial assets held at fair value through profit or loss	**(403)**	181
Net (loss)/gain on financial assets held at fair value through profit or loss	**(3,326)**	2,350

7 Auditor's remuneration

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

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

	For the reporting period ended	
	30 June 2014 $'000	30 June 2013 $'000
(a) Audit services		
Audit and review of financial statements	**18**	14
Total remuneration for audit services	**18**	14
(b) Non-audit services		
Tax compliance services	**8**	15
Total remuneration for taxation services	**8**	15

8 Other operating expenses

	For the reporting period ended	
	30 June 2014 $'000	30 June 2013 $'000
Sundry	**(30)**	(28)
Valuation expense	**32**	24
	2	(4)

9 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. There are two classes of unitholders in the Scheme being Retail and Wholesale.

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

	For the reporting period ended			
	30 June 2014	30 June 2013	**30 June 2014**	30 June 2013
Contributed equity	**No. '000**	No. '000	**$'000**	$'000
Opening balance	**120,820**	156,142	**138,805**	168,909
Retail units				
Applications	**13**	194	**10**	160
Redemptions	**(28,096)**	(11,635)	**(22,551)**	(9,641)
Units issued upon reinvestment of distributions	**81**	99	**66**	80
	(28,002)	(11,342)	**(22,475)**	(9,401)
Wholesale units				
Applications	**44,777**	30,840	**37,980**	26,906
Redemptions	**(43,921)**	(55,173)	**(37,184)**	(47,909)
Units issued upon reinvestment of distributions	**2,532**	353	**2,135**	300
	3,388	(23,980)	**2,931**	(20,703)
Closing balance	**96,206**	120,820	**119,261**	138,805

	For the reporting period ended	
	30 June 2014	30 June 2013
	$'000	$'000
Undistributed income		
Opening balance	**(35,909)**	(39,910)
(Decrease)/increase in net assets attributable to unitholders	**(2,491)**	4,001
Closing balance	**(38,400)**	(35,909)
Total net assets attributable to unitholders	**80,861**	102,896

9 Net assets attributable to unitholders (continued)

Capital risk management

The Scheme considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

10 Distributions to unitholders

Timing of distributions

The distributions for the reporting period were as follows:

	For the reporting period ended			
	30 June 2014 $'000	**30 June 2014 CPU**	30 June 2013 $'000	30 June 2013 CPU
Distributions - Retail units				
30 September	**334**	**1.1213**	500	1.1348
31 December	**336**	**1.1407**	501	1.1412
31 March	**63**	**.7400**	526	1.2423
30 June (payable)	**80**	**1.4600**	396	1.1799
	813		1,923	

	For the reporting period ended			
	30 June 2014 $'000	**30 June 2014 CPU**	30 June 2013 $'000	30 June 2013 CPU
Distributions - Wholesale units				
30 September	**1,239**	**1.3997**	1,421	1.4054
31 December	**1,150**	**1.4000**	1,418	1.4125
31 March	**1,400**	**1.4000**	1,493	1.5103
30 June (payable)	**1,615**	**1.7800**	1,306	1.4968
	5,404		5,638	
Total distributions	**6,217**		7,561	

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

11 Cash and cash equivalents

	As at	
	30 June 2014 $'000	30 June 2013 $'000
Cash at bank	**124**	212
Cash management trusts	**1,010**	450
	1,134	662

12 Receivables

	As at	
	30 June 2014 $'000	30 June 2013 $'000
Trade receivables	**228**	159
Distributions receivables	**2,626**	3,176
GST receivables	**36**	34
	2,890	3,369

13 Financial assets held at fair value through profit or loss

	As at	
	30 June 2014 $'000	30 June 2013 $'000
Listed unit trusts	**-**	2,044
Non-related unlisted managed investment scheme	**1,404**	3,030
Related unlisted managed investment scheme	**45,588**	51,690
Total financial assets held at fair value through profit or loss	**46,992**	56,764

14 Investment properties

(a) Property details

	Type	Ownership	Acquisition date	Independent valuation date	Independent valuation amount	Independent valuer	Book value 30 June 2014	Book value 30 June 2013
		(%)			$'000		$'000	$'000
65 Beverage Drive, Tullamarine, VIC	Industrial	100	06/04/01	30/06/13	5,300	Knight Frank	**5,305**	5,300
Cnr James & Gawler Streets, Salisbury, SA	Retail	100	23/08/99	15/02/14	6,500	Savills	**6,561**	6,715
40 Allara Street, Canberra, ACT	Office	100	01/03/06	22/10/13	16,500	MMJ real Estate	**16,509**	19,907
15 Telford Place, Arundel, QLD	Industrial	100	14/03/08	18/06/13	4,700	Savills	**4,287**	4,700
98 Ingleston Road, Wakerley, QLD	Industrial						**-**	7,625
Total					**33,000**		**32,662**	**44,247**

The book value of an investment property may vary from the independent valuation of the property due to capital expenditure and the accounting treatment of leasing commissions and lease incentives.

(b) Movements in carrying amount

Reconciliations of the carrying amounts of investment properties for the reporting period are set out below:

	As at	
	30 June 2014 $'000	30 June 2013 $'000
Opening balance	**44,247**	50,128
Additions including capital expenditure	**40**	26
Disposal	**(7,477)**	(5,292)
Lease commissions and incentives	**39**	46
Lease commissions and incentives amortisation	**(52)**	(84)
Straight-lining of rental income	**113**	(48)
Revaluation movements	**(4,410)**	(821)
Realised loss on disposal	**162**	292
Closing balance	**32,662**	44,247

The investment properties valuation policy is included in note 17.

The Scheme sold 98 Ingleston Road, Wakerley, QLD on 26 February 2014 for a consideration of $7,300,000, excluding selling costs of $146,501. This represented a realised loss on sale of $162,103.

15 Payables

	As at	
	30 June 2014 $'000	30 June 2013 $'000
Trade payables	**235**	225
Accrued expenses	**90**	37
GST payables	**852**	207
	1,177	469

16 Financial risk management

(a) Objectives, strategies, policies and processes

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

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

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

(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 two types of risk: price risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

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

(i) Price risk

Price risk is the risk that the fair value or future cash flows of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk exposure arises from the Scheme's investment in listed and unlisted property securities. The investments are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

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

The Scheme has exposures to price risk as shown in the table below. The table also demonstrates the sensitivity to reasonably possible changes in prices, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or net assets attributable to unitholders, while a positive amount reflects a net potential increase. There is no impact on distributable earnings as they are net fair value movements only.

16 Financial risk management (continued)

(b) Market risk (continued)

	As at	
	30 June 2014 $'000	30 June 2013 $'000
Assets		
Listed property trusts	**-**	2,044
Related unlisted property trust	**45,588**	51,690
Non-related unlisted managed investment scheme	**1,404**	3,030
Net exposure	**46,992**	56,764
Sensitivity		
Profit		
Securities prices + 10%	**4,699**	5,676
Securities prices - 10%	**(4,699)**	(5,676)
Equity		
Securities prices + 10%	**4,699**	5,676
Securities prices - 10%	**(4,699)**	(5,676)

(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.

Interest rate risk is not considered to be significant to the Scheme, as the Scheme does not have any borrowings.

(c) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Scheme to make a financial loss. The Scheme has exposure to credit risk on all of its financial assets included in the Scheme's statement of financial position.

The Scheme manages this risk by performing credit reviews of prospective tenants, obtaining tenant collateral where appropriate and performing detailed reviews on tenant arrears. The Scheme reviews the aggregate exposures of tenant debtors and tenancies across its portfolio.

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

16 Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme is exposed to the applicable withdrawal offer put in place by the Responsible Entity.

The Scheme's investments may include listed securities that are considered readily realisable, as they are listed on recognised stock exchanges.

The Scheme may invest in investments in unlisted unit trusts that expose the Scheme to the risk that the Investment Manager of those trusts may be unwilling or unable to fulfill the redemption requests within the timeframe requested by the Scheme.

Under the terms of its Constitution, the Scheme has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them.

Units are redeemed on demand at the unitholders' option. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

The Scheme's policy is to hold a proportion of its investments in liquid assets.

Maturity analysis for financial liabilities

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

	Less than 1 year $'000	**1-2 years $'000**	**2-3 years $'000**	**3+ years $'000**
30 June 2014				
Distributions payable	**1,695**	**-**	**-**	**-**
Payables	**1,177**	**-**	**-**	**-**
Net assets attributable to unitholders	**80,861**	**-**	**-**	**-**
Total financial liabilities	**83,733**	**-**	**-**	**-**

	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3+ years $'000
30 June 2013				
Distributions payable	1,702	-	-	-
Payables	469	-	-	-
Net assets attributable to unitholders	102,896	-	-	-
Total financial liabilities	105,067	-	-	-

16 Financial risk management (continued)

(d) Liquidity risk (continued)

As disclosed above, the Scheme manages its liquidity risk by investing predominantly in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents, listed property trusts and unlisted schemes that invest primarily into listed property trusts. As at 30 June 2014, these assets amounted to $27,629,653 (2013: $29,357,383).

Investment in 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 carrying amounts of the Scheme's assets and liabilities at the end of each reporting period approximate their fair values.

The Scheme values its investments in accordance with the accounting policies set out in note 17.

17 Fair value hierarchy

The Scheme measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets/(liabilities) held at fair value through profit or loss
- Investment properties

(a) Fair value hierarchy

The Scheme is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - 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 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

All fair value measurements disclosed are recurring fair value measurements.

17 Fair value hierarchy (continued)

30 June 2014	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Financial assets held at fair value through profit or loss				
Related unlisted managed investment scheme	**-**	**45,588**	**-**	**45,588**
Non-related managed investment scheme	**-**	**1,404**	**-**	**1,404**
Total financial assets	**-**	**46,992**	**-**	**46,992**
Non-financial assets				
Investment properties	**-**	**-**	**32,662**	**32,662**
Total non-financial assets	**-**	**-**	**32,662**	**32,662**

30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets held at fair value through profit or loss				
Listed property trust	2,044	-	-	2,044
Related unlisted managed investment scheme	-	51,689	-	51,689
Non-related managed investment scheme	-	3,031	-	3,031
Total financial assets	2,044	54,720	-	56,764
Non-financial assets				
Investment properties	-	-	44,247	44,247
Total non-financial assets	-	-	44,247	44,247

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There are no transfers between levels 1, 2 and 3 for fair value measurements during the reporting period.

17 Fair value hierarchy (continued)

(b) Valuation techniques

(i) *Financial instruments*

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

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed property trusts and exchange traded derivatives. Financial assets are priced at bid prices, while financial liabilities are priced at asking prices.

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 and derivative instruments.

Specific valuation techniques used daily to value financial instruments include:

- for listed trust, disclosed in level 1, the use of quoted market prices or dealer for similar instruments;
- for unlisted trust, the use of the relevant Investment Managers' quoted unit prices using the net asset value; and
- for derivatives, the fair value of interest rate swaps is calculated using a discounted cash flow model as the present value of the estimated future cash flows based on observable yield curves.

The stated fair value of each financial instruments at the end of the reporting period represents the Responsible Entity's best estimate at the end of the reporting period.

(ii) *Investment properties*

The investment properties' valuation policy is to have independent valuations conducted regularly, typically annually to aid with the determination of the fair value of the assets. Fair value is determined using capitalization of adjusted net profit approach, discounted cash flows and direct reference to recent market transactions on arm's length terms for properties comparable in size and location to those held by the Scheme.

At each reporting date the appropriateness of those valuations is assessed by the Responsible Entity.

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, if an investment property is sold in the future the price achieved may be higher or lower than the fair value recorded in the financial statements.

The fair value estimates for investment properties are included in level 3 as explained in section (c) below.

(c) Fair value measurements using significant unobservable input (level 3)

The changes in fair value of investment properties for the reporting period are set out in note 14(b).

(i) *Valuation inputs and relationship to fair value*

The table below illustrates the key valuation assumptions used in the determination of the investment properties fair value:

Valuation inputs	**30 June 2014**	30 June 2013	**Relationship of inputs to fair value**
Weighted average capitalisation rate (%)	**10.04%**	9.46%	The higher the capitalisation rate, the lower the fair value.
Occupancy	**100%**	87.20%	The higher the occupation rate, the higher the fair value.
Weighted average lease expiry (years)	**1.92 years**	2.00 years	The higher the lease expiry, the higher the fair value.

17 Fair value hierarchy (continued)

(ii) *Valuation processes*

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 note 14. 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.

(d) Fair value of other financial instruments

Due to their short-term nature, the carrying amounts of the receivables and payables are assumed to approximate their fair values.

Borrowings are 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. The fair value of borrowings approximates the carrying amount.

18 Related party transactions

Responsible entity

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

Key management personnel

(a) Directors

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

Glenn Barnes (Chairman)
David Bryant (Chief Executive Officer and Chief Investment Officer)
Melinda Cilento (Non-Executive Director) (appointed 28 May 2014)
Stephen Maitland (Non-Executive Director)
Kevin McCoy (Chief Financial Officer) (appointed 24 March 2014)
Rohan Mead (Group Managing Director)
Peter Promnitz (Non-Executive Director) (appointed 1 August 2014)
Warren Stretton (Non-Executive Director)
Anthony Connon (Executive Director) (ceased 24 March 2014)
Ian Ferres (Non-Executive Director) (ceased 1 August 2014)
Amanda Hagan (appointed alternate for Rohan Mead for the period 1 September 2013 to 27 October 2013)

(b) Other key management personnel

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

Key management personnel unitholdings

From time to time, key management personnel may purchase or subscribe to the various products offered by the entity or 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 costs are borne by Australian Unity Funds Management Limited. Payments made from the Scheme to Australian Unity Funds Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

18 Related party transactions (continued)

Key management personnel loan disclosures

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

Other transactions within the Scheme

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

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

Responsible Entity's fees and other transactions

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

(i) 1.85% (2013: 1.85%) per annum charged on Retail class net assets; and
(ii) 0.90% (2013: 0.90%) per annum charged on Wholesale class net assets.

For the reporting period ended 30 June 2014, all expenses in connection with the preparation of accounting records and the maintenance of the unitholder register have been fully borne by the Responsible Entity and its associates.

	30 June 2014 $'000	30 June 2013 $'000
Responsible Entity's fees for the reporting period paid/payable by the Scheme to the Responsible Entity	**936**	1,329
Fees earned by the Reponsible Entity in respect of investments by the Scheme in other schemes managed by the Responsible Entity or its related parties	**606**	1,013

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

(a) 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 property related services to the Scheme. These services include:

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

The total fees paid/payable to Australian Unity Property Management Pty Ltd for the reporting period ended 30 June 2014 was $38,546 (2013: $187,362). Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2014 was $nil (2013: $nil).

All related party transactions are under normal commercial terms and conditions and at market rates.

18 Related party transactions (continued)

Related party unitholdings

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

2014

Unitholders	No. of units held opening '000	No. of units held closing '000	Fair value of investment $'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme $'000
Australian Unity Health Limited	**12,923**	**13,369**	**11,713**	**14.18**	**6,041**	**(5,325)**	**905**
Australian Unity Balanced Growth Portfolio	**3,438**	**10,171**	**8,735**	**10.58**	**6,733**	**-**	**475**
Australian Unity Guaranteed Funeral Bond (Taxed)	**4,172**	**8,824**	**7,578**	**9.18**	**4,652**	**-**	**407**
Australian Unity Guaranteed Funeral Bond (Untaxed)	**1,418**	**5,352**	**4,596**	**5.57**	**3,940**	**-**	**216**
Australian Unity Secure Funeral Bond	**1,089**	**3,948**	**3,390**	**4.11**	**2,858**	**-**	**160**
Australian Unity Conservative Growth Bond	**1**	**2,599**	**2,232**	**2.70**	**2,598**	**-**	**85**
Australian Unity Conservative Growth Portfolio	**2**	**652**	**560**	**0.68**	**698**	**(47)**	**33**
Australian Unity Education Savings Plan Long Term	**132**	**189**	**162**	**0.20**	**56**	**-**	**9**
Australian Unity Grand United Corporate Health	**3,848**	**5,137**	**4,411**	**5.34**	**2,134**	**(846)**	**318**
Australian Unity High Growth Portfolio	**121**	**106**	**91**	**0.11**	**8**	**(23)**	**7**
LAFS A/c NXTG GUI Property Fund	**118**	**90**	**77**	**0.09**	**73**	**(101)**	**4**
Lifeplan Funeral Benefit No. 2 Untaxed (L3FB2U)	**389**	**4,876**	**4,188**	**5.07**	**4,487**	**-**	**256**
Australian Unity Education Savings Plan Medium Term	**-**	**75**	**64**	**0.08**	**75**	**-**	**3**
Australian Unity Education Savings Plan Short Term	**-**	**9**	**8**	**0.01**	**9**	**-**	**-**
Lifeplan Funeral Benefit No. 2 Taxed (L3FB2T)	**-**	**7,926**	**6,807**	**8.24**	**7,926**	**-**	**315**
Australian Unity Geared Property Income Fund - Wholesale	**30,175**	**-**	**-**	**0.00**	**-**	**(30,175)**	**511**

18 Related party transactions (continued)

2014

Unitholders	**No. of units held opening '000**	**No. of units held closing '000**	**Fair value of investment $'000**	**Interest held %**	**No. of units acquired '000**	**No. of units disposed '000**	**Distributions paid/payable by the Scheme $'000**
Australian Unity Geared Property Income Fund - Retail	**27,530**	**-**	**-**	**0.00**	**-**	**(27,530)**	**559**
Total	**85,356**	**63,323**	**54,612**		**42,288**	**(64,047)**	**4,263**

2013

Unitholders	No. of units held opening '000	No. of units held closing '000	Fair value of investment $'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme $'000
Australian Unity Health Limited	-	12,923	11,323	10.85	12,923	-	214
Australian Unity Balanced Growth Portfolio	-	3,438	3,012	2.89	3,438	-	52
Australian Unity Guaranteed Funeral Bond (Taxed)	-	4,172	3,655	3.5	4,172	-	115
Australian Unity Guaranteed Funeral Bond (Untaxed)	-	1,418	1,243	1.19	1,418	-	21
Australian Unity Secure Funeral Bond	-	1,089	955	0.91	1,089	-	16
Australian Unity Conservative Growth Bond	-	1	1	-	1	-	-
Australian Unity Conservative Growth Portfolio	-	2	2	-	2	-	-
Australian Unity Education Savings Plan Long Term	-	132	116	0.11	132	-	6
Australian Unity Grand United Corporate Health	-	3,848	3,372	3.23	3,848	-	58
Australian Unity High Growth Portfolio	-	121	106	0.1	121	-	5
LAFS A/c NXTG GUI Property Fund	-	118	104	0.1	118	-	6
Lifeplan Funeral Benefit No. 2 Untaxed (L3FB2U)	-	389	341	0.33	389	-	6
Australian Unity Geared Property Income Fund - Wholesale	79,372	30,175	26,440	25.33	-	49,196	3,403
Australian Unity Geared Property Income Fund - Retail	38,163	27,530	22,910	21.95	-	(10,633)	1,632
Total	117,535	85,356	73,580		27,651	38,563	5,534

18 Related party transactions (continued)

Investments

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

	Fair value of investment		Interest held		Distributions received/ receivable	
	30 June 2014 $'000	30 June 2013 $'000	**30 June 2014 %**	30 June 2013 %	**30 June 2014 $'000**	30 June 2013 $'000
Australian Unity Wholesale Cash Fund	**1,010**	450	**.13**	.06	**40**	69
Australian Unity A-REIT Fund	**27,441**	20,125	**51.19**	44.23	**2,712**	2,171
Australian Unity Property Securities	**-**	6,524	**-**	16.41	**109**	607
Australian Unity Retail Property Fund - Class A units	**-**	9	**-**	100.00	**-**	1
Australian Unity Retail Property Fund - Retail	**-**	12,834	**-**	7.78	**456**	968
Australian Unity Retail Property Fund - Wholesale	**12,716**	-	**50.82**	-	**1,133**	-
Australian Unity Office Property Fund	**7,824**	9,626	**4.29**	6.62	**997**	1,599
Australian Unity Industrial Property Trust	**-**	2,571	**-**	19.14	**2,245**	477
Australian Unity Office Property Trust	**-**	-	**-**	-	**-**	135
Australian Unity Second Industrial Trust	**-**	-	**-**	-	**-**	231
	48,991	52,139			**7,691**	6,258

Distributions received/receivable includes an amount of $2,591,860 (2013: $3,068,764) which remains unpaid at the end of the reporting period.

19 Reconciliation of profit to net cash inflows from operating activities

(a) Reconciliation of profit to net cash inflows from operating activities

	For the reporting period ended	
	30 June 2014 $'000	30 June 2013 $'000
Profit for the reporting period attributable to unitholders	**-**	-
(Decrease)/increase in net assets attributable to unitholders	**(2,491)**	4,001
Realised loss on sale of investment properties	**162**	292
Net loss/(gain) on financial instruments held at fair value through profit or loss	**3,326**	(2,350)
Decrease in receivables	**479**	657
Increase/(decrease) in accounts payable/liabilities	**708**	(429)
Change in fair value of the investment properties - revaluation decrement	**4,410**	821
(Increase)/decrease in other assets/prepayments	**(30)**	21
Adjustments to net lease incentives and straight line rental	**(60)**	48
Distribution to unitholders	**6,217**	7,561
Net cash inflows from operating activities	**12,721**	10,622

(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 and cash equivalents	**1,134**	662

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

20 Events occurring after the reporting period

Two of the Scheme's properties were independently valued in July 2014, with a net increase from their previous book value of $86,213.

No other significant events have occurred since the end of the reporting period which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2014 or on the results and cash flows of the Scheme for the reporting period ended on that date.

21 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2014 and 30 June 2013.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) The financial statements and notes set out on pages 6 to 38 are in accordance with the *Corporations Act 2001*, including:

 (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

 (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2014 and of its performance, as represented by the results of its operations and cash flows for the reporting period ended on that date.

(b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

(c) The financial statements are in accordance with the Scheme's Constitution.

(d) Note 2(a) confirms that the financial statements 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
11 September 2014

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

We have audited the accompanying financial report of Australian Unity Property Income Fund, which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of Australian Unity Property Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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Opinion

In our opinion:

a. the financial report of Australian Unity Property Income Fund is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Australian Unity Property Income Fund's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Ernst & Young

Ernst & Young

JW MacDonald
Partner
Melbourne

11 September 2014