

Australian Unity Property Income Fund

ARSN 094 220 498

Annual financial report for the year ended 30 June 2016

Australian Unity Property Income Fund

ARSN 094 220 498

Annual financial report for the year ended 30 June 2016

Contents	Page
Directors' report	2
Auditor's independence declaration	5
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in net assets attributable to unitholders	8
Statement of cash flows	9
Notes to the financial statements	10
Directors' declaration	36
Independent auditor's report to the unitholders of Australian Unity Property Income Fund	37

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 2016.

Directors

The following persons were directors of the Responsible Entity during the whole of the financial year and up to the date of this report (unless otherwise stated):

Rohan Mead, Chairman and Group Managing Director (appointed Chairman 30 June 2016)
David Bryant, Chief Executive Officer, Investments and Chief Investment Officer
Kevin McCoy, Chief Financial Officer
Glenn Barnes, Chairman (resigned 30 March 2016)
Melinda Cliento, Non-Executive Director (resigned 30 June 2016)
Stephen Maitland, Non-Executive Director (resigned 30 June 2016)
Su McCluskey, Non-Executive Director (appointed 28 October 2015, resigned 30 June 2016)
Peter Promnitz, Non-Executive Director and appointed Chairman from 30 March 2016 (resigned 30 June 2016)
Greg Willcock, Non-Executive Director (resigned 30 June 2016)

Principal activities

The Scheme's objective is to provide relatively consistent 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 year revaluations were in total above the revalued properties' carrying values resulting in recording a net revaluation fair value increment of \$216,072 (2015: \$946,074).

Property acquisitions

On 28 June 2016, Scheme completed the purchase of 296 St. Vincent Street, Port Adelaide, SA for a purchase price of \$8,000,000 and acquisition costs of \$431,096.

Property disposals

On 29 April 2016, the Scheme sold 15 Telford Place, Arundel, QLD for a consideration of \$6,100,000, excluding selling costs of \$189,680. This represented a realised gain on sale of \$1,015,561.

Results

For the year ended 30 June 2016, the Scheme's:

- Retail units posted a total return of 14.98%, (split between a distribution return of 5.25% and a growth return of 9.73%)*.
- Wholesale units posted a total return of 16.23%, (split between a distribution return of 6.30% and a growth return of 9.93%)*.

Unit prices (ex distribution) as at 30 June 2016 (2015) are as follows:

Retail units \$0.9480 (\$0.8628)*
Wholesale units \$0.9884 (\$0.8991)*

*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. Return calculations assume reinvestment of distributions.

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

Review and results of operations (continued)
Results (continued)

	2016 \$'000	2015 \$'000
Profit/ before finance costs attributable to unitholders	14,233	11,367
<i>Distributions - Retail units</i>		
Distribution paid and payable	191	246
<i>Distributions - Wholesale units</i>		
Distribution paid and payable	5,115	5,554

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 year, except those mentioned elsewhere in the report.

Events occurring after end of the financial year

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years, other than as detailed below.

As at 31 July 2016, 65 Beverage Drive, Tullamarine, VIC was independently valued with a net increase from its previous book value of \$440,294.

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 year are disclosed in note 17 to the financial statements.

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

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the year are disclosed in note 17 to the financial statements.

Units in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 8 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 of 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 2016/0191 (as amended) issued by Australian Securities and Investments Commissions relating to the 'rounding off' of amounts in the directors' 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.

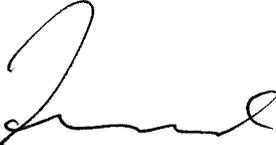
Presentation of consolidated financial statements by stapled entities

The Scheme presents financial statements following the application of Class Order 13/1050 issued by the Australian Securities and Investments Commissions which allows issuers of stapled securities (stapled entities) to present financial statements.

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

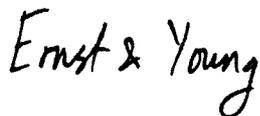


Director
8 September 2016

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

As lead auditor for the audit of Australian Unity Property Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Luke Slater
Partner
Melbourne

8 September 2016

Australian Unity Property Income Fund
Statement of comprehensive income
For the year ended 30 June 2016

Statement of comprehensive income

	Notes	2016 \$'000	2015 \$'000
Income			
Rental income	3	3,395	4,257
Property expenses	4	<u>(978)</u>	<u>(1,009)</u>
Net property income		2,417	3,248
Interest income		8	6
Distribution income	5	6,951	4,908
Net gains on financial instruments held at fair value through profit or loss	6	4,169	2,858
Net fair value increment of investment properties	13(b)	216	946
Realised gain/(loss) on disposal of investment property	13(b)	<u>1,015</u>	<u>(88)</u>
Total income net of property expenses		<u>14,776</u>	<u>11,878</u>
Expenses			
Responsible Entity's fees	17	521	494
Other expenses		<u>22</u>	<u>17</u>
Total expenses		<u>543</u>	<u>511</u>
Profit before finance costs attributable to unitholders		<u>14,233</u>	<u>11,367</u>
Finance costs attributable to unitholders			
Distributions to unitholders	9	(5,315)	(5,800)
Increase in net assets attributable to unitholders	8	<u>(8,918)</u>	<u>(5,567)</u>
Total comprehensive income for the year attributable to unitholders		<u>-</u>	<u>-</u>

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

Australian Unity Property Income Fund
Statement of financial position
As at 30 June 2016

Statement of financial position

	Notes	2016 \$'000	2015 \$'000
Assets			
Cash and cash equivalents	10	9,822	1,212
Receivables	11	3,911	2,803
Prepaid expenses		12	19
Financial assets held at fair value through profit or loss	12	64,156	49,298
Investment properties	13	39,010	33,900
Total assets		<u>116,911</u>	<u>87,232</u>
Liabilities			
Distributions payable	9	1,412	1,493
Payables	14	251	190
Total liabilities (excluding net assets attributable to unitholders)		<u>1,663</u>	<u>1,683</u>
Net assets attributable to unitholders	8	<u>115,248</u>	<u>85,549</u>

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

Australian Unity Property Income Fund
Statement of changes in net assets attributable to unitholders
For the year ended 30 June 2016

Statement of changes in net assets attributable to unitholders

	2016	2015
	\$'000	\$'000
Balance at the beginning of the year	85,549	80,861
Profit before finance costs attributable to unitholders	14,233	11,367
Distributions to unitholders	(5,315)	(5,800)
Applications of units	40,749	6,898
Redemptions of units	(20,863)	(10,868)
Units issued upon re-investment of distributions	895	3,091
Balance at the end of the year	115,248	85,549

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

Australian Unity Property Income Fund
Statement of cash flows
For the year ended 30 June 2016

Statement of cash flows

	Notes	2016 \$'000	2015 \$'000
<i>Cash flows from operating activities</i>			
Interest received		8	6
Distributions received		2,977	3,408
Rental income received		2,193	4,973
Payment to suppliers		<u>(1,331)</u>	<u>(2,855)</u>
<i>Net cash inflow from operating activities</i>	18(a)	<u>3,847</u>	<u>5,532</u>
<i>Cash flows from investing activities</i>			
Purchase of financial instruments held at fair value through profit or loss		(12,361)	(4,623)
Proceeds from sale of financial instruments held at fair value through profit or loss		4,482	6,637
Purchase of investment property		(8,000)	(6,500)
Acquisition costs on purchase		(431)	(450)
Capital expenditure on owned investment properties		(186)	(45)
Lease commissions and incentives paid		(36)	(73)
Proceeds from sale of investment property		6,100	6,650
Disposal costs paid		<u>(190)</u>	<u>(169)</u>
<i>Net cash (outflow)/inflow from investing activities</i>		<u>(10,622)</u>	<u>1,427</u>
<i>Cash flows from financing activities</i>			
Proceeds from applications by unitholders		40,749	6,898
Payments for redemptions by unitholders		(20,863)	(10,868)
Distributions paid		<u>(4,501)</u>	<u>(2,911)</u>
<i>Net cash inflow/(outflow) from financing activities</i>		<u>15,385</u>	<u>(6,881)</u>
<i>Net increase in cash and cash equivalents</i>		8,610	78
Cash and cash equivalents at the beginning of the reporting period		<u>1,212</u>	<u>1,134</u>
<i>Cash and cash equivalents at the end of the year</i>	10	<u>9,822</u>	<u>1,212</u>

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

Notes to the financial statements

	Page
1 General information	11
2 Summary of significant accounting policies	11
3 Rental income	18
4 Property expenses	18
5 Distribution income	18
6 Net gains on financial instruments held at fair value through profit or loss	19
7 Auditors' remuneration	19
8 Net assets attributable to unitholders	20
9 Distributions to unitholders	21
10 Cash and cash equivalents	22
11 Receivables	22
12 Financial assets and liabilities held at fair value through profit or loss	22
13 Investment properties	23
14 Payables	24
15 Financial risk management	24
16 Fair value hierarchy	27
17 Related party transactions	30
18 Reconciliation of profit to net cash inflow from operating activities	34
19 Events occurring after end of the financial year	35
20 Contingent assets and liabilities and commitments	35

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 were authorised for issue by the directors of the Responsible Entity on 8 September 2016. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures.

(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*.

The Scheme is a for-profit entity 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 12 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 year cannot be reliably determined.

(i) 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 ("AASB") 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.

(ii) Amended standards adopted by the Scheme

There are no new standards or amendments to standards that became mandatory for the first time during the year.

(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 year in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the statement of comprehensive income in the year of derecognition.

2 Summary of significant accounting policies (continued)

(b) Investment properties (continued)

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

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount because the Scheme does not expect to be ultimately liable for capital gains tax in respect of the assets.

Expenditure capitalised to properties includes the cost of acquisition, capital and refurbishment additions, lease commissions and incentives, related professional fees incurred and other directly attributable transaction costs.

(c) Financial instruments

(i) Classification

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

The Scheme's investments are classified as held 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 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 and financial liabilities 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 year 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 financial 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 fair 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 year 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.

- *Borrowings and receivables/payables*
Borrowings and receivables/payables 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, and only when, there is currently 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 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 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.

(f) Investment income

Interest income is recognised in the statement of comprehensive income for all financial instruments 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.

2 Summary of significant accounting policies (continued)

(f) Investment income (continued)

Net gains/(losses) on financial assets and liabilities 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 year 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 statement of comprehensive income on an accruals 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.

Properties 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 benefit 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 statement of comprehensive income as finance costs.

(k) Receivables

Receivables may include amounts for dividends, 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.

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

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

2 Summary of significant accounting policies (continued)

(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.

(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.

2 Summary of significant accounting policies (continued)

(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 year 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 year.

Rent not received at the end of the year 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.

(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 16.

2 Summary of significant accounting policies (continued)

(q) Use of judgements and estimates (continued)

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.

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 not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting period 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* (and applicable amendments) (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 for hedge accounting and impairment. 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. AASB 9 introduces a new impairment model. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the reporting period commencing from 1 July 2018. The Scheme does not expect a material impact from the application of this standard.

(ii) AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

AASB 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. AASB 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised only when the control of a good or service transfers to a customer. The standard requires enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively. AASB 15 applies to an annual reporting period beginning on or after 1 January 2018 with early adoption permitted. At this stage, the Scheme is determining the effect on the financial statements and will finalise its assessments of the effect over the next twelve months.

2 Summary of significant accounting policies (continued)

(r) New accounting standards and interpretations not yet adopted (continued)

(iii) AASB 16 Leases (effective 1 January 2019)

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. AASB 16 substantially carries forward the lessor accounting requirements in AASB 17 and require enhanced disclosures to be provided by the lessor that will improve information disclosed about the lessor's risk exposure, particularly to residual value risk. The standard will be effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided AASB 15 has been applied, or is applied at the same date as AASB 16. The Scheme intends to apply this standard on its operative date. Based on the existing recognition of leases, the Scheme does not expect a material impact from the application of this standard. The Scheme is currently assessing the effects of applying AASB 16 on the financial statement disclosures.

(s) Rounding of amounts

The Scheme is an entity of the kind referred to in Class Order 2016/191 (as amended), issued by Australian Securities and Investment 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

	2016 \$'000	2015 \$'000
Rental Income	3,262	4,061
Outgoings income	133	196
	<u>3,395</u>	<u>4,257</u>

Rental income includes an adjustment for the straight lining of rental income of (\$22,576) (2015: (\$156,254)).

4 Property expenses

	2016 \$'000	2015 \$'000
Recoverable outgoings	90	299
Non-recoverable outgoings	644	658
Amortisation of lease commissions & lease incentives	244	52
	<u>978</u>	<u>1,009</u>

5 Distribution income

	2016 \$'000	2015 \$'000
Related unlisted managed investment schemes	5,842	4,533
Non-related unlisted managed investment scheme	1,094	375
Related listed property trust	15	-
	<u>6,951</u>	<u>4,908</u>

6 Net gains on financial instruments held at fair value through profit or loss

	2016	2015
	\$'000	\$'000
Related unlisted managed investment scheme	4,357	2,224
Related listed property trust	464	-
Non-related unlisted managed investment scheme	<u>(780)</u>	<u>-</u>
Net unrealised gains on financial assets held at fair value through profit or loss	<u>4,041</u>	<u>2,224</u>
Related unlisted managed investment scheme	<u>128</u>	<u>634</u>
Net realised gain on financial assets held at fair value through profit or loss	<u>128</u>	<u>634</u>
Total net gains on financial instruments held at fair value through profit or loss	<u>4,169</u>	<u>2,858</u>

7 Auditors' remuneration

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

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

	2016	2015
	\$	\$
<i>Audit services</i>		
Audit and review of financial statements	<u>23,000</u>	<u>19,000</u>
Total remuneration for audit services	<u>23,000</u>	<u>19,000</u>
<i>Taxation services</i>		
Tax compliance services	<u>7,728</u>	<u>8,000</u>
Total remuneration for taxation services	<u>7,728</u>	<u>8,000</u>

8 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.

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

	2016	2015	2016	2015
	No. '000	No. '000	\$'000	\$'000
Contributed equity				
Opening balance	95,328	96,206	118,382	119,261
Retail units				
Applications	9	8	8	7
Redemptions	(169)	(985)	(149)	(834)
Units issued upon re-investment of distributions	63	89	55	73
	<u>(97)</u>	<u>(888)</u>	<u>(86)</u>	<u>(754)</u>
Wholesale units				
Applications	42,310	7,753	40,741	6,891
Redemptions	(21,678)	(11,227)	(20,714)	(10,034)
Units issued upon reinvestment of distributions	927	3,484	840	3,018
	<u>21,559</u>	<u>10</u>	<u>20,867</u>	<u>(125)</u>
Closing balance	<u>116,790</u>	<u>95,328</u>	<u>139,163</u>	<u>118,382</u>
Undistributed income				
Opening balance			(32,833)	(38,400)
Increase in net assets attributable to unitholders			8,918	5,567
Closing balance			<u>(23,915)</u>	<u>(32,833)</u>
Total net assets attributable to unitholders			<u>115,248</u>	<u>85,549</u>

8 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.

9 Distributions to unitholders

Timing of distributions

The distributions for the year were as follows:

	2016 \$'000	2016 CPU	2015 \$'000	2015 CPU
Retail units				
30 September	51	1.1000	64	1.2400
31 December	49	1.1000	62	1.2300
31 March	49	1.0900	60	1.2400
30 June (payable)	42	0.9400	60	1.3100
	<u>191</u>		<u>246</u>	
Wholesale units				
30 September	1,243	1.3500	1,382	1.5000
31 March	1,243	1.3500	1,388	1.5000
31 December	1,259	1.3500	1,351	1.5000
30 June (payable)	1,370	1.2200	1,433	1.5900
	<u>5,115</u>		<u>5,554</u>	
Total distributions	<u>5,306</u>		<u>5,800</u>	

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

10 Cash and cash equivalents

	2016	2015
	\$'000	\$'000
Cash at bank	114	209
Cash management trusts	9,708	1,003
	9,822	1,212

11 Receivables

	2016	2015
	\$'000	\$'000
Trade receivables	32	92
Distributions receivables	3,828	2,664
GST receivables	51	47
	3,911	2,803

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

	2016	2015
	\$'000	\$'000
Related unlisted managed investment scheme	55,064	47,894
Related listed property trust	9,092	-
Non-related managed investment scheme	-	1,404
Total financial assets held at fair value through profit or loss	64,156	49,298

An overview of the risk exposures and fair value measurements relating to financial assets and liabilities at fair value through profit or loss is included in note 15.

13 Investment properties

(a) Property details

	Type	Ownership (%)	Acquisition date	Independent valuation date	Independent valuation amount \$'000	Independent valuer	Book value 2016 \$'000	Book value 2015 \$'000
40 Allara Street, Canberra, ACT	Office	100	01/03/2006	15/12/2015	18,300	Savills	18,804	17,250
296 St. Vincent Street, Port Adelaide, SA	Office	100	28/06/2016	N/A	8,000	Transaction*	8,431	-
23 Fiveways Boulevard, Keysborough, VIC	Retail	100	26/05/2015	30/03/2016	6,575	Knight Frank	6,575	6,950
65 Beverage Drive, Tullamarine, VIC**	Industrial	100	06/04/2001	30/06/2015	5,200	CBRE	5,200	5,200
15 Telford Place, Arundel, QLD	Industrial						-	4,500
Total					38,075		39,010	33,900

*The Independent valuation amount is the purchase price.

**As at 31 July 2016, 65 Beverage Drive, Tullamarine, VIC was independently valued at \$5,750,000, refer to note 19.

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

The investment properties valuation policy is included in note 16.

(b) Movements in carrying amount

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

	2016 \$'000	2015 \$'000
Opening balance	33,900	32,662
Additions including capital expenditure	8,784	6,996
Disposal	(6,100)	(6,650)
Realised gain/(loss) on disposal	1,015	(88)
Lease commissions and incentives	1,272	73
Lease commissions and incentives amortisation	(244)	(52)
Revaluation movements	216	946
Straight-lining of rental income	(23)	(156)
Disposal costs paid	190	169
Closing balance	39,010	33,900

On 28 June 2016, Scheme completed the purchase of 296 St. Vincent Street, Port Adelaide, SA for a purchase price of \$8,000,000 and acquisition costs of \$431,096.

On 29 April 2016, the Scheme sold 15 Telford Place, Arundel, QLD for a consideration of \$6,100,000, excluding selling costs of \$189,680. This represented a realised gain on sale of \$1,015,461.

14 Payables

	2016	2015
	\$'000	\$'000
Trade payables	42	49
Accrued expenses	130	51
GST payables	79	90
	251	190

15 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.

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

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises 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.

15 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk (continued)

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.

	2016 \$'000	2015 \$'000
Assets		
Related unlisted managed investment scheme	55,064	47,894
Related listed property trusts	9,092	-
Non-related unlisted managed investment scheme	-	1,404
Net exposure	<u>64,156</u>	<u>49,298</u>
Sensitivity		
Impact on profit		
Securities prices + 10%	6,416	4,930
Securities prices - 10%	(6,416)	(4,930)
Impact on equity		
Securities prices + 10%	6,416	4,930
Securities prices - 10%	(6,416)	(4,930)

(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.

The Scheme is exposed to credit risk on financial instruments and derivatives. There is only a credit risk where the contracting entity is liable to pay the Scheme in the event of a close out.

15 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 fulfil 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 withdrawals to unitholders, if necessary, until the funds are available to pay them.

Units are redeemed on demand at the unitholders option via withdrawal facility offers by the Responsible Entity. 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 and withdrawal offers are subject to limits set by the Responsible Entity.

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

Maturities analysis of 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 year 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
2016				
Distributions payables	1,412	-	-	-
Payables	251	-	-	-
Net assets attributable to unitholders	<u>115,248</u>	-	-	-
Total financial liabilities	<u>116,911</u>	-	-	-

	Less than 1 year \$'000	1-6 years \$'000	2-3 years \$'000	3+ years \$'000
2015				
Distributions payables	1,493	-	-	-
Payables	190	-	-	-
Net assets attributable to unitholders	<u>85,549</u>	-	-	-
Total financial liabilities	<u>87,232</u>	-	-	-

15 Financial risk management (continued)

(d) Liquidity risk (continued)

As disclosed above, the Scheme manages its liquidity risk by investing 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 managed schemes that invest primarily into listed property trusts. As at 30 June 2016, these assets amounted to \$51,006,976 (2015: \$27,046,049).

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 16.

16 Fair value hierarchy

The Scheme measures and recognises the financial assets/(liabilities) held at fair value through profit or loss and investment properties at fair value on a recurring basis.

(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.

2016	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	9,092	-	-	9,092
Related unlisted managed investment scheme	-	55,064	-	55,064
Total financial assets	9,092	55,064	-	64,156
Non-financial assets				
Investment properties	-	-	39,010	39,010
Total non-financial assets	-	-	39,010	39,010

16 Fair value hierarchy (continued)

2015	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	-	47,894	-	47,894
Non-related unlisted managed investment scheme	-	1,404	-	1,404
Total financial assets	-	49,298	-	49,298
Non-financial assets				
Investment properties	-	-	33,900	33,900
Total non-financial assets	-	-	33,900	33,900

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

(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 over-the-counter derivatives.

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

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.

16 Fair value hierarchy (continued)

(ii) Investment properties

The investment property valuation policy is to have independent valuations conducted regularly, typically annually, to aid with the determination of the assets fair value. In determining the fair value of an investment property, the primary appropriate method of assessment is considered to be via reconciliation between the discounted cash flow and income capitalisation methods. Direct comparison may also be used as a secondary assessment method.

- Discounted cash flow method - this methodology involves formulating a projection of net income over a specified time horizon, normally 10 years, and discounting this cash flow including the projected terminal value at the end of the projection period at an appropriate market-derived discount rate. The present value of this discounted cash flow provides a guide to the fair value of the property;
- Income capitalisation method - this methodology involves the assessment of a net market income for the various components of the subject property. The net market income is capitalised at a rate derived from the analysis of comparable sales evidence to derive a capital value. Appropriate capital adjustments are then made where necessary to reflect the adopted cash flow profile and the general risk characteristic of the property; and
- Direct comparison method - this methodology identifies comparable sales on a dollar per square metre of lettable area and compares the equivalent rates to the subject property to establish the property's market value. This approach is somewhat subjective given the fact that specific items of income and expenditure are difficult to directly reflect and compare when adopting a rate per metre.

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 year represents the Responsible Entity's best estimate as at the end of the year. However, 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.

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

The change in fair value of investment properties for the year are set out in Note 13(b).

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

(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	2016	2015	Relationship of inputs to fair value
Weighted average capitalisation rate (%)	8.79%	9.01%	The higher the capitalisation rate, the lower the fair value.
Occupancy rate by area (%)	68.58%	66.71%	The higher the occupation rate, the higher the fair value.
Weighted average lease expiry (years)	2.70 years	4.64 years	The higher the lease expiry, the higher the fair value.

(ii) Valuation processes

Independent valuations of investment properties are obtained from suitably qualified valuers at least once in any 12-month period from the date of the last valuation. In exceptional circumstances, valuations once in a financial year are permissible. Such valuations are reflected in note 13. 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.

17 Related party transactions

Responsible entity

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

Key management personnel

(a) Directors

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

Rohan Mead, Chairman and Group Managing Director (appointed Chairman 30 June 2016)
 David Bryant, Chief Executive Officer, Investments and Chief Investment Officer
 Kevin McCoy, Chief Financial Officer
 Glenn Barnes, Chairman (resigned 30 March 2016)
 Melinda Ciento, Non-Executive Director (resigned 30 June 2016)
 Stephen Maitland, Non-Executive Director (resigned 30 June 2016)
 Su McCluskey, Non-Executive Director (appointed 28 October 2015, resigned 30 June 2016)
 Peter Promnitz, Non-Executive Director and appointed Chairman from 30 March 2016 (resigned 30 June 2016)
 Greg Willcock, Non-Executive Director (resigned 30 June 2016)

(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 year.

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.

Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive Responsible Entity's fees monthly, calculated daily, by reference to the net assets of the Scheme.

Administration expenses incurred in the day to day running of the Scheme are reimbursed in accordance with the Scheme's Constitution.

The transactions during the year and amount payable at 30 June 2016 between the Scheme and the Responsible Entity were as follows:

	2016	2015
	\$	\$
Management fees for the year paid and payable by the Scheme to the Responsible Entity	901,587	835,220
Fees earned by the Responsible Entity in respect of investments by the Scheme in other schemes managed by the Responsible Entity	426,997	384,422
Administration expenses incurred by the Responsible Entity which are reimbursed in accordance with the Scheme's Constitution	46,703	43,017
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	50,293	51,092

17 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

(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 year ended 30 June 2016 was \$116,426 (2015: \$126,953). Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2016 was \$80,000 (2015: \$nil).

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

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:

2016

Unitholder	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
Lifeplan Funeral Benefit No. 2 Taxed (L3FB2T)	8,032	9,805	9,792	8.39	2,158	(385)	439
Australian Unity Health Limited	11,475	6,371	6,361	5.45	269	(5,373)	550
Australian Unity Capital Guaranteed Funeral Bond (Taxed)	9,383	6,309	6,301	5.40	165	(3,239)	453
Lifeplan Funeral Benefit No. 2 Untaxed (L3FB2U)	5,871	6,233	6,224	5.34	6,595	(6,233)	328
Australian Unity Balanced Growth Portfolio	8,290	6,197	6,188	5.30	48	(2,141)	343
Australian Unity Capital Guaranteed Funeral Bond (Untaxed)	5,928	4,111	4,106	3.52	101	(1,918)	290
Australian Unity Grand United Corporate Health	4,836	2,791	2,787	2.39	-	(2,045)	206
Australian Unity Secure Funeral Bond	4,018	2,733	2,729	2.34	71	(1,356)	195
Australian Unity Conservative Growth Bond	2,459	1,059	1,058	0.91	58	(1,458)	66

17 Related party transactions (continued)

Related party unitholdings (continued)

2016

Unitholder	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
Lifepan Australia Friendly Society Ltd - NextGen	119	1,000	998	0.86	889	(8)	27
Australian Unity Property Securities Fund	-	700	699	0.60	700	-	16
Pro-D Balanced Fund	-	512	511	0.44	512	-	11
Pro-D Growth Fund	-	482	481	0.41	482	-	10
Australian Unity Conservative Growth Portfolio	449	295	295	0.25	-	(154)	19
Australian Unity Education Savings Plan - Long Term Portfolio	186	197	197	0.17	11	-	10
Australian Unity High Growth Portfolio	159	106	106	0.09	-	(53)	7
Pro-D High Growth Fund	-	102	102	0.09	102	-	2
Australian Unity Education Savings Plan - Medium Term Portfolio	71	55	55	0.05	4	(20)	3
Federation Managed Accounts	-	22	22	0.02	22	-	1
Australian Unity Education Savings Plan - Short Term Portfolio	8	7	7	0.01	-	(1)	1
Total	61,284	49,087	49,019	42.03	12,187	(24,384)	2,977

17 Related party transactions (continued)

Related party unitholdings (continued)

2015

Unitholder	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
Lifeplan Funeral Benefit No. 2 Taxed (L3FB2T)	7,926	8,032	7,335	8.57	587	(481)	495
Australian Unity Health Limited	13,639	11,475	10,479	12.25	-	(2,164)	738
Australian Unity Capital Guaranteed Funeral Bond (Taxed)	8,824	9,383	8,569	10.02	1,262	(703)	575
Lifeplan Funeral Benefit No. 2 Untaxed (L3FB2U)	4,876	5,871	5,361	6.27	995	-	321
Australian Unity Balanced Growth Portfolio	10,171	8,290	7,570	8.85	838	(2,719)	574
Australian Unity Capital Guaranteed Funeral Bond (Untaxed)	5,352	5,928	5,413	6.33	761	(185)	352
Australian Unity Grand United Corporate Health	5,137	4,836	4,416	5.16	-	(301)	304
Australian Unity Secure Funeral Bond	3,948	4,018	3,669	4.29	536	(466)	254
Australian Unity Conservative Growth Bond	2,599	2,459	2,246	2.63	188	(328)	156
Lifeplan Australia Friendly Society Ltd - NextGen	90	119	109	0.13	31	(2)	7
Australian Unity Conservative Growth Portfolio	652	449	410	0.48	43	(246)	32
Australian Unity Education Savings Plan - Long Term Portfolio	189	186	170	0.20	13	(16)	12
Australian Unity High Growth Portfolio	106	159	145	0.17	53	-	8
Australian Unity Education Savings Plan - Medium Term Portfolio	75	71	65	0.08	5	(9)	4
Australian Unity Education Savings Plan - Short Term Portfolio	9	8	7	0.01	1	(2)	1
Total	63,593	61,284	55,964	65.44	5,313	(7,622)	3,833

*Fair value of investment includes accrued distribution at the end of the year.

17 Related party transactions (continued)

(a) 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	
	2016 \$'000	2015 \$'000	2016 %	2015 %	2016 \$'000	2015 \$'000
Australian Unity A-REIT Fund	32,093	25,834	51.71	49.46	3,417	2,668
Australian Unity Retail Property Fund - Wholesale units	9,869	10,822	44.28	7.02	1,219	931
Australian Unity Wholesale Cash Fund	9,708	1,003	1.25	0.15	92	79
Australian Unity Office Fund	9,092	6,878	3.04	3.70	551	612
Australian Unity Diversified Property Fund - Class A units	7,169	-	16.58	0.00	176	-
Australian Unity Healthcare Property Trust - Wholesale units	3,180	1,718	0.38	0.26	145	107
Australian Unity Rockdale Property Trust	2,753	2,641	27.53	27.53	244	135
Total	73,864	48,896			5,844	4,532

Distributions received/receivable includes an amount of \$3,828,245 (2015: \$2,654,830) which remains unpaid at the end of the year.

18 Reconciliation of profit to net cash inflow from operating activities

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

	2016 \$'000	2015 \$'000
Profit for the reporting period attributable to unitholders	-	-
Increase in net assets attributable to unitholders	8,918	5,567
Change in fair value of the investment properties - revaluation increment	(216)	(946)
Realised (gain)/loss on sale of investment property	(1,015)	88
Net gains on financial instruments held at fair value through profit or loss	(4,169)	(2,858)
Reinvestments of financial instruments held at fair value through profit or loss	(2,810)	(1,462)
(Increase)/decrease in receivables	(1,108)	87
Decrease in accounts payables/liabilities	(19)	(988)
Decrease in other assets/prepayments	7	36
Adjustments to net lease incentives and straight line rental	(1,056)	208
Distribution to unitholders	5,315	5,800
Net cash inflow from operating activities	3,847	5,532

(b) Components of cash and cash equivalents

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

Cash and cash equivalents	9,822	1,212
---------------------------	-------	-------

19 Events occurring after end of the financial year

As at 31 July 2016, 65 Beverage Drive, Tullamarine, VIC was independently valued with a net increase from its previous book value of \$440,294.

No other significant events have occurred since the end of the year which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2016 or on the results and cash flows of the Scheme for the year ended on that date.

20 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2016 and 30 June 2015.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 35 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 2016 and of its performance, as represented by the results of its operations and cash flows for the year 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, and
- (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
8 September 2016

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 2016, the statement of comprehensive income, statement of changes in equity 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 Income Fund 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.

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 Australian Unity Property Income Fund's financial position as at 30 June 2016 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

Luke Slater

Luke Slater
Partner
Melbourne
8 September 2016