

# **Australian Unity Property Income Fund**

ARSN 094220498

## **Annual financial report for the year ended 30 June 2018**

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## 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 2018.

### 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

David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer

Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)

Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

### 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 below the revalued properties' carrying values resulting in recording a net revaluation fair value decrement of \$3,351,363 (2017: increment of \$830,980).

### Results

For the year ended 30 June 2018, the Scheme's:

- Retail units posted a total return of 6.41% (split between a distribution return of 9.36% and a growth return of -2.95%)\*
- Wholesale units posted a total return of 7.42% (split between a distribution return of 10.46% and a growth return of -3.04%)\*

Unit prices (ex distribution) as at 30 June 2018 (2017) are as follows:

Retail units \$0.9220 (\$0.9500)\*

Wholesale units \$0.9600 (\$0.9900)\*

\*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.

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

**Results (continued)**

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

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Profit before finance costs attributable to unitholders	<u><b>9,059</b></u>	<u>8,568</u>
<i>Distributions - Retail units</i>		
Distributions paid and payable	<u><b>358</b></u>	<u>258</u>
<i>Distributions - Wholesale units</i>		
Distributions paid and payable	<u><b>13,437</b></u>	<u>8,972</u>

**Significant changes in the state of affairs**

The Scheme has amended its constitution as part of a process to become eligible to elect into the new Attribution Managed Investment Trust ("AMIT") tax regime.

The Scheme has satisfied the eligibility for AMIT and has been operated as an AMIT effective 1 July 2017. The AMIT regime enacted under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 (Cth)* has changed the way to which the net taxable income of a trust is allocated to its unitholders. Where a trust is an AMIT, responsible entities and trustees are required to attribute the trust's net taxable income to unitholders on a fair and reasonable basis in accordance with the tax law, taking into account the unitholders entitlement to distributable income.

In the opinion of the directors, there were no other 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 year**

On 17 August 2018, the Scheme completed the sale of 1651-1657 Centre Road, Springvale, VIC for a consideration of \$15,650,000, excluding selling costs of \$287,855. The Scheme recognised realised gain on sale of \$2,112,145.

No other matter or circumstance has arisen since 30 June 2018 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.

**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.

**Fees paid to and interests held in the Scheme by the Responsible Entity or its associates (continued)**

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 ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars, where indicated.

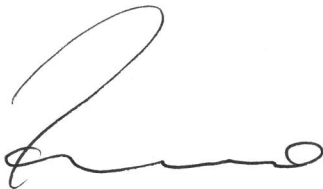
**Presentation of consolidated financial statements by stapled entities**

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

20 September 2018



## *Auditor's Independence Declaration*

As lead auditor for the audit of Australian Unity Property Income Fund for the year ended 30 June 2018, I declare that 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.

A handwritten signature in blue ink, appearing to read 'G. Sagonas'.

George Sagonas  
Partner  
PricewaterhouseCoopers

Melbourne  
20 September 2018

**Australian Unity Property Income Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2018**

**Statement of comprehensive income**

	Notes	2018 \$'000	2017 \$'000
<b>Income</b>			
Rental income	3	5,873	5,620
Property expenses	4	(1,807)	(1,581)
<b>Net property income</b>		<b>4,066</b>	<b>4,039</b>
Interest income		5	5
Distribution income	5	10,283	6,943
Net losses on financial instruments held at fair value through profit or loss	6	(1,148)	(2,488)
Net fair value (decrement)/increment of investment properties	13(b)	(3,351)	831
Other income		537	526
<b>Total income net of property expenses</b>		<b>10,392</b>	<b>9,856</b>
<b>Expenses</b>			
Responsible Entity's fees	17	1,332	1,267
Other expenses		1	21
<b>Total expenses, excluding property expenses</b>		<b>1,333</b>	<b>1,288</b>
<b>Profit before finance costs attributable to unitholders</b>		<b>9,059</b>	<b>8,568</b>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	9	(13,795)	(9,230)
Decrease in net assets attributable to unitholders	8	4,736	662
<b>Total comprehensive income attributable to unitholders</b>		<b>-</b>	<b>-</b>

*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 2018**

**Statement of financial position**

	Notes	2018 \$'000	2017 \$'000
<b>Assets</b>			
Cash and cash equivalents	10	3,932	3,975
Receivables	11	7,809	4,581
Prepaid expenses		113	97
Financial assets held at fair value through profit or loss	12	73,042	63,575
Investment properties	13	56,392	59,183
<b>Total assets</b>		<b>141,288</b>	<b>131,411</b>
<b>Liabilities</b>			
Distributions payable	9	8,203	3,933
Payables	14	329	329
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>8,532</b>	<b>4,262</b>
<b>Net assets attributable to unitholders - liability</b>	8	<b>132,756</b>	<b>127,149</b>

*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 - liability**  
**For the year ended 30 June 2018**

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

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>Balance at the beginning of the year</b>	<b>127,149</b>	115,248
Profit before finance costs attributable to unitholders	<b>9,059</b>	8,568
Distributions to unitholders	<b>(13,795)</b>	(9,230)
Applications	<b>55,273</b>	54,182
Redemptions	<b>(47,793)</b>	(42,318)
Units issued upon reinvestment of distributions	<b>2,863</b>	699
<b>Balance at the end of the year</b>	<b>132,756</b>	127,149

*The above Statement of changes in net assets attributable to unitholders - liability should be read in conjunction with the accompanying notes.*

**Australian Unity Property Income Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2018**

**Statement of cash flows**

	Notes	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Interest received		5	5
Distributions received		1,925	2,704
Rental income received		6,312	5,615
Payments to suppliers		<u>(2,859)</u>	<u>(2,515)</u>
<b>Net cash inflow from operating activities</b>	18	<u>5,383</u>	<u>5,809</u>
<b>Cash flows from investing activities</b>			
Purchase of financial instruments held at fair value through profit or loss		(17,585)	(13,310)
Proceeds from sale of financial instruments held at fair value through profit or loss		12,104	15,054
Purchase of investment property		-	(17,525)
Acquisition costs on purchase		-	(1,221)
Payments for additions to owned investment properties		<u>(762)</u>	<u>(508)</u>
<b>Net cash outflow from investing activities</b>		<u>(6,243)</u>	<u>(17,510)</u>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders		55,273	54,182
Payments for redemptions by unitholders		(47,793)	(42,318)
Distributions paid		<u>(6,663)</u>	<u>(6,010)</u>
<b>Net cash inflow from financing activities</b>		<u>817</u>	<u>5,854</u>
<b>Net decrease in cash and cash equivalents</b>		(43)	(5,847)
Cash and cash equivalents at the beginning of the year		<u>3,975</u>	<u>9,822</u>
<b>Cash and cash equivalents at the end of the year</b>	10	<u>3,932</u>	<u>3,975</u>

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

**Notes to the financial statements**

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## **1 General information**

These financial statements cover Australian Unity Property Income Fund ("the Scheme") as an individual entity. The Scheme was constituted on 1 December 1998 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 year 1 July 2017 to 30 June 2018.

The financial statements were authorised for issue by the directors of the Responsible Entity on 20 September 2018. 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 (AASB) 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/(liabilities) 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 AASB and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### *(ii) New accounting standards amendment adopted by the Scheme*

The Scheme applied the following accounting standard amendment that became mandatory for the first time during the reporting period:

*AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107*  
AASB 2016-2 amends AASB 107 *Statements of Cash Flows* to require entities to provide disclosure that enable users of financial statements to evaluate cash and non-cash changes in their financing activities. The adoption of the new disclosure requirement did not have a material impact on the Scheme's financial statements.

### **(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.

## **2 Summary of significant accounting policies (continued)**

### **(b) Investment properties (continued)**

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

Independent valuations of investment properties are obtained from suitably qualified valuers generally at least once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. 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.

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:

## **2 Summary of significant accounting policies (continued)**

### **(c) Financial instruments (continued)**

#### *(ii) Recognition/derecognition (continued)*

- (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.

#### *(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.

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.

The Scheme's financial instruments that are valued based on active markets generally include listed property trusts.

- *Fair value in an inactive or unquoted market*

The fair value of financial assets and liabilities not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is the market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting period.

There may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Scheme recognises the difference in the statement of comprehensive income to reflect a change in factors, including time, that market participants would consider in setting a price.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Scheme would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as the net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the most appropriate option valuation model.

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

The Scheme's financial instruments that are valued based on inactive or unquoted markets generally include investments in unlisted unit trusts and over the counter derivatives, where applicable.

## 2 Summary of significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (iii) Measurement (continued)

- *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.

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 property expenses, 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 provided it attributes the entirety of its taxable income to its 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.

## **2 Summary of significant accounting policies (continued)**

### **(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 or property expenses, if related to rental income. 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 owed 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.



## **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 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 property expenses. The carrying amount of the leasing cost is reflected in the carrying 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 as property expenses. The carrying amount of the lease incentives is reflected in the carrying value of investment properties.

## **2 Summary of significant accounting policies (continued)**

### **(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.

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 the 30 June 2018 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 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 applicable for reporting periods beginning on or after 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. However, as the Scheme's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Scheme. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the year commencing 1 July 2018.

## 2 Summary of significant accounting policies (continued)

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

#### (ii) AASB 15 *Revenue from Contracts with Customers* (effective 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. This notion of control replaces the existing notion of risks and rewards. The Scheme's main source of income includes rental income, distributions, interest and gains on financial instruments held at fair value through profit or loss. All of these are outside the scope of the Revenue standard. Consequently, the Scheme does not expect AASB 15 to have a significant impact on the Scheme's financial statements. The Scheme does not intend to early adopt AASB 15. The Scheme will apply AASB 15 in its financial statements for the year commencing 1 July 2018.

#### (iii) AASB 2016-3 *Amendments to Australian Accounting Standards - Clarifications to AASB 15* (effective 1 January 2018)

AASB 2016-3 amends AASB 15 *Revenue from Contracts with Customers* to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. It also provides further practical expedients on transition to AASB 15. No significant impact is expected upon adoption of the amendments. The Scheme does not intend to early adopt AASB 2016-3. The Scheme will apply AASB 2016-3 in its financial statements for the year commencing 1 July 2018.

#### (iv) AASB 16 *Leases* (effective 1 January 2019)

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. AASB16 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 AASB16. 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. The Scheme does not intend to early adopt AASB 16. The Scheme will apply AASB 16 in its financial statements for the year commencing 1 July 2019.

### (s) Rounding of amounts

The Scheme is an entity of a kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars, where indicated.

### (t) Functional and presentation currency

Items included in the financial statements of each of the Scheme's operations are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Australian dollars, which is the Scheme's functional and presentation currency.

### (u) Structured entities

The Scheme has assessed whether the funds in which it invests should be classified as structured entities. The Scheme has considered the voting rights and other similar rights afforded to investors in these funds, including the rights to remove the fund manager or redeem holdings. The Scheme has also considered whether these rights are the dominant factor in controlling the funds, or whether the contractual agreement with the fund manager is the dominant factor in controlling these funds. The Scheme has concluded that the funds in which it invests in are not structured entities.

### 3 Rental income

	2018	2017
	\$'000	\$'000
Rental income	5,355	5,178
Outgoings income	518	442
	<u>5,873</u>	<u>5,620</u>

Rental income includes an adjustment for the straight lining of rental income of \$55,377 (2017: \$29,575).

### 4 Property expenses

	2018	2017
	\$'000	\$'000
Recoverable outgoings	1,352	619
Non-recoverable outgoings	159	680
Amortisation of lease commissions & lease incentives	296	282
	<u>1,807</u>	<u>1,581</u>

### 5 Distribution income

	2018	2017
	\$'000	\$'000
Related unlisted managed investment schemes	9,887	6,516
Related listed property trust	396	414
Non-related unlisted managed investment scheme	-	13
	<u>10,283</u>	<u>6,943</u>

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

	2018 \$'000	2017 \$'000
Related unlisted managed investment scheme	(1,923)	(2,223)
Related listed property trust	711	227
Net unrealised losses on financial assets held at fair value through profit or loss	(1,212)	(1,996)
Related listed property trust	-	(140)
Related unlisted managed investment scheme	64	(352)
Net realised gains/(losses) on financial assets held at fair value through profit or loss	64	(492)
Total net losses on financial instruments held at fair value through profit or loss	(1,148)	(2,488)

**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:

	2018 \$	2017 \$
<i>Audit services - PricewaterhouseCoopers</i>		
Audit and review of financial statements	18,540	18,000
<i>Taxation services - Ernst &amp; Young</i>		
Tax compliance services	8,160	10,020

## 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. As at 30 June 2018, there are two classes of units in the Scheme, being Retail and Wholesale. Except for Responsible Entity's fees, the two classes of units carry equal rights.

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

	2018 No. '000	2017 No. '000	2018 \$'000	2017 \$'000
<b>Contributed equity</b>				
Opening balance	128,619	116,790	151,726	139,163
<b>Retail units</b>				
Applications	8	9	8	8
Redemptions	(205)	(341)	(195)	(329)
Units issued upon re-investment of distributions	78	56	73	54
	(119)	(276)	(114)	(267)
<b>Wholesale units</b>				
Applications	55,139	53,680	55,265	54,174
Redemptions	(48,004)	(42,225)	(47,598)	(41,989)
Units issued upon reinvestment of distributions	2,828	650	2,790	645
	9,963	12,105	10,457	12,830
Closing balance	138,463	128,619	162,069	151,726
<b>Undistributed income</b>				
Opening balance			(24,577)	(23,915)
Decrease in net assets attributable to unitholders			(4,736)	(662)
Closing balance			(29,313)	(24,577)
<b>Total net assets attributable to unitholders</b>			132,756	127,149

## 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

The distributions for the year were as follows:

	2018 \$'000	2018 CPU	2017 \$'000	2017 CPU
<b>Retail units</b>				
30 September	47	1.1300	49	1.1000
31 December	45	1.1000	49	1.1300
31 March	45	1.0900	47	1.0700
30 June (payable)	221	5.4200	113	2.7100
	<u>358</u>		<u>258</u>	
<b>Wholesale units</b>				
30 September	1,735	1.4000	1,755	1.4000
31 December	1,849	1.4000	1,737	1.4000
31 March	1,871	1.4000	1,660	1.4000
30 June (payable)	7,982	5.9400	3,820	3.0700
	<u>13,437</u>		<u>8,972</u>	
<b>Total distributions</b>	<u>13,795</u>		<u>9,230</u>	

## 10 Cash and cash equivalents

	2018	2017
	\$'000	\$'000
Cash at bank	264	323
Cash management trusts	3,668	3,652
	<u>3,932</u>	<u>3,975</u>

## 11 Receivables

	2018	2017
	\$'000	\$'000
Trade receivables	125	113
Distribution receivable	7,641	4,418
GST receivables	43	45
Other receivables	-	5
	<u>7,809</u>	<u>4,581</u>

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

	2018	2017
	\$'000	\$'000
Related unlisted managed investment scheme	66,463	58,516
Related listed property trust	6,579	5,059
Total financial assets held at fair value through profit or loss	<u>73,042</u>	<u>63,575</u>

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	Carrying value 2018 \$'000	Carrying value 2017 \$'000
40 Allara Street, Canberra, ACT	Office	100	01/03/2006	31/12/2017	18,000	Knight Frank	18,001	19,002
296 St. Vincent Street, Port Adelaide, SA	Office	100	28/06/2016	31/10/2017	7,200	Savills	7,241	8,586
23 Fiveways Boulevard, Keysborough, VIC	Industrial	100	26/05/2015	15/02/2018	6,900	Savills	6,900	6,600
65 Beverage Drive, Tullamarine, VIC	Industrial	100	06/04/2001	31/07/2017	6,300	Savills	6,300	6,250
1651-1657 Centre Road, Springvale, VIC	Industrial	100	31/10/2016	31/10/2017	13,250	Knight Frank	13,250	13,872
10 International Square, Tullamarine, VIC	Industrial	100	28/04/2017	31/03/2018	4,700	Savills	4,700	4,873
<b>Total</b>					<b>56,350</b>		<b>56,392</b>	<b>59,183</b>

The carrying 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:

	2018 \$'000	2017 \$'000
Opening balance	59,183	39,010
Additions	801	19,594
Lease commissions and incentives amortisation	(296)	(282)
Revaluation movements	(3,351)	831
Straight-lining of rental income	55	30
Closing balance	56,392	59,183

### (c) Contractual obligations

Capital expenditure contracted for at the reporting date but not recognised as liabilities:

	2018 \$'000	2017 \$'000
Within one year	488	680
	<b>488</b>	<b>680</b>

The Scheme share of capital commitments will be funded using the Scheme's cash and cash equivalents. Refer to notes 10.

## 14 Payables

	2018 \$'000	2017 \$'000
Trade payables	116	122
Accrued expenses	68	64
GST payables	145	143
	329	329

## 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.

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 and 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.

## 15 Financial risk management (continued)

### (b) Market risk (continued)

#### (i) Price risk (continued)

	2018 \$'000	2017 \$'000
<b>Assets</b>		
Related unlisted managed investment scheme	66,463	58,516
Related listed property trusts	6,579	5,059
Total exposure	<u>73,042</u>	<u>63,575</u>

	Impact on profit and net assets attributable to unitholders	
	2018 \$'000	2017 \$'000
<b>Sensitivity</b>		
Securities prices + 10% (2017: +10%)	7,304	6,358
Securities prices - 10% (2017: -10%)	(7,304)	(6,358)

#### (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
<b>2018</b>				
Distributions payable	8,203	-	-	-
Payables	329	-	-	-
Net assets attributable to unitholders	132,756	-	-	-
Total financial liabilities	141,288	-	-	-

	Less than 1 year \$'000	1-6 years \$'000	2-3 years \$'000	3+ years \$'000
<b>2017</b>				
Distributions payable	3,933	-	-	-
Payables	329	-	-	-
Net assets attributable to unitholders	127,149	-	-	-
Total financial liabilities	131,411	-	-	-

## 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 2018, these assets amounted to \$46,789,503 (2017: \$39,262,537).

### (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 year 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.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2018</b>				
<b>Financial assets</b>				
<i>Financial assets held at fair value through profit or loss</i>				
Related listed property trust	6,579	-	-	6,579
Related unlisted managed investment scheme	-	66,463	-	66,463
Total financial assets	6,579	66,463	-	73,042
<b>Non-financial assets</b>				
Investment properties	-	-	56,392	56,392
<b>Total non-financial assets</b>	-	-	56,392	56,392

## 16 Fair value hierarchy (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2017</b>				
<b>Financial assets</b>				
<i>Financial assets held at fair value through profit or loss</i>				
Related listed property trust	5,059	-	-	5,059
Related unlisted managed investment scheme	-	58,516	-	58,516
Total financial assets	5,059	58,516	-	63,575
<b>Non-financial assets</b>				
Investment properties	-	-	59,183	59,183
Total non-financial assets	-	-	59,183	59,183

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 (2017: \$nil).

### (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 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.

#### (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

## 16 Fair value hierarchy (continued)

- 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)

The changes in fair value of investment properties for the year are set out in note 13(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	2018	2017	Relationship of inputs to fair value
Weighted average capitalisation rate (%)	7.83%	8.05%	The higher the capitalisation rate, the lower the fair value.
Occupancy rate by income (%)	88.73%	90.57%	The higher the occupancy rate, the higher the fair value.
Weighted average lease expiry (years)	1.70 years	2.63 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 generally at least once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. 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

David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer

Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)

Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

#### (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 2018 between the Scheme and the Responsible Entity were as follows:

	2018 \$	2017 \$
Management fees for the year paid and payable by the Scheme to the Responsible Entity	<u>1,265,673</u>	<u>1,204,214</u>
Administration expenses incurred by the Responsible Entity which are reimbursed in accordance with the Scheme's Constitution	<u>66,326</u>	<u>63,038</u>
Fees rebated by the Responsible Entity in respect of investments by the Scheme in other schemes managed by the Responsible Entity and its related parties	<u>537,143</u>	<u>525,952</u>
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	<u>63,340</u>	<u>63,631</u>

#### (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



## 17 Related party transactions (continued)

### Responsible Entity's fees and other transactions (continued)

#### (a) Other related party transactions (continued)

The total fees paid/payable to Australian Unity Property Management Pty Ltd for the year ended 30 June 2018 was \$nil (2017: \$264,535). Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2018 was \$nil (2017: \$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:

#### 2018

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 Australia Friendly Society	22,262	15,247	15,512	11.03	4,943	(11,958)	1,724
Australian Unity Health Limited	1,154	-	-	0.00	602	(1,756)	-
Australian Unity Balanced Growth Portfolio	2,959	2,797	2,846	2.02	218	(380)	290
Australian Unity Property Securities Fund	1,869	-	-	0.00	113	(1,982)	54
Pro-D Balanced Fund	2,590	3,070	3,124	2.22	480	-	296
Pro-D Growth Fund	2,042	2,800	2,849	2.02	758	-	268
Pro-D High Growth Fund	490	822	836	0.59	332	-	76
Federation Managed Accounts	1,377	1,310	1,332	0.95	246	(313)	143
Federation Managed Fund	646	168	171	0.12	265	(743)	44
<b>Total</b>	<b>35,389</b>	<b>26,214</b>	<b>26,670</b>	<b>18.95</b>	<b>7,957</b>	<b>(17,132)</b>	<b>2,895</b>

## 17 Related party transactions (continued)

### Related party unitholdings (continued)

2017

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 Australia Friendly Society	31,509	22,262	22,721	17.33	4,788	(14,037)	(1,766)
Australian Unity Health Limited	6,371	1,154	1,178	0.90	-	(5,217)	138
Australian Unity Balanced Growth Portfolio	6,197	2,959	3,020	2.30	131	(3,369)	282
Australian Unity Grand United Corporate Health**	2,791	703	717	0.55	-	(2,088)	71
Australian Unity Property Securities Fund	700	1,869	1,907	1.46	1,168	-	113
Pro-D Balanced Fund	512	2,590	2,644	2.02	2,078	-	156
Pro-D Growth Fund	482	2,042	2,084	1.59	1,560	-	135
Australian Unity Conservative Growth Portfolio	295	-	-	0.00	-	(295)	8
Australian Unity High Growth Portfolio	106	-	-	0.00	-	(106)	1
Pro-D High Growth Fund	102	490	500	0.38	387	-	27
Federation Managed Accounts	22	1,377	1,405	1.07	1,381	(4)	50
Federation Managed Fund	-	646	660	0.50	656	(10)	26
<b>Total</b>	<b>49,087</b>	<b>36,092</b>	<b>36,836</b>	<b>28.10</b>	<b>12,149</b>	<b>(25,126)</b>	<b>(759)</b>

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

\*\*Ceased to be a related party unitholder from 31 October 2017.

## 17 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:

	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 received/ receivable \$'000
<b>2018</b>							
Australian Unity A-REIT Fund	24,605	32,008	36,278	71.34	15,336	(7,933)	7,953
Australian Unity Retail Property Fund - Wholesale units	9,744	8,558	10,765	5.70	-	(1,185)	643
Australian Unity Healthcare Property Trust - Wholesale units	3,888	4,217	7,226	0.55	329	-	406
Australian Unity Diversified Property Fund	2,309	7,456	7,417	3.82	6,129	(982)	228
Australian Unity Office Fund	2,269	2,632	6,579	1.62	363	-	396
Australian Unity Wholesale Cash Fund	3,652	3,668	3,668	0.49	42,987	(42,970)	47
Australian Unity Rockdale Property Trust	2,725	2,725	2,792	27.53	-	-	263
Australian Unity Healthcare Property Trust - Funding Units	-	1,980	1,985	0.15	1,980	-	34
Australian Unity Diversified Property Fund - Class A units	6,129	-	-	0.00	-	(6,129)	313
	<b>55,320</b>	<b>63,245</b>	<b>76,710</b>		<b>67,124</b>	<b>(59,200)</b>	<b>10,283</b>

## 17 Related party transactions (continued)

### Investments (continued)

	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 received/ receivable \$'000
2017							
Australian Unity A-REIT Fund	21,821	24,605	30,228	55.06	8,624	(5,840)	4,463
Australian Unity Retail Property Fund - Wholesale units	10,534	9,744	11,363	6.26	-	(791)	696
Australian Unity Healthcare Property Trust - Wholesale units	2,100	3,888	6,262	0.61	1,873	-	292
Australian Unity Diversified Property Fund	-	2,309	2,142	1.23	2,309	-	155
Australian Unity Office Fund	4,269	2,269	5,059	1.62	-	(2,000)	414
Australian Unity Wholesale Cash Fund	9,708	3,652	3,652	0.56	39,448	(45,504)	170
Australian Unity Rockdale Property Trust	2,725	2,725	2,835	27.53	-	-	253
Australian Unity Diversified Property Fund - Class A units	8,429	6,129	5,686	3.27	-	(2,300)	487
	<u>59,586</u>	<u>55,320</u>	<u>67,227</u>		<u>52,254</u>	<u>(56,435)</u>	<u>6,930</u>

Distributions received/receivable includes an amount of \$7,641,176 (2017: \$4,417,786) which remains unpaid at the end of the year.

## 18 Reconciliation of profit to net cash inflow from operating activities

	2018 \$'000	2017 \$'000
Profit/(loss) for the year attributable to unitholders	-	-
Decrease in net assets attributable to unitholders	(4,736)	(662)
Change in fair value of the investment properties - revaluation (decrement)/increment	3,351	(831)
Net gains on financial instruments held at fair value through profit or loss	1,148	2,488
Reinvestments of financial instruments held at fair value through profit or loss	(5,135)	(3,651)
Increase in receivables	(3,227)	(670)
Increase in accounts payables/liabilities	-	158
Increase in other assets/prepayments	(15)	(85)
Adjustments to net lease incentives and straight line rental	202	(168)
Distribution to unitholders	13,795	9,230
<b>Net cash inflow from operating activities</b>	<b>5,383</b>	<b>5,809</b>

## 19 Events occurring after end of the financial year

On 17 August 2018, the Scheme completed the sale of 1651-1657 Centre Road, Springvale, VIC for a consideration of \$15,650,000, excluding selling costs of \$287,855. The Scheme recognised realised gain on sale of \$2,112,145.

The directors of the Responsible Entity are not aware of any other matter or circumstance arising since 30 June 2018 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2018 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 2018 and 30 June 2017.

Commitments arising from contracts principally relating to capital expenditure on investment properties which are contracted for at reporting date but not recognised on the consolidated statement of financial position are \$218,000 (2017:\$680,000).

### Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 36 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 2018 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

20 September 2018



## *Independent auditor's report*

To the unitholders of Australian Unity Property Income Fund

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### *Our opinion*

In our opinion:

The accompanying financial report of Australian Unity Property Income Fund (the "Scheme") is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Scheme's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### ***What we have audited***

The financial report comprises:

- the statement of financial position as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in net assets attributable to unitholders – liability for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors of the Responsible Entity's declaration.

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### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Independence***

We are independent of the Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

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### *Other information*

The Directors of Australian Unity Property Limited (the “Responsible Entity”) are responsible for the other information. The other information comprises the information included in the annual financial report for the year ended 30 June 2018, including the directors' report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the directors of the Responsible Entity for the financial report*

The directors of the Responsible Entity of the Scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). This description forms part of our auditor's report.





*Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report of Australian Unity Property Income Fund for the year ending 30 June 2018 included on Australian Unity's web site. The directors of the Responsible Entity of the Scheme are responsible for the integrity of Australian Unity's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'George Sagonas'.

George Sagonas  
Partner

Melbourne  
20 September 2018