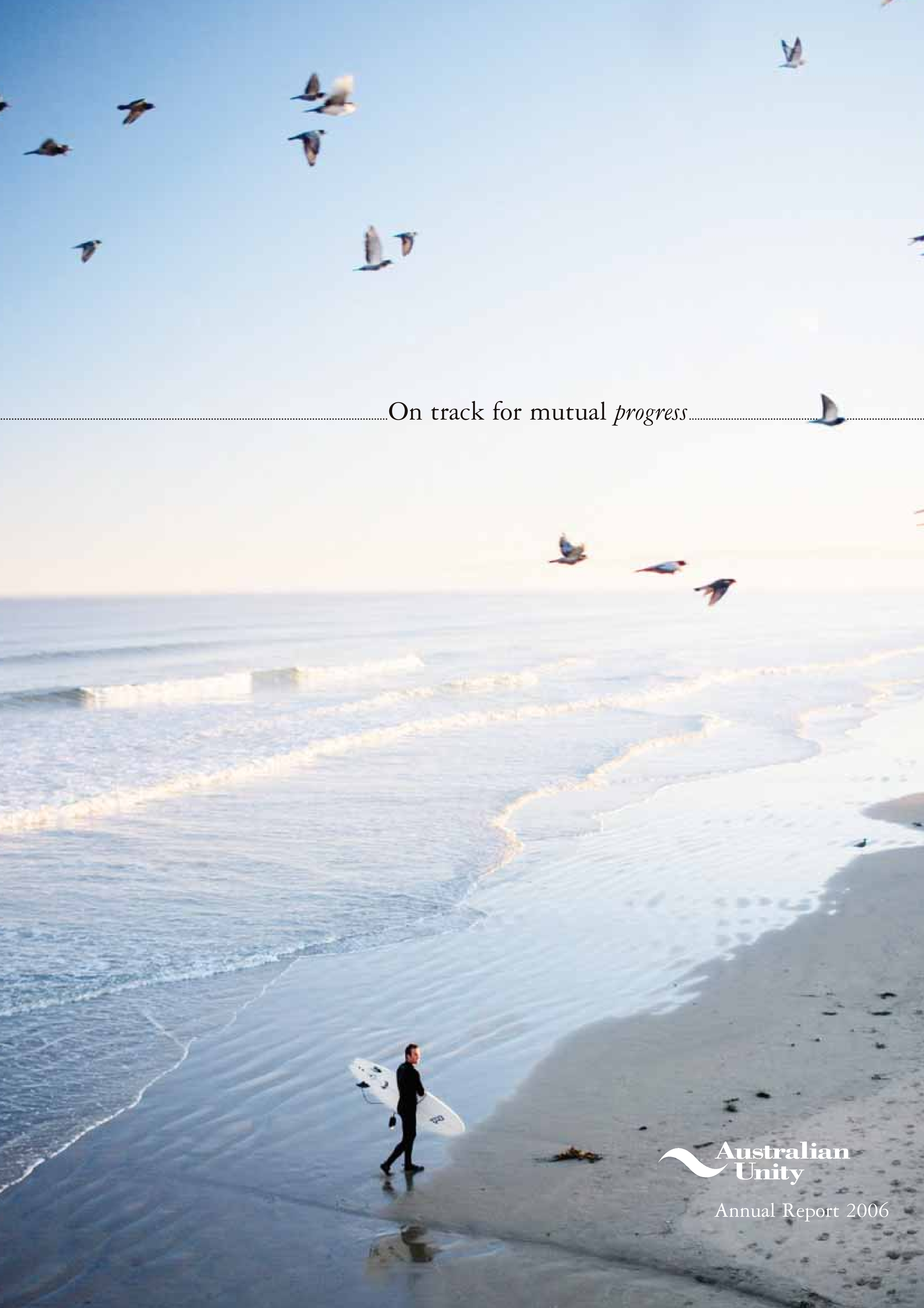


On track for mutual *progress*

Australian Unity

Annual Report 2006

Contents

Australian Unity is a national health, financial services and retirement living organisation with more than $600 million in revenues, and over 400,000 customers including some 190,000 members nationwide. Its operations employ some 1,300 people.

Australian Unity is a mutual company with a heritage dating back more than 165 years. Australian Unity, as an entity, was formed with the merger of the Australian Natives' Association and Manchester Unity in 1993. The Company base was further expanded in March 2005 through a merger with Grand United Friendly Society Limited.

Financial *Highlights*

Year	Revenues
2006	$614.4M
2005	$444.7M
2004	$402.0M
2003	$363.4M
2002	$326.4M

38.1%
Increase in revenues

Revenue increased to $614 million, up from $445 million in 2004/05. This included a full year contribution from Grand United and the impact of the inclusion of Benefit Funds, under AIFRS (see Note 46).

Year	Members' funds
2006	$237.5M
2005	$213.4M
2004	$155.5M
2003	$157.5M
2002	$152.1M

$238M
In members' funds

The financial position of the Group continues to strengthen. Members' funds increased to $238 million, up from $213 million in 2004/05.

$14.0M
Profit before tax
2001/02

$7.1M
Profit before tax
2002/03

$12.6M
Profit before tax
2003/04

$21.7M
Profit before tax
2004/05

$28.2M
Profit before tax
*2005/06**

* The Group achieved a profit before tax of $28.2 million, up 30% from $21.7 million in 2004/05. Results include a full year contribution from Grand United.

Notes

2005 figures adjusted to take account of the impact of AIFRS. 2004 members' funds is similarly adjusted. All other figures for earlier years are as previously reported under AGAAP.

Profits are from continuing operations. 2006 profits exclude the impact of the Benefit Funds which are required to be included in the financial statements but which have a zero impact on profit after tax. Including Benefit Funds, profit before tax would be $35.0M (see Note 46).

	Funds under management	Management expense ratio	Retail health policies
2006	$3,560M	9.6%	178,225
2005	$2,800M	10.9%	154,776
2004	$2,300M	13.0%	153,130
2003	$1,750M	13.5%	144,738
2002	$1,600M	17.0%	142,101

$760M

Growth in funds under management

Funds under management rose to $3.6 billion, an increase of 27% from $2.8 billion at 30 June 2005.

12%

Decrease in health Management Expense Ratio

The Management Expense Ratio of the retail health fund continued to improve.

15%

Increase in retail health policies

The Australian Unity retail health fund increased member numbers for the fifth consecutive year. Results include a full year contribution from Grand United.

$336.8M
Health claims paid to members
2005/06

$270.6M
Health claims paid to members
2004/05

$230.6M
Health claims paid to members
2003/04

$203.8M
Health claims paid to members
2002/03

$185.7M
Health claims paid to members
2001/02

Grand United

1848
Grand United (GU) founded in NSW (research suggests that the first Lodge was opened in 1844).

1888
First GU building completed at Castlereagh Street, Sydney.

1902
GU Life Assurance Scheme introduced.

1919
GU Order of Odd Fellows War Memorial built in Hyde Park and donated to Sydney Council (3,010 GU members enlisted, 501 killed in World War I).

1929
Unemployed members' contribution fund launched to mitigate the effects of the depression.

1937
GU opens head office building at 149 Castlereagh Street, Sydney.

1946
GU Building Society (No.1) established.

1948
GU Order of Odd Fellows opens GU Centenary Centre – Homes for the Aged and War Memorial Nursing Home.

1998
Redevelopment of GU Centenary Centre – now known as Constitution Hill.

Australian Natives' Association

1871
Victorian Natives' Association established (renamed Australian Natives' Association (ANA) shortly after).

1888
ANA resolves to commemorate Foundation Day (26 Jan), a tradition Australian Unity continues each year on Australia Day.

1898
Leading ANA Victoria member, Alfred Deakin, delivers a rousing dinner address, later credited as the turning point in Victoria's campaign for Federation.

1901
Leading ANA NSW Member Edmund Barton becomes Australia's first Prime Minister.

1903
Alfred Deakin becomes Australia's second Prime Minister – serving three terms in office.

1931
ANA member, Sir Isaac Alfred Isaacs, becomes the first Australian-born Governor General.

1948
ANA General Insurance Company established.

1964
ANA Permanent Building Society established.

1993 Merger
ANA and Manchester Unity (Victoria) merge to form Australian Unity

Manchester Unity

1840
Manchester Unity founded in Victoria.

1846
Dr AFA Greeves becomes 1st Grand Master. Subsequently becomes Mayor of Melbourne, and a Minister of the Crown.

1870
Manchester Unity granted Crown land to establish a home for aged and disadvantaged members.

1926
Manchester Unity First Insurance Company of Victoria established.

1932
Prominent Manchester Unity building in Swanston Street, Melbourne, completed (assists the building industry recovery post-depression).

1964
Manchester Unity (Victoria) Permanent Building Society established.

1985
Total Care Friendly Society merges with Manchester Unity.

1986
Grand United (Victoria) merges with Manchester Unity.

Our *evolution*

Australian Unity

1996
Australian Unity Funds Management Limited established.

2001
Direct property funds management business established.

2002
Australian Unity Financial Planning launched.

2004
Significant expansion of retirement living services with purchase of substantial operations in NSW.

2005 Merger
Grand United Friendly Society Limited merges with Australian Unity.

Australian Unity's operations today

Healthcare
Health insurance, dental, optical and wellness programs.

Financial Services
Investments, financial planning, commercial and domestic insurance.

Retirement Living Services
Retirement villages, residential aged care and community care.

A year of *progress*

I am very pleased to be able to report that Australian Unity advanced well on all key fronts in the last financial year. The year saw growth in all of our businesses, a strengthening of our product quality and service delivery, and a strengthening of our financial position. The current year should see a continuation of these trends.

Last year we completed the integration of Grand United with Australian Unity following our merger on 1 March 2005.

Our Retirement Living business has continued to grow. Our new aged care facility at Constitution Hill in Sydney is operating, and the Constitution Hill Retirement Village which is constructing the last few of its 11 stages, is a very comfortable home for approximately 600 residents. Plans for expansion of our retirement living business are ongoing. Our funds management and property investment businesses had $3.6 billion under management at 30 June 2006, and have continued to grow rapidly. A number of our products are leaders in the financial services industry.

Our general insurance business has also continued to develop as we announced plans this year to add to our operations, a joint venture with the Australian operations of the New Zealand Farmers Mutual Insurance group.

Profitability for the Group was up 54 per cent to $23.8 million after tax.

Our Mutual Company

As members will know, we conducted a major process of consultation with our members last year to provide them with much more information about the nature of our Company, its legal and financial structure, and the Company's monetary value, and to ascertain members' feelings about the Company and its future.

While there were different views amongst members, a clear majority preferred that Australian Unity remain a mutual rather than demutualise.

The Board has formally written to all members setting out the results of the consultation process and affirming that we plan to continue to operate the Company as a mutual in the interests of all members. I think it is clear that most members prefer a mutual company to operate their health fund and retirement services and that even in the investments business, the high level of trust that mutuals typically enjoy is seen by many as an advantage when managing members' and customers' money.

Health and Wellbeing

Looking after members' health and wellbeing has been our core business for over 165 years and many thousands of our current members have been with us for 50 years or more. Those members still rely on us for their health insurance and wellbeing. Increasingly, we have younger people joining our health funds and we are increasing our focus on preventative health with the objective of improving the health and wellbeing of members. Clearly, it is far better to keep members healthy than merely pay for their treatment when they fall ill.

Keeping members healthy involves encouraging healthy activity and, as people age, providing an ever increasing variety of interventions to preserve a healthy lifestyle. This includes artificial joints, as well as the various procedures to repair or support diseased hearts and other organs. While we have long been familiar with artificial teeth or supportive devices such as spectacles and hearing aids, the real explosion in health related opportunity (and in cost) is in artificial joints, pacemakers and such devices. The most sophisticated pacemakers today can cost around $50,000. They keep our members alive and healthy, which is what we want to do. It is what our members want us to do. As we live longer there will be increased opportunity to carry out procedures and pay for drugs which continue to extend life.

Chairman's Report

The cost of health in society is increasing because of the availability of new and better treatments and because people want to take advantage of these treatments. Our challenge is to provide members with these services, and to find ways to do so as efficiently as possible to minimise cost. Ongoing health insurance premium increases reflect these changes in health opportunity, as well as the impacts of our ageing society and our longer lifespan.

This year Australian Unity took the initiative in establishing the Australian Centre for Health Research. The centre is independent of Australian Unity Limited. We have now been joined by other major and smaller health funds and some private hospital groups in funding a series of projects aimed at improving the effectiveness of research into our health system and of health procedures in Australia. We see us doing more of this.

We also want to increase the focus on helping members live healthy lives in order to minimise the need for expensive services later. It is increasingly clear that to live a long and healthy life, it is important to start healthy practices as early as possible. Ageing starts in childhood, even in the womb. The earlier we start to focus on lifelong healthy lifestyles the better, but it is never too late. Helping our members with these issues will be a growing area of service for our health operations.

Retirement Living

We see our involvement in retirement living as a strong component of our concern with total health and wellbeing. While many people wish to stay in their own homes in retirement, others choose to move into independent living units in a retirement community where they receive the benefits of community living and greater levels of convenience and support than may be available at home. Increasingly, we are aiming to provide related aged care facilities where members need that greater level of support. Our experience is that elderly people in our villages typically live longer and healthier lives than in the general community, which we attribute to the stronger level of wellbeing that generally accompanies such a lifestyle.

We believe that this will be a rapidly growing area of activity in Australia and that it is appropriate for us to be part of it.

Financial Services

This area of our activity has been growing strongly and we see it also having strong linkages to our health and retirement living activities. We have looked after members' savings and offered personal insurance services for the best part of two centuries. People save firstly for their home and then for security in their older years, and this includes providing for their health and for their retirement living. In this sense we see strong synergies between businesses providing management of retirement savings and our other businesses.

Our Company and the Community

We take particular pleasure in the growing involvement of the Company and its staff in community related activities. Australian Unity's heritage is intimately tied to Australia's history – our predecessor organisations played important roles in the development of our democracy and our economy, particularly through the 19th and early 20th century. We want to ensure that as we progress we continue to proactively contribute to the development of Australia.

The Board takes particular satisfaction from the important emphasis on our culture, values and skills within our businesses and on providing engaging and satisfying careers for our dedicated staff.

Our aim is to continue to build a company in which our members and our staff work together to build better lives for us all.

Alan Castleman
Chairman

Sound results

The last financial year was a year of continued strong development for the Company. The operations of the group performed solidly as we tackled major projects and service initiatives.

Our three areas of activity, health, financial services, and retirement living, each made sound contributions to the growth and performance of the group.

Major achievements included providing over $336 million in health insurance claims, conducting the operational integration of Grand United following our merger in 2005, implementing strengthened business plans for our retirement living business and reshaping our front line customer service activities.

At the same time as the Company addressed major strategic and operational issues, it also continued to improve its financial performance. In 2006 the company produced $23.8 million in profit after tax, an improvement of 54 per cent on the prior year. This result represents 3.9 per cent of 2006 revenues and a 10.6 per cent return on members' funds, which stood at $238 million at 30 June 2006.

Other highlights for the year to 30 June 2006 included:

- The completion of a major 121 bed aged care facility at Constitution Hill in Sydney, complementing the substantial retirement living facility at that location, together with a $2.8 million profit before tax from the Group's retirement living operations
- A profit before tax of $50.4 million for the merged healthcare businesses along with a positive increase in health insurance contributors to more than 190,000
- A further reduction in the Management Expense Ratio (MER) for the retail health fund from 10.9 per cent in 2005 to 9.6 per cent in 2006
- The announcement of our intended joint venture with Farmers Mutual Insurance (FMG), to be finalised later this year, along with significant improvement in the financial performance and capital reserving of our general insurance business
- Growth in funds under management to $3.6 billion, an increase of almost one third on the prior year, and a profit before tax from the investments business of $5.2 million
- The launch of innovative investment products such as the Retirement Village Investment Notes, the increase in the Group's property investment portfolios to $755 million, and the commencement of a joint venture with a leading Australian equities manager, Platypus Asset Management

Given the dynamics affecting the Australian community in relation to future provision of quality healthcare services; generating adequate retirement savings; and procuring adequate quality retirement living services – it is important for a company such as Australian Unity, which operates in all of these areas, to maintain sound financial performance. The Company must ensure that it has the capacity to sustain its services over the long term. This is especially important given the high degree of reliance that our customers have on the provision of these services.

Naturally, we must also maintain our capacity to respond to changes in the market environment in these areas and maintain our ability to invest in, and pursue, new service initiatives on behalf of our customers.

By way of example, the Company currently faces significant changes in the environment for our health activities. The Federal Government has announced its intentions to substantially revise the law and regulation affecting private health insurers. One of the principal intentions of these changes is to allow insurers greater scope to provide additional services, particularly wellness services and substitutional and preventative alternatives to hospital treatment.

While the regulatory framework remains to be settled, the Company is actively engaged in research and development on initiatives in these areas. As the Chairman has noted, we are positive about the opportunity and the value of further developing our wellbeing services.

During the year we took the decision to close our retail outlets and invest in new service arrangements for customers. This decision was not taken lightly, but was in response to the very significant shift in customer preferences – away from our outlets and towards electronic means of communication. We have made significant improvements in the ways in which customers can interact with the company by phone, mail and over the internet. And we will continue to make investments to further improve customer service.

Outlook

The Company is positive about the future and the opportunities in each of our businesses.

We believe that we can continue to develop the Company in a prudent and valuable manner, based on considered strategic plans. And, given the demographic forces at work, that the Company can make a growing contribution to meeting the service requirements of the Australian community.

I would like to note my thanks to the staff members of the Company for all of their efforts during the past year.

I am pleased to advise members that it will be an engaged, capable and positive group of employees that will be tackling the exciting challenges of growth and development facing your Company in the year ahead.

Rohan Mead
Group Managing Director

Our Community

During the year we continued to build on our community heritage. We increased our advocacy role on key issues impacting members and Australians generally, and launched a new research centre and charitable foundation.

Australian Unity has a long history of engagement and contribution in the community.

This can be traced back to our earliest days when one of our antecedent organisations, the Australian Natives' Association (ANA), was a leader in the popular movement for Federation.

The ANA also successfully lobbied to commemorate the foundation of modern Australia on 26 January. This evolved into today's Australia Day celebrations, still proudly supported by Australian Unity.

Today, our contribution to the community continues at a number of levels.

We take an active role in promoting individual and community wellbeing through the Australian Unity Wellbeing Index, now in its sixth year.

Developed in association with Deakin University, the Wellbeing Index is an innovative measure of Australians' life satisfaction in seven areas – standard of living, health, achieving in life, personal relationships, sense of safety, connection to the community and future security.

The Wellbeing Index is designed to complement the traditional economic indicators used to measure how 'well' Australia is doing.

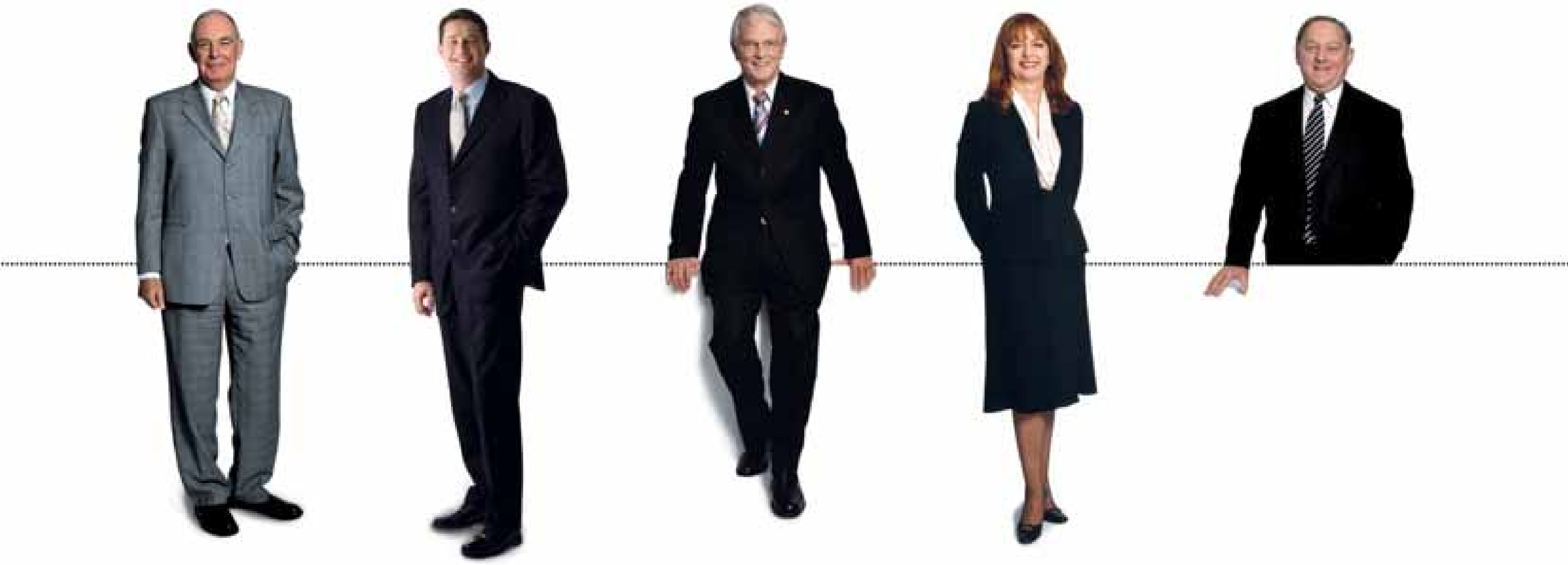
By providing national insights into issues impacting Australians' wellbeing, it can help policy makers tackle some of the biggest issues facing modern society.

We have increased our advocacy role in vital policy areas, such as the rising costs of healthcare and the related issue of Australia's ageing population.

This includes founding the Australian Centre for Health Research – a public policy research organisation. The Centre has attracted substantial support from other organisations, including other health funds, as the value of its potential contribution to the public health and ageing discussion is widely recognised.

We have also established the Australian Unity Foundation as a charitable fund. The Foundation has a charter to provide financial support to community organisations working in areas such as ageing, financial hardship and health.

Culture of *care*



Alan Castleman
B Comm., Dip Elec. Eng., FIE (Aust.), FAICD
Mr Castleman has been the chair of Australian Unity Limited since 1993. He is a director of a number of Australian Unity Limited subsidiaries and also chairs the Human Resources, Remuneration and Nominations Committee. He is an ex-officio member of all board committees. He also chairs the Australian Centre for Health Research Limited and is a director (former chair) of the National Ageing Research Institute Inc. Mr Castleman is a professional director. Before 1993, his executive career was at BHP where he held a number of senior executive positions. Over the last 13 years he has been a director of over 15 public or private companies outside the Australian Unity Group.

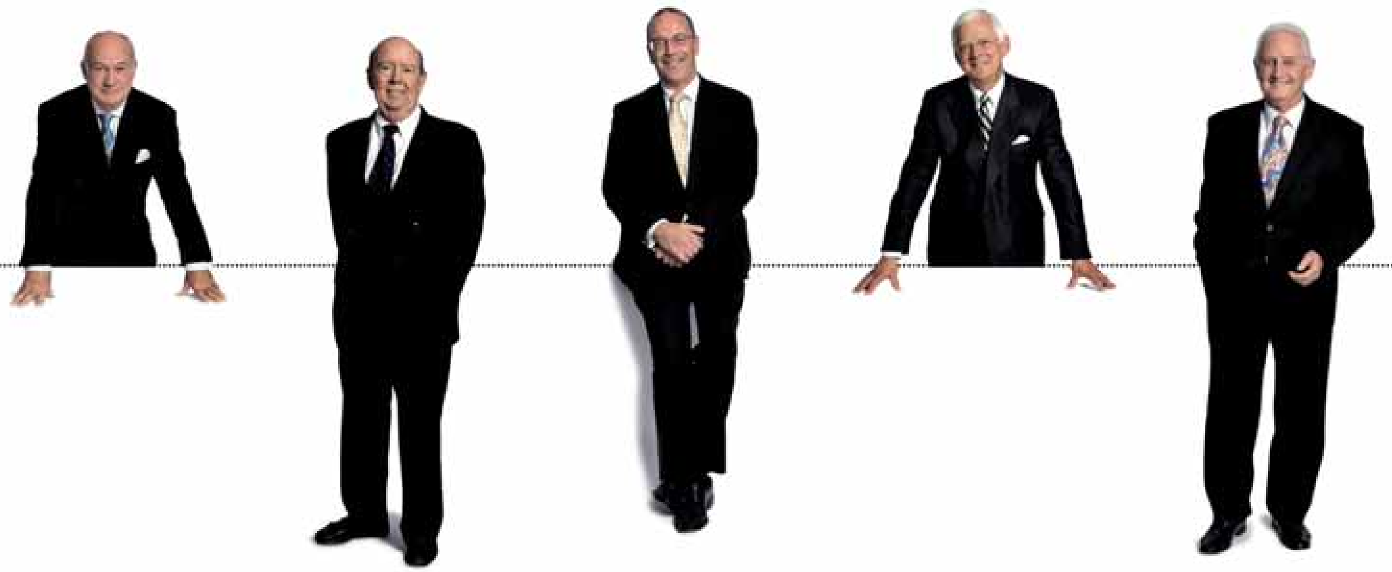
Rohan Mead
Group Managing Director
Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. Up until this time, Mr Mead held the position of Group Managing Director (Designate), from December 2003. Mr Mead is also a director of the Australian Health Insurance Association (the peak representative body for the health insurance industry) and of the Australian Health Service Alliance (a cooperative hospital contracting and data management company formed by 24 health insurance funds). He is chair of Platypus Asset Management, deputy chair of Acorn Capital and director of the Australian Centre for Health Research. Prior to joining Australian Unity, Mr Mead was employed by Perpetual Trustees Australia Limited (1996 – 2003) in a range of senior roles, most recently as group executive – personal financial services. In other leadership roles at Perpetual, Mr Mead was involved in marketing services, corporate affairs and strategic development. Prior to his work at Perpetual, Mr Mead was employed by Blake Dawson Waldron, Lawyers as head of marketing and communications.

Murray Campbell
FCPA, FCSA, FAICD, JP
Mr Campbell was appointed to the board of Australian Unity Limited in 1993 after an executive career commencing with Manchester Unity (Vic) in 1965. He is chair of the Audit and Compliance Committee and a member of two other board Committees. Mr Campbell actively served industry associations for over 30 years, retiring in 2005. He is a proud supporter of Rotary and a past president of the Rotary Club of Melbourne.

Eve Crestani
Dip. Law (B.A.B), FAICD
Ms Crestani was appointed to the board of Australian Unity Limited in 1996 and is chair of the Risk Committee. She is also chair of Mercer Investment Nominees Limited. Other directorships include Pillar Australia, Purity Australia Limited and a number of Australian Unity Limited subsidiaries. Ms Crestani is a professional director who is qualified in law and management, and she consults in finance, strategic planning, marketing and management. She is a founding fellow of the Australian Institute of Company Directors, and an emeritus trustee for the Committee for the Economic Development of Australia.

Ian Ferres
FIAA, FAICD
Mr Ferres was appointed to the board of Australian Unity Limited in 1999. He is chair of the Investment Committee and a director of a number of subsidiaries. Mr Ferres worked with the National Mutual Group for 34 years, including as executive manager of their investment, property, unit trust and banking and finance operations from 1975 to 1988, and as an executive director from 1983 to 1990. He was Group Managing Director of Australian Unity Limited from 2002 to 2004. Mr Ferres is chairman of Treasury Corporation of Victoria, and was previously president of Monash Medical Centre. Since 1990 he has served on over 20 private and public sector boards. He is a consultant with TressCox Lawyers.

Board of Directors



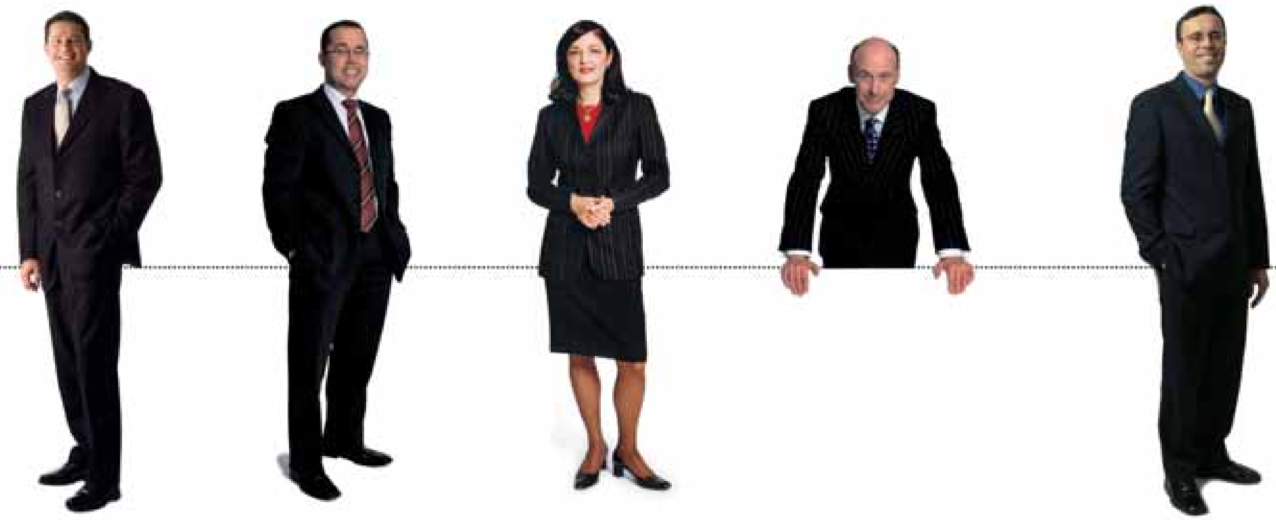
Warren French
FAICD(Dip), AIMM
Mr French was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited, and is chair of the Grand United Foundation. Other directorships include a number of Australian Unity Limited subsidiaries. Mr French was employed by Grand United Friendly Society in 1984 and served as chair of the board from 1999 to 2005. He is grand secretary of the Grand United Order of Oddfellows, and president of the Centre for Fraternal Studies Inc.

Leonard Hickey
LLB, BA
Mr Hickey was appointed to the board of Australian Unity Limited in 1993. Other directorships include The Lord Mayor's Charitable Fund and a number of Australian Unity Limited subsidiaries. Mr Hickey is principal of the Melbourne law firm J.P. Metcalfe & Co, specialising in corporate and property legal work. He was previously chief president of the Australian Natives' Association Friendly Society.

Stephen Maitland
RFD, B Ec, FCPA, FAICD, FCSA, FAIM, FFin
Mr Maitland was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. Other directorships include Buderim Ginger Limited, Mackay Permanent Building Society Ltd, a number of Australian Unity Limited subsidiaries, and a number of private companies. Mr Maitland is the principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 28 years experience in the banking and finance industries and was chief executive officer of the Queensland Office of Financial Supervision between 1992 and 1999. Mr Maitland is the honorary treasurer of the Surf Life Saving Foundation Inc.

Bruce Siney
FAMI, CPM, MAICD
Mr Siney was appointed to the board of Australian Unity Limited in 2000 and is chair of the Marketing Committee. Other directorships include Australia Char Pty Ltd, Premium Beverages Pty Ltd, American Beverage Distributors Pty Ltd and a number of Australian Unity Limited subsidiaries. Mr Siney is a professional director. His executive career was predominantly with the Fosters Brewing Group where he held a number of general management positions. Mr Siney was a member of the Victorian Government Centenary of Federation Committee and a former chair of the Victorian Olympic 2000 Committee.

Warren Stretton
FAICD, FCPA, FCIS, FTIA, FAMI
Mr Stretton was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. He is a director of a number of Australian Unity Limited subsidiaries and holds a Federal Government appointment to the board of Australian Hearing. Mr Stretton is a professional director. He was formerly the managing director of Grand United and has wide commercial experience gained in the motor, computer and entertainment industries.



Executive Team

Rohan Mead
Group Managing Director
Biography on page 12.

David Bryant
Group Executive – Investments & Chief Investments Officer
Mr Bryant joined Australian Unity in 2004. As Group Executive – Investments & Chief Investments Officer, he is responsible for all of the investment management activities across Australian Unity's financial and property assets. He is also a director of a number of Australian Unity subsidiaries including Australian Unity Funds Management Limited, Australian Unity Property Limited and Australian Unity Finance Limited. Mr Bryant has over 20 years experience in financial services and has held senior positions within a number of high profile organisations including Westpac, State Street and Intech. Before joining Australian Unity, Mr Bryant was chief operating officer – personal financial services at Perpetual Trustees Australia Limited.

Danielle Byrnes
BA, MIR, FAHRI, GAICD
Group Executive – Human Resources
Ms Byrnes joined Australian Unity in 2003. As Group Executive – Human Resources, she is responsible for the management of the Group's people and culture strategies and processes. She is also a director of Australian Unity Group Services Pty Ltd, Australian Unity Retirement Living Services Limited and Australian Unity Retirement Living Services (NSW) Pty Ltd. Ms Byrnes has 18 years experience in human resource management and her organisational development and change management consulting experience includes two years with Wheeler Strobel Consulting Group. Before joining Australian Unity, Ms Byrnes was general manager organisational development and human resources, Yallourn Energy.

Anthony Connon
BA (Oxon), FCA, FAICD
Chief Financial Officer
Mr Connon joined Australian Unity in 1995. As Chief Financial Officer, he is responsible for the total finance function with special emphasis on reporting, capital management, taxation and the development of corporate structures for prudential and regulatory purposes. He is also a director of all Australian Unity subsidiaries. Mr Connon has over 30 years experience in senior finance and administrative roles within various organisations including PriceWaterhouse Coopers, Grindlays Bank, and Elders Finance Group. Before joining Australian Unity, Mr Connon was financial controller of the Australian Wheat Board. Mr Connon is the Honorary Treasurer of the Australian Friendly Societies Association and a board member of the Lord Mayor's Charitable Fund.

Verran Fehlberg
General Counsel & Company Secretary
BEc (Acc), LLB
Mr Fehlberg joined Australian Unity in 2000. As General Counsel and Company Secretary, he is responsible for managing the Group's legal and secretariat functions. He is also secretary of all Group subsidiary boards. Mr Fehlberg has over 10 years experience in the financial services sector. Before joining Australian Unity, Mr Fehlberg worked with Colonial First State and a number of Australian law firms including Blake Dawson Waldron, Freehills and Minter Ellison.

Amanda Hagan
BSc (BIT), SIA
Group Executive – Healthcare
Ms Hagan joined Australian Unity in May 2006. As Group Executive – Healthcare, Ms Hagan is responsible for all elements of Australian Unity's healthcare operations and strategic development of the business. She is also a director of a number of Australian Unity subsidiaries including Australian Unity Health Limited, Grand United Corporate Health Limited and Australian Unity Retirement Living Services Limited. Ms Hagan has over 10 years experience in senior roles consulting on strategic projects for a range of companies including AGL, American Express and Energy Australia. Before joining Australian Unity, Ms Hagan held various executive roles with Perpetual Limited.

Warren Lockett
Senior Associate of ANZIIF
Group Executive – General Insurance
Mr Lockett joined Australian Unity in 2002 and is responsible for the management of the Group's general insurance operations. He is also a director of a number of Australian Unity subsidiaries including Australian Unity General Insurance Limited, Australian Unity Health Limited and Australian Unity Retirement Living Services Limited. Mr Lockett is a career insurance professional with extensive technical, operational and senior management experience gained over 30 years in the general insurance industry. Before joining Australian Unity Mr Lockett was general manager – financial institutions at Fortis Australia Ltd.

Derek McMillan
BSc (Hons), Dip Ed
Group Executive – Retirement Living Services
Mr McMillan joined Australian Unity in 1999 and has held a number of executive positions including the role of Group Executive – Grand United in 2005. Mr McMillan is currently Group Executive – Retirement Living Services, responsible for the development of the Group's retirement living operations, spanning retirement villages, residential aged care and community care. He is also a director of a number of Australian Unity subsidiary boards including Australian Unity Retirement Living Services Limited, Australian Unity Health Limited and Australian Unity Financial Planning Limited. Mr McMillan has almost 20 years commercial experience, developed from a range of senior operational and strategic positions in the financial services, pharmaceutical and agricultural industries.

Nic Mesic
Group Executive – Strategy and Development
Mr Mesic joined Australian Unity in 2002 and was appointed Group Executive – Strategy and Development in 2005. In this role he is responsible for business innovation and development, corporate communications, member relations, and the development of the corporate brand. Mr Mesic is also a director of a number of Australian Unity subsidiaries including Australian Unity Retirement Living Services Limited, Australian Unity Health Limited and Grand United Corporate Health Limited. Mr Mesic has over 10 years experience in senior roles in the finance industry. Prior to joining Australian Unity, Mr Mesic was head of brand and communications at National Australia Bank.

Frank O'Connor
ARMIT, MACS
Group Executive – Corporate Services
Mr O'Connor joined Australian Unity in 1994. As Group Executive – Corporate Services, he is responsible for the Group's governance services, and the management of the Group's information technology, business process improvement and building services functions. He is also a director of a number of Australian Unity subsidiaries including National Friendly Society Limited, Australian Unity Health Limited and Grand United Corporate Health Limited. Mr O'Connor has more than 36 years experience in the computing industry, including senior roles in a number of public sector organisations. He was Mayor of the City of South Melbourne from 1992 to 1994.

Travers Stow
B.App.Sc., MBA
Group Executive – Retail Services
Mr Stow joined Australian Unity in 2004. As Group Executive – Retail Services, he is responsible for managing Australian Unity's retail services and financial planning operations. He is also a director of a number of Australian Unity subsidiaries including Australian Unity Financial Planning Limited, Australian Unity Health Limited and Australian Unity Retirement Living Services Limited. Mr Stow has more than 10 years of general management experience across the health, IT and financial services sectors. Prior to joining Australian Unity, he headed up the Wilson Dilworth dealer group, a financial services business wholly owned by the Perpetual Trustees Australia Limited.

Business *overview*

Healthcare

Australian Unity operates the seventh largest health fund in Australia, covering more than 305,000 lives. It also owns and operates a corporate health fund, three dental clinics and an eyecare clinic.

The business has a strong focus on preventative healthcare and is currently researching new ways to build on the Group's wellness programs to improve members' health and reduce expensive demands being placed on our hospital systems.

Financial Services

Australian Unity's financial services operations include a specialist investment house with more than $3.6 billion in funds under management, and a general insurer focusing on commercial insurance for small to medium sized enterprises and home and contents insurance for individuals.

The Group's financial planning business was launched in 2002 and currently has 14 practices with more than $190 million in funds under advice.

Retirement Living Services

Australian Unity's retirement living services business manages and owns retirement living and aged care facilities. It currently operates 10 retirement villages in New South Wales and two in Victoria offering more than 1,700 home units, and 340 aged care beds.

The business strives to create neighbourhoods offering an enhanced quality of life and a genuine sense of community among residents.

Healthcare

The past year saw us introduce many new measures in Healthcare to improve customer satisfaction by helping them save valuable time. For example, TeleClaims allows our members to claim health extras over the telephone, while improved online services mean they can now manage their health cover from the comfort of their own home.

Increasing Satisfaction

In October 2005, we successfully merged the Grand United retail health fund with the Australian Unity health business, adding some 19,000 members.

During the year, the Australian Unity health funds paid out $336.8 million in claims (up from $270.6 million in 2004/05) and importantly, some 90 per cent of medical services consumed by members incurred no out-of-pocket expenses. Premium increases for the retail health fund were also contained to below the average of the private health insurance industry, for the fifth consecutive year.

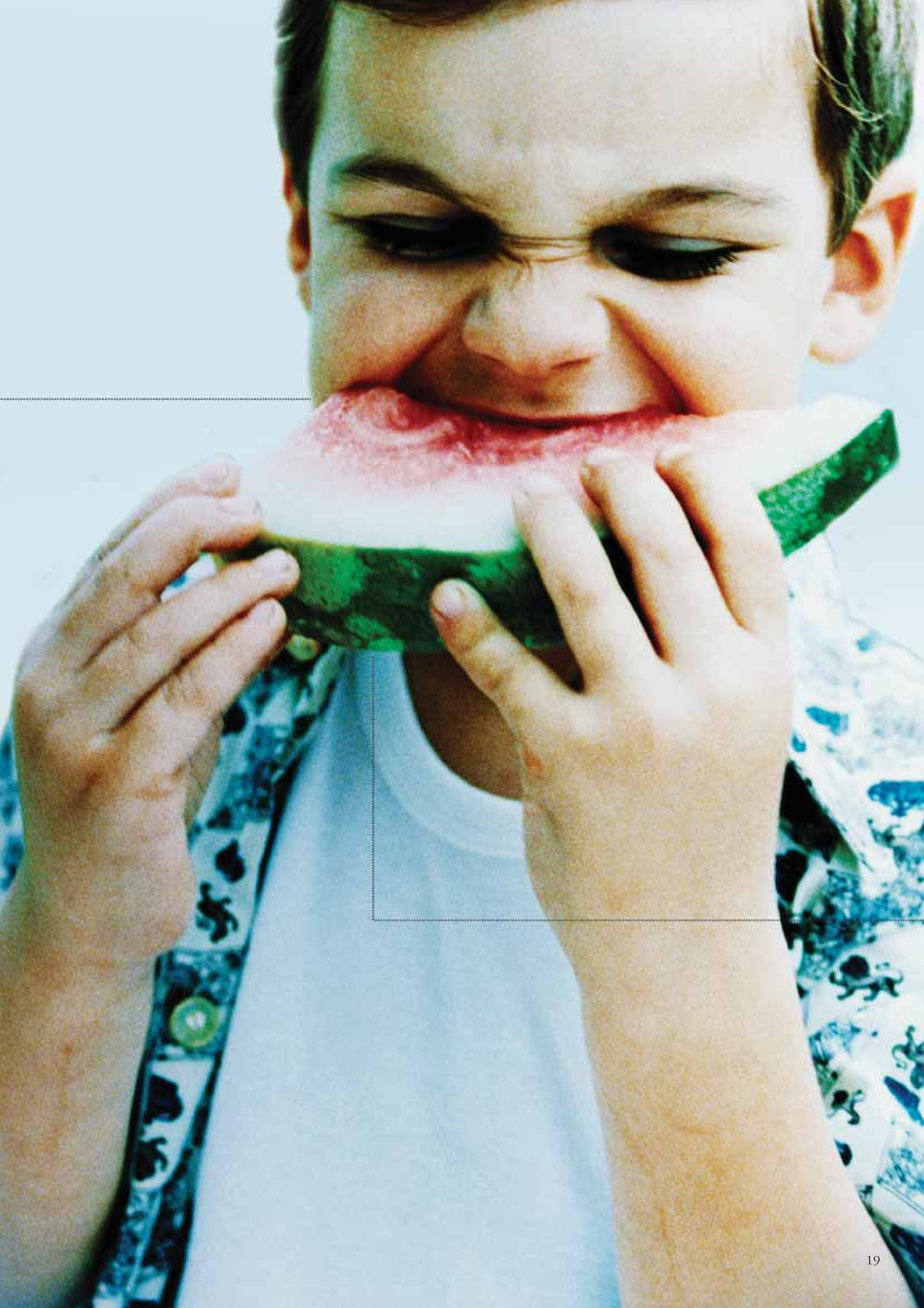
It is also pleasing to report a further reduction in the administrative costs of providing services to our retail health fund members, as indicated by our Management Expense Ratio (MER). Australian Unity's retail health fund MER fell to 9.6 per cent in the latest year, down from 10.9 per cent in 2005 and almost half the level of only five years ago.

One of the most important changes for our health insurance business in the past year was the development of new ways to make claims over the telephone and the internet.

We have introduced TeleClaims – a service that allows same-day claims processing over the telephone. This enables customers of physiotherapists, opticians and other health service providers to process claims over the phone. We have also taken steps to significantly improve the capability of our website. This makes it possible to lodge claims online, with payment of funds into a member's nominated bank account.

Dental and healthcare services continued to be well supported by customers and members during the year. Following the opening of our third dental surgery last year, the number of dental patients increased by 42 per cent, while the number of health fund members who took advantage of the No-Gap Dental Service increased by 25 per cent. We also extended our healthcare network with the addition of five new No Gap Dental Service providers, and the opening of our first optical store, Eyecare Advantage, in suburban Melbourne.

We are currently in the process of researching and implementing new wellness initiatives, which we plan to introduce over coming years once the Federal Government regulatory reforms are in place. This is currently planned for April 2007.



Financial Services

The Group's financial services activities remain on target for steady growth following the announcement of joint ventures with Farmers Mutual Insurance and specialist Australian equities manager, Platypus Asset Management.

Investments

Australian Unity Investments was formed in 2004 from the merger of Australian Unity's in-house property and mortgage investment groups with its emerging funds management business. Its business strategy is to use its established and highly regarded mortgage and property expertise while developing specialist alliances to broaden its product suite.

Australian Unity Investments now provides high quality investment opportunities across a range of asset classes with particular strengths in property, mortgages, equities and fixed interest.

The business recorded a profit before tax of $5.2 million for the year ended 30 June 2006 ($5.5 million for 2005). Funds under management grew by almost one third to $3.6 billion at 30 June 2006 (from $2.8 billion at 30 June 2005).

These results were achieved despite substantial investments in business-building initiatives, such as increased human resources and a new information technology platform, which should underpin earnings increases next year.

Searching for the best opportunities in each asset class, the business formed another significant joint venture this year with leading Australian equities manager, Platypus Asset Management. This follows the success of other joint ventures with fixed interest specialists Vianova Asset Management and Acorn Capital, Australia's only specialist microcap manager.

These joint ventures enabled a number of product launches including a new Strategic Fixed Interest Trust and a new Australian Equities Trust. Both products fit Australian Unity Investment's philosophy of creating distinctly different products of the very highest quality.

In the Australian share manager survey produced by independent asset consultants Intech, Platypus was ranked the top performing Australian equities manager over one and three years at 30 June 2005. The addition of this joint venture is a real coup, made possible by shared values such as respect for people and innovation, and a strong belief in a boutique approach to investment management.

Wider field of vision

Other product launches included an International Equities Trust and the Australian Unity Retirement Village Investment Notes, an innovative investment that is a testament to opportunities made possible by Australian Unity's diverse portfolio of businesses. The Notes draw on the Group's expertise in investments and retirement living services and help provide support to Australians in their retirement. The first series of the Notes, which pay up to nine per cent per annum for terms of seven years, were quickly subscribed.

Australian Unity's Healthcare Property Trust is another example of diverse businesses working together to produce value for investors and the Group. The Trust was Australia's first direct property fund to invest solely in hospitals and medical clinics. Due to its popularity with investors and capacity constraints, the Trust had to be suspended to new investment for some time.

In order to reopen the Trust, Australian Unity Investments has been actively seeking to acquire more properties and recently purchased the Peninsula Private Hospital, a purpose built facility with 140 beds located on Victoria's Mornington Peninsula.

The purchase of the Peninsula Private Hospital and a medical centre in Ballarat increased the Healthcare Property Trust's direct property allocation to $253 million.

A number of other transactions have resulted in the steady growth of Australian Unity's property activities. These included successfully rolling over Australian Unity Property Syndicate No. 2, Australian Unity Property Syndicate No. 3 and the East West Retail Syndicate. The business is also well progressed on the roll over of Australian Unity Property Syndicate No. 4 after receiving strong investor support to do so.

In its biggest property redevelopment project to date, the business also began preparations for a $40 million redevelopment of Waurn Ponds shopping centre in Geelong Victoria.

Overall, the value of the combined property portfolios increased to $755 million by 30 June 2006 (up from $636 million at 30 June 2005).

The financial results of Australian Unity Investments reflect a well-considered strategy and sustained efforts to expand and improve the business.

General insurance

Australian Unity's general insurance business produced a pre-tax profit of $4.3 million in 2005/06, compared with $2.6 million last year.

The result was achieved despite an increase in the frequency of larger fire and public liability claims in the second half of the year, and non-recurring expenses from a major project to improve financial accounting processes.

The business is strongly provisioned, with capital adequacy at 30 June 2006 equivalent to 181 per cent of APRA minimum requirements (163 per cent last year).

During the year, Australian Unity continued to implement its plans to position its general insurance business for growth and profitability, as part of its strategy to diversify earnings.

The general insurance business specialises in commercial insurance for small to medium sized businesses, and home, contents and landlords insurance for individuals.

It has continued to build its boutique position in the market, differentiated by a commitment to accessible and responsive service. This business model has strong appeal to broker intermediaries who, in industry research, describe concentration at the top end of the market and a resultant lack of choice as a major business issue.

Premium income in 2006/07 is set to lift substantially following an agreement to join forces with the Australian insurance operations of New Zealand based Farmers Mutual Insurance (FMG).

This involves the acquisition of the Australian general insurance portfolio of FMG as well as a 50 per cent interest in a joint venture Underwriting Agency to distribute general insurance products in regional and rural markets. Subject to regulatory approval it is expected the transaction will be completed before the end of 2006.

Under the agreement, FMG in Australia will become an agency of Australian Unity General Insurance, and will continue to build its excellent distribution in regional Australia. The agency will continue to operate under the FMG brand.

The arrangement provides geographic diversification to our business, and is an ideal fit with our strategy of focused, controlled growth. On implementation it will increase gross premiums by almost $40 million, and the increased scale is expected to contribute to lower cost structures and improved profitability.

Other major activities in the past year include progress in the development of an insurance administration system to replace ageing legacy systems. While absorbing substantial effort and resources during this year, the new system will underpin future benefits in operational efficiency and improved business information.

The new system will also provide long-term strategic flexibility and enable further non-organic growth prospects to be pursued.

Financial Planning

Further restructuring of the Group's retail distribution network resulted in accelerated implementation of the new financial planning business model announced in 2005/06. This contributed to a loss before tax of $1.8 million for the year ended 30 June 2006 (2005: loss of $1.0 million).

During the year, remaining franchised retail outlets were taken under the Company's direct control, retail shopfronts were progressively closed and significant investments were made in alternative customer service channels such as phone, internet and post. This significant restructure also included the relocation of all Australian Unity financial planners to dedicated offices in their local area.

Despite a temporary but significant reduction in planner numbers as a result of the restructure, underlying productivity nearly doubled compared to the previous year.

Revenues of $1.5 million (2005: $1.9 million) were achieved with only half the number of planners.

The business is now on a sound footing for future growth. Planner numbers increased in the last quarter of the year, and the company added a new in-house home loan and finance broking service as well as a personal risk broking service to its activities. Australian Unity is building its network of financial planning experts to help customers achieve financial security and peace of mind.

Retirement Living Services

Australian Unity Retirement Living Services has commenced a carefully considered expansion program, following an extensive review of the business. The plan will see independent living unit numbers double.

During the past year, Australian Unity Retirement Living Services completed a strategic review of the business and, as a consequence, began a carefully considered expansion program. A key area of growth includes plans to double the number of independent living units it can offer from 1,700 to more than 3,000 in coming years.

In the year ended 30 June 2006, Australian Unity Retirement Living Services increased pre-tax profit to $2.8 million, up from $2.7 million in 2005. Profit growth was restrained by expenditure on the business expansion program and the completion of the new Residential Aged Care Facility at Constitution Hill.

The business did however, achieve strong revenue growth following the acquisition of the Governor's Resort retirement village in 2005 and the merger with Grand United, which brought the Constitution Hill retirement living complex into the Australian Unity Group.

The growth strategy will see the business participate more actively in the development of new retirement villages, following on from the success of the Constitution Hill project in western Sydney.

Our vision is to become one of Australia's leading retirement village operators recognised for expertise, customer orientation and enhanced resident wellbeing. We strive to create neighbourhoods offering an enhanced quality of life and a genuine sense of community.

Like many countries, Australia's population is rapidly ageing and as a consequence, retirement accommodation is a relatively high growth market. For this reason, it has attracted many new providers in recent years, including residential property developers seeking diversification.

With a proven track record after more than 40 years as a successful operator in the retirement living industry, Australian Unity has a perspective that sets it apart.

As an organisation founded on the principle of mutuality, we take a genuine interest in the wellbeing of residents. This is no better demonstrated than by the very positive reaction from residents and industry to the continuing development of the Grand United Constitution Hill retirement village in Sydney.

Something *special*

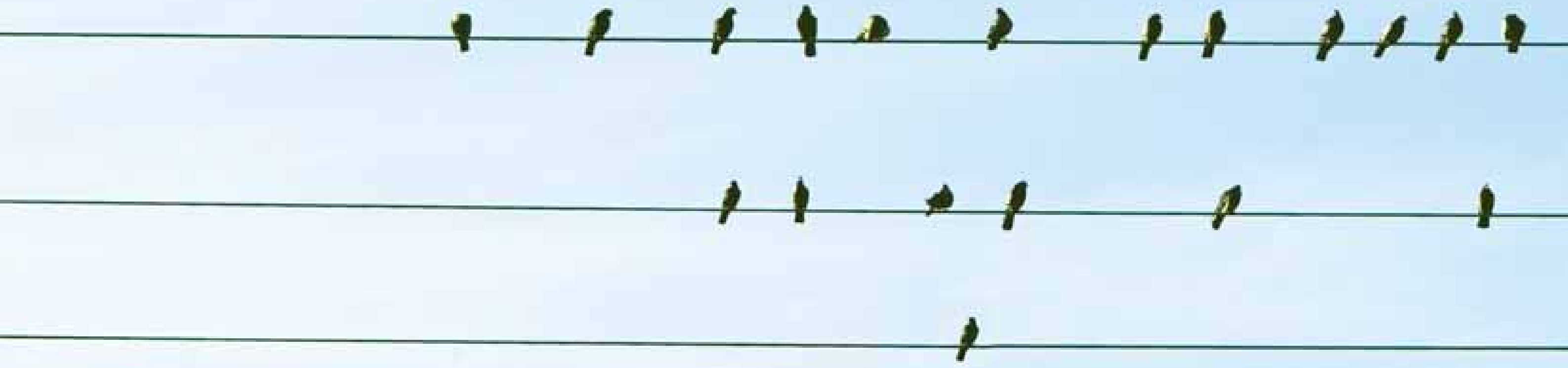
Positive reactions to the new village came in many forms, including the recent renaming of the suburb of Old Toongabbie to Constitution Hill. We were also delighted to receive, in conjunction with Constitution Hill's development partner Grindley Construction, a Master Builders Australia national award for the best Lifestyle Housing for Seniors. This award is a joint initiative of the Australian Government and Master Builders Australia and recognises the contribution this village makes to the quality of life of older Australians.

Further recognition of our service quality came this year with the granting of full accreditation of our three residential aged care facilities. The accreditation review, conducted every three years, determines our ability to operate as a licensed provider of residential aged care. All facilities attained maximum accreditation.

Our commitment to supporting retirement village residents to remain living as independently as possible, saw our continuing participation in the Federal Government's Retirement Village Care Pilot project during the year. In July 2006, we were pleased to announce that the Federal Government made a further commitment to funding our care packages.

Our strategic review also resulted in the development of a number of key business initiatives to commence roll out over the coming months. This will enhance our business capability and preserve the culture of wellbeing for which Australian Unity is recognised, for the benefit of residents, regardless of where they live.

To this end, our management team has developed a comprehensive business system to document our business processes, activities and compliance with regulatory requirements. Further, the business system ensures we have continuous improvement processes to deliver on quality outcomes and residents' evolving needs into the future.



Highest standards

Governance and Regulation

Australian Unity Limited is not a listed shareholding company; it is a mutual company with some 190,000 members. Although not a listed company, Australian Unity Limited is a major public company and the Australian Unity Board supports the ASX Principles of Good Corporate Governance and Good Practice Recommendations released by the ASX Corporate Governance Council. The Board has adopted a Governance Charter that reflects many of these principles, as relevant to a mutual company.

Board Composition and Structure

There are currently 10 directors on the parent board, each with specific expertise and experience relevant to the Group's activities.

The Board has established a number of Committees to assist it in the performance of its duties. The Committees of the Board are currently:

- the Audit and Compliance Committee
- the Risk Committee
- the Investment Committee
- the Marketing Committee
- the Human Resource, Remuneration and Nominations Committee

The Chairman reviews the composition of the Board's Committees annually, taking into account the skills and interests of directors. This year each of the former Grand United directors accepted positions on a Board Committee.

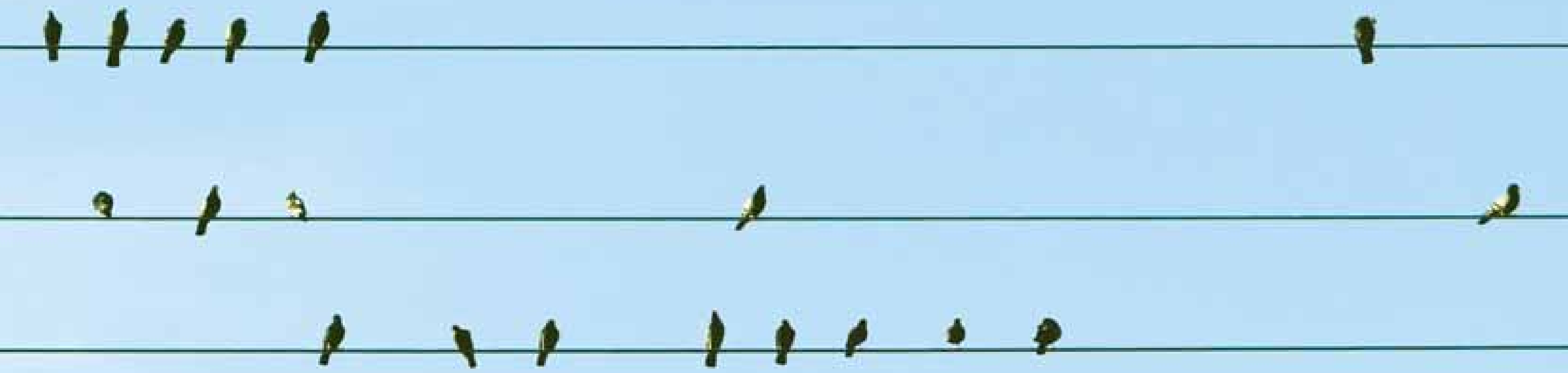
Regulation

Australian Unity's business operations are extensively regulated by PHIAC (health), APRA (friendly society benefit funds, life insurance, general insurance and superannuation) and ASIC (corporate and financial services), in addition to State regulation (retirement living services and aged care) and the regulation of trade practices by the ACCC.

During the year our Investments business was granted its RSE licence for its APRA-regulated superannuation activities.

Risk Management

In recognition of the important role that effective risk management plays in sustaining and enhancing the Group's performance, the Board has established a Risk Committee dedicated to overseeing the strategic management of risk and the continuing development of sound internal policies and controls.



During the year the Group's risk management framework was refurbished to facilitate a proactive and consistent approach to risk management across all areas of activity. We also successfully conducted a staged testing of our Business Continuity Plans in December.

Remuneration

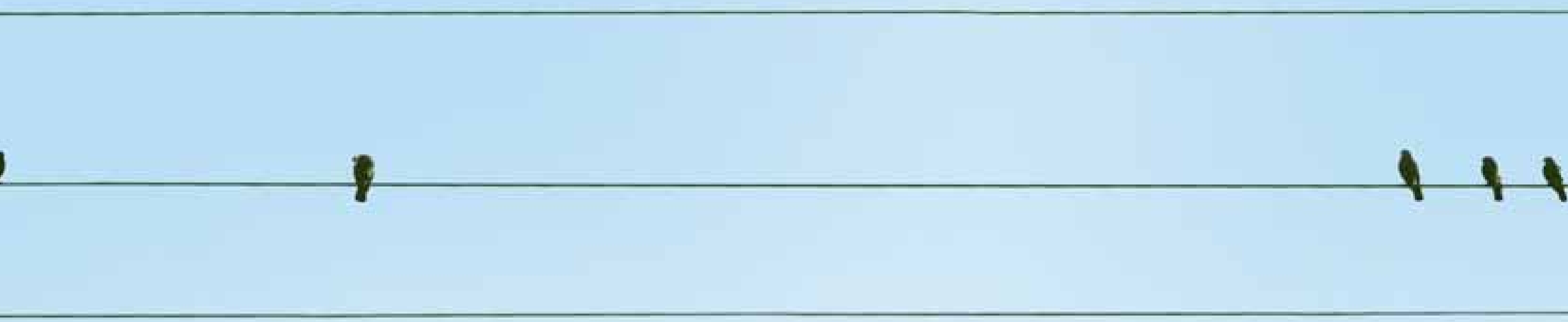
Human Resources, Remuneration and Nominations Committee

The Human Resources, Remuneration and Nominations Committee (HR Committee) of the Board of Directors of Australian Unity is responsible for evaluating the performance of the Group Managing Director (GMD) and monitoring the performance of Group Executives (who serve as executive directors). The Board also approves the remuneration of Group Executives.

The HR Committee works to ensure that the Australian Unity Group has remuneration policies and practices that fairly, responsibly and competitively reward executives. The HR committee's decisions on reward structures are based on business performance, external competitiveness, compliance with legal obligations, and high standards of corporate governance.

Apart from the GMD, all members of the HR Committee are independent Non-executive Directors. Independent remuneration consultants are engaged to assist the HR Committee as necessary, providing specialist market information and technical advice.

Compensation paid to key management personnel of Australian Unity is determined within the following remuneration policy set by the HR Committee.



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Executive remuneration

Principles

Australian Unity's executive remuneration policy sets the framework for rewarding Australian Unity's GMD and Group Executives (who are the direct reports of the GMD).

The main principles underlying Australian Unity's executive remuneration policy are:

- Rewards are performance focused, with the majority of rewards explicitly linked to rigorous financial and non-financial performance targets. The setting of the performance targets supports the creation of member value, with the proportion of 'at risk' performance-based remuneration generally increasing with seniority;
- The design of rewards programs recognises member interests by aligning performance to business and strategic plans;
- Measures of total reward (fixed plus variable reward) are externally focussed, being competitive against companies and sectors in which Australian Unity competes for talent, in recognition of the need to attract, retain and motivate talented and experienced senior staff; and
- Rewards recognise adherence to cultural values and ethical behaviour

Approval

Australian Unity follows a process of 'two-up' approval for all individual remuneration decisions.

The Board and HR Committee, on the recommendation of the GMD, approves plans and outcomes for Group Executives.

The HR Committee is also responsible for approving any significant remuneration arrangements outside of general policy guidelines.

Executive remuneration structure

Australian Unity recognises that its ability to provide quality products and services to its members depends largely on the quality and performance of its people. The executive remuneration policy is designed to motivate high performance and ethical behaviour and is linked to individual, business and Company results.

Australian Unity's executive remuneration structure is comprised of two components:

1. Fixed Reward:

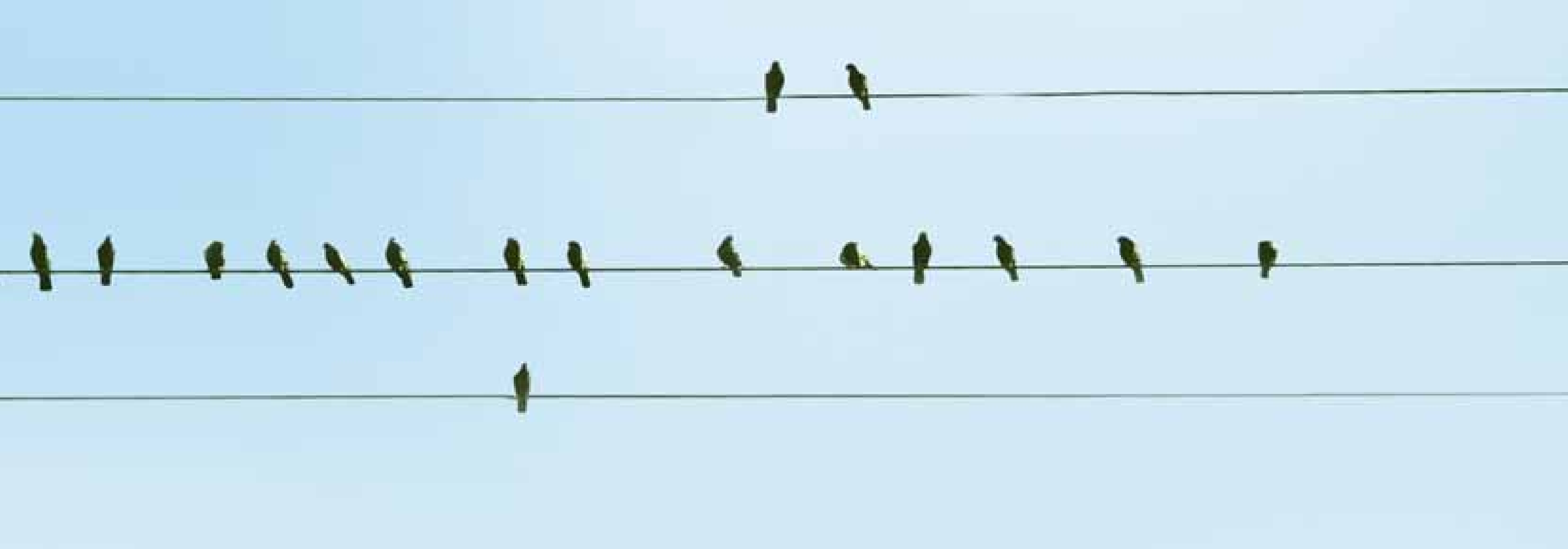
A Total Employment Cost (TEC) approach is used which is the total salary package value and includes:

- Base salary
- The dollar value of any salary packaged benefits
- FBT
- Pre-tax voluntary contributions to superannuation
- Mandatory employer Super Guarantee Levy contributions

Executives are paid fixed remuneration on a total employment cost basis. Fixed remuneration is reviewed annually, taking into account the nature of the role, external data on pay position relative to comparable roles in similar industries, individual and business performance and contribution to the Group's strategic plans.

2. Variable Rewards:

A short term incentive program provides performance related bonuses. A long term incentive plan does not currently apply to executives (other than the GMD). A long term incentive plan for Group Executives is in development.



Group Executives have individually tailored objectives against which their performance is rated, with the outcome used to allocate short-term incentives. Group Executives are eligible for annual short-term incentives of up to 60 per cent of their fixed remuneration.

The maximum bonus within this range is determined by role. For all Group Executives, there is a combination of both Group and business unit financial results in the short-term incentive calculation. Performance is also assessed relative to the executive's individual objectives. A significant component of the short-term incentive calculation is allocated against compliance and risk management targets and adherence and modelling of Group values. Actual bonus in a given year is calculated by reference to the achievement of the agreed individual and business goals and adherence to the Group's values: Integrity, Customer Driven, Teamwork, Innovation, Our People, Results Orientation and Community. In order to receive full bonus potential, the individual executive must outperform against their financial, strategic development, operational management and compliance objectives.

As the performance outcome for executives includes a weighting on financial achievement, overall short term incentive spend is linked to Group profitability. Typically, financial objectives for each business unit are measured in terms of contribution to Group profits, with an additional financial objective based upon total Group profit.

Non-executive Director remuneration

The Board's focus is on long term strategic direction and overall corporate performance. As a consequence, Non-executive Director remuneration is not directly related to short term results. Non-executive Directors do not participate in any incentive plans.

Non-executive Director remuneration policy

Directors of the Australian Unity parent Board are paid a base fee comparable to rates payable for companies of similar size and type. Directors may also be paid a substantial involvement fee for taking on additional responsibilities and workload. These responsibilities may include chairmanship of Board Committees. It is current Board policy for a Director of the parent Board to chair each of the Board's Committees.

The total aggregate remuneration paid by the Company to Directors as fees for their services cannot exceed the maximum approved at its Annual General Meeting.

Review of Non-executive Director fees and framework

When reviewing Non-executive Directors' fees, the Board considers the performance of Australian Unity and may seek the advice of independent remuneration consultants to ensure market alignment. The Board also aims to achieve parity between Directors. During the year the Board aligned the remuneration of former Grand United Directors with other Australian Unity Directors.

Non-executive Directors' superannuation

Superannuation contributions are made for Directors in accordance with the superannuation guarantee legislation.

Australian Equivalents to International Financial Reporting Standards (AIFRS)

The Group's financial statements for the year ended 30 June 2006 are the first to be prepared in accordance with AIFRS. Details of the impact of the application of AIFRS to the prior year's results are contained within Note 42 of the following Annual Financial Report.

Financial Report

The financial report covers both Australian Unity Limited as an individual entity and the consolidated entity consisting of Australian Unity Limited and its subsidiaries. The financial report is presented in the Australian currency.

Australian Unity Limited is a company limited by shares and guarantee, however no shares have been issued. The Company is incorporated and domiciled in Australia and its registered office and principal place of business is:

114 Albert Road
South Melbourne
VIC 3205

The financial report was authorised for issue by the directors on 30 August 2006.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Unity Limited and the entities it controlled at the end of, or during, the year ended 30 June 2006.

Directors

The following persons were directors of Australian Unity Limited during the whole of the financial year and up to the date of this report (except where otherwise stated):

Alan Castleman	Chairman
Rohan Mead	Group Managing Director
Murray Campbell	Director
Eve Crestani	Director
Ian Ferres	Director
Warren French	Director
Leonard Hickey	Director
Stephen Maitland	Director
Bruce Siney	Director
Warren Stretton	Director

Company Secretaries

Verran Fehlberg BEc (Acc), LLB was company secretary of Australian Unity Limited at 30 June 2006.

Pamela McAlister BA, LLB, LLM was also a company secretary of Australian Unity Limited until 30 June 2006.

Principal activities

The principal continuing activities of the Group during the year were the provision of a range of products and services to serve members with their savings, financial security, healthcare and retirement living needs. These products and services included investments and loan facilities; life, health and general insurance; financial planning; dental and optical services; and aged care and retirement living facilities.

Consolidated results

The consolidated entity recorded a profit after income tax for the year ended 30 June 2006 of $23,818,000 (2005: $15,418,000). The comparative profit result for the year ended 30 June 2005 has been adjusted for the effects of the introduction of Australian equivalents to International Financial Reporting Standards.

Australian equivalents to International Financial Reporting Standards

The financial report for the year ended 30 June 2006 has been prepared, for the first time, in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs).

One effect of the adoption of AIFRSs is the requirement under Australian Accounting Standard AASB 1038 Life Insurance Contracts to include in the consolidated financial report, the income, expenses, assets and liabilities of all Benefit Funds managed by the consolidated entity. In accordance with certain reporting exemptions available under AIFRSs, the requirements of AASB 1038 have been applied from 1 July 2005 and so the comparative information for the year ended 30 June 2005 does not include the financial results or financial position of the Benefit Funds managed by the consolidated entity.

The inclusion of the benefit funds in the consolidated financial report has no impact on the net profit for the year attributable to members of Australian Unity Limited.

The application of AASB 132 Financial Instruments: Disclosure and Presentation, and AASB 139 Financial Instruments: Recognition and Measurement is also subject to certain reporting exemptions and so these standards have also been applied from 1 July 2005.

Review of operations

The directors are of the opinion that the consolidated entity had a very successful year with the successful integration of the Grand United operations into the Group, the launch of new products and a new equities joint venture in the Investments arena, further growth in Health Insurance and the opening of a state of the art Aged Care facility at the Constitution Hill retirement village. The performance of the Group's business segments are reviewed as follows:

Healthcare

The combined operations of the Australian Unity Health, Dental and Healthcare businesses (including Grand United Corporate Health) delivered another strong performance, recording a profit before tax of $50,375,000 for the year ended 30 June 2006 (2005: $29,738,000).

Revenues for the year were $433,539,000 (2005: $327,025,000). The revenue results were influenced on four fronts:

- an increase in Australian Unity Health's insurance contributions by an average of 7.85% in April 2005 (once again under the national average of 7.96%);
- a net increase in Australian Unity Health memberships;
- the benefit of a full year contribution from the Grand United retail and corporate health operations, with the Grand United retail health fund being merged into the Australian Unity Health fund; and
- strong investment income for much of the year.

The Australian Unity Health fund paid out $299,296,000 in claims to customers during 2005/06 – up from $248,174,000 in 2004/05. Importantly, some 91% of medical services consumed by members incurred no out of pocket expenses.

The year also saw the reduction of the Australian Unity Health Limited Management Expense Ratio (MER) to 9.6%, down from 10.9% in 2004/05. Statutory reserves at 30 June 2006 were above minimum requirements.

Retirement Living Services

Australian Unity's Retirement Living Services business recorded a profit before tax of $2,756,000 for the year ended 30 June 2006 (2005: $2,686,000).

In the past year, the business began a carefully considered expansion program to substantially increase the number of independent living units it can offer over the next five years, through a combination of acquisition and village development. The spending on these programs is reflected in this year's profit result that will provide the foundation for future growth.

The construction of the Constitution Hill Retirement Village continued during the year. Nine of the eleven stages housing a planned 420 self care units and the community centre have successfully been completed. Construction of 46 units in stage 10 is expected to be completed by August 2006 with settlements to be finalised by February 2007. Construction of 48 units in the final stage (Stage 6) has commenced and is due for completion by April 2007 with settlements to be finalised during the first quarter of the 2007/08 financial year.

The construction of the 121 bed Residential Aged Care Facility at Constitution Hill was completed in August 2005 and the facility is now fully operational following successful transfer of residents from the old facility and occupancy by new residents.

All three of the Group's retirement aged care facilities received the maximum three year accreditation from the Department of Health and Ageing and passed December 2005 building certification requirements.

Investments

Australian Unity Investments profit before tax amounted to $5,234,000 for the year ended 30 June 2006 (2005: $5,464,000). Funds under management at the end of the financial year had grown to $3.6 billion, an increase of almost one third on the previous year.

During the year the Group commenced a joint venture with a leading Australian equities manager (Platypus Asset Management).

New products launched included an Australian Equities Trust, an International Equities Trust and a Strategic Fixed Interest Trust. The business also launched a series of innovative Retirement Village Investment Notes. The business successfully rolled over the Australian Unity Property Syndicate No. 2, Australian Unity Property Syndicate No. 3, and East West Retail, while the Australian Unity Property Syndicate No. 4 was converted to a managed investment scheme with the aim of rolling over on 1 September 2006.

On 11 July 2006, the Healthcare Property Trust purchased the Peninsula Private Hospital in Langwarrin, Victoria for $46 million and a Primary Healthcare Medical Centre in Ballarat, Victoria for $3.79 million. The Property Income Fund also purchased a commercial office building in Canberra, for $14.4 million. As well as these acquisitions, preparations commenced for a $40 million redevelopment of Waurn Ponds shopping centre, near Geelong, Victoria. Overall, the value of the combined property portfolios increased to $755 million by 30 June 2006 (up from $636 million at 30 June 2005).

The business aims to continue to increase funds under management during the next financial year and further product launches are planned.

Retail operations

Further restructuring of the Group's retail distribution network resulted in accelerated implementation of the new financial planning business model announced in 2005/06. This contributed to a loss before tax of $1,822,000 for the year ended 30 June 2006 (2005: loss of $1,019,000).

During the year all remaining franchised retail outlets were taken under the company's direct control and a decision was made to progressively close shopfronts and invest in alternative customer service channels. This significant restructure also included the relocation of all Australian Unity financial planners to dedicated offices in their local area.

Despite a temporary but significant reduction in planner numbers as a result of the restructure, underlying productivity nearly doubled compared to the prior year. Revenues of $1,534,000 (2005: $1,856,000) were achieved with only half the number of planners. Recruitment of additional planners within the revised business model continues.

General Insurance

The General Insurance operations recorded a profit before tax of $4,289,000 for the year ended 30 June 2006 (2005: profit $2,591,000).

Earned premiums after reinsurance were at a similar level to the previous year. This was assisted by increased net risk retentions, consistent with plans to increase retained income to reflect an increasing confidence in the quality of the underwriting book.

Underlying claims performance was sound and contributed to an improved annual net claims ratio of 52.9% (2005: 63.0%). This was despite an increase in the frequency of larger fire and public liability claims in the second half of the year.

Higher investment earnings were offset by non recurring costs resulting from a major project to improve financial accounting processes.

Capital adequacy at 30 June 2006 was 181% (2005: 163%).

The Group is close to finalising the acquisition of the Australian general insurance portfolio of New Zealand based Farmers Mutual Insurance Ltd (FMG). This is expected to increase gross premiums by almost $40 million and the increased scale is expected to contribute to cost ratio efficiencies and improved profitability going forward.

The arrangement with FMG also involves purchasing a 50% interest in a joint venture underwriting agency to distribute general insurance products in regional and rural markets. Subject to regulatory approval it is expected the transaction will complete in the first quarter of financial year 2006/07.

Other major activities in the past year include progress in the development of an insurance administration system to replace ageing legacy systems. While absorbing substantial effort and resources during this year, a new system will underpin future benefits in operational efficiency and improved business information.

Membership and governance
During the past year, the directors commissioned a report to members to provide information about the current and potential future governance and structure of Australian Unity.

This report, which was issued in December 2005, examined the relative advantages and disadvantages of Australian Unity remaining a mutual company or demutualising to become a shareholder company. The board expressed its view that there were no immediate commercial reasons to demutualise at that time. The report also invited member responses to the issues raised.

Some 16,500 members responded via the questionnaire which was attached to the report and several hundred members also attended briefing meetings held throughout Australia to discuss the report.

The questionnaire invited members' opinions and in particular to say whether they would prefer the Company to stay as it is or change. The results from that survey of more than 16,500 members were that 52% of members said that they wanted the Company to stay as it is, 30% favoured demutualisation and 18% were undecided.

The directors continue to consider there to be no current commercial reasons to demutualise and therefore believe the issue to be clear for the immediate future. The directors will, however, continue to regularly review the Company's governance structure.

Matters subsequent to the end of the financial year
The board is not aware of any matter or circumstance arising since 30 June 2006 not otherwise disclosed in this report, which has significantly affected or may significantly affect the financial status or results of the consolidated entity.

Likely developments and expected results of operations
The board is not aware of any developments which may affect the consolidated entity's operations and expected results of operations which can be disclosed without prejudicing unreasonably their likelihood of success or violating commercial confidences.

Environmental regulation
No significant environmental regulations apply to the parent entity. The property operations within both the Retirement Living Services business and in investment syndicates and trusts for which a controlled entity acts as Responsible Entity or Manager are, however, subject to environmental regulations under Australian law. There have been no known reportable breaches of these regulations.

Information on directors and company secretary
Directors
Alan Castleman
B Comm., Dip Elec. Eng., FIE (Aust.), FAICD
Mr Castleman has been the chair of Australian Unity Limited since 1993. He is a director of a number of Australian Unity Limited subsidiaries and also chairs the Human Resources, Remuneration and Nomination Committee. He is an ex-officio member of all board committees. He also chairs the Australian Centre for Health Research Limited and is a director (former chair) of the National Ageing Research Institute Inc. Mr Castleman is a professional director. Before 1993, his executive career was at BHP where he held a number of senior executive positions. Over the last 13 years he has been a director of over 15 public or private companies outside the Australian Unity Group.

Rohan Mead
Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. Up until this time, Mr Mead held the position of Group Managing Director (Designate), from 15 December 2003. Mr Mead is also a director of Australian Health Insurance Association (the peak representative body for the health insurance industry) and of Australian Health Service Alliance (a cooperative hospital contracting and data management company formed by 24 health insurance funds). He is chair of Platypus Asset Management, deputy chair of Acorn Capital and director of Australian Centre for Health Research. Prior to joining Australian Unity, Mr Mead was employed by Perpetual Trustees Australia Limited (1996 – 2003) in a range of senior roles, most recently as group executive-personal financial services. In other leadership roles at Perpetual, Mr Mead was involved in marketing services, corporate affairs and strategic development. Prior to his work at Perpetual, Mr Mead was employed by Blake Dawson Waldron, Lawyers as head of marketing and communications.

Murray Campbell
FCPA, FCIS, FAICD, JP
Mr Campbell was appointed to the board of Australian Unity Limited in 1993 after an executive career commencing with Manchester Unity (Vic) in 1965. He is chair of the Audit and Compliance Committee and a member of two other board Committees. Mr Campbell actively served industry associations for over 30 years, retiring in 2005. He is a proud supporter of Rotary and a past president of the Rotary Club of Melbourne.

Eve Crestani
Dip. Law (B.A.B.), FAICD
Ms Crestani was appointed to the board of Australian Unity Limited in 1996 and is chair of the Risk Committee. She is also chair of Mercer Investment Nominees Limited. Other directorships include Pillar Australia, Purity Australia Limited and a number of Australian Unity Limited subsidiaries. Ms Crestani is a professional director who is qualified in law and management, and she consults in finance, strategic planning, marketing and management. She is a founding fellow of the Australian Institute of Company Directors, and an emeritus trustee for the Committee for the Economic Development of Australia.

Ian Ferres
FIAA, FAICD
Mr Ferres was appointed to the board of Australian Unity Limited in 1999. He is chair of the Investment Committee and a director of a number of subsidiaries. Mr Ferres worked with the National Mutual Group for 34 years, including as executive manager of their investment, property, unit trust and banking and finance operations from 1975 to 1988, and as an executive director from 1983 to 1990. He was Group Managing Director of Australian Unity Limited from 2002 to 2004. Mr Ferres is Chairman of Treasury Corporation of Victoria, and was previously President of Monash Medical Centre. Since 1990 he has served on over 20 private and public sector boards. He is a consultant with TressCox Lawyers.

Warren French
FAICD(Dip), AIMM
Mr French was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited, and is chair of the Grand United Foundation. Other directorships include a number of Australian Unity Limited subsidiaries. Mr French was employed by Grand United Friendly Society in 1984 and served as chair of the board from 1999 to 2005. He is Grand Secretary of the Grand United Order of Oddfellows, and president of the Australian Centre for Fraternal Studies Inc.

Leonard Hickey
LLB, BA
Mr Hickey was appointed to the board of Australian Unity Limited in 1993. Other directorships include The Lord Mayor's Charitable Fund and a number of Australian Unity Limited subsidiaries. Mr Hickey is principal of the Melbourne law firm J.P. Metcalfe & Co, specialising in corporate and property legal work. He was previously chief president of the Australian Natives' Association Friendly Society.

Stephen Maitland
RFD, B Ec, FCPA, FAICD, FCSA, FAIM, FFin
Mr Maitland was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. Other directorships include Buderim Ginger Limited, Mackay Permanent Building Society Ltd, a number of Australian Unity Limited subsidiaries, and a number of private companies. Mr Maitland is the principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 28 years experience in the banking and finance industries and was chief executive officer of the Queensland Office of Financial Supervision between 1992 and 1999. Mr Maitland is the honorary treasurer of the Surf Life Saving Foundation Inc.

Bruce Siney
FAMI, CPM, MAICD
Mr Siney was appointed to the board of Australian Unity Limited in 2000 and is chair of the Marketing Committee. Other directorships include Australia Char Pty Ltd, Premium Beverages Pty Ltd, American Beverage Distributors Pty Ltd and a number of Australian Unity Limited subsidiaries. Mr Siney is a professional director. His executive career was predominantly with the Fosters Brewing Group where he held a number of general management positions. Mr Siney was a member of the Victorian Government Centenary of Federation Committee and a former chair of the Victorian Olympic 2000 Committee.

Warren Stretton
FAICD, FCPA, FCIS, FTIA, FAMI
Mr Stretton was appointed to the board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. He is a director of a number of subsidiaries of Australian Unity Limited and holds a Federal Government appointment to the board of Australian Hearing. Mr Stretton is a professional director. He was formerly the managing director of Grand United and has wide commercial experience gained in the motor, computer and entertainment industries.

Company secretary
Verran Fehlberg
BEc (Acc), LLB, Deputy General Counsel and Company Secretary
Mr Fehlberg joined Australian Unity in 2000. As Deputy General Counsel, he is responsible for providing legal and secretariat services to the Australian Unity Group. He is also secretary of most subsidiary boards. Mr Fehlberg has over 10 years experience in the financial services sector. Before joining Australian Unity, he held legal roles in the funds management sector and in private practise.

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2006, and the numbers of meetings attended by each director were:

	Board		*Audit and Compliance Committee*		*Risk Committee*		*Investment Committee*		*Marketing Committee*		*Human Resources, Remuneration and Nominations Committee*	
	A	B	A	B	A	B	A	B	A	B	A	B
Alan Castleman (Chairman)	13	13	8	8	4	4	–	–	–	–	4	4
Rohan Mead	13	13	–	–	4	4	9	9	3	3	4	4
Murray Campbell	13	13	8	8	4	4	–	–	–	–	4	4
Eve Crestani	12	13	–	–	4	4	–	–	3	3	4	4
Ian Ferres	12	13	6	8	–	–	8	9	–	–	–	–
Warren French	13	13	–	–	3	3	–	–	–	–	–	–
Leonard Hickey	13	13	–	–	–	–	9	9	–	–	–	–
Stephen Maitland	12	13	4	4	–	–	–	–	–	–	–	–
Bruce Siney	10	13	–	–	–	–	–	–	3	3	–	–
Warren Stretton	13	13	4	4	–	–	6	6	–	–	–	–

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year.

Leave of absence had been granted in all cases where the directors were unable to attend meetings.

Alan Castleman is Chairman of the Company and of the Human Resources, Remuneration and Nominations Committee; Murray Campbell is Chairman of the Audit and Compliance Committee; Eve Crestani is Chairman of the Risk Committee; Ian Ferres is Chairman of the Investment Committee; and Bruce Siney is Chairman of the Marketing Committee.

Certain directors are also directors of the following subsidiaries as at the date of this report:

Australian Unity Finance Limited	Ian Ferres (Chairman); Leonard Hickey; and Rohan Mead
Australian Unity Funds Management Limited	Leonard Hickey (Chairman); Alan Castleman; Ian Ferres; Stephen Maitland; Rohan Mead; Bruce Siney and Warren Stretton
Australian Unity General Insurance Limited	Eve Crestani (Chairman); Alan Castleman; Ian Ferres; Leonard Hickey; Stephen Maitland; Rohan Mead and Warren Stretton
Mansions of Australia Limited	Eve Crestani (Chairman); Alan Castleman; Ian Ferres; Leonard Hickey; Stephen Maitland; Rohan Mead and Warren Stretton
Australian Unity Investment Bonds Limited	Leonard Hickey (Chairman); Alan Castleman; Ian Ferres; Stephen Maitland; Rohan Mead; Bruce Siney and Warren Stretton
Australian Unity Property Limited	Alan Castleman (Chairman); Ian Ferres; Leonard Hickey; Stephen Maitland; Rohan Mead; Bruce Siney and Warren Stretton

Rohan Mead is also a director of a number of other entities within the consolidated entity.

Directors' interests and benefits
Since the end of the previous financial year and to the date of signing this report, no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors or related party transactions shown in the Group's financial report) by reason of a contract made by the company with the director or with a firm of which the director is a member, or with a company in which the director has a substantial interest except as disclosed in the details of related party transactions in note 36.

The Company keeps a directors' register which is open for inspection by any member of the Company without fee and any other person on payment of the amount prescribed by the Company's rules. Full details of related party transactions are disclosed in note 36.

Insurance and indemnification of directors and officers
During the financial year the consolidated entity paid a premium for a contract insuring the directors, company secretaries and executive officers of the consolidated entity to the extent permitted by the Corporations Act 2001. In accordance with common commercial practice the insurance policy prohibits disclosure of the nature of the liabilities covered and the amount of the premium.

In accordance with the Constitution of the Company and under a separate deed, the directors and officers are indemnified to the extent permitted by law against any liability incurred by them in connection with the proper discharge of their duties, other than for conduct involving a lack of good faith.

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 38.

Rounding of amounts
The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of directors.

Alan Castleman
Chairman
South Melbourne
30 August 2006

Rohan Mead
Group Managing Director
South Melbourne
30 August 2006

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Auditor's Independence Declaration to the Directors of Australian Unity Limited

In relation to our audit of the financial report of Australian Unity Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

A J (Tony) Johnson
Partner
Melbourne
30 August 2006

Income statements
For the year ended 30 June 2006

	Notes	**Consolidated 2006 $'000**	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Revenue from continuing operations	4,46	**614,360**	444,724	**43,072**	16,553
Expenses, excluding finance costs	5,46	**(573,990)**	(419,919)	**(21,944)**	(14,523)
Finance costs	5,46	**(6,130)**	(3,781)	**(1,223)**	(408)
Share of net profits of associates accounted for using the equity method	39,46	**784**	656	**–**	–
Profit from continuing operations before income tax		**35,024**	21,680	**19,905**	1,622
Income tax (expense)/benefit	6,46	**(11,206)**	(4,732)	**5,562**	5,604
Profit from continuing operations after income tax		**23,818**	16,948	**25,467**	7,226
Profit/(loss) after tax from discontinued operations	7	**–**	(1,530)	**–**	–
Profit attributable to members of Australian Unity Limited	46	**23,818**	15,418	**25,467**	7,226

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

Balance sheets
As at 30 June 2006

	Notes	**Consolidated 2006 $'000**	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
ASSETS					
Current assets					
Cash and cash equivalents	8	**210,357**	123,443	**20,485**	15,429
Trade and other receivables	9	**123,145**	107,720	**17,257**	14,282
Inventories	10	**541**	231	**–**	–
Other financial assets at fair value through profit or loss	11	**585,643**	135,630	**3,293**	3,646
Other current assets	13	**–**	6,425	**–**	4,212
Total current assets		**919,686**	373,449	**41,035**	37,569
Non-current assets					
Receivables	14	**29,687**	9,555	**–**	–
Investments accounted for using the equity method	15	**1,505**	1,479	**–**	–
Other financial assets	16	**444**	230	**192,388**	150,291
Property, plant and equipment	17	**61,645**	67,738	**422**	345
Investment properties	18	**213,697**	160,767	**–**	–
Deferred tax assets	19	**15,782**	8,600	**1,145**	918
Intangible assets	20	**24,062**	21,765	**–**	–
Derivative financial instruments	12	**3,227**	–	**–**	–
Other non-current assets	21	**526**	682	**334**	358
Total non-current assets		**350,575**	270,816	**194,289**	151,912
Total assets		**1,270,261**	644,265	**235,324**	189,481
LIABILITIES					
Current liabilities					
Trade and other payables	22	**47,358**	35,457	**4,852**	11,298
Interest bearing liabilities	23	**735**	537	**17,380**	844
Provisions	24	**61,910**	53,186	**1,493**	–
Current tax liabilities	25	**18,364**	12,849	**18,236**	12,321
Other current liabilities	26	**268,068**	225,664	**–**	13
Benefit fund policy liabilities	44	**45,949**	–	**–**	–
Total current liabilities		**442,384**	327,693	**41,961**	24,476
Non-current liabilities					
Interest bearing liabilities	27	**80,715**	67,435	**–**	–
Deferred tax liabilities	28	**11,434**	10,134	**3,028**	137
Provisions	29	**21,837**	21,723	**–**	–
Derivative financial instruments	12	**2,741**	–	**–**	–
Other non-current liabilities	30	**5,225**	3,902	**–**	–
Benefit fund policy liabilities	44	**468,389**	–	**–**	–
Total non-current liabilities		**590,341**	103,194	**3,028**	137
Total liabilities		**1,032,725**	430,887	**44,989**	24,613
Net assets		**237,536**	213,378	**190,335**	164,868
Members' funds					
Members' balances	31	**169,048**	169,048	**168,755**	168,755
Reserves	32(a)	**2,802**	2,462	**–**	–
Retained profits	32(b)	**65,686**	41,868	**21,580**	(3,887)
Total equity		**237,536**	213,378	**190,335**	164,868

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity
For the year ended 30 June 2006

	Notes	**Consolidated 2006 $'000**	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Total equity at the beginning of the financial year		**213,378**	155,652	**164,868**	115,690
Gain on revaluation of land and buildings	32	**–**	507	**–**	–
Tax effect of gain on revaluation of land and buildings	32	**–**	(151)	**–**	–
Hedging reserve – cash flow hedges	32	**486**	–	**–**	–
Tax effect of cash flow hedge reserve	32	**(146)**	–	**–**	–
Transfer from capital reserve	32	**–**	591	**–**	–
Net income recognised directly in equity		**340**	947	**–**	–
Profit for the year		**23,818**	15,418	**25,467**	7,226
Total recognised income and expense for the year		**24,158**	16,365	**25,467**	7,226
Transactions with equity holders in their capacity as equity holders: Transfer in on merger with Grand United Limited	31	**–**	41,952	**–**	41,952
Transfer (from)/to retained profits	32	**–**	(591)	**–**	–
		–	41,361	**–**	41,952
Total equity at the end of the financial year		**237,536**	213,378	**190,335**	164,868
Total recognised income and expense for the year is attributable to: Members of Australian Unity Limited		**24,158**	16,365	**25,467**	7,226

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements
For the year ended 30 June 2006

	Notes	**Consolidated 2006 $'000**	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Cash flows from operating activities					
Receipts from customers		**559,393**	510,549	**–**	–
Payments to suppliers and employees		**(203,473)**	(190,384)	**(1,249)**	(5,575)
		355,920	320,165	**(1,249)**	(5,575)
Premiums received – Life insurance		**561**	–	**–**	–
Policy claims – Life insurance		**(1,344)**	–	**–**	–
Life investment contract – contribution receipts		**23,496**	–	**–**	–
Life investment contract – withdrawals		**(40,319)**	–	**–**	–
Dividends received		**10,567**	921	**40,990**	28,413
Interest received		**12,609**	9,757	**1,060**	839
Claims and benefits paid		**(340,527)**	(301,136)	**–**	–
Borrowing costs		**(5,927)**	(818)	**(1,235)**	(393)
Other revenue		**20,446**	13,264	**20**	210
Income taxes received/(paid)		**(9,975)**	(2,718)	**6,996**	(2,624)
Net cash inflow/(outflow) from operating activities	41	**25,507**	39,435	**46,582**	20,870
Cash flows from investing activities					
Payment for purchase of subsidiaries, net of cash acquired	37	**–**	(3,632)	**(42,815)**	(29,300)
Payments for property, plant and equipment		**(41,596)**	(44,801)	**(77)**	–
Payments for investments		**(533,648)**	(82,903)	**(2,000)**	–
Payments for franchise buyback		**(2,706)**	(1,656)	**–**	–
Proceeds from sale of business	7	**–**	17,979	**–**	–
Proceeds from sale of property, plant and equipment		**28**	250	**5**	–
Proceeds from sale of investments		**548,434**	90,597	**2,196**	14,008
Net cash inflow/(outflow) inflow from investing activities		**(29,488)**	(24,166)	**(42,691)**	(15,292)
Cash flows from financing activities					
Net increase/(decrease) in borrowings		**19,337**	11,050	**1,165**	8,426
Net increase/(decrease) in refundable lease deposits		**29,580**	11,236	**–**	–
Net cash inflow/(outflow) from financing activities		**48,917**	22,286	**1,165**	8,426
Net increase/(decrease) in cash and cash equivalents		**44,936**	37,555	**5,056**	14,004
Cash and cash equivalents at the beginning of the financial year		**123,443**	85,888	**15,429**	1,425
Opening cash adjustment due to first time reporting of benefit funds		**41,978**	–	**–**	–
Cash and cash equivalents at end of year	8	**210,357**	123,443	**20,485**	15,429

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

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Australian Unity Limited as an individual entity and the consolidated entity consisting of Australian Unity Limited and its subsidiaries.

(a) Basis of preparation
This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other Australian Accounting Standards and the *Corporations Act 2001*.

Statement of Compliance
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Australian Unity Limited comply with International Financial Reporting Standards (IFRSs).

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.
These financial statements are the first Australian Unity Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Australian Unity Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS.

When preparing Australian Unity Limited 2006 financial statements, the Company has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement, and AASB 1038 Life Insurance Contracts from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are set out in note 42.

Where appropriate, comparatives prepared under AGAAP for the purpose of reconciliation to AIFRS have been reclassified to enhance comparability with current year disclosures.

The financial statements at 30 June 2005 under AGAAP did not include benefit funds. Due to the requirements of AASB 1038: Life Insurance Contracts, the financial statements of the Group are now required to include any benefit funds that are managed by the Group. Accordingly these are now included in the consolidated entity for the year ended 30 June 2006.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

1. Summary of significant accounting policies (continued)

Australian Accounting Standards issued but not yet effective.

The AASB has issued the following amendments to Australian Accounting Standards:

AASB	Title	Operative Date
2005-1	Amendments to Australian Accounting Standard [AASB 139]	1 January 2006
2005-4	Amendments to Australian Accounting Standard [AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038]	1 January 2006
2005-5	Amendments to Australian Accounting Standard [AASB 1 and AASB 139]	1 January 2006
2005-6	Amendments to Australian Accounting Standard [AASB 3]	1 January 2006
2005-7	Amendments to Australian Accounting Standard [AASB 134]	30 June 2006
2005-9	Amendments to Australian Accounting Standard [AASB 4, AASB 1023, AASB 139 and AASB 132]	1 January 2006
2005-10	Amendments to Australian Accounting Standard [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]	1 January 2007
2005-12	Amendments to Australian Accounting Standard [AASB 1023 and AASB 1038]	31 December 2005
AASB 7	Financial instruments: Disclosures	1 January 2007
2006-1	Amendments to Australian Accounting Standard [AASB 121]	31 December 2006

These amendments are not yet effective for the annual reporting period ending 30 June 2006 and have not been applied in preparing the company's financial statements. The company will apply these standards for the annual reporting periods beginning on or after the operative dates set out above. These standards are not expected to require any changes to accounting policies.

The amendment in relation to AASB 2005-13: AASB 25: Financial Reporting by Superannuation Plans, is not applicable to the Group and therefore has no impact.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Unity Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Australian Unity Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(d)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 39).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Life insurance benefit funds

The Group's life insurance operations are conducted within separate benefit funds as required by the Life Insurance Act 1995. The assets, liabilities, revenue and expenses of the benefit funds are included within the consolidated financial statements. Revenue and expense transactions between the benefit funds and other entities within the consolidated entity are not eliminated. Balances outstanding between benefit funds and other entities within the consolidated entity are eliminated.

(c) Interests in wholly-owned subsidiaries

The parent entity has valued its investment in wholly-owned subsidiaries at cost.

(d) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note i(i)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

1. Summary of significant accounting policies (continued)

(e) Cash and cash equivalents
Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the cash flow statement, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(f) Derivatives
From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives are accounted for under previous AGAAP.

Interest rate swaps
Derivative financial instruments, including futures and options, may be entered into to hedge existing investments. Profits and losses derived from these instruments are recognised in the income statement on a mark to market basis.

Derivative financial instruments were not previously recognised in the balance sheet.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

For further information concerning the adjustments on transition date reference should be made to:

- Derivative financial instruments – note 12
- Explanation of transition to AIFRSs – note 42: section 5 of this note discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 12. Movements in the hedging reserve in members' equity are shown in note 32.

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk.

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(g) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

The consolidated entity contributes to the Australian Unity Staff Superannuation Plan (a sub-plan of the Australian Unity Freedom of Choice Employer Sponsored Superannuation Plan), the Hesta Superannuation Fund and other complying superannuation funds. The Australian Unity Staff Superannuation Plan is open to new members and is an accumulation fund, where the employer contributions are fully vested in the member. The Hesta Superannuation Fund is an industry based fund for employees working in the retirement village complexes and aged care facilities. The consolidated entity is required to contribute to the above mentioned plans in accordance with the superannuation guarantee legislation.

(h) Financial instrument transaction costs

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts recorded at cost and disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group was immaterial.

(i) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is so allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes and is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment Reporting, refer to note 3.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed and of the portion of the cash generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Product distribution channel

Product distribution channel expenditure incurred on an individual site is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the product distribution channel costs, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Product distribution channel costs are tested for impairment, if events or changes in circumstances indicate that the asset might be impaired.

Any product distribution channel cost carried forward is amortised over the period of expected benefit following the product distribution channel expenditure.

1. Summary of significant accounting policies (continued)

(iii) Other intangibles
Other intangibles are initially recognised at cost and amortised over the period of expected benefit, less any adjustments for impairment losses.

Other intangibles with a finite life are tested for impairment if events or changes in circumstances indicate that the asset might be impaired.

Other intangibles with an indefinite life are not amortised. Instead, they are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

(j) Borrowings
The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest bearing-loans and borrowings applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Accounting policies applicable for the year ending 30 June 2005
All loans were measured at the principal amount. Interest was recognised as an expense as it accrued.

(k) Borrowing costs
Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

Costs associated with the arrangement of borrowings are recognised in the balance sheet and amortised over the period of the borrowing up to a maximum of five years.

(l) Investments and other financial assets
From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

For ease of comparison the comparative data has been classified consistently with the balances as at 30 June 2006. However, they measured according to AGAAP as AASB 132 and AASB 139 were not applicable until 1 July 2005.

Interests in listed (on a prescribed stock exchange) and unlisted securities held as current assets for trading purposes, were brought to account at net market value which is market value less estimated disposal costs. Changes in net market value were recognised directly in the income statement. Interests in securities which were not held for trading purposes were recorded as non current assets at directors' valuation, subject to annual review.

Investments in associates are carried at the equity accounted amount in the consolidated financial report.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held to maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

From 1 July 2005
The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 9 and 14).

(iii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date; which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs where they are not recognised as fair value through profit or loss financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and there has been a transfer of substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available for sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If market prices are not available (eg. for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(m) Fair value estimation
The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial assets held by the Group is the current bid price; the fair value of financial liabilities held by the Group is the current ask price.

If market prices are not available, the Group establishes fair value by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(n) Impairment of assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

1. Summary of significant accounting policies (continued)

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(o) Leases
Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases
The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Finance leases
Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the present value of the minimum lease payments and included in property, plant and equipment. A lease liability of equal value is also recognised.

(p) Trade and other payables
The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ending 30 June 2005
Trade payables and other payables are carried at costs 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 consolidated entity.

(q) Property, plant and equipment
Cost and valuation
Freehold land and buildings on freehold land are measured on a fair value basis. At each reporting date, the value of each asset in these classes is reviewed to ensure that it does not materially differ from the asset's fair value at that date. Where necessary, the asset is revalued to reflect its fair value.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to the asset revaluation reserve in members' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserve directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement.

All other classes of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation
Depreciation is calculated on a straight-line basis to write-off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

Category	**Useful life**
Buildings	40 years
Plant and equipment	5 – 15 years
Leasehold improvements	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(n)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

Non property assets under construction are recorded at cost within plant and equipment. These assets are transferred to an appropriate asset category on completion and depreciation commences only when the asset comes into operational service.

(r) Investment property
Initially, investment properties are measured at cost including transaction costs.

Subsequent to initial recognition investment properties are stated at fair value.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement 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 income statement in the year of derecognition.

Retirement village investment property disclosed relates to villa unit interests and aged care facilities where the aged care facilities are managed by operators which are not part of the consolidated entity. These investments are valued at fair value, being the present value of future cashflows expected to be received. The valuation is based on the statistical modelling of ingoing and outgoing residents and includes a discounted cashflow analysis using the current 90 day bank bill rate plus management's required rate of return.

The fair value of retirement village investment property which is still under development is considered to be equal to cost.

(s) Provisions
Provisions are recognised when the Group has a legal, equitable or constructive obligation to make future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the subsequent increase in the provision due solely to the passage of time is recognised as a borrowing cost.

(t) Trade receivables
The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Accounting policies applicable for the year ending 30 June 2005
Trade receivables were recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

(u) Refundable lease deposits
Retirement village residents, upon entering certain accommodation types, provide a deposit from which fees are deducted in respect of the provision of certain services and facilities. The actual amount refundable upon departure from the retirement village is determined by the terms of the existing tenancy contracts. As these amounts are payable on demand, they are treated as a current liability and are stated at face value.

(v) Revenue recognition
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. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Interest
The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Interest revenue is recognised using the effective interest method when the entity has control of the right to receive the interest payment.

Accounting policies applicable for the year ending 30 June 2005
Interest revenue is recognised when the Group's right to receive the payment is established.

(iii) Dividends
Dividend revenue is recognised when the Group's right to receive the dividend is established.

(iv) Rental income
Rental income from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

Rental income from the lease of aged care facilities to aged care facility operators is recognised on a straight-line basis over the lease term.

1. Summary of significant accounting policies (continued)

(v) General insurance premium revenue
Premium revenue comprises premiums from direct business.

Premium revenue includes amounts charged to the policyholders or other insurers, including fire service levies but excluding stamp duties, GST and other amounts collected on behalf of third parties. Premium revenue, including that on unclosed business, is recognised in the income statement when it has been earned. Premium revenue is recognised in the income statement from the attachment date over the period of the contract. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

The proportion of premium received or receivable not earned in the income statement at the reporting date is recognised in the balance sheet as an unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

(vi) Life insurance premium revenue and fees
For life insurance contract liabilities and participating investment contract liabilities, premiums are recognised when the liabilities arising from them are created.

For life investment contract liabilities, amounts collected as premiums are reported as deposits to investment contract liabilities in the balance sheet (rather than being included in the income statement).

(vii) Share of profits of construction contracts – retirement village development
Share of development profits is recognised based upon cumulative development sales revenue as a proportion of total expected development sales revenue.

(viii) Deferred management fees
Deferred management fee income relating to managed retirement village assets is recognised on the turnover from one resident to another of independent living units in the retirement village and is linked to the resale value of a resident's unit and the resident's length of occupancy of the unit.

Deferred management fee income relating to owned retirement village assets is recognised on an accruals basis and is linked to the resale value of a resident's unit and the resident's length of occupancy of the unit. Deferred management fee income is accrued only when it can be reliably measured.

(ix) Retirement village and aged care facility management fees
Fees for the management of retirement villages and aged care facilities are recognised as management services are provided.

Other management fee revenue is recognised when the Group's right to receive the management fee is established.

(x) Fair value increments
Fair value gains on investment properties are recognised when they arise.

(xi) Aged care income
Income and government subsidies for the provision of aged care facilities and related services is recognised as the services are provided.

(xii) Resident levies
Income from the provision of services to retirement village residents is recognised as the services are provided.

(xiii) Property and funds management and administration fee income
Based upon contractual obligation as Responsible Entity/Trustee to perform certain tasks.

(xiv) Other revenue
Commissions from reinsurance are recognised when the Group's right to receive the commission is established.

(w) Outwards reinsurance
Amounts paid to reinsurers under insurance contracts held by the Company are recorded as an outwards reinsurance expense and are recognised in the income statement from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

Premium ceded to reinsurers is recognised as outwards reinsurance expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

(x) Outstanding claims liability
The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(y) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(z) Policy liabilities

Classification

The Group's life insurance liabilities are held within separate benefit funds as required by the Life Insurance Act 1995. The activities of the benefit funds are aggregated within the consolidated financial statements but are governed separately. Life insurance liabilities are classified for accounting purposes as either life insurance contract liabilities, participating life investment contract liabilities or non-participating life investment contract liabilities in accordance with AASB 1038 'Life insurance Contracts'.

Life insurance contracts are contracts, which transfer significant insurance risk at the inception of the contract. Insurance risk is considered to be significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance.

Life Investment contracts are contracts regulated under the Life Insurance Act 1995 but that do not transfer significant insurance risk. Life investment contracts are further categorised into participating and non-participating contracts. Participating life investment contracts are contracts that contain a discretionary participation feature (DPF). A DPF is a contractual right to receive as a supplement to guaranteed benefits, additional benefits: (i) that are likely to be a significant portion of the total benefits; (ii) whose amount or timing is contractually at the discretion of the issuer, and (iii) that are based on the performance of a specified pool of assets.

Participating life investment contract liabilities are classified and accounted for in the same manner as life insurance contract liabilities, that is under the requirements of AASB 1038 'Life insurance Contracts' and are referred to in these accounts as life insurance contract liabilities. Non-participating life investment contract liabilities are classified and accounted for under the requirements of AASB 139 'Financial instruments' and are referred to in these accounts as life investment contract liabilities.

Life investment contract liabilities include investment-linked contracts in which the company issues a contract where the benefit amount is directly linked to the market value of the investments held by the fund. While the underlying assets are registered in the name of the fund and the investment-linked policyowner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policyowner bears the risks and rewards of the fund's investment performance. The company derives fee income form the administration of the investment-linked contracts.

Non investment-linked business is business in which the company issues a policy contract where the insured benefit is not directly linked to the market value of the investments held. These benefits are payable on death, or on the occurrence of an insured event.

Valuation

The fair value of life insurance contract liabilities are determined using a projection method. This involves estimates of policy cash flows projected into the future. The policy liability is calculated as the net present value of these projected cash flows (premiums, benefits, expenses and profit margins to be released in future periods) using best estimate assumptions about the future. A minority of life insurance contract liabilities are determined using a Margin on Services methodology.

The participating investment contract liabilities, which are classified as life insurance contracts, are valued under an accumulation method whereby policyholder liabilities are equal to the value of the assets backing the liabilities. The liability reported under this approach is equal to the account balance pre bonus plus the current bonus plus the difference between the value of the assets and the preceding items.

The unit-linked funds are classified as life investment contract liabilities and measured at fair value. The contracts consist of a financial instrument and an investment management services element both of which are measured at fair value. The liability to policyholders is linked to the performance and value of the assets that back the liabilities. The liabilities are therefore the same as the fair value of the assets.

Further details of the actuarial assumptions used in the calculation of policy liabilities are set out in Note 44.

Claims expense

For life insurance contract liabilities and participating investment contract liabilities, claims are recognised when the liability to the policyholder under the contract has been established (i.e. on notification of death, at time of admittance, or when payment is due).

For life investment contract liabilities there are no claims expenses. Surrenders and withdrawals are not included in the income statement but are instead deducted from investment contract liabilities.

1. Summary of significant accounting policies (continued)

(aa) Taxation

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The income tax expense recognised in the income statement reflects tax imposed on both members of the companies within the Group and policyholders in relation to benefit funds included within the Group at the end of the financial year.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Tax consolidation legislation

The company and its wholly owned Australian controlled entities have formed a tax consolidation group, as allowed under the tax consolidation legislation, as of 1 July 2002.

The company, as head entity, and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own deferred tax amounts, the company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the controlled entities in the tax consolidation group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 7.

(ab) Unexpired risk liability

At each reporting date the company assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability.

The entire deficiency, net of reinsurance, is recognised immediately in the income statement. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

(ac) Deferred acquisition costs
Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

(ad) Health benefits reinsurance trust fund
Under the provisions of the National Health Act 1953, all health insurers must participate in the Health Benefits Reinsurance Trust Fund (HBRTF), which charges a levy to all health insurers and shares a proportion of the hospital claims of all persons aged 65 years and over and those memberships with more than 35 days of hospitalisation in any one year to all health insurers.

The amounts receivable from the HBRTF are determined by the Private Health Insurance Administration Council after each quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

(ae) Fire brigade and other charges
A liability, in relation to insurance, for fire brigade and other charges is recognised on business written to the balance date. Levies and charges collected by the Group are recorded as revenue in profit and loss. Levies and charges payable by the company are expensed in profit and loss.

(af) Rounding of amounts
The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

2. Critical accounting estimates and judgements

Estimates and judgements are continually re-evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill and intangibles with indefinite useful lives
The Group tests annually whether goodwill or other intangibles have suffered any impairment, this requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated in accordance with the accounting policy stated in note 1(n). The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require-the-use of assumptions. Refer to note 20 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Income taxes
The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(iii) Insurance
The estimates, uncertainties and judgements arising as a result of the Group's general, health and life insurance operations are detailed in notes 43 and 44.

(iv) Leases
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

3. Segment information

2006
Revenue
External revenue
Inter-segment revenue
Total segment revenue
Share of profits of associates accounted for using the equity method
Segment result before income tax
Income tax (expense)/benefit
Segment result after income tax
Segment assets
Segment liabilities
Acquisitions of property, plant and equipment, intangibles and other non-current assets
Depreciation and amortisation expense
2005
Revenue
External revenue
Inter-segment revenue
Total segment revenue
Share of profits of associates accounted for using the equity method
Segment result before income tax
Income tax (expense)/benefit
Segment result after income tax
Segment assets
Segment liabilities
Acquisitions of property, plant and equipment, intangibles and other non-current assets
Depreciation and amortisation expense

Business segments comprise the following:	
Corporate Functions	Provision of retail network management, shared services, fraternal activities and management of properties, other strategic investments and group liquidity.
Investments	Management of property trusts, investment unit trusts, superannuation funds, benefit funds and mortgage administration.
General Insurance	General Insurance (underwriting and agency), principally home and contents, commercial and public liability insurance.
Healthcare	Provision of private health insurance, dental and other healthcare services.
Retail Operations	Provision of financial planning and financial broking services.
Retirement Living	Provision of aged care facilities and support services for independent living units.
Benefit Funds	Provision of life insurance and investment bonds.

Corporate functions $'000	Investments $'000	General Insurance $'000	Healthcare $'000	Retail Operations $'000	Retirement Living $'000	Benefit Funds[1] $'000	Inter-Segment $'000	**Consolidated $'000**
3,584	36,027	59,701	429,157	1,534	33,063	51,294	–	**614,360**
76,699	9,775	26	4,382	–	6,281	–	(97,163)	**–**
80,283	45,802	59,727	433,539	1,534	39,344	51,294	(97,163)	**614,360**
–	784	–	–	–	–	–	–	**784**
24,636	5,234	4,289	50,375	(1,822)	2,756	6,828	(57,272)	**35,024**
8,338	(325)	(1,249)	(13,395)	545	984	(6,828)	724	**(11,206)**
32,974	4,909	3,040	36,980	(1,277)	3,740	–	(56,548)	**23,818**
394,671	77,666	133,451	236,744	1,421	244,316	514,584	(332,592)	**1,270,261**
121,277	41,565	105,247	152,950	653	205,736	514,584	(109,287)	**1,032,725**
21,538	–	648	399	–	34,173	–	–	**56,758**
4,320	315	365	1,050	22	777	–	–	**6,849**
3,777	34,027	62,338	324,834	1,856	17,892	–	–	**444,724**
37,240	3,560	54	2,191	–	(294)	–	(42,751)	**–**
41,017	37,587	62,392	327,025	1,856	17,598	–	(42,751)	**444,724**
–	656	–	–	–	–	–	–	**656**
(3,490)	5,464	2,591	29,738	(1,019)	2,686	–	(14,290)	**21,680**
6,391	(2,475)	321	(8,949)	305	(325)	–	–	**(4,732)**
2,901	2,989	2,912	20,789	(714)	2,361	–	(14,290)	**16,948**
313,996	40,856	124,084	212,432	884	207,090	–	(255,077)	**644,265**
84,962	13,915	98,459	132,173	340	182,451	–	(81,413)	**430,887**
6,514	425	380	710	–	14,002	–	–	**22,031**
3,885	567	637	1,402	33	429	–	–	**6,953**

All of the above segments operate solely in Australia.

[1] As a result of the adoption of Australian equivalents to International Financial Reporting Standards, in accordance with AASB 1038, Life insurance Contracts, the assets, liabilities, revenues and expenses of the Benefit Funds managed by the consolidated entity are included in the consolidated financial statements. The directors have elected to apply the option available under AASB 1 to adopt AASB 1038 from 1 July 2005. Consequently, the assets, liabilities, revenues and expenses of the Benefit Funds are not included in the consolidated financial statements for the year ended 30 June 2005.

4. Revenue from continuing operations

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Contributions and premiums	**443,874**	353,475	**–**	–
Commission received	**14,271**	15,206	**–**	–
Management fees	**36,814**	33,581	**142**	–
Retirement village fees and subsidies	**25,331**	15,073	**–**	–
Dental sales	**6,142**	4,915	**–**	–
Property	**2,329**	812	**6**	12
Interest income received from wholly-owned entities	**–**	–	**980**	472
Dividends and distributions	**10,299**	6,409	**41,325**	15,121
Other revenue	**8,183**	4,143	**–**	213
Other investment revenue	**15,823**	11,110	**619**	735
Revenue from benefit funds (note 44)	**51,294**	–	**–**	–
	614,360	444,724	**43,072**	16,553

5. Expenses

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Expenses, excluding finance costs, included in the income statement classified by nature				
Employee benefits expense	**(87,345)**	(58,594)	**(4,027)**	(1,354)
Depreciation and amortisation expense	**(6,849)**	(6,953)	**(4)**	–
Provision for impairment	**(1,139)**	–	–	–
Fund manager fees	**(5,153)**	(3,803)	**(8)**	(1)
Commission	**(25,915)**	(26,760)	**(5)**	(5)
Claims expense	**(372,090)**	(312,066)	–	–
Advertising costs	**(12,925)**	(8,619)	**(1,968)**	(1)
Occupancy costs	**(6,926)**	(6,282)	**(344)**	(252)
Communication costs	**(5,767)**	(4,427)	**(535)**	(15)
Net loss on disposal of assets	**(423)**	(1,758)	**(162)**	–
Shared service costs	–	–	**(12,089)**	(11,390)
Bank charges	**(2,493)**	(1,973)	–	(4)
Computer and equipment costs	**(7,091)**	(5,680)	**(271)**	(43)
Legal and professional fees	**(10,978)**	(6,899)	**(1,957)**	(1,436)
Reinsurance recoveries	**28,833**	34,598	–	–
Financial and insurance costs	**(1,816)**	(1,602)	–	–
Other direct expenses	**(5,637)**	(4,108)	–	–
Other expenses	**(5,928)**	(4,993)	**(574)**	(22)
Expenses in relation to benefits funds (note 44)	**(44,348)**	–	–	–
	(573,990)	(419,919)	**(21,944)**	(14,523)
Net gains and expenses Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	**955**	764	–	–
Plant and equipment	**2,411**	1,761	–	–
Leasehold improvements	**1,135**	1,144	–	–
Total depreciation	**4,501**	3,669	–	–
Amortisation				
Intangibles	**559**	300	–	–
Software	**1,789**	2,984	**4**	–
Total amortisation	**2,348**	3,284	**4**	–
Finance costs				
Interest and finance charges paid/payable	**6,130**	3,781	**1,223**	408

6. Income tax expense/(benefit)

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
(a) Income tax expense/(benefit)				
Current tax	**10,322**	5,144	**(5,976)**	(3,638)
Current tax – benefit funds	**9,201**	–	**–**	–
Deferred tax	**(2,298)**	940	**2,370**	(648)
Deferred tax – benefit funds	**(2,562)**	–	**–**	–
Under/(over) provision in prior years	**(3,300)**	(1,352)	**(1,956)**	(1,318)
Under/(over) provision in prior years – benefit funds	**(157)**	–	**–**	–
	11,206	4,732	**(5,562)**	(5,604)
Income tax expense/(benefit) is attributable to:				
Profit/(loss) from continuing operations	**11,206**	4,732	**(5,562)**	(5,604)
Profit/(loss) from discontinued operations	**–**	–	**–**	–
Deferred income tax (benefit)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 19)	**(4,902)**	(2,516)	**(427)**	(785)
(Decrease)/increase in deferred tax liabilities (note 28)	**42**	3,456	**2,797**	137
	(4,860)	940	**2,370**	(648)
(b) Reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**35,024**	21,680	**19,905**	1,622
Less: profit in benefit funds	**(6,828)**	–	**–**	–
	28,196	21,680	**19,905**	1,622
Tax at 30% (2005 – 30%)	**8,459**	6,504	**5,971**	487
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-assessable dividends	**(4,715)**	(5,188)	**(12,255)**	(4,440)
Unrealised gain on investments	**3,425**	(919)	**2,668**	–
Net exempt and other differences	**3,888**	4,922	**10**	(333)
Other deductible expenditure	**(668)**	(117)	**–**	–
	10,389	5,202	**(3,606)**	(4,286)
Other deferred tax adjustment	**(2,711)**	883	**–**	–
Tax in benefit funds	**6,828**	–	**–**	–
Research and development expenditure allowance	**(833)**	(1,275)	**–**	–
Under/(over) provision in prior years	**(2,467)**	(78)	**(1,956)**	(1,318)
	817	(470)	**(1,956)**	(1,318)
Total income tax expense/(benefit)	**11,206**	4,732	**(5,562)**	(5,604)
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax – debited/(credited) directly to equity (notes 19 and 28)	**146**	151	**–**	–
	146	151	**–**	–

(d) Tax consolidation legislation
The company and its wholly-owned Australian controlled entities have formed a tax consolidation group, as allowed under the tax consolidation legislation, as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(aa).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Australian Unity Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Australian Unity Limited for any current tax payable assumed and are compensated by Australian Unity Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Australian Unity Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments. The funding amounts are recognised as current intercompany receivables or payables.

7. Discontinued operations

(a) Discontinued operations
There were no discontinued operations during the year ended 30 June 2006.

On 29 June 2004, the Board announced its intention to sell the Group's pharmacy operations. The divestment process was completed on 7 December 2004 with settlement of the sale of the final pharmacy outlet.

(b) Financial performance and cash flow information
Details of the divestment of the pharmacy operations are as follows:

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Revenue	–	11,373	–	–
Expenses	–	(13,753)	–	–
Profit/(loss) before income tax	–	(2,380)	–	–
Income tax expense	–	535	–	–
Profit/(loss) after income tax of discontinued operations	–	(1,845)	–	–
Gain on sale of the division before income tax	–	450	–	–
Income tax expense	–	(135)	–	–
Gain on sale of the division after income tax	–	315	–	–
Profit/(loss) from discontinued operations	–	(1,530)	–	–
Net cash inflow/(outflow) from operating activities	–	(1,181)	–	–
Net cash inflow/(outflow) from investing activities	–	17,857	–	–
Net cash inflow/(outflow) from financing activities	–	(16,796)	–	–
Net increase/(decrease) in cash generated by the division	–	(120)	–	–

7. Discontinued operations (continued)

(c) Carrying amounts of assets and liabilities
The carrying amounts of assets and liabilities as at 30 June are:

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Assets	–	395	–	–
Total assets	–	395	–	–
Liabilities	–	(219)	–	–
Total liabilities	–	(219)	–	–
Net assets	–	176	–	–

(d) Details of the sale of the division

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Consideration received or receivable:				
Cash	–	17,988	–	–
Less cash disposed of	–	(9)	–	–
Total disposal consideration	–	17,979	–	–
Carrying amount of net assets sold	–	(17,529)	–	–
Gain on sale before income tax	–	450	–	–
Income tax expense	–	(135)	–	–
Gain on sale after income tax	–	315	–	–

8. Current assets – Cash and cash equivalents

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Cash at bank and on hand	**195**	212	**2**	189
Bank balances	**16,254**	12,807	**898**	1,087
Deposits at call	**193,908**	110,424	**19,585**	14,153
	210,357	123,443	**20,485**	15,429

(a) Reconciliation to cash at the end of the year
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Balances as above	**210,357**	123,443	**20,485**	15,429
Balances per statement of cash flows	**210,357**	123,443	**20,485**	15,429

(b) Bank balances and deposits at call
The bank balances and deposits at call bear average floating interest rates of 5.3% (2005: 5.2%).

(c) Fair value
The carrying amount for cash and cash equivalents equals their fair value.

9. Current assets – Trade and other receivables

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Net trade receivables				
Trade receivables	**43,326**	39,793	**–**	–
Provision for doubtful receivables	**(737)**	(234)	**–**	–
	42,589	39,559	**–**	–
Related party receivables				
Loans to controlled entities	**–**	–	**17,050**	13,674
	–	–	**17,050**	13,674
Other receivables				
Other debtors	**24,045**	12,081	**190**	608
Reinsurance recoveries	**16,501**	13,420	**–**	–
Interest receivable	**691**	–	**17**	–
	41,237	25,501	**207**	608
Prepayments				
Prepayments	**4,068**	3,581	**–**	–
Prepaid reinsurance	**15,066**	18,971	**–**	–
Management fees	**3,858**	3,141	**–**	–
Deferred acquisition costs	**16,327**	16,967	**–**	–
	39,319	42,660	**–**	–
	123,145	107,720	**17,257**	14,282

Loans to controlled entities earn interest at an average annual rate of 6.65% (2005: 6.62%) and are repayable on demand.

Trade and other receivables are generally non interest bearing and are on 30 to 90 day settlement terms.

(a) Effective interest rates and credit risk
Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note (note 14).

10. Current assets – Inventories

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Inventories at cost – dental and optical	**434**	207	**–**	–
Other inventories – at cost	**107**	24	**–**	–
	541	231	**–**	–

11. Current assets – Other financial assets at fair value through profit or loss

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
At the beginning of the financial year	**135,630**	99,673	**3,646**	10,480
Adjustment on adoption of AASB 1038	**416,893**	–	**–**	–
Net additions	**33,120**	35,957	**–**	–
Net disposals (sale and redemption)	**–**	–	**(353)**	(6,834)
At the end of the financial year	**585,643**	135,630	**3,293**	3,646
Securities managed by related entities	**542,620**	128,318	**3,293**	3,646
Discount securities	**43,023**	7,312	**–**	–
	585,643	135,630	**3,293**	3,646

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other investment income in the income statement

(a) Transition to AASB 132 and AASB 139
The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards at 1 July 2005, both for the Group and the parent entity:

- Comparative data has been classified consistently with the balances as at 30 June 2006. However, it is measured according to AGAAP as AASB 132 and AASB 139 were not applicable until 1 July 2005.

For further information refer to note 1(a) and section 5 of note 42.

(b) Classification
The carrying amounts of the above financial assets are classified as follows:

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Designated at fair value on initial recognition	**585,643**	135,630	**3,293**	3,646

12. Derivative financial instruments

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Non-current assets				
Interest rate swaps – fair value hedges ((b)(i))	**3,227**	–	**–**	–
Total non-current derivative financial instrument assets	**3,227**	–	**–**	–
Total derivative financial instrument assets	**3,227**	–	**–**	–
Non-current liabilities				
Interest rate swaps – fair value hedges ((b)(i))	**2,741**	–	**–**	–
Total non-current derivative financial instrument liabilities	**2,741**	–	**–**	–
Total derivative financial instrument liabilities	**2,741**	–	**–**	–
Total net derivative financial instruments	**486**	–	**–**	–

(a) Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards of 1 July 2005:

For the Group

A pre tax net adjustment of a $273,000 was recognised representing:

- the reclassification of interest rate cash flow hedges under AASB 139 from being an off-balance sheet item of $273,000 to derivative financial instrument assets and re-measurement to a fair value of $273,000.

For further information refer to note 1(f) and section 5 of note 42.

(b) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies

(i) Interest rate swap contracts – cash flow hedges

As disclosed in note 28, the consolidated entity has entered into interest rate swap contracts whereby the floating interest rate on subordinated capital notes is exchanged for fixed interest obligations. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in other debtors or other creditors.

Under these interest rate swap contracts, the 90 day BBSW interest rate on $14 million of subordinated capital notes issued by a controlled entity will be effectively replaced with a fixed interest rate of 4.99%, covering the period 11 July 2003 until 11 July 2008; similarly, the 90 day BBSW interest rate on the balance of $11 million of the subordinated capital notes will be subject to a fixed interest rate of 5.42%, covering the period 26 September 2003 until 11 July 2008.

12. Derivative financial instruments (continued)

At the end of the financial year, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2006 $'000	*2005 $'000*
Interest rate swap contracts		
2 – 3 years	**25,000**	–
3 – 4 years	**–**	25,000
	25,000	25,000

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The gain or loss from re-measuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit or loss when the hedged interest expense is recognised. Any ineffective portion is recognised in income immediately.

(c) Credit risk exposures
Credit risk arises from the potential failure of counterparties to meet their obligations under the respective interest rate swap contracts at maturity. This arises from amounts receivable from unrealised gains on derivative financial instruments.

At balance date the following amounts are receivable by the consolidated entity in respect of the fair value of interest rate swap contracts:

	2006 $'000	*2005 $'000*
Interest rate swaps	**486**	–
	486	–

The parent entity has no derivative financial instruments outstanding at 30 June 2006 (2005: $nil).

(d) Interest rate risk exposures
Refer to note 27 for the Group's exposure to interest rate risk on interest rate swaps.

As disclosed in note 27, the consolidated entity has entered into interest rate swap contracts whereby the floating interest rate on subordinated capital notes issued by a controlled entity is exchanged for fixed interest obligations. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in other debtors or other creditors.

		Fixed interest maturing in:		
	1 year or less $'000	*Over 2 to 3 years $'000*	*Over 3 to 4 year $'000*	*Total $'000*
Assets				
2006				
Interest rate swaps*	–	25,000	–	25,000
	–	25,000	–	25,000
2005				
Interest rate swaps*	–	–	25,000	25,000
	–	–	25,000	25,000
Liabilities				
2006				
Interest rate swaps*	–	25,000	–	25,000
	–	25,000	–	25,000
2005				
Interest rate swaps*	–	–	25,000	25,000
	–	–	25,000	25,000

* Notional principal amounts.

13. Current assets – Other current assets

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	***Parent 2006 $'000***	*Parent 2005 $'000*
Tax receivable from benefit funds	–	6,425	–	4,212

The Group's life insurance operations are conducted within separate benefit funds as required by the Life Insurance Act 1995. At 30 June 2005, the consolidated financial statements did not include these benefit funds.

On adoption of AIFRS, as a requirement of AASB 1038: Life Insurance Contracts, the assets, liabilities, revenue and expenses of the benefit funds are aggregated within the consolidated financial statements. As a result, tax receivable from or payable to benefit funds is now eliminated on aggregation.

14. Non-current assets – Receivables

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Reinsurance recoveries	**3,082**	4,857	–	–
Receivable from associates	**700**	250	–	–
Mortgage loans	**18,857**	–	–	–
Policy loans	**721**	–	–	–
Other receivables	6,327	4,448	–	–
	29,687	9,555	–	–

The receivable from associates comprises a loan receivable from Vianova Asset Management Pty Ltd. The loan is secured by a fixed and floating charge and is repayable on or before 16 February 2010. Vianova Asset Management Pty Ltd is a wholly-owned subsidiary of Vianova Unit Trust. The Group owns 50% of the issued units in Vianova Unit Trust (see note 39).

Interest rate on this loan facility is charged at 1% per annum until the earlier of the following events occur, at which time the interest charged will be on commercial terms, being an annual rate equal to the bank bill swap rate plus 1.5% per annum:

- the third anniversary of the loan agreement (16 February 2008); or
- a change in the employment compensation arrangements of key management personnel employed by the associate, pursuant to contractual obligations.

The mortgage loans are receivable by benefit funds managed by a controlled entity and are secured on real property. These loans mature at various dates up to 30 June 2010 and earn interest at average annual rates between 7.40% and 8.66%.

(a) Interest rate risk
The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods for its current and non-current receivables is set out in the following tables.

		Fixed interest maturing in:					
	Floating interest rate $'000	*1 year or less $'000*	*Over 1 to 2 years $'000*	*Over 2 to 3 years $'000*	*Over 3 to 4 years $'000*	*Non-interest bearing $'000*	*Total $'000*
2006							
Trade receivables	–	–	–	–	–	42,589	42,589
Mortgages	10,073	6,309	1,288	1,415	472	–	19,557
Policy loans	721	–	–	–	–	–	721
Other receivables	–	–	–	–	–	47,585	47,585
	10,794	6,309	1,288	1,415	472	90,174	110,452
Weighted average interest rate	7.51%	6.53%	7.72%	3.73%	7.45%	–%	

	Floating interest rate $'000	*Non-interest bearing $'000*	*Total $'000*
2005			
Trade receivables	3,235	36,324	39,559
Other receivables	–	29,949	29,949
	3,235	66,273	69,508
Weighted average interest rate	6.71%	–%	

(b) Credit risk
There is no concentration of credit risk with respect to current and non-current receivables, as the Group has a large number of customers, widely dispersed.

15. Non-current assets – Investments accounted for using the equity method

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Shares in associates (note 39)	**1,505**	1,479	**–**	–

16. Non-current assets – Other financial assets

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Share in controlled entities (note 38)	**–**	–	**192,201**	150,102
Deferred costs	**57**	–	**–**	–
Other investments	**387**	230	**187**	189
	444	230	**192,388**	150,291

17. Non-current assets – Property, plant and equipment

Consolidated
At 1 July 2004

	Freehold Land $'000	*Freehold Buildings $'000*	*Plant and equipment $'000*	*Leasehold improvements $'000*	*Total $'000*
Consolidated					
At 1 July 2004					
– Cost	–	–	14,151	6,070	20,221
– Valuation	8,015	32,229	–	–	40,244
Accumulated depreciation	–	(1,686)	(9,251)	(1,964)	(12,901)
Net book amount	8,015	30,543	4,900	4,106	47,564
Year ended 30 June 2005					
Opening net book amount	8,015	30,543	4,900	4,106	47,564
Revaluation surplus	1,730	(1,223)	–	–	507
Net acquisitions	1,500	16,305	466	–	18,271
Additions	–	550	7,530	2,658	10,738
Disposals	(90)	(473)	(2,660)	(832)	(4,055)
Depreciation charge	–	(764)	(1,761)	(1,144)	(3,669)
Transfer to intangible assets	–	–	(1,618)	–	(1,618)
Transfers	4,732	(4,304)	342	(770)	–
Closing net book amount	15,887	40,634	7,199	4,018	67,738
At 30 June 2005					
– Cost	–	–	16,160	6,931	23,091
– Valuation	15,887	45,157	–	–	61,044
Accumulated depreciation	–	(4,523)	(8,961)	(2,913)	(16,397)
Net book amount	15,887	40,634	7,199	4,018	67,738

17. Non-current assets – Property, plant and equipment (continued)

	Freehold Land $'000	*Freehold Buildings $'000*	*Plant and equipment $'000*	*Leasehold improvements $'000*	*Total $'000*
Year ended 30 June 2006					
Opening net book amount	15,887	40,634	7,199	4,018	67,738
Additions	–	6,052	15,860	103	22,015
Transfer to investment property	(1,500)	(18,438)	(1,105)	–	(21,043)
Disposals	–	–	(1,943)	(621)	(2,564)
Depreciation charge	–	(955)	(2,411)	(1,135)	(4,501)
Transfers	(4,732)	3,135	(759)	2,356	–
Closing net book amount	9,655	30,428	16,841	4,721	61,645
At 30 June 2006					
– Cost	–	–	25,577	9,602	35,179
– Valuation	9,655	33,683	–	–	43,338
Accumulated depreciation	–	(3,255)	(8,736)	(4,881)	(16,872)
Net book amount	9,655	30,428	16,841	4,721	61,645

	Freehold land $'000	*Freehold buildings $'000*	*Total $'000*
Parent			
At 1 July 2004			
– Valuation	345	–	345
Net book amount	345	–	345
Opening net book amount	345	–	345
Closing net book amount	345	–	345
At 30 June 2005			
– Valuation	345	–	345
Net book amount	345	–	345

	Freehold land $'000	*Freehold buildings $'000*	*Total $'000*
Parent			
Year ended 30 June 2006			
Opening net book amount	345	–	345
Additions	–	77	77
Closing net book amount	345	77	422
At 30 June 2006			
– Valuation	345	77	422
Net book amount	345	77	422

(a) Carrying amounts that would have been recognised if land and buildings were stated at cost
If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Freehold land				
Cost	**8,444**	14,676	**345**	345
Accumulated depreciation	**–**	–	**–**	–
Net book amount	**8,444**	14,676	**345**	345
Buildings				
Cost	**32,432**	43,906	**77**	–
Accumulated depreciation	**(3,255)**	(4,523)	**–**	–
Net book amount	**29,177**	39,383	**77**	–

18. Non-current assets – Investment properties

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
At Fair value				
Opening balance at the beginning of the financial year	**160,767**	31,128	**–**	–
Acquisitions	**29,963**	128,137	**–**	–
Net gain/(loss) from fair value adjustment	**1,924**	1,502	**–**	–
Transfer (to)/from owner occupied property	**21,043**	–	**–**	–
Closing balance at the end of financial year	**213,697**	160,767	**–**	–

(a) Amounts recognised in profit and loss for investment property

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Revenue	**33,344**	18,550	**–**	–
Expenses	**(27,391)**	(16,799)	**–**	–
Changes in fair value recognised in profit and loss	**1,924**	638	**–**	–
	7,877	2,389	**–**	–

(b) Valuation basis
Investment properties comprises the Group's interests in retirement village self-care units and the aged care facility at Constitution Hill in New South Wales. The Constitution Hill aged care facility is managed by an operator which is not part of the consolidated entity. The Group's other aged care facilities are managed by operators within the consolidated entity and so are included in property, plant and equipment as owner occupied property.

These investments are valued at fair value, being the present value of future cashflows expected to be received. The valuation is based on the statistical modelling of ingoing and outgoing residents and includes a discounted cashflow analysis using the current 90 day bank bill rate plus management's required rate of return.

(c) Investment property pledged as security
During the year ended 30 June 2006, the Group has granted a mortgage over its retirement village property at Constitution Hill in favour of the developer of the village. The mortgage provides security over payments due by the Group due to the developer in respect of the developer's interests as set out in the development agreement. The terms of the mortgage do not provide the developer with any power of sale of the village.

No amounts secured under the mortgage were outstanding at 30 June 2006.

19. Non-current assets – Deferred tax assets

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accrued expenses	**4,475**	3,892	**318**	918
Capitalised expenses	**1,623**	132	**45**	–
Provisions	**6,210**	3,541	**86**	–
Consulting and legal fees	**546**	–	**19**	–
Deferred acquisition costs	**83**	141	**–**	–
Product distribution channel development costs	**176**	–	**–**	–
Investments	**656**	–	**–**	–
Employee benefits	**217**	–	**–**	–
Tax losses	**1,024**	1,022	**–**	–
Other	**772**	(128)	**677**	–
Net deferred tax assets	**15,782**	8,600	1,145	918
Movements:				
Opening balance at the beginning of the financial year	**8,600**	5,684	**918**	133
Change on adoption of AASB 1038 (note 1)	**144**	–	**–**	–
Credited/(charged) to the income statement (note 6)	**4,902**	2,516	**427**	785
Under/(over) provision	**2,136**	400	**(200)**	–
Closing balance at 30 June	**15,782**	8,600	**1,145**	918
Deferred tax assets to be recovered after more than 12 months	**11,853**	7,254	**1,145**	918
Deferred tax assets to be recovered within 12 months	**3,929**	1,346	**–**	–
	15,782	8,600	**1,145**	918

20. Non-current assets – Intangible assets

	Goodwill *$'000*	*Computer Software* *$'000*	*Product Distribution Channel* *$'000*	*Total* *$'000*
Consolidated				
At 1 July 2004				
Cost	12,343	12,639	461	25,443
Accumulated amortisation and impairment	–	(6,385)	(131)	(6,516)
Net book amount	12,343	6,254	330	18,927
Year ended 30 June 2005				
Opening net book amount	12,343	6,254	330	18,927
Additions	2,546	2,579	1,656	6,781
Disposals	(54)	(15)	(590)	(659)
Amortisation charge	–	(2,984)	(300)	(3,284)
Closing net book amount	14,835	5,834	1,096	21,765
At 30 June 2005				
Cost	14,835	15,400	1,386	31,621
Accumulated amortisation and impairment	–	(9,566)	(290)	(9,856)
Net book amount	14,835	5,834	1,096	21,765
Year ended 30 June 2006				
Opening net book amount	14,835	5,834	1,096	21,765
Additions	271	1,104	3,405	4,780
Disposals	–	–	(135)	(135)
Amortisation charge	–	(1,789)	(559)	(2,348)
Closing net book amount	15,106	5,149	3,807	24,062
At 30 June 2006				
Cost	15,106	16,117	4,366	35,589
Accumulated amortisation and impairment	–	(10,968)	(559)	(11,527)
Net book amount	15,106	5,149	3,807	24,062

20. Non-current assets – Intangible assets (continued)

(a) Impairment tests for goodwill
Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to entity within business segment.

A segment level summary of the goodwill allocation is presented below.

	Insurance *$'000*	*Retirement Living Services* *$'000*	*Investments* *$'000*	*Total* *$'000*
2006				
Cash generating unit				
Australian Unity General Insurance Limited	1,661	–	–	1,661
Mansions of Australia Limited	2,491	–	–	2,491
Grand United Friendly Society and controlled entities	1,355	–	–	1,355
Australian Unity Retirement Living Services Limited and controlled entities	–	5,229	–	5,229
Australian Unity Funds Management Limited	–	–	2,273	2,273
Australian Unity Property Limited	–	–	2,097	2,097
	5,507	5,229	4,370	15,106
2005				
Cash generating unit				
Australian Unity General Insurance Limited	1,573	–	–	1,573
Mansions of Australia Limited	2,491	–	–	2,491
Grand United Friendly Society and controlled entities	1,345	–	–	1,345
Australian Unity Retirement Living Services Limited and controlled entities	–	5,056	–	5,056
Australian Unity Funds Management Limited	–	–	2,273	2,273
Australian Unity Property Limited	–	–	2,097	2,097
	5,409	5,056	4,370	14,835

The recoverable amount of a CGU is determined based on a value in use calculation using cash flow projections based upon financial budgets approved by the directors, covering a four year period. Cash flows beyond the four year period commencing 1 July following balance date are extrapolated using estimated growth rates appropriate for the CGU.

(b) Key assumptions used for value-in-use calculations
The discount rate applied to cash flow projections was equal to a five year government bond rate plus a risk margin appropriate to the operations of the CGU. A conservative assumption of zero growth was applied to cash flows beyond the four year period for which financial budgets were available.

21. Non-current assets – Other-non current assets

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Borrowings arrangement costs	**192**	298	**–**	–
Other non-current assets	**334**	384	**334**	358
	526	682	**334**	358

22. Current liabilities – Trade and other payables

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Trade payables	**12,535**	10,313	**–**	–
Amounts due to related entities	**–**	–	**3,631**	9,153
Accrued expenses	**30,452**	21,412	**1,208**	2,073
Goods and services tax (GST) payable	**172**	89	**13**	72
Employee benefits	**4,199**	3,643	**–**	–
	47,358	35,457	**4,852**	11,298

Trade payables are generally non interest bearing and are on 30 day settlement terms.

23. Current liabilities – Interest bearing liabilities

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Lease liabilities (note 35)	**1**	273	**–**	–
Payable to controlled entities	**–**	–	**17,380**	844
Unsecured borrowing	**734**	264	**–**	–
Total current borrowings	**735**	537	**17,380**	844

(a) Unsecured borrowing
This represents the current portion of a loan to finance a systems development project. This loan, which is repayable by 31 October 2009, incurs interest at a rate of 7.25% per annum.

(b) Amounts payable to controlled entities
The amounts payable to controlled entities incur interest at an average annual rate of 6.65% (2005: 6.62%) and are payable on demand.

(c) Interest rate risk exposures
Details of the Group's exposure to interest rate changes on borrowings are set out in note 27.

(d) Fair value disclosures
Details of the fair value of borrowings for the Group are set out in note 27.

24. Current liabilities – Provisions

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Claims	**59,123**	53,055	**–**	–
Other provisions	**2,787**	131	**1,493**	–
	61,910	53,186	**1,493**	–

(a) Claims
Provision is made for claims outstanding at the end of the financial year, being claims for services incurred but not yet reported, the economic benefit of which will arise in a later period. Claims reported but not yet paid are included as provisions. Claims provisions are determined on an actuarial basis. Amounts paid or payable are recognised as part of expenses in the income statement.

(b) Other provisions
Other provisions relate to legal and professional fees.

25. Current liabilities – Current tax liabilities

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Income tax	**18,364**	12,849	**18,236**	12,321

26. Current liabilities – Other current liabilities

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Unearned income	**117,770**	110,985	**–**	–
Other	**2,124**	2,090	**–**	13
Refundable deposits	**148,174**	112,589	**–**	–
	268,068	225,664	**–**	13

The fair value of other current liabilities is equal to their carrying value.

27. Non-current liabilities – Interest bearing liabilities

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	***Parent 2006 $'000***	*Parent 2005 $'000*
Secured				
Mortgage loans	**3,264**	10,924	**–**	–
Lease liabilities	**–**	130	**–**	–
Bills of exchange and promissory notes	**14,000**	12,115	**–**	–
Total secured non-current borrowings	**17,264**	23,169	**–**	–
Unsecured				
Loans payable to a related entity	**12,341**	18,179	**–**	–
Unsecured borrowing	**2,110**	1,087	**–**	–
Subordinated capital notes	**25,000**	25,000	**–**	–
Retirement village investment notes	**24,000**	–	**–**	–
Total unsecured non-current borrowings	**63,451**	44,266	**–**	–
Total non-current borrowings	**80,715**	67,435	**–**	–
(a) Total secured liabilities				
The total secured liabilities (current and non-current) are as follows:				
Mortgage loans	**3,264**	10,924	**–**	–
Lease liabilities	**1**	403	**–**	–
Bills of exchange and promissory notes	**14,000**	12,115	**–**	–
Total secured liabilities	**17,265**	23,442	**–**	–

(b) Mortgage loans
The mortgage loans are secured by first registered mortgages over the properties of Australian Unity Property Syndicate – Footscray.

(c) Loans payable to a related entity
The loans payable to a related entity represent amounts due to Grand United Centenary Centre Limited. These amounts are repayable not before 1 July 2007 and incur interest at a rate equal to the 90 day BBSW interest rate plus a margin of 1%.

(d) Bills of exchange and promissory notes
Bill acceptance and discount facilities of $14 million (2005: $14 million) are secured by a charge over the Group's head office building situated at 114 Albert Road, South Melbourne; interest on these facilities is charged at 5.62% per annum (2005: 5.68%) and the facility expires on 15 May 2008. The facility was fully drawn at 30 June 2006 (2005: $8.2 million).

(e) Unsecured borrowing
The unsecured borrowing represents the non-current portion of a loan to finance systems development. This loan, which is repayable by 31 October 2009, incurs interest at a rate of 7.25% per annum.

(f) Subordinated capital notes
On 11 July 2003, a wholly-owned subsidiary, Australian Unity Health Limited, issued $25 million of subordinated capital notes. The subordinated capital notes have a maturity of 10 years with a non-call 5 year period and incur a floating interest rate equal to the 90-day BBSW rate plus a margin of 2.5%. After the non-call period, this rate increases to the 90 day BBSW rate plus a margin of 4.5%.

Interest rate swap contracts have been entered into whereby the floating interest rate is exchanged for fixed rate obligations (see note 12(b)).

(g) Retirement Village Investment Notes
The Retirement Village Investment Notes are payable to investors on three separate fixed maturity dates, being 30 November 2008, 2010 and 2012. Interest is payable at annual rates of 8.5% for the Notes repayable in 2008, 8.75% for the Notes repayable in 2010 and 9% for the Notes repayable in 2012.

27. Non-current liabilities – Interest bearing liabilities (continued)

(h) Credit risk

The credit risk on financial assets of the consolidated entity which have been recognised in the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts. Credit risk for physical securities and derivative instruments are monitored by exposure limits to counterparties. These limits are determined by reference to third party credit ratings.

(i) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

Exposures arise predominantly from current and non-current liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity.

		Fixed interest rate:					
	Floating Interest rate $'000	*1 year or less $'000*	*Over 1 to 2 years $'000*	*Over 2 to 3 years $'000*	*Over 3 to 5 years $'000*	*Over 5 to 7 years $'000*	*Total $'000*
2006							
Mortgage loans (note 27)	3,264	–	–	–	–	–	3,264
Bills of exchange and promissory notes (note 27)	–	14,000	–	–	–		14,000
Retirement Village Investment Notes (note 27)	–	–	–	9,916	5,094	8,990	24,000
Loans payable to a related entity (note 27)	12,341	–	–	–	–	–	12,341
Unsecured borrowing (notes 23 and 27)	2,844	–	–	–	–	–	2,844
Subordinated capital notes (note 27)	25,000	–	–	–	–	–	25,000
Lease liabilities (notes 23, 27 and 35)	–	1	–	–	–	–	1
Interest rate swaps* (note 12)	(25,000)	25,000	–	–	–	–	–
	18,449	39,001	–	9,916	5,094	8,990	81,450
Weighted average interest rate	5.65%	6.94%	–%	8.50%	8.75%	9.00%	

		Fixed interest rate:			
	Floating Interest rate $'000	*1 year or less $'000*	*Over 1 to 2 years $'000*	*Over 2 to 3 years $'000*	*Total $'000*
2005					
Mortgage loans (note 27)	10,924	–	–	–	10,924
Bills of exchange and promissory notes (note 27)	–	12,115	–	–	12,115
Loans payable to a related entity (note 27)	18,179	–	–	–	18,179
Unsecured borrowing (notes 23 and 27)	1,351	–	–	–	1,351
Subordinated capital notes (note 27)	25,000	–	–	–	25,000
Lease liabilities (notes 23, 27 and 35)	–	273	–	130	403
Interest rate swaps* (note 12)	(25,000)	25,000	–	–	–
	30,454	37,388	–	130	67,972
Weighted average interest rate	7.04%	7.02%	–%	6.78%	

* Notional principal amounts

(j) Fair value
The fair value of floating rate borrowings and fixed rate borrowings due to mature within one year or less approximates fair value. Fixed interest borrowings due to mature in greater than one year were recognised during the current financial year and so amortised cost approximates fair value.

The carrying amounts and fair values of borrowings at balance date are:

	Carrying amount 2006 $'000	***Fair value 2006 $'000***	*Carrying amount 2005 $'000*	*Fair value 2005 $'000*
On-balance sheet				
Non-traded financial liabilities				
Mortgage loans	**3,264**	**3,264**	10,924	10,924
Bills of exchange and promissory notes	**14,000**	**14,000**	12,115	12,115
Retirement Village Investment Notes	**24,000**	**24,000**	–	–
Loans payable to a related entity	**12,341**	**12,341**	18,179	18,179
Unsecured borrowing	**2,844**	**2,844**	1,351	1,351
Subordinated capital notes	**25,000**	**25,000**	25,000	25,000
Lease liabilities	**1**	**1**	403	403
	81,450	**81,450**	67,972	67,972

(k) On-balance sheet
The fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

28. Non-current liabilities – Deferred tax liabilities

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	***Parent 2006 $'000***	*Parent 2005 $'000*
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Prepayments	**65**	2	**–**	–
Interest and commission receivables	**674**	244	**5**	–
Financial assets at fair value through profit or loss	**1,537**	403	**–**	–
Investments	**5,809**	4,902	**2,666**	–
Unrealised gain	**1,363**	537	**258**	–
Deferred acquisition costs	**71**	80	**–**	–
Allocable cost adjustment on consolidation	**1,537**	1,537	**–**	–
Other	**232**	2,429	**99**	137
	11,288	10,134	**3,028**	137
Amounts recognised directly in equity				
Cash flow hedges	**146**	–	**–**	–
Net deferred tax liabilities	**11,434**	10,134	**3,028**	137

28. Non-current liabilities – Deferred tax liabilities (continued)

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Opening balance at the beginning of the financial year	**10,134**	6,714	**137**	–
Change on adoption of AASB 132 and AASB 139 (note 1)	**82**	–	–	–
Charged/(credited) to the income statement (note 6)	**42**	3,456	**2,797**	137
Charged/(credited) to equity (note 32)	**146**	151	–	–
Charged/(credited) to the income statement – on sale of entities	**(15)**	–	–	–
Under/(over) provision	**1,045**	(187)	**94**	–
Closing balance at the end of the financial year	**11,434**	10,134	**3,028**	137
Deferred tax liabilities to be settled after more than 12 months	**10,261**	9,934	**3,028**	137
Deferred tax liabilities to be settled within 12 months	**1,173**	200	–	–
	11,434	10,134	**3,028**	137

29. Non-current liabilities – Provisions

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Employee benefits	**3,803**	3,709	–	–
Claims	**17,874**	17,679	–	–
Other provisions	**160**	335	–	–
	21,837	21,723	–	–

30. Non-current liabilities – Other non-current liabilities

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Unearned income	**5,225**	3,902	–	–

The fair value of other non-current liabilities is equal to their carrying value.

31. Members' balances

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Total members' funds at the beginning of the financial year	**169,048**	127,096	**168,755**	126,803
Transfer in on merger	–	42,677	–	42,677
Adjustment to fair value of assets transferred in on merger	–	(725)	–	(725)
Total members' funds at the end of the financial year	**169,048**	169,048	**168,755**	168,755

32. Reserves and retained profits

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
(a) Reserves				
Asset revaluation reserve	**2,462**	2,462	**–**	–
Other reserves	**340**	–	**–**	–
	2,802	2,462	**–**	–
Movements:				
Asset revaluation reserve				
Balance at the beginning of the financial year	**2,462**	2,106	**–**	–
Revaluation – gross (note 17)	**–**	507	**–**	–
Deferred tax (note 28)	**–**	(151)	**–**	–
Balance at the end of the financial year	**2,462**	2,462	**–**	–
Other reserves – Hedging reserve				
Balance at the beginning of the financial year	**–**	–	**–**	–
Adjustment on adoption of AASB 132 and AASB 139 – gross	**273**	–	**–**	
Revaluation – gross	**213**	–	**–**	–
Deferred tax (note 28)	**(146)**	–	**–**	–
Balance at the end of the financial year	**340**	–	**–**	–
Other reserves – Capital reserve				
Balance at the beginning of the financial year	**–**	591	**–**	–
Transfer to retained profits	**–**	(591)	**–**	–
Balance at the end of the financial year	**–**	–	**–**	–

(b) Retained profits
Movements in retained profits were as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Balance at the beginning of the financial year	**41,868**	25,859	**(3,887)**	(11,113)
Profit for the year	**23,818**	15,418	**25,467**	7,226
Transfer from capital reserve	**–**	591	**–**	–
Balance at the end of the financial year	**65,686**	41,868	**21,580**	(3,887)

(c) Nature and purpose of reserves

(i) Asset revaluation reserve

The asset revaluation reserve in the consolidated entity is used to record increments and decrements on the revaluation of land and buildings used by the Group as owner-occupied property.

(ii) Hedging reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1. Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

33. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated 2006 $	*Consolidated 2005 $*	**Parent 2006 $**	*Parent 2005 $*
(a) Assurance services				
Audit services				
Ernst & Young Australian firm				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**939,900**	782,800	–	–
Total remuneration for audit services	**939,900**	782,800	–	–
Other assurance services				
Ernst & Young Australian firm				
Other assurance services	–	232,780	–	–
Total remuneration for other assurance services	–	232,780	–	–
Total remuneration for assurance services	**939,900**	1,015,580	–	–
(b) Taxation services				
Ernst & Young Australian firm				
Tax compliance services, including review of company income tax returns	**217,176**	143,480	–	–
Total remuneration for taxation services	**217,176**	143,480	–	–
	1,157,076	1,159,060	–	–

It is Australian Unity Limited policy to employ Ernst & Young on assignments additional to their statutory audit duties only where Ernst & Young's expertise and experience with Australian Unity Limited are essential to the efficient completion of the assignment; these assignments are principally the completion of tax returns. It is Australian Unity Limited's policy to seek competitive tenders for all major consulting projects.

34. Contingencies

Australian Unity Limited has given an undertaking to a related entity, Australian Unity Funds Management Limited, to fund any loss on sale of its shareholdings in another corporation. This undertaking was also in place at 30 June 2005. At present, no material loss is anticipated in respect of this undertaking.

35. Commitments

(a) Capital commitments

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

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Property, plant and equipment				
Payable:				
Within one year	**2,204**	7,702	**–**	–

(b) Lease commitments: Group company as lessee

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**4,249**	5,254	**–**	–
Later than one year but not later than five years	**3,725**	5,578	**–**	–
Later than five years	**948**	1,825	**–**	–
	8,922	12,657	**–**	–
Representing:				
Non-cancellable operating leases	**8,922**	12,615	**–**	–
Future finance charges on finance leases	**–**	42	**–**	–
	8,922	12,657	**–**	–

(i) Operating leases

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**4,249**	5,212	**–**	–
Later than one year but not later than five years	**3,725**	5,578	**–**	–
Later than five years	**948**	1,825	**–**	–
Commitments not recognised in the financial statements	**8,922**	12,615	**–**	–

35. Commitments (continued)

(ii) Finance leases
The Group leases various plant and equipment with a carrying amount of $8,000 (2005 – $86,000) under finance leases with an average outstanding term of one year.

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Commitments in relation to finance leases are payable as follows:				
Within one year	**1**	292	**–**	–
Later than one year but not later than five years	**–**	153	**–**	–
Minimum lease payments	**1**	445	**–**	–
Future finance charges	**–**	(42)	**–**	–
Total lease liabilities	**1**	403	**–**	–
Representing lease liabilities:				
Current	**1**	273	**–**	–
Non-current	**–**	130	**–**	–
	1	403	**–**	–

The weighted average interest rate implicit in the leases is 7.6% (2005 – 6.78%).

(c) Lease commitments: where a Group company is the lessor
The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Within one year	**451**	442	**–**	–
Later than one year and not later than five years	**420**	451	**–**	–
Later than five years	**703**	1,123	**–**	–
	1,574	2,016	**–**	–

These leases relate to commercial property owned or leased by the consolidated entity.

36. Related party transactions

(a) Directors
The names of persons who were directors of Australian Unity Limited at any time during the financial year are as follows:

Alan Castleman

Rohan Mead

Murray Campbell

Eve Crestani

Ian Ferres

Warren French

Leonard Hickey

Stephen Maitland

Bruce Siney

Warren Stretton

(b) Wholly-owned group
The wholly-owned group consists of Australian Unity Limited and its wholly-owned and controlled entities. Ownership interests in these controlled entities are set out in note 38.

Transactions between entities in the wholly-owned group are entered into on normal commercial terms.

Transactions between Australian Unity Limited and other entities in the wholly-owned group during the years ended 30 June 2006 and 30 June 2005 were as follows:

- Interest received/receivable from controlled entities, $980,000 (2005: $472,000);
- Dividends received from controlled entities, $40,850,000 (2005: $14,800,000); and
- Amounts paid/payable to controlled entity for shared services, $ 12,809,000 (2005: $11,390,000).

Transactions between the parent entity and its controlled entities are settled through intercompany accounts. The intercompany balances at 30 June are included in the notes to the financial statements as amounts receivable by/payable to either the parent entity or related entity as applicable.

Balances outstanding between the parent entity and controlled entities are identified in notes 9,13, 22 and 23.

Transactions between the consolidated entity and related parties were as follows:

- Dividends received from associates, $ 1,279,000 (2005: $908,000).

At 30 June 2006, a loan of $700,000 (2005:$250,000) was receivable from an associate (see note 14).

36. Related party transactions (continued)

(c) Key management personnel compensation
Key management personnel compensation for the years ended 30 June 2006 and 30 June 2005 is set out below. Key management personnel comprises all directors of the company and those executives responsible for the strategic direction and management of the company and Group.

	Consolidated 2006 $	*Consolidated 2005 $*	**Parent 2006 $**	*Parent 2005 $*
Short term benefits	**6,057,834**	4,878,096	**388,217**	278,366
Termination benefits	**904,816**	551,346	**–**	12,233
Total	**6,962,650**	5,429,442	**388,217**	290,599

Key management personnel compensation for the year ended 30 June 2005 includes compensation in relation to Grand United Friendly Society Limited and controlled entities only from 1 March 2005 which was the date of merger with Australian Unity Limited.

(d) Other transactions with directors and director-related entities
Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

In accordance with rule 5.15.1 of the company's constitution, the company has determined at its Annual General Meeting that the maximum aggregate annual amount of remuneration payable by the company to non-executive directors of the company as fees for their services as directors is $1,000,000 per annum, provided that the total annual amount payable is not greater than an amount calculated by multiplying the number of non-executive directors of the company having served the company at any time in that year multiplied by $100,000. The actual amounts paid to non-executive directors for the financial year ended 30 June 2006 amounted to $877,909, (2005: $902,649 including an amount of $117,016 paid to a non-executive director in respect of executive services provided during the year ended 30 June 2004). Directors' remuneration includes superannuation contributions in accordance with superannuation guarantee legislation. Information relating to the consolidated entity's superannuation funds is set out in note 1(g). The consolidated entity has also set aside a provision for directors' retirement allowances of $1,334,791 (2005: $1,214,791). There will be no liability for retirement allowances in respect of directors appointed after the 2004 Annual General Meeting. The provision for directors' retirement allowances is included in the provision for employee entitlements.

A legal firm to which a director, Mr Ian Ferres, is a consultant, received professional fees for services provided in the normal course of business.

From time to time the directors of the parent entity and its controlled entities may purchase or subscribe to the various products offered by the consolidated entity. These transactions are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

(i) Loan transactions and balances

	Consolidated 2006 $	*Consolidated 2005 $*	**Parent 2006 $**	*Parent 2005 $*
Loans to key management personnel – secured	**80,488**	–	**–**	–

The secured loan is due from one key management person and is secured over bonus payments which may be payable to that person in respect of each of the financial years ending 30 June 2007, 2008 and 2009. There is no other security over the loan.

The secured loan principal sum of $80,000 was advanced on 29 May 2006 and no repayments of principal had been made as at 30 June 2006. Interest on the loan is charged on an arm's-length basis at an annual rate equal to the BBSW mid rate on 1 July each year, plus a margin of 1%. Interest charged is added to the principal sum.

37. Business combination

Current year
There were no business combinations during the year ended 30 June 2006.

Prior year
(a) Summary of acquisition
On 28 February 2005, Australian Unity Limited merged with Grand United Friendly Society Limited. All members of Grand United Friendly Society Limited at the date of merger became members of the enlarged Australian Unity Limited and Grand United Friendly Society Limited and its controlled entities became subsidiaries of Australian Unity Limited. Australian Unity Limited became the sole member of Grand United Friendly Society Limited, which is a company limited by guarantee.

The principal activities of Grand United Friendly Society Limited and its controlled entities was the provision of health insurance, retirement living services and benefit fund insurance and investment products.

As this transaction was a merger of two mutual entities, no cash consideration was paid. $1,344,473 of costs incurred in effecting the merger were capitalised as part of the carrying value of the parent entity's investment in Grand United Friendly Society Limited.

At the date of the merger, Australian Unity Limited had made no decisions regarding the disposal of any of the operations of Grand United Friendly Society Limited. However, on 3 July 2006, the Group disposed of its entire interest in Catalyst Rehabilitation Australia Pty Ltd, which was a controlled entity of Grand United Friendly Society Limited.

On 30 June 2005, settlement of the acquisition of the net operating assets of Grand United Centenary Centre Limited, a related entity, occurred in three separate tranches by Grand United NHO Pty Ltd, Grand United RVO Pty Ltd and Grand United Properties Pty Ltd, all of which are controlled entities.

On 1 March 2005, the Group acquired 100% ownership of HealthSource Australia Pty Ltd through the acquisition of the 50% interest in the issued share capital of that company which was not already owned by Grand United Friendly Society Limited. The principal activity of HealthSource Australia Pty Ltd is the provision of health fund processing and administration services. Total consideration for this acquisition amounted to $1,000.

On 28 April 2005, the Group acquired the entire issued share capital of The Governor's Retirement Resort Pty Ltd, the owner and operator of a retirement village in New South Wales. Total consideration for this acquisition amounted to $4,191,627.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	$'000
Purchase consideration (refer to (b) below):	
Cash consideration	3,851
Cash consideration – capitalised acquisition costs	1,840
Total purchase consideration	5,691
Fair value of net identifiable assets acquired (refer to (c) below)	(3,145)
Goodwill (refer to (c) below and note 20)	2,546

37. Business combination (continued)

(b) Purchase consideration

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Outflow of cash to acquire subsidiary, net of cash acquired				
Cash consideration	–	5,691	–	–
Less: Balances acquired				
Cash	–	(2,059)	–	–
Outflow of cash	–	3,632	–	–

(c) Assets and liabilities acquired
The assets and liabilities arising from the acquisition are as follows:

	Acquirees' carrying amount $'000	*Fair value $'000*
Cash	2,059	2,059
Trade receivables	11,832	11,832
Investments	40,603	40,603
Plant and equipment and villa unit property	139,661	139,661
Other assets	2,458	2,458
Trade payables	(10,010)	(10,010)
Interest bearing liabilities	(22,292)	(22,292)
Provisions	(19,738)	(19,738)
Other liabilities	(99,476)	(99,476)
Less: Increase in members' funds as a result of merger	(41,952)	(41,952)
Net assets	3,145	3,145
Goodwill on acquisition		2,546
Total consideration		5,691

The acquirees' contribution to the Group's profit since acquisition date amounted to $2,097,000. The revenue for the consolidated entity for the year ended 30 June 2005 would have been $509,106,000 and profit would have bee $10,879,000 had the acquisitions been effective 1 July 2004.

38. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c).

	Country of incorporation	*Class of shares*	*Equity holding*		*Carrying Value of investment*	
			2006	*2005*	***2006***	*2005*
			%	*%*	***$'000***	*$'000*
Name of entity						
Held wholly by parent entity						
Australian Unity Dispensaries Friendly Society Limited	Australia	Ordinary	**100**	100	**1**	1
Australian Unity Financial Planning Limited	Australia	Ordinary	**100**	100	**2,045**	545
Australian Unity Finance Limited	Australia	Ordinary	**100**	100	3,000	–
Australian Unity Funds Management Limited	Australia	Ordinary	**100**	100	**12,690**	12,690
Australian Unity General Insurance Limited	Australia	Ordinary	**100**	100	**17,496**	17,496
Australian Unity Group Services Pty Ltd	Australia	Ordinary	**100**	100	**23,066**	1,066
Australian Unity Health Limited	Australia	Ordinary	**100**	100	**28,798**	28,798
Australian Unity Health Care Limited	Australia	Ordinary	**100**	100	**1,500**	1,200
Australian Unity Investment Bonds Limited	Australia	Ordinary	**100**	100	**6,020**	6,020
Australian Unity Property Limited	Australia	Ordinary	**100**	100	**7,150**	7,150
Australian Unity Property Management Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Australian Unity Property Syndicate (Finance) Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Australian Unity Retail Network Limited	Australia	Ordinary	**100**	100	**10,851**	2,851
Australian Unity Retirement Living Investments Limited	Australia	Ordinary	**100**	100	**7,715**	–
Australian Unity Retirement Living Services Limited	Australia	Ordinary	**100**	100	**6,773**	6,773
Australian Unity Staff Superannuation Pty Ltd (trustee company)	Australia	Ordinary	**100**	100	**–**	–
Grand United Friendly Society Limited	Australia	Ordinary	**100**	100	**46,941**	47,657
Mansions of Australia Limited	Australia	Ordinary	**100**	100	**3,250**	3,250
MU Nominees Pty Ltd (trustee company)	Australia	Ordinary	**100**	100	**–**	–
Strode 1 Pty Ltd (trustee company)	Australia	Ordinary	**100**	100	**–**	–
Strode 4 Pty Ltd	Australia	Ordinary	**100**	100	**14,900**	14,600
System Stanley Pty Ltd	Australia	Ordinary	**100**	100	**5**	5
Not held wholly by the parent entity						
Australian Unity Retirement Village Trust #1	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Living Services (NSW) Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Australian Unity Investment Trust	Australia	Units	**100**	100	**–**	–
Catalyst Rehabilitation Australia Pty Ltd	Australia	Ordinary	**–**	100	**–**	–
Grand United Corporate Health Limited	Australia	Ordinary	**100**	100	**–**	–
Grand United Health Fund Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Grand United NHO Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Grand United Properties Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Grand United Retirement Services Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Grand United RVO Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Greglea Village Management Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
The Governor's Retirement Resort Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
HealthSource Australia Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Retirement Management Services Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Willandra Village Management Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
					192,201	150,102

38. Subsidiaries (continued)

(i) The parent entity investment in wholly-owned subsidiaries is at cost, in accordance with accounting policy 1(c).

(ii) Australian Unity Limited controls the composition of the board of National Friendly Society Limited and so controls the company, although no equity interest is held.

(iii) On 3 July 2006, the company disposed of its entire holding in Catalyst Rehabilitation Australia Pty Ltd. This transaction has been taken up in the financial report at 30 June 2006.

(iv) At 30 June 2006, the Group held 58% of the issued units in an investment trust of which a controlled entity is Responsible Entity. The directors are of the opinion that the Group does not control this trust and so the assets and liabilities and results of the trust have not been incorporated in the consolidated financial statements.

39. Investments in associates

During the financial year ended 30 June 2006, Australian Unity Funds Management Limited subscribed for 50% of the issued share capital of Platypus Asset Management Pty Ltd, an investment management company which specialises in the Australian equities investment sector.

Information relating to associates is set out below:

(a) Carrying amounts

	Principal activity	*Ownership interest* **2006** **%**	*Ownership interest* 2005 %	***Consolidated*** **2006** **$'000**	*Consolidated* 2005 $'000	***Parent*** **2006** **$'000**	*Parent* 2005 $'000
Name of company							
Unlisted							
Acorn Capital Limited	Investment management	**50**	50	**1,217**	1,300	**–**	–
Vianova Unit Trust	Investment management	**50**	50	**88**	179	**–**	–
Platypus Asset Management Pty Ltd	Investment management	**50**	–	**200**	–		
				1,505	1,479	**–**	–

Each of the above associates is incorporated in Australia.

	Consolidated 2006 $'000	Consolidated 2005 $'000
(b) Movements in carrying amounts		
Carrying amount at the beginning of the financial year	**1,470**	2,750
Investments acquired during the year	**200**	330
Increase in existing investments during the year	**330**	–
Share of profits after income tax	**784**	656
Dividends received/receivable	**(1,279)**	(908)
Write-down of carrying value on adoption of equity method of accounting	**–**	(1,349)
Carrying amount at the end of the financial year	**1,505**	1,479
(c) Fair value of investments in associates		
Acorn Capital Limited	**1,217**	1,300
Vianova Unit Trust	**88**	179
Platypus Asset Management Pty Ltd	**200**	–
	1,505	1,479
(d) Share of associates' profits or losses		
Profit before income tax	**1,309**	1,052
Income tax expense	**(525)**	(396)
Profit after income tax	**784**	656

(e) Summarised financial information of associates

	Group's share of: Assets $'000	Liabilities $'000	Revenues $'000	Profit after tax $'000
2006				
Total	2,769	(1,594)	3,777	784
2005				
Total	2,666	(1,361)	2,623	656

The difference between the net assets and the carrying value of associates is not considered to be a permanent diminution and this is supported by cash flow and profit projections of the associates.

During the year ended 30 June 2006, the company invested an additional $330,000 in an associate, Vianova Unit Trust, in order to fund the continued growth of the business. During the year, the company also acquired 50% of the issued capital of Platypus Asset Management Pty Ltd for a consideration of $200,000.

40. Events occurring after the balance sheet date

The board is not aware of any matter or circumstance arising since 30 June 2006 which has significantly affected or may significantly affect the financial status or results of the consolidated entity and which has not been separately disclosed in this report.

41. Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated 2006 $'000	*Consolidated 2005 $'000*	**Parent 2006 $'000**	*Parent 2005 $'000*
Profit for the year	**23,818**	15,418	**25,467**	7,226
Depreciation and amortisation	**6,849**	6,953	**–**	–
Net market value movements	**9,205**	(6,291)	**2**	(453)
Dividend and interest income	**–**	(110)	**–**	–
Net gain on sale of financial assets	**3**	–	**–**	–
Change in operating assets and liabilities				
Decrease/(increase) in trade debtors	**(12,686)**	(10,791)	**466**	1,961
Decrease/(increase) in inventories	**(207)**	3,890	**–**	–
Decrease/(increase) in deferred tax asset	**(7,182)**	(3,954)	**(227)**	(4,073)
(Increase)/decrease in other operating assets	**(36,887)**	6,989	**157**	(3,332)
(Decrease)/increase in trade creditors	**8,296**	(10,722)	**11,032**	9,227
(Decrease)/increase in other operating liabilities	**20,786**	7,856	**879**	(3,671)
Increase/(decrease) in provision for income taxes payable	**5,515**	9,677	**5,915**	9,149
Increase/(decrease) in provision for deferred income tax	**1,301**	4,342	**2,891**	4,342
Increase/(decrease) in other provisions	**6,696**	16,178	**–**	494
Net cash inflow/(outflow) from operating activities	**25,507**	39,435	**46,582**	20,870

42. Explanation of transition to Australian equivalents to IFRSs

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

The note references as disclosed in the following balance sheets restated from AGAAP to AIFRS at 1 July 2004 and 30 June 2005, refer to section 4 of this note – *notes to the reconciliations,* below.

(a) At the date of transition to AIFRS: 1 July 2004

		Consolidated			**Parent**		
	Notes	*Previous AGAAP $'000*	*Effect of transition to AIFRS $'000*	*AIFRS $'000*	*Previous AGAAP $'000*	*Effect of transition to AIFRS $'000*	*AIFRS $'000*
ASSETS							
Current assets							
Cash and cash equivalents	(g)	85,888	(16)	85,872	1,424	–	1,424
Receivables	(g),(i)	55,359	(102)	55,257	2,619	177	2,796
Inventories	(g)	4,121	(3,772)	349	–	–	–
Other financial assets at fair value through profit or loss		99,673	–	99,673	10,480	–	10,480
Other current assets	(g)	49,400	(116)	49,284	11,850	–	11,850
		294,441	(4,006)	290,435	26,373	177	26,550
Non-current assets classified as held for sale	(g)	–	18,799	18,799	–	–	–
Total current assets		294,441	14,793	309,234	26,373	177	26,550
Non-current assets							
Receivables		7,457	–	7,457	14,482	–	14,482
Other financial assets	(a), (m)	32,754	(31,128)	1,626	134,358	(52,414)	81,944
Property, plant and equipment	(c),(d),(g)	55,189	(7,625)	47,564	345	–	345
Investment properties	(m)	–	31,128	31,128	–	–	–
Intangible assets	(a),(b),(c),(g)	35,146	(16,219)	18,927	–	–	–
Deferred tax assets	(d),(i)	3,504	119	3,623	3,504	(3,371)	133
Other non-current assets	(g),(h)	355	(216)	139	133	–	133
Total non-current assets		134,405	(23,941)	110,464	152,822	(55,785)	97,037
Total assets		428,846	(9,148)	419,698	179,195	(55,608)	123,587

	Notes	Consolidated Previous AGAAP $'000	Consolidated Effect of transition to AIFRS $'000	Consolidated AIFRS $'000	Parent Previous AGAAP $'000	Parent Effect of transition to AIFRS $'000	Parent AIFRS $'000
LIABILITIES							
Current liabilities							
Payables		40,799	–	40,799	48	–	48
Interest bearing liabilities		–	–	–	5,224	–	5,224
Provisions	(g),(j)	21,833	531	22,364	–	–	–
Current tax liabilities		2,447	–	2,447	2,447	–	2,447
Other current liabilities	(n)	111,915	8,590	120,505	151	–	151
		176,994	9,121	186,115	7,870	–	7,870
Liabilities directly associated with a disposal group held for sale	(g)	–	287	287	–	–	–
Total current liabilities		176,994	9,408	186,402	7,870	–	7,870
Non-current liabilities							
Interest bearing liabilities		48,559	–	48,559	–	–	–
Provisions		19,746	–	19,746	–	–	–
Deferred tax liabilities	(i), (k)	3,221	359	3,580	3,221	(3,194)	27
Other non-current liabilities	(n)	14,349	(8,590)	5,759	–	–	–
Total non-current liabilities		85,875	(8,231)	77,644	3,221	(3,194)	27
Total liabilities		262,869	1,177	264,046	11,091	(3,194)	7,897
Net assets		**165,977**	**(10,325)**	**155,652**	**168,104**	**(52,414)**	**115,690**
EQUITY							
Members' balances		127,096	–	127,096	126,803	–	126,803
Reserves	(a),(k)	3,338	(641)	2,697	6,122	(6,122)	–
Retained earnings	(m)	35,543	(9,684)	25,859	35,179	(46,292)	(11,113)
Parent entity interest		165,977	(10,325)	155,652	168,104	(52,414)	115,690
Total equity		**165,977**	**(10,325)**	**155,652**	**168,104**	**(52,414)**	**115,690**

42. Explanation of transition to Australian equivalents to IFRSs (continued)

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

		Consolidated			***Parent***		
	Notes	*Previous AGAAP $'000*	*Effect of transition to AIFRS $'000*	*AIFRS $'000*	*Previous AGAAP $'000*	*Effect of transition to AIFRS $'000*	*AIFRS $'000*
ASSETS							
Current assets							
Cash and cash equivalents		123,443	–	123,443	15,429	–	15,429
Receivables	(i)	107,720	–	107,720	15,042	(760)	14,282
Inventories		231	–	231	–	–	–
Other financial assets at fair value through profit or loss		135,630	–	135,630	3,646	–	3,646
Other current assets		6,425	–	6,425	4,212	–	4,212
Total current assets		373,449	–	373,449	38,329	(760)	37,569
Non-current assets							
Receivables		9,555	–	9,555	–	–	–
Other financial assets	(a)	230	–	230	211,020	(60,729)	150,291
Property, plant and equipment	(c),(m)	202,220	(134,482)	67,738	345	–	345
Investment properties	(m)	32,117	128,650	160,767	–	–	–
Intangible assets	(a),(b),(c),(e),(m)	26,914	(5,149)	21,765	–	–	–
Deferred tax assets	(i),(m)	7,577	1,023	8,600	7,577	(6,659)	918
Other non-current assets	(e),(h)	531	151	682	358	–	358
Investments accounted for using the equity method		1,479	–	1,479	–	–	–
Total non-current assets		280,623	(9,807)	270,816	219,300	(67,388)	151,912
Total assets		654,072	(9,807)	644,265	257,629	(68,148)	189,481

	Notes	Consolidated Previous AGAAP $'000	Consolidated Effect of transition to AIFRS $'000	Consolidated AIFRS $'000	Parent Previous AGAAP $'000	Parent Effect of transition to AIFRS $'000	Parent AIFRS $'000
LIABILITIES							
Current liabilities							
Payables		35,457	–	35,457	11,298	–	11,298
Interest bearing liabilities		537	–	537	844	–	844
Provisions		53,186	–	53,186	–	–	–
Current tax liabilities	(o)	12,124	725	12,849	11,596	725	12,321
Other current liabilities	(n)	114,744	110,920	225,664	13	–	13
Total current liabilities		216,048	111,645	327,693	23,751	725	24,476
Non-current liabilities							
Interest bearing liabilities		67,435	–	67,435	–	–	–
Provisions		21,723	–	21,723	–	–	–
Deferred tax liabilities	(i),(k),(l)	7,563	2,571	10,134	7,563	(7,426)	137
Other non current liabilities	(n)	114,822	(110,920)	3,902	–	–	–
Total non-current liabilities		211,543	(108,349)	103,194	7,563	(7,426)	137
Total liabilities		427,591	3,296	430,887	31,314	(6,701)	24,613
Net assets		**226,481**	**(13,103)**	**213,378**	**226,315**	**(61,447)**	**164,868**
EQUITY							
Member's balances	(o)	169,773	(725)	169,048	169,480	(725)	168,755
Reserves	(a),(k)	7,149	(4,687)	2,462	14,430	(14,430)	–
Retained earnings	(m)	49,559	(7,691)	41,868	42,405	(46,292)	(3,887)
Parent entity interest		226,481	(13,103)	213,378	226,315	(61,447)	164,868
Total equity		**226,481**	**(13,103)**	**213,378**	**226,315**	**(61,447)**	**164,868**

42. Explanation of transition to Australian equivalents to IFRSs (continued)

(2) Reconciliation of profit for the year ended 30 June 2005
The note references as disclosed in the reconciliation of profit for year ended 30 June 2005, refer to section 4 of this note – *notes to the reconciliations,* below.

	Notes	Consolidated 2005 $'000	Parent 2005 $'000
Profit from ordinary activities before related income tax expense (AGAAP)		17,362	1,622
Reinstate amortisation of goodwill on indefinite life intangibles	(a),(b),(d),(e),(h)	719	–
Impact of intangibles written-off	(b)	1,045	–
Software and web development costs written-off	(d)	398	–
Reclassification of profit before tax from discontinued operations	(g)	1,930	–
Depreciation of buildings	(k)	(507)	–
Outstanding claims liability	(j)	733	–
Profit/(loss) from continuing operations before income tax expense (AIFRS)		**21,680**	**1,622**

	Consolidated			Parent		
	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue	474,417	(29,693)	444,724	16,553	–	16,553
Expenses, excluding finance costs	(453,930)	34,011	(419,919)	(14,523)	–	(14,523)
Finance costs – net	(3,781)	–	(3,781)	(408)	–	(408)
Share of profit of associates	656	–	656	–	–	–
Profit before income tax	17,362	4,318	21,680	1,622	–	1,622
Income tax (expense)/benefit	(3,937)	(795)	(4,732)	5,604	–	5,604
Profit from continuing operations	13,425	3,523	16,948	7,226	–	7,226
Profit/(loss) from discontinued operations	–	(1,530)	(1,530)	–	–	–
Profit for the year	13,425	1,993	15,418	7,226	–	7,226
Profit attributable to members of Australian Unity Limited	**13,425**	**1,993**	**15,418**	**7,226**	**–**	**7,226**

(3) Reconciliation of cash flow statement for the year ended 30 June 2005
The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Revaluation reserve

Under AASB 138, *Intangible Assets*, from 1 July 2004 the Group is no longer permitted to recognise internally- generated intangible assets. This will result in a change to the current accounting policy under which, for example, the value of management rights in respect of managed funds is reassessed annually, based upon the level of funds under management.

The parent entity has restated all its investments in subsidiaries to cost, less any impairment under AIFRS.

Under previous policy the parent entity treated subsidiaries as a class of assets and net increments or decrements were credited to asset revaluation reserve.

The impacts of these adjustments are:

(i) At 1 July 2004

For the Group the impact in relation to management rights is that the balance of $2,747,000 in the asset revaluation reserve is reduced to zero, and there is $5,059,000 decrease in retained earnings resulting in a $7,806,000 decrease in intangibles.

For the parent entity the impact in relation to shares held in wholly-owned subsidiaries being restated to cost is a $6,122,000 decrease in the asset revaluation reserve, a $46,292,000 decrease in retained earnings and a $52,414,000 decrease in other financial assets.

(ii) At 30 June 2005

For the Group the impact in relation management rights is a $7,174,000 decrease in the asset revaluation reserve, a $4,450,000 decrease in retained earnings and a $11,624,000 decrease in intangibles.

For the parent entity the impact in relation to shares held in wholly-owned subsidiaries being restated to cost is a $14,430,000 decrease in the asset revaluation reserve, a $46,299,000 decrease in retained earnings and a $60,729,000 decrease in other financial assets.

(iii) For the year ended 30 June 2005

For the Group there is a $609,000 decrease in amortisation expense, which comprises $418,000 in relation to internally generated goodwill and $191,000 in relation to the write-back of amortisation due to the remaining management rights having an indefinite life.

For the parent entity there is no impact.

(b) Other intangibles

Under AASB 138, *Intangible Assets*, certain other intangible assets could no longer be carried on the balance sheet. The impacts of the write-off of these items are:

(i) At 1 July 2004

The impact for the Group is a $890,000 decrease in intangibles, offset by a $890,000 decrease in retained earnings.

For the parent entity there is no impact.

(ii) At 30 June 2005

Other intangible assets with an indefinite life at 30 June 2005 had a Group impact of $206,000 increase in intangible assets and a $206,000 increase in retained earnings.

For the parent entity there is no impact.

(iii) For the year ended 30 June 2005

For the Group, amortisation of intangible assets decreases by $1,045,000.

For the parent entity there is no impact.

(c) Capitalised software and web development costs

Under AASB 138, *Intangible assets*, capitalised software and web development costs will be recognised as intangibles rather than property, plant and equipment. This reclassification will not result in a change in the expected useful life of these assets.

The effect is:

(i) At 1 July 2004

For the Group there has been an increase in intangible assets of $6,239,000 offset by a decrease in property, plant and equipment of $6,239,000. There is no effect on the parent entity.

(ii) At 30 June 2005

For the Group there has been an increase in intangible assets of $5,832,000 offset by a decrease in property, plant and equipment of $5,832,000. There is no effect on the parent entity.

(iii) For the year ended 30 June 2005

For the Group depreciation expense for the year has decreased by $621,000 offset by an increase in amortisation expense of $621,000. There is no effect on the parent entity.

(d) Impairment of software and web development costs

Under AASB 136, *Impairment of Assets*, software and web development costs were required to be written off as result of a reassessment of their fair value under AIFRS. Accordingly all software and web development costs previously recognised have been written off in the period commencing 1 July 2004, compared with the period commencing 1 July 2005 under AGAAP.

(i) At 1 July 2004

For the Group there has been a decrease in plant and equipment of $398,000, an increase of $119,000 in deferred tax assets and a $279,000 decrease in retained earnings. There is no effect on the parent entity.

(ii) At 30 June 2005

There is no effect on either the Group or the parent entity.

42. Explanation of transition to Australian equivalents to IFRSs (continued)

(iii) For the year ended 30 June 2005
For the Group depreciation expense for the year has decreased by $65,000, software and web development costs write-off expense has decreased by $332,000 and income tax expense increased by $119,000. There is no effect on the parent entity.

(e) Reclassification of borrowing costs capitalised
Borrowing costs capitalised were shown as intangible assets in the financial statements prepared under AGAAP. These costs have been reallocated to other non-current assets under AIFRS. The effect of the reallocation is:

(i) At 1 July 2004
There was no impact for either the Group or the parent entity.

(ii) At 30 June 2005
For the Group there has been an increase of $270,000 in other non-current assets and a decrease in intangibles of $270,000. There is no effect on the parent entity.

(iii) For the year ended 30 June 2005
There was no impact for either the Group or the parent entity.

(f) Financial instruments
The Group has elected to apply the exemption from restatement of comparatives for AASB 132, *Financial Instruments: Disclosure and Presentation* and AASB 139, *Financial Instruments: Recognition and Measurement*. It has therefore continued to apply the previous AGAAP rules to derivatives, financial assets and financial liabilities and also to hedge relationships for the year ended 30 June 2005. The adjustments required for differences between previous AGAAP and AASB 132 and AASB 139 have been determined and recognised at 1 July 2005. Refer to note 1 and section 5 of this note for further details.

(g) Assets and liabilities of a disposal group held for sale
During the year ended 30 June 2005, the pharmacy operations were sold. Under AIFRS, the profit or loss relating to the discontinued operation, including both the post tax gain or loss on the sale and the post tax operating profit or loss up until the date of sale, is required to be disclosed as a single amount on the face of the income statement. Under AGAAP, the proceeds of divestment must be recognised as revenue and the cost of assets disposed of must be recognised as an expense in the income statement (refer to note 7). Under previous AGAAP these assets were classified in the balance sheet by their nature. AIFRS requires these assets to be re classified and separately identified in the balance sheet as part of a disposal group held for sale.

The impact of the revised disclosure of discontinued operations is:

(i) At 1 July 2004
The impact for the Group is a $3,772,000 decrease in inventories, a $102,000 decrease in receivables, a $16,000 decrease in cash, a $116,000 decrease in other current assets, a $989,000 decrease in property, plant and equipment, a $13,762,000 decrease in intangibles and a $42,000 decrease in other non-current assets. This is offset by a $18,799,000 increase in non-current assets classified as held for sale. In addition, a $287,000 decrease in provisions is offset by a $287,000 increase in liabilities directly associated with a disposal group held for resale.

For the parent entity there is no impact.

(ii) At 30 June 2005
There is no impact for the Group or the parent entity.

(iii) For the year ended 30 June 2005
For the Group profit on sale of discontinued operations decreases by $449,000 and amortisation and depreciation expense decrease by $328,000 and $121,000 respectively. Profit before tax from discontinued operations is reclassified in the income statement.

For the parent entity there is no impact.

(h) Other non-current assets
Under AASB 138, *Intangible Assets*, company restructure costs are not able to be capitalised and must be brought to the profit and loss account in the period in which they are incurred. Accordingly, amounts previously recognised as company restructure costs in other non-current assets have been written-off under AIFRS.

(i) At 1 July 2004
For the Group there has been a decrease in other non-current assets of $173,000 offset by a decrease in retained earnings of $173,000.

There is no effect on the parent entity.

(ii) At 30 June 2005
For the Group there has been a decrease in other non-current assets of $116,000 offset by a decrease in retained earnings of $116,000.

There is no effect on the parent entity.

(iii) For the year ended 30 June 2005
For the Group amortisation expense decreases by $57,000.

There is no effect on the parent entity.

(i) Deferred tax
Under previous AGAAP deferred income tax was recognised in the head entity for entities in a tax group. The application of AASB 112, *Income Taxes* and UIG 1052, *Tax Consolidation Accounting* has resulted in the recognition of deferred tax liabilities in the entity in which they are derived, rather than the head tax entity.
The impact of this is as follows:

(i) At 1 July 2004
For the parent entity deferred tax assets decreased by $3,371,000, deferred tax liabilities decreased by $3,194,000 and intercompany tax receivables increased by $177,000. There is no impact on deferred tax items for the Group.

(ii) At 30 June 2005
For the parent entity deferred tax assets decreased by $6,659,000, deferred tax liabilities decreased by $7,426,000 and intercompany tax receivables decreased by $760,000. There is no impact on deferred tax items for the Group.

(iii) For the year ended 30 June 2005
There is no impact on income tax expense for either the Group or the parent entity.

(j) Outstanding claims liability
For the Group, the outstanding claims liability at 30 June 2004 was determined to be too low if calculated in terms of AASB1023. However the provision at 30 June 2005 was considered to be adequate on an AIFRS basis.

(ii) At 1 July 2004
For the Group, outstanding claims liability increased by $733,000, retained earnings decreased by $733,000. There is no impact on the parent entity.

(ii) At 30 June 2005
No impact on either the Group or the parent entity.

(ii) For the year ended 30 June 2005
For the Group, claims expense decreased by $733,000. There is no impact on the parent entity.

(k) Investment property reclassified to land and buildings on consolidation
For the Group, under AGAAP, certain land and buildings were classified as investment properties. Under AIFRS, these land and buildings are designated as own-use by AASB 140, *Investment Properties* and therefore required to be classified as land and buildings. This adjustment has no impact on the parent entity.

The impact on the Group due to the above is as follows:

(i) At 1 July 2004
For the Group, deferred tax liability increases by $359,000, asset revaluation reserve increases by $2,107,000 and retained earnings decreases by $2,466,000.

(ii) At 30 June 2005
For the Group, buildings increases by $484,000, accumulated depreciation increases by $484,000, deferred tax liability increases by $911,000, asset revaluation reserve increases by $2,488,000 and retained earnings decreases by $3,399,000.

(iii) For the year ended 30 June 2005
For the Group, depreciation expense increases by $484,000, other expenses increase by $23,000 and income tax expense increases by $400,000.

(l) Investment property
Under previous AGAAP the Group measured investment property on a cost basis within the subsidiary, and adjusted the acquisition in relation to that subsidiary to fair value on consolidation. As a consequence, at the date of transition the Group made the decision to recognise investment property at fair value in accordance with AASB 140, *Investment Property*, within the subsidiary. Under AGAAP, the revaluation of these assets was credited to the asset revaluation reserve at a consolidated level, however, because these items are now treated as investment property the revaluation is taken to profit or loss, within the entity concerned. In addition there is a reclassification of items previously disclosed as property, plant and equipment to investment property as required under AIFRS. There is no impact on the parent entity. The effects of these adjustments are:

(i) At 1 July 2004
Investment property increases and other financial assets decreases by $31,128,000. There is no impact on the parent entity.

(ii) At 30 June 2005
Investment property increases and property, plant and equipment decreases by $128,650,000. Deferred tax assets increase by $1,023,000, deferred tax liabilities increase by $1,659,000, goodwill increases by $705,000 and retained earnings increases by $68,000. There is no impact on the parent entity.

(iii) For the year ended 30 June 2005
For the Group, income tax expense decreased by $125,000. There is no impact on the parent entity.

42. Explanation of transition to Australian equivalents to IFRSs (continued)

(m) Retained earnings
The effect on retained earnings of the changes set out above is as follows:

		1 July 2004		*30 June 2005*	
	Notes	*Consolidated $'000*	*Parent $'000*	*Consolidated $'000*	*Parent $'000*
Reinstate amortisation of goodwill on indefinite life intangibles	(c), (h)	–	–	719	–
Impact of intangibles written off	(a), (b), (c), (h)	(6,033)	–	(5,079)	–
Adjustment to subsidiaries being restated to cost	(a)	–	(46,292)	–	(46,299)
Software and web development costs written – off (net of tax)	(d)	(279)	–	–	–
Other non-current assets	(h)	(173)	–	–	–
Outstanding claims liability	(j)	(733)	–	–	–
Land and buildings – consolidation adjustment due to change in nature from investment properties	(k)	(2,466)	–	(3,399)	–
Investment property	(l)	–	–	68	–
Other		–	–	–	7
Total adjustment		**(9,684)**	**(46,292)**	**(7,691)**	**(46,292)**
Attributable to:					
Equity holders of the parent		**(9,684)**	**(46,292)**	**(7,691)**	**(46,292)**

(n) Reclassifications
Due to a change in the definition of current liabilities, refundable lease deposits are treated as a current liability. Under AGAAP refundable lease deposits were treated as non-current. This is due to the definition of current and non-current changing under AIFRS when compared with AGAAP. Under AIFRS, any items payable on demand where the obligation to pay is not able to be deferred beyond twelve months are treated as current. Under AGAAP the allocation was based on the likely timing of an obligation.

(i) At 1 July 2004
For the Group, current liabilities – other, increased by $8,590,000 offset by a decrease in non-current liabilities – other of $8,590,000. There is no impact on the parent entity.

(ii) At 30 June 2005
For the Group, current liabilities – other increased by $110,920,000 offset by a decrease in non-current liabilities – other of $110,920,000. There is no impact on the parent entity.

(iii) For the year ended 30 June 2005
There is no impact for either the Group or parent entity.

(o) Adjustment to assets transferred in on merger
Under AIFRS, the impacts of adjustments to acquisitions are required to be posted to the period the original transaction took place. Under AGAAP the adjustment would be recorded in the current period. The impact of this adjustment is as follows.

(i) At 1 July 2004
There is no impact for either the Group or parent entity.

(ii) At 30 June 2005
Provision for income tax increased and members' balances decreased by $725,000 for both the Group and parent entity.

(iii) For the year ended 30 June 2005
There is no impact for either the Group or parent entity.

(5) Adjustments on transition to AASB 132, *Financial Instruments: Disclosure and Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 1038, Life Insurance Contracts: 1 July 2005

	Consolidated			***Parent***		
	30 June 2005 $'000	*Adjustment $'000*	*1 July 2005 $'000*	*30 June 2005 $'000*	*Adjustment $'000*	*1 July 2005 $'000*
ASSETS						
Current assets						
Cash and cash equivalents	123,443	41,978	165,421	15,429	–	15,429
Receivables	107,720	4,529	112,249	14,282	–	14,282
Inventories	231	–	231	–	–	–
Other financial assets at fair value through profit or loss	135,630	416,893	552,523	3,646	–	3,646
Other current assets	6,425	4,149	10,574	4,212	–	4,212
Total current assets	373,449	467,549	840,998	37,569	–	37,569
Non-current assets						
Receivables	9,555	31,796	41,351	–	–	–
Other financial assets	230	24,236	24,466	150,291	–	150,291
Property, plant and equipment	67,738	–	67,738	345	–	345
Investment properties	160,767	–	160,767	–	–	–
Intangible assets	21,765	–	21,765	–	–	–
Deferred tax assets	8,600	144	8,744	918	–	918
Other non-current assets	682	–	682	358	–	358
Investments accounted for using the equity method	1,479	–	1,479	–	–	–
Total non-current assets	270,816	56,176	326,992	151,912	–	151,912
Total assets	644,265	523,725	1,167,990	189,481	–	189,481
LIABILITIES						
Current liabilities						
Payables	35,457	8,933	44,390	11,298	–	11,298
Interest bearing liabilities	537	–	537	844	–	844
Provisions	53,186	–	53,186	–	–	–
Current tax liabilities	12,849	–	12,849	12,321	–	12,321
Other current liabilities	225,664	3,876	229,540	13	–	13
Benefit fund policy liabilities	–	51,064	51,064	–	–	–
Total current liabilities	327,693	63,873	391,566	24,476	–	24,476
Non-current liabilities						
Interest bearing liabilities	67,435	–	67,435	–	–	–
Provisions	21,723	–	21,723	–	–	–
Deferred tax liabilities	10,134	82	10,216	137	–	137
Other non-current liabilities	3,902	–	3,902	–	–	–
Benefit fund policy liabilities	–	459,579	459,579	–	–	–
Total non-current liabilities	103,194	459,661	562,855	137	–	137
Total liabilities	430,887	523,534	954,421	24,613	–	24,613
Net assets	**213,378**	**191**	**213,569**	**164,868**	**–**	**164,868**

42. Explanation of transition to Australian equivalents to IFRSs (continued)

	Consolidated			Parent		
	30 June 2005 $'000	*Adjustment $'000*	*1 July 2005 $'000*	*30 June 2005 $'000*	*Adjustment $'000*	*1 July 2005 $'000*
EQUITY						
Contributed equity	169,048	–	169,048	168,755	–	168,755
Reserves	2,462	191	2,653	–	–	–
Retained earnings	41,868	–	41,868	(3,887)	–	(3,887)
Parent entity interest	213,378	191	213,569	164,868	–	164,868
Total equity	**213,378**	**191**	**213,569**	**164,868**	**–**	**164,868**

Refer to notes 11 and 1 for further information on the transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* on 1 July 2005. The Group has taken the exemption available under AASB 1, *First time adoption of AIFRS* to only apply AASB 1038 *Life Insurance Contracts* from 1 July 2005. The above table therefore also sets out the impact of adopting AASB 1038 as at 1 July 2005. AASB 1038 requires benefit funds managed by the Group to be included in the consolidated entity. There is no impact on equity upon adoption of AIFRS in relation to benefit funds.

43. General and Health Insurance

The parent entity has no insurance related disclosures. The consolidated entity's disclosures are set out below.

(a) Details of income and expenses

	General Insurance $'000	*Health Insurance $'000*	*Total $'000*
Consolidated			
2006			
Premium revenue	75,175	399,915	475,090
Fire service levies and other income	6,111	–	6,111
Outwards reinsurance premium expense	(29,978)	–	(29,978)
Net premium revenue	51,308	399,915	451,223
Claims expense	(36,536)	(336,773)	(373,309)
Reinsurance and other recoveries revenue	13,274	15,560	28,834
State levies	–	(1,680)	(1,680)
Net claims incurred	(23,262)	(322,893)	(346,155)
Acquisition costs	(20,769)	(15,429)	(36,198)
Other underwriting expenses	(8,658)	(1,479)	(10,137)
Fire service levies paid	(7,398)	–	(7,398)
Commissions received and receivable	7,744	–	7,744
Underwriting expenses	(29,081)	(16,908)	(45,989)
Underwriting result	(1,035)	60,114	59,079
Investment revenue	4,819	18,316	23,135
Other revenues	–	145	145
Salary and employee benefits expense	–	(6,692)	(6,692)
Other expenses from ordinary activities	–	(21,801)	(21,801)
Direct investment expenses	(355)	–	(355)
Profit from ordinary activities before income tax	3,429	50,082	53,511
Income tax benefit/(expense)	(990)	(14,370)	(15,360)
Profit for ordinary activities before income tax	2,439	35,712	38,151

	General Insurance $'000	*Health Insurance $'000*	*Total $'000*
Consolidated			
2005			
Premium revenue	78,467	362,813	441,280
Outwards reinsurance premium expense	(34,928)	–	(34,928)
Net premium revenue	43,539	362,813	406,352
Claims expense	(42,621)	(312,219)	(354,840)
Reinsurance and other recoveries revenue	15,177	17,296	32,473
State levies	–	(1,578)	(1,578)
Net claims incurred	(27,444)	(296,501)	(323,945)
Acquisition costs	(20,414)	(15,204)	(35,618)
Other underwriting expenses	(8,465)	(1,238)	(9,703)
Fire service levies paid	(5,965)	–	(5,965)
Commissions received and receivable	9,277	–	9,277
Fire service levies and other income	9,033	–	9,033
Underwriting expenses	(16,534)	(16,442)	(32,976)
Underwriting result	(439)	49,870	49,431
Investment revenue	3,029	12,706	15,735
Other revenue	–	5	5
Salary and employee benefits expense	–	(4,807)	(4,807)
Other expenses from ordinary activities	–	(24,152)	(24,152)
Direct investment expenses	(693)	–	(693)
Profit from ordinary activities before income tax	1,897	33,622	35,519
Income tax benefit/(expense)	530	(10,168)	(9,638)
Profit from ordinary activities after income tax	2,427	23,454	25,881

43. General and Health Insurance (continued)

(b) Net claims incurred

	2006 Current period $'000	***2006 Prior period $'000***	***2006 Total $'000***
General Insurance			
Direct business			
Gross claims incurred and related expenses	**38,941**	**(2,405)**	**36,536**
Reinsurance and other recoveries	**(12,963)**	**(311)**	**(13,274)**
Net claims incurred	**25,978**	**(2,716)**	**23,262**

	2005 Current period $'000	*2005 Prior period $'000*	*2005 Total $'000*
General Insurance			
Direct business			
Gross claims incurred and related expenses	42,370	251	42,621
Reinsurance and other recoveries	(16,256)	1,079	(15,177)
Net claims incurred	26,114	1,330	27,444

(c) Outstanding claims liability

(i) Reconciliation of movement in discounted outstanding claims liabilities

	General Insurance	
	2006 $'000	*2005 $'000*
Prior Years		
At the beginning of the financial year	**26,860**	23,571
Movement in ultimate incurred costs	**(3,010)**	828
Payments	**(9,724)**	(12,331)
Deferred premium on underwriting year valuations	**218**	279
Movement in discounting	**(107)**	191
Movement in claim handling expenses	**16**	–
Movement in risk margin	**167**	32
	14,420	12,570
Current Year		
At the end of the financial year	**14,280**	14,290
	28,700	26,860
Reinsurance recoveries on outstanding claims liabilities and other recoveries	**11,031**	12,267
Gross outstanding claims liabilities	**39,731**	39,127

(d) Outstanding claims and recoveries

	General Insurance $'000	Health Insurance $'000	Total $'000
Consolidated			
2006			
(i) Outstanding claims			
Central estimate	38,282	32,392	70,674
Risk margin	2,696	3,948	6,644
Claims handling costs	1,531	926	2,457
	42,509	37,266	79,775
Discount to present value	(2,778)	–	(2,778)
Liability for outstanding claims	39,731	37,266	76,997
Current	21,857	37,266	59,123
Non-current	17,874	–	17,874
	39,731	37,266	76,997
(ii) Reinsurance and other recoveries			
Expected future claim payments (undiscounted)	11,379	4,229	15,608
Discount to present value	(348)	–	(348)
Reinsurance and other recoveries	11,031	4,229	15,260
Current	7,949	4,229	12,178
Non-current	3,082	–	3,082
	11,031	4,229	15,260
2005			
(i) Outstanding claims			
Central estimate	37,701	26,462	64,163
Risk margin	1,492	4,247	5,739
Claims handling costs	2,240	899	3,139
	41,433	31,608	73,041
Discount to present value	(2,307)	–	(2,307)
Liability for outstanding claims	39,126	31,608	70,734
Current	21,447	31,608	53,055
Non-current	17,679	–	17,679
	39,126	31,608	70,734
(ii) Reinsurance and other recoveries			
Expected future claim payments (undiscounted)	12,664	5,172	17,836
Discount to present value	(397)	–	(397)
Reinsurance and other recoveries	12,267	5,172	17,439
Current	7,410	5,172	12,582
Non-current	4,857	–	4,857
	12,267	5,172	17,439

43. General and Health Insurance (continued)

General insurance
(iii) The following average nominal inflation rates and discount rates were used in the measurement of outstanding claims for succeeding and subsequent years:

Inflation rate – n/a*

Discount rates – Liability classes 5.75% (2005: 5.25%)

* The valuation method used for determination of the known claims liabilities has no explicit inflation assumption.

(iv) The weighted average expected term to settlement of claims from the balance date is estimated to be 1.5 years.

(v) Liability adequacy testing

The calculation of the above outstanding claims and recoveries has identified that there is no deficiency for outstanding claims and recoveries at 30 June 2006 (2005: no deficiency).

Health insurance
(vi) The expected future payments are expected to be settled within one year and as such the undiscounted value equals their present value.

(vii) The risk margin of $3,948,000 (2005: $4,247,000) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2005: 95%). The risk margin has been based on an analysis of the past experience of the business. This analysis modelled the volatility of past payments and the results are assumed to be indicative of future volatility.

(viii) The outstanding claims estimate is derived using all data combined in an aggregate model. As such diversification benefits have been implicitly allowed for in this process. The outstanding claims liability has been estimated using a stochastic model, based on historical experience. Alternatively it is derived using separate calculations on the data for hospital claims and ancillary claims and where this is the case, the outstanding claims liability has been calculated by the fund's external actuary using a modified chain ladder method.

(ix) The weighted average expected term to settlement of claims from the balance sheet date is estimated to be 1.2 months.

(x) The calculation of the above outstanding claims and recoveries has identified that there is no deficiency for outstanding claims and recoveries at 30 June 2006 (2005: no deficiency) at a 95% probability of adequacy.

(e) Claims development tables
General insurance business

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the five most recent accident years in respect of long tail classes.

	2002 *$'000*	*2003* *$'000*	*2004* *$'000*	*2005* *$'000*	*2006* *$'000*	*Total* *$'000*
Gross						
Accident year						
Estimate of ultimate claims cost:						
At end of accident year	–	7,771	7,216	6,223	7,311	–
One year later	3,633	5,482	6,301	5,680	–	–
Two years later	3,997	5,354	5,002	–	–	–
Three years later	3,564	4,599	–	–	–	–
Four years later	3,769	–	–	–	–	–
Current estimate of cumulative claims cost	3,769	4,599	5,002	5,680	7,311	26,361
Cumulative payments	(3,102)	(2,160)	(1,044)	(606)	(257)	(7,169)
Outstanding claims – undiscounted	**667**	**2,439**	**3,958**	**5,074**	**7,054**	**19,192**
Discount						(2,180)
Claims handling expense						680
Risk margin						1,750
Outstanding claims						**19,442**
Long tail outstanding claims – 2001 and prior						2,265
Short tail outstanding claims						18,024
Total gross outstanding claims per the Balance Sheet						**39,731**

	2002 *$'000*	2003 *$'000*	2004 *$'000*	2005 *$'000*	2006 *$'000*	*Total* *$'000*
Net						
Accident year						
Estimate of ultimate claims cost:						
At end of accident year	–	7,020	6,394	5,465	6,756	–
One year later	3,031	4,812	5,618	5,043	–	–
Two years later	3,224	4,641	4,547	–	–	–
Three years later	2,878	4,438	–	–	–	–
Four years later	3,171	–	–	–	–	–
Current estimate of cumulative claims cost	3,171	4,438	4,547	5,043	6,756	23,955
Cumulative payments	(2,505)	(2,160)	(1,044)	(606)	(257)	(6,572)
Outstanding claims – undiscounted	**666**	**2,278**	**3,503**	**4,437**	**6,499**	**17,383**
Discount						(1,974)
Claims handling expense						680
Risk margin						1,752
Outstanding claims						**17,841**
Long tail outstanding claims – 2001 and prior						1,002
Short tail outstanding claims						9,857
Total net outstanding claims per the Balance Sheet						**28,700**

Health insurance business

The Health insurance business is short term in nature, with all claims generally settled within twelve months of being incurred.

(f) Actuarial assumptions and methods

The Group writes two broad categories of business: General insurance and Health insurance. The process for determining the value of outstanding claims liabilities in respect of these classes is described below.

Health Insurance

With the health insurance business, there is not a significant delay between the occurrence of the claim and the claim being reported to the Group. The costs of claims notified to the group at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

General Insurance

The Group controls a company which writes general insurance business. The process for determining the value of outstanding claims liabilities is described below:

Short tail classes

With the general insurance business, there is not a significant delay between the occurrence of the claim and the claim being reported to the company. The costs of claims notified to the company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Liability and Owner Builder Insurance

The outstanding liability for this class is estimated based on the individual case estimates on each claim at the balance date plus an allowance for claims that have occurred but are yet to be reported (IBNR). This allowance takes into account the expected cost of claims per policy (expressed as a loss ratio) and the proportion of losses yet to be recognised. These assumptions are derived from analysis of the portfolio experience with due consideration to other industry statistics. Payments for Liability and Owner Builder classes are discounted to allow for the time value of money. For other classes, given the short period to time between the date of claim and settlement, no allowance is made for discounting. Risk margins are added to the estimated liabilities to allow for the inherent uncertainties in the estimates.

43. General and Health Insurance (continued)

Actuarial assumptions
The following assumptions have been made in determining the outstanding claims liabilities.

	2006 General Insurance	*2005 General Insurance*
Average weighted term to settlement from reporting date	0 – 4 years	0 – 4 years
Average claim frequency (claims per 100 policies)	4%	4%
Claims handling expense rate	5.75%	5.25%

Process used to determine assumptions
A description of the processes used to determine these assumptions is provided below:

Average weighted term to settlement
The average weighted term to settlement is calculated separately by class of business based on historic settlement patterns.

Average claim frequency
Claim frequency for the current underwriting year is initially estimated by projecting the number of claims incurred and dividing this by the number of policies in force. The initial estimates are compared to previous experience and adjusted if required.

Claims handling expense rate
Claims handling expenses were calculated by reference to past experience of claims handling costs as a percentage of past payments.

Summary
The Company conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Company. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit/(loss) and equity to changes in these assumptions both gross and net of reinsurance.

Variable	*Impact of movement in variable*
Average weighted term to settlement	A decrease in the average term to settlement in the product liability class would lead to more claims being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term would have a corresponding increase or decrease on claims expense respectively.
Average claim frequency	Claims frequencies are used in determining the level of claims incurred but not reported (IBNR). An increase or decrease in the assumed average frequency levels would have a corresponding impact on claims expense.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.
Inflation and superimposed inflation rates	Expected future payments are inflated to take account of inflationary increases. In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards. Such rates of superimposed inflation are specific to the model adopted. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding impact on claims expense, with particular reference to longer tail business.
Initial loss ratio	Claims costs for Liability and Owner Builder are determined with reference to an initial loss ratio. An increase or decrease in the initial loss ratio would have a corresponding impact on claims expense.
Future claims development	Short tail classes liability are determined using factors to develop reported losses to ultimate. An increase or decrease in the assumed factors will have a corresponding impact on claims expense.

Impact of changes in key variables

	Gross of reinsurance $'000	*Net of reinsurance $'000*	*Equity $'000*
Recognised amounts per the financial statements	39,731	28,700	24,373

Variable	*Movement in variable*	*Impact – profit/(loss)*		*Adjusted equity*
General Insurance				
Initial loss ratio – latest year	+10%	(1,170)	(982)	23,391
	-10%	1,170	982	25,355
Future claims development factor – latest year	+5%	(1,611)	(1,139)	23,234
	-5%	1,139	821	25,194
Expense rate	+1%	(390)	(390)	23,983
	-1%	390	390	24,763
Discount rate	+2%	829	724	25,097
	-2%	(895)	(782)	23,591

(g) Insurance contracts – risk management policies and procedures

The financial condition and operation of the Company are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Company's policies and procedures in respect of managing these risks are set out in this note.

(i) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Group has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

In accordance with Prudential Standards GPS 220 *Risk Management for General Insurers* and GPS 230 *Reinsurance Arrangements for General Insurers* issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Company have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non financial, likely to be faced by the Company. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and REMS.

The RMS and REMS have been approved by both the Board and APRA. Key aspects of the processes established in the RMS to mitigate risks include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Natural disasters such as bushfires are more challenging to manage. We monitor exposure to such risks through special modelling techniques involving the collation of data on weather patterns which support decisions on limiting exposure.
- Reinsurance is used to limit the group's exposure to large single claims and catastrophes. When selecting a reinsurer we only consider those companies that provide high security. In order to assess this we use rating information from the public domain or gathered through internal investigations.

43. General and Health Insurance (continued)

- In order to limit concentrations of credit risk, in purchasing reinsurance the group has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or group of related reinsurers.
- The mix of assets in which we invest is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.
- The diversification of business over two classes of insurance, three geographical segments and large numbers of uncorrelated individual risks seeks to reduce variability in loss experience.

(ii) Terms and conditions of insurance and inwards reinsurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the group. The majority of direct insurance contracts written are entered into on a standard form basis. All inwards reinsurance contracts are subject to substantially the same terms and conditions. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

(iii) Concentration of insurance risk

The group's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into two classes of business across three territories. Specific processes for monitoring identified key concentrations are set out below.

Risk	*Source of concentration*	*Risk management measures*
Natural catastrophes	Properties concentrated in regions that are subject to: – Earthquakes – Bushfires – Cyclones – Hail storms	The Group's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas. The Group has modelled aggregated risk by postcode using commercially available catastrophe models. The Group's exposure data across the Australian portfolio encompasses all fire risks. Based on the probable maximum loss per the models, the Group purchases catastrophe reinsurance cover to limit exposure to any single event.

(iv) Development of claims

There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The tables in note 43(e) show our estimates of total claims outstanding for each underwriting year at successive year ends.

(v) Interest rate risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the group are directly exposed to interest rate risk.

Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable.

(vi) Credit risk

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date.

There are no significant concentrations of credit risk.

44. Benefit fund policy liabilities

The company has no life insurance related disclosures. The consolidated entity's life insurance disclosures are set out below and reflect the operations of the benefit funds managed by the Group. Where possible, the Group has taken the option available under AASB 1038 to not disclose comparative figures.

(a) Analysis of policy liabilities

	Consolidated 30 June 2006 $'000	*Consolidated 30 June 2005 $'000*	***Parent 30 June 2006 $'000***	*Parent 30 June 2005 $'000*
Life investment contract liabilities	**64,342**	–	**–**	–
Life insurance contract liabilities	**426,623**	–	**–**	–
Unvested policyholder liabilities	**23,373**	–	**–**	–
Total policy liabilities	**514,338**	–	**–**	–
Expected to be realised within 12 months	**45,949**	–	**–**	–
Expected to be realised in more than 12 months	**468,389**	–	**–**	–
	514,338	–	**–**	–

(b) Reconciliation of changes in policy liabilities

	Consolidated 30 June 2006 $'000	*Consolidated 30 June 2005 $'000*	***Parent 30 June 2006 $'000***	*Parent 30 June 2005 $'000*
Life investment contract liabilities at the beginning of the year	**54,345**	–	**–**	–
Increase/(decrease) in life investment contact liabilities recognised in the income statement	**6,428**	–	**–**	–
Contributions recognised as a change in contract liabilities	**7,893**	–	**–**	–
Withdrawals recognised as a change in contract liabilities	**(4,324)**	–	**–**	–
Life investment contact liabilities at the end of the year	**64,342**	–	**–**	–
Net life insurance contract liabilities at the beginning of the year	**429,889**	–	**–**	–
Increase/(decrease) in life insurance contract liabilities recognised in the income statement	**(3,266)**	–	**–**	–
Life investment contact liabilities at the end of the year	**426,623**	–	**–**	–
Unvested policyholder benefits liability at the beginning of the year	**26,409**	–	**–**	–
Movement in unvested policyholder benefits liability recognised through income statement	**(3,036)**	–	**–**	–
Unvested policyholder benefits liability at the end of the year	**23,373**	–	**–**	–
Net policy liabilities at the end of the year	**514,338**	–	**–**	–

44. Benefit fund policy liabilities (continued)

(c) Analysis of policy liability income, expenses and cashflows

	Consolidated 30 June 2006 $'000	*Consolidated 30 June 2005 $'000*	**Parent 30 June 2006 $'000**	*Parent 30 June 2005 $'000*
Revenue				
Total life insurance and participating contract premium revenue	**15,260**	–	–	–
Reinsurance recoveries	**(282)**	–	–	–
Life insurance and participating contract premium revenue	**14,978**	–	–	–
Financial assets held at fair value through profit and loss				
– Interest income	**443**	–	–	–
– Distribution income	**36,646**	–	–	–
– Realised gains	**8,276**	–	–	–
– Unrealised losses	**(11,720)**	–	–	–
Other investment income	**2,030**	–	–	–
Other income	**641**	–	–	–
Total revenue from benefit funds	**51,294**	–	–	–
Expenses				
Total life insurance and participating contract claims expense	**37,634**	–	–	–
Reinsurance recoveries	**(154)**	–	–	–
Life insurance and participating contract claims expense	**37,480**	–	–	–
Policy maintenance expenses – Life insurance contracts	**35**	–	–	–
Other expenses	**6,708**	–	–	–
Movement in life insurance contracts	**(3,266)**	–	–	–
Movement in unvested policyholder liabilities	**(3,037)**	–	–	–
Movement in investment contract liabilities	**6,428**	–	–	–
	44,348	–	–	–
Finance costs	**118**	–	–	–
Total expenses from life insurance business	**44,466**	–	–	–

(d) Actuarial methods and assumptions

The effective date of the actuarial report on policy liabilities and solvency reserves is 30 June 2006. The actuarial report was prepared by the appointed actuary Mr Carl Stevenson, FIAA. The appointed actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined. The policy liabilities have been determined in accordance with the requirements of the Life Insurance Act 1995 consistent with the relevant accounting standards.

The policy liabilities for Benefit Funds are determined in accordance with Actuarial Standard 1.04 issued by the Life Insurance Actuarial Standards Board under the Life Insurance Act 1995.

The policy liabilities for the traditional insurance funds (insurance contract liabilities) are valued under a projection method, estimates of future cash flows (premium, expenses, interest and benefits) are projected into the future. The policy liability is then calculated as the net present value of these projected cash flows. Allowance has been made for tax and fees where appropriate. The benefit fund rules of the traditional insurance funds allow for surplus to be transferred to the management fund or to be used for the enhancement of member benefits. It is therefore appropriate to treat surplus as unvested policyholder liabilities.

For the investment account funds (participating investment contract liabilities) other than funeral funds, the policy liabilities are valued using the accumulation method and are equal to the contributions made by members, net of contribution fees, together with bonus additions to date. The balance of the fund is then described as unvested policyholder benefit liabilities. For the Funeral Funds, the policy liability has been taken to be the value of assets of the fund net of other liabilities less the value of the current period bonus. This liability represents the present value of guaranteed benefits (pre bonus) plus the present value of future bonuses.

The liability valuation for unit-linked funds (investment contract liabilities) are equal to the number of units held, multiplied by the unit redemption price as at the valuation date.

Discount rate
Where benefits are contractually linked to the return on the assets backing policy liabilities the discount rate is based on the weighted average expected returns on the various asset classes underlying the fund.

The key assumptions for the insurance contract liability valuation have been a discount rate based on the risk free rate applicable to the average term of the liabilities. The discount rate, which is based on the expected future earnings (net of tax and expenses) on the assets, ranges from 3.05% to 4.37% (2005: 2.59% to 5.73%).

Future maintenance and investment expenses
Future maintenance expenses are assumed at current levels based on recent experience. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.

Mortality assumption
The mortality basis used for this valuation assumes mortality of members to be at 80% of Australian Life Tables (ALT) (Male & Female) 2000 – 2002. (2005: 80% of ALT 2000 – 2002).

Taxation
Rates of taxation in Australia are assumed to continue at current levels, in accordance with legislation known at the valuation date.

Surrender values
Where a surrender option exists, surrender values are based on the provisions specified within the policy contract. Surrender values assumed are those current at the reporting date.

Profit carriers
Each benefit fund contributes to the Management Fund (the company) via any fee transfers authorised in the benefit fund rules and transfers of a part of surplus disclosed in authorised fund valuations. Profit is equivalent to the authorised surplus transfers to the Management Fund and therefore profit carriers are not applicable.

Restrictions on assets
Assets held in statutory funds for the benefit of policyholders can only be used in accordance with the Life Insurance Act regulations.

Assets backing policy liabilities
Assets backing life insurance business liabilities are measured at fair value through profit and loss. All of the assets that back life insurance and investment contract liabilities are included within the benefit funds and are separately identifiable.

Future participating benefits
The bonus rates assumed are those supported by policy liabilities. The bonus rates are based on investment returns net of ongoing expenses and taxation after allowing for a suitable safety margin.

44. Benefit fund policy liabilities (continued)

Sensitivity analysis
The company has no material sensitivity analysis to disclose. If experience varies from expected then the member liabilities and the unvested policyholder liabilities will change by equal and opposite amounts. As the company maintains sufficient unallocated surplus to cover fluctuations in experience, there is no impact on equity.

Effects of changes in assumptions
There are no material changes in actuarial assumptions which affect the valuation of policy liabilities from 30 June 2005 to 30 June 2006.

(e) Nature of risks arising from insurance contracts
The funds are exposed to insurance risk and the principal risk arising under insurance contracts is that benefit payments exceed the carrying amount of insurance liabilities.

Life insurance contracts included within the benefit funds include endowments, contracts for lump sum risk and benefits paid for death or ill health. Endowment benefits are paid automatically upon reaching required age. Death benefits must be claimed.

The Group is exposed to mortality risk on certain products. Higher mortality rates would lead to increased claims costs.

The funds limit exposure to insurance risk by ceding part of the liabilities assumed through reinsurance. For the unit-linked business the financial risks on these contracts are borne by the policyholder because there is a direct link between the investments and the liability obligations.

Bonuses declared are recommended and reviewed by the AU Investment Committee. The company also uses the appointed actuary's annual financial conditions report to inform decisions on capital management issues.

Concentrations
The Group is not exposed to large concentrations of insurance risk. Mortality risk is adequately reinsured with high rated counterparties thereby reducing concentration risk. The Appointed Actuary provides advice of the suitability of reinsurance arrangements annually.

Interest rate risk
The management of the risks associated with investments undertaken by benefit funds, including interest rate risk, is subject to the requirements of the relevant regulatory requirements, which are governed by the Life Insurance Act 1995. This includes satisfying solvency requirements, which requires statutory reserves to be held specifically to address interest rate risk to the extent that assets are not matched against liabilities.

Credit risk
Credit risk arises in relation to investments in financial assets. Credit risk is monitored by exposure limits to counter parties. These limits are determined by reference to third party credit ratings. The Group does not have any significant concentrations of credit risk. The maximum exposure to credit risk at balance date in relation to financial assets is the carrying amount of those assets as indicated in the balance sheet.

(f) Solvency information

Under the Life Insurance Act 1995, life insurers are required to hold prudential reserves in excess of the amount of policy liabilities as a buffer against adverse experience and poor investment returns. The minimum level of reserves required to be held are specified by the Life Insurance Act 1995 and the accompanying actuarial standards.

The figures in the table below represent the number of times coverage for each fund of the assets available for solvency over the solvency reserve.

	SR ratio 2006 $'000	*SR ratio 2005 $'000*
Ratio of solvency requirement (SR) to gross assets		
Capital Guaranteed Bond	**99.78**	–
Capital Guaranteed Mortgage Bond	**99.64**	–
Growth Fund	**95.80**	–
Capital Guaranteed Funeral Bond (Non-taxable)	**100.00**	–
Capital Secure Funeral Bond	**100.00**	–
AU Capital Guaranteed Funeral Bond (Taxable)	**100.00**	–
Central Sick and Funeral Fund	**87.70**	–
Endowment Fund	**81.30**	–
Funeral Fund	**86.30**	–
Personal Risk Fund	**56.50**	–
Assurance Benefit Fund	**88.90**	–
Grand Bonds Assurance Fund	**98.51**	–
Life Assurance Fund	**91.40**	–
Capital adequacy		

The aggregated entity has maintained adequate levels of capital in accordance with the prudential standards specified by the Life Insurance Act 1995.

(g) Disaggregated information – Statutory Funds

Note 45 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

45. Disaggregated information for benefit funds – income statements for the year ended 30 June 2006

	Total *$'000*
Direct life insurance premium revenue	678
Outwards reinsurance expense	(282)
Net life insurance premium revenue	396
Deposits received – investment contracts with DPF	14,582
Investment income	35,675
Other revenue	641
Total revenue	51,294
Life insurance claims expense	2,332
Reinsurance recoveries	(154)
Net life insurance contract claims expense	2,178
Benefits and withdrawals paid – investment contracts with DPF	35,302
Decrease in policyholder liabilities – investment contracts with DPF	(20,721)
Distribution to policyholders	20,846
Other expenses	6,743
Total expenses	44,348
Profit before tax and financing costs	6,946
Finance costs	(118)
Profit before tax	6,828
Income tax expense	(6,828)
Profit after tax	–

Endowment Fund $'000	Funeral Fund $'000	Personal Risk Fund $'000	Assurance Benefit Fund $'000	Income Protection Insurance Fund $'000	Life Insurance Fund $'000	Central Sick and Funeral Fund $'000
			Non investment-linked Insurance contacts			
–	–	457	21	154	40	6
–	–	(282)	–	–	–	–
–	–	175	21	154	40	6
–	–	–	–	–	–	–
16	29	23	148	64	1,116	629
–	–	–	–	–	–	–
16	29	198	169	218	1,156	635
79	545	160	593	274	432	249
–	–	(154)	–	–	–	–
79	545	6	593	274	432	249
–	–	–	–	–	–	–
–	–	–	–	–	–	–
(71)	(722)	(6)	(620)	(58)	225	137
–	206	200	247	28	248	131
8	29	200	220	244	905	517
8	–	(2)	(51)	(26)	251	118
–	–	–	–	–	–	(118)
8	–	(2)	(51)	(26)	251	–
(8)	–	2	51	26	(251)	–
–	–	–	–	–	–	–

45. Disaggregated information for benefit funds – income statements for the year ended 30 June 2006 (continued)

	Capital Guaranteed Funeral Bond $'000	*Capital Secure Funeral Bond $'000*	*Capital Guaranteed Funeral Bond (Taxable) $'000*	*Capital Guaranteed Bond $'000*	*Capital Guaranteed Mortgage Bond $'000*	*Grand Bonds Assurance Fund $'000*	*Growth Fund $'000*
	Investment-linked Life investment contracts with discretionary participating features						
Direct life insurance premium revenue	–	–	–	–	–	–	–
Outwards reinsurance expense	–	–	–	–	–	–	–
Net life insurance premium revenue	–	–	–	–	–	–	–
Deposits received – investment contracts with DPF	223	48	11,001	2,123	1,115	72	–
Investment income	3,553	2,767	1,937	12,767	3,232	483	6
Other revenue	–	–	–	–	–	–	–
Total revenue	3,776	2,815	12,938	14,890	4,347	555	6
Life insurance claims expense	–	–	–	–	–	–	–
Reinsurance recoveries	–	–	–	–	–	–	–
Net life insurance contract claims expense	–	–	–	–	–	–	–
Benefits and withdrawals paid – investment contracts with DPF	3,556	3,255	2,308	21,960	3,711	511	1
Decrease in policyholder liabilities – investment contracts with DPF	(3,333)	(3,208)	8,693	(19,836)	(2,596)	(440)	(1)
Distribution to policyholders	2,657	2,284	1,110	7,154	2,037	287	4
Other expenses	896	484	374	2,628	337	75	1
Total expenses	3,776	2,815	12,485	11,906	3,489	433	5
Profit before tax and financing costs	–	–	453	2,984	858	122	1
Finance costs	–	–	–	–	–	–	–
Profit before tax	–	–	453	2,984	858	122	1
Income tax expense	–	–	(453)	(2,984)	(858)	(122)	(1)
Profit after tax	–	–	–	–	–	–	–

Education Bond – Short Term Portfolio $'000	Education Bond – Medium Term Portfolio $'000	Education Bond – Long Term Portfolio $'000	Balanced Growth Bond $'000	Conservative Growth Bond $'000	High Growth Bond $'000
		Investment-linked Investment contracts			
–	–		–	–	–
–	–		–	–	–
–	–		–	–	–
–	–		–	–	–
19	266	973	5,289	1,364	994
1	12	43	384	125	76
20	278	1,016	5,673	1,489	1,070
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
13	186	688	3,897	888	756
3	27	86	485	204	83
16	213	774	4,382	1,092	839
4	65	242	1,291	397	231
–	–	–	–	–	–
4	65	242	1,291	397	231
(4)	(65)	(242)	(1,291)	(397)	(231)
–	–	–	–	–	–

45. Disaggregated information for benefit funds – balance sheets as at 30 June 2006

	Total *$'000*
ASSETS	
Current assets	
Cash and cash equivalents	1,596
Loans and receivables	14,725
Financial assets at FVTPL[1]	423,353
Total current assets	439,674
Non-current assets	
Loans and receivables	19,579
Financial assets at FVTPL[1]	64,615
Deferred tax	2,314
Total non-current assets	86,508
Total assets	526,182
LIABILITIES	
Current liabilities	
Payables	872
Non-interest bearing liabilities	10,134
Benefit fund policy liabilities	45,949
Total current liabilities	56,955
Non-current liabilities	
Deferred tax liabilities	838
Benefit fund policy liabilities	468,389
Total non-current liabilities	469,227
Total liabilities	526,182
Net assets	–

[1] FVTPL = Fair Value Through Profit and Loss

Endowment Fund $'000	Funeral Fund $'000	Personal Risk Fund $'000	Assurance Benefit Fund $'000	Income Protection Insurance Fund $'000	Life Insurance Fund $'000	Central Sick and Funeral Fund $'000
			Non investment-linked Insurance contacts			
2	1	1	1	1	2	1
1	2	34	4	5	319	172
188	152	323	778	1,073	13,107	6,196
191	155	358	783	1,079	13,428	6,369
–	–	–	25	–	–	–
885	10,386	–	11,413	–	184	734
11	–	–	34	–	7	–
896	10,386	–	11,472	–	191	734
1,087	10,541	358	12,255	1,079	13,619	7,103
–	–	68	20	35	21	25
17	(21)	(21)	117	(9)	436	42
106	1,056	31	1,203	105	1,307	704
123	1,035	78	1,340	131	1,764	771
7	–	1	87	2	96	–
957	9,506	279	10,828	946	11,759	6,332
964	9,506	280	10,915	948	11,855	6,332
1,087	10,541	358	12,255	1,079	13,619	7,103
–	–	–	–	–	–	–

45. Disaggregated information for benefit funds – balance sheets as at 30 June 2006 (continued)

	Capital Guaranteed Funeral bond $'000	*Capital Secure Funeral Bond $'000*	*Capital Guaranteed Funeral Bond (Taxable) $'000*	*Capital Guaranteed Bond $'000*	*Capital Guaranteed Mortgage Bond $'000*	*Grand Bonds Assurance Fund $'000*	*Growth Fund $'000*
				Investment-linked Life investment contracts with discretionary participating features			
ASSETS							
Current assets							
Cash and cash equivalents	225	489	2	4	2	1	1
Loans and receivables	134	95	176	949	229	41	–
Financial assets at FVTPL[1]	30,922	22,601	35,177	200,800	48,998	8,517	110
Total current assets	31,281	23,185	35,355	201,753	49,229	8,559	111
Non-current assets							
Loans and receivables	–	–	–	13,150	6,299	–	–
Financial assets at FVTPL[1]	22,641	18,372	–	–	–	–	–
Deferred tax	–	–	–	10	–	–	–
Total non-current assets	22,641	18,372	–	13,160	6,299	–	–
Total assets	53,922	41,557	35,355	214,913	55,528	8,559	111
LIABILITIES							
Current liabilities							
Payables	76	41	(14)	270	26	5	1
Non-interest bearing liabilities	32	24	399	2,650	852	245	5
Benefit fund policy liabilities	3,552	3,236	2,686	21,382	3,657	506	1
Total current liabilities	3,660	3,301	3,071	24,302	4,535	756	7
Non-current liabilities							
Deferred tax liabilities	–	–	91	290	63	12	–
Benefit fund policy liabilities	50,262	38,256	32,193	190,321	50,930	7,791	104
Total non-current liabilities	50,262	38,256	32,284	190,611	50,993	7,803	104
Total liabilities	53,922	41,557	35,355	214,913	55,528	8,559	111
Net assets	–	–	–	–	–	–	–

[1] FVTPL = Fair Value Through Profit and Loss

	Education Bond – Short Term Portfolio $'000	*Education Bond – Medium Term Portfolio $'000*	*Education Bond Long Term Portfolio $'000*	*Balanced Growth Bond $'000*	*Conservative Growth Bond $'000*	*High Growth Bond $'000*
			Investment-linked Investment contracts			
	24	100	296	204	131	108
	21	374	1,569	7,773	1,376	1,451
	168	1,373	4,272	29,288	15,235	4,075
	213	1,847	6,137	37,265	16,742	5,634
	–	–	–	105	–	–
	–	–	–	–	–	–
	5	104	453	1,247	186	257
	5	104	453	1,352	186	257
	218	1,951	6,590	38,617	16,928	5,891
	–	3	13	142	131	9
	18	225	781	3,277	700	365
	20	172	579	3,716	1,286	644
	38	400	1,373	7,135	2,117	1,018
	–	1	4	144	27	13
	180	1,550	5,213	31,338	14,784	4,860
	180	1,551	5,217	31,482	14,811	4,873
	218	1,951	6,590	38,617	16,928	5,891
	–	–	–	–	–	–

46. Reconciliation of profit attributable to members of Australian Unity Limited

Income statement for the year ended 30 June 2006

	Attributable to members of Australian Unity Limited $'000	*Attributable to Benefit Fund policyholders $'000*	*Consolidated Income Statement $'000*
Revenue from continuing operations	**563,066**	–	563,066
Direct life insurance premium revenue	–	678	678
Outwards reinsurance expense	–	(282)	(282)
	563,066	396	563,462
Deposits received – investment contracts with DPF[1]	–	14,582	14,582
Investment income	–	35,675	35,675
Other revenue	–	641	641
Total revenue	**563,066**	51,294	614,360
Life insurance claims expense	–	2,332	2,332
Reinsurance recoveries	–	(154)	(154)
Benefits and withdrawals paid – investment contracts with DPF[1]	–	35,302	35,302
Decrease in policyholder liabilities – investment contracts with DPF[1]	–	(20,721)	(20,721)
Distribution to policyholders	–	20,846	20,846
Expenses excluding finance costs	**529,642**	6,743	536,385
Total expenses, excluding finance costs	**529,642**	44,348	573,990
Finance costs	**(6,012)**	(118)	(6,130)
Share of net profits of associates accounted for using the equity method	**784**	–	784
Profit from continuing operations before tax	**28,196**	6,828	35,024
Income tax expense	**(4,378)**	(6,828)	(11,206)
Profit from continuing operations after tax	**23,818**	–	23,818

[1] DPF = Discretionary Participating Feature

47. Capital Adequacy

Legislation requires a number of the Group's controlled entities to maintain certain levels of capital. Throughout the year ended 30 June 2006 and currently, these controlled entities have maintained capital in excess of prudential requirements at all times.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 39 to 124 are in accordance with the Corporations Act 2001, including:

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

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Group will be able to meet any obligations or liabilities to which they are, or may become, subject.

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

Alan Castleman
Chairman
South Melbourne
30 August 2006

Rohan Mead
Group Managing Director
South Melbourne
30 August 2006

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Independent audit report to members of Australian Unity Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Australian Unity Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

ERNST & YOUNG

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

The financial report of Australian Unity Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the financial position of Australian Unity Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

A J (Tony) Johnson
Partner
Melbourne
30 August 2006

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