Thinking *Ahead*

Annual Report
2007

Australian Unity

Hello

At Australian Unity, we are proud of our past and enthusiastic about our future. In recent months, legislative change has opened up new opportunities for us to create and develop new ideas for our businesses. We are very excited about delivering them.

The mutual sector, of which we are part, is expected to undergo some changes in the near term. We view these changes favourably as we believe they afford us potential for consolidating our position as one of Australia's most trusted and respected member-based organisations.

This year, we have a fresh new look and logo. But in this changing world, our values remain constant. We believe that our members can and should be the best, the healthiest and the most prosperous they can be. Their wellbeing is at the heart of everything we do.

Looking ahead more broadly, our wider community is beginning to face enormous new challenges in light of economic and demographic shifts. We intend to keep doing what we can to help our members create sustainable futures for themselves and their families.

Australian Unity is a national health, financial services and retirement living organisation with more than $680 million in revenues, and some 400,000 customers including some 190,000 members nationwide. Our operations employ some 1,250 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. We expanded further in 2005 through a merger with Grand United Friendly Society Limited.

Statistics: Data sources for industry statistics included in this Annual Report are listed on page 40.

Annual Highlights

	2007	06	05	04	03
health claims paid for members	$357m	$337m	$271m	$231m	$204m
retirement units and aged care places	2,095	1,970	1,934	1,516	418
funds under management	$5,721m	$3,564m	$2,864m	$2,334m	$1,750m
funds under advice	$300m	$190m	$125m	$60m	$27m
revenues	$684m	$614m	$445m	$402m	$363m
profit before tax	$42.3m	$28.2m	$21.7m	$12.6m	$7.1m
members' funds	$270m	$238m	$213m	$156m	$158m

Up By

$20m more health claims paid for members

125 new retirement units

$2,157m increase in funds under management

57% increase in funds under advice

11.3% increase in revenues

$14.1m increase in profit before tax

$32m increase in members' funds

Notes to the annual highlights

1) 2006 & 2007 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 $50.5m (2006: $35m).

Chairman's Report

Much has happened at Australian Unity during the last year. Many good things, some challenges – all of them exciting – leading to another successful year for the Company, with strong growth which should underpin our development through the coming years.

At Australian Unity we are developing a unique business focused on our members' and customers' wellbeing. Australian Unity first started using the term "wellbeing" several years ago when we started the Australian Unity Wellbeing Index in a joint venture with Deakin University. Since then the term has almost become commonplace with it being used widely by many organisations and political leaders. In many ways this is a good thing as it reminds us that, important as they are, income and money are only part of the needs of people and society. Wellbeing as a concept captures health, happiness and security, as well as the financial side of life. As we all know, these qualities don't automatically go together.

We would like our members and customers to be happy, healthy, secure and prosperous people, and we are pleased with the contribution that Australian Unity is making to their wellbeing, with our businesses focused on health, retirement living, worthwhile investments and financial advice.

In the last financial year, our health funds continued to contribute to members' health and security. Importantly we embarked on an additional program, the COACH Program, which assists members in recovery after hospitalisation from serious cardiac conditions. We plan to extend these types of programs as quickly as we can to encompass other conditions.

Key Developments

- Launched the COACH Program™ to help prevent progression of coronary heart disease.
- Aquired two retirement villages, and a new development site.
- Increased funds under management by 60% to $5.7 billion.
- Sold our general insurance business.

Our retirement living business has continued to grow. We now have 13 retirement villages and three aged care facilities with plans to extend these activities. Our objective is to provide quality residential facilities and services to make the lives of our residents secure, comfortable and happy.

Our investments business has continued to grow strongly. It now has $5.7 billion in funds under management. Many of our products are highly-rated performers in their financial markets. Our investment managers focus on quality and performance through actively managing their portfolios and remaining alert to changing market conditions.

During the year we sold our general insurance business. We have taken a stake of around 13 percent in Calliden Group Limited, the insurance company that purchased that business, and we will continue to offer general insurance to our customers as a Licensed Representative of Calliden. We considered our activities would be better focused on our current core activities, and their growth plans. There is always some emotional pain in parting with a business that has long been part of the Company but we consider that these were the correct commercial decisions.

Two years ago we consulted our members as to whether they would prefer to keep the present membership structure or to demutualise.

After that extensive consultation process our members indicated that they were strongly in favour of staying as we are. At this time the board is happy to adopt that position. Australian Unity has structured itself to be capable of raising funds for development. To date we have not been constrained by our mutual structure.

We note however, that two of the larger health funds have announced plans to demutualise and it may be that Medibank Private is sold as a listed company next year. These developments will change some of the dynamics at the larger end of the health fund field. This may have some impact on the way in which the health insurance industry operates. Many of the comments that have been made to justify these developments do not apply in our situation. Being more diverse in our activities, Australian Unity is quite different to the funds that are demutualising. Health insurance is only one of our established activities, albeit the largest. The Australian Unity board is monitoring the situation very closely and we will continue to do the right thing by our members. Should it happen that structural change in the industry is likely to be substantial and have implications for our business model, we will report to and advise members.

I draw members attention to the "Community" and "Sustainability" sections of this annual report where our extensive community involvements are discussed, including the Australian Unity Foundation.

I wish to report to you that I consider the board has worked very well over the last year. We normally spend the best part of two days on our monthly meetings as well as meeting on a number of other occasions for committees and additional purposes, including the annual board and management strategy retreat.

Unfortunately, one of our longest-serving directors, Mr Leon Hickey, who had previously been chief president of the Australian Natives' Association (ANA), passed away after a short illness last December. The board wishes to record the diligence, hard work and sterling contribution by Leon to the creation of Australian Unity in its current form in 1993 and for his service since then.

He was a well-known and respected figure around Melbourne business circles, with his own legal practice, and was a most likeable character.

I also advise that Mr Murray Campbell is retiring at the annual general meeting this year. Murray was Managing Director of Manchester Unity for 22 years prior to the merger with the ANA in 1993. Following the merger he briefly served as Joint Managing Director of Australian Unity before becoming Deputy Chairman from 1995 to 2004. He has chaired the audit committee and been a key figure in the Company. In his time he has been a long serving chairman of the Australian Friendly Societies Association, chairman of the Federal Health Ministers Health Insurance Advisory Committee and for many years a director of the Australian Health Insurance Association. After earlier retirements from his various other roles, Murray is now retiring from the board. The board wishes to record its thanks for the long and excellent service given by Murray to the Company.

With the departures of Murray and Leon, the board will lose its last board links with the pre-1993 merger operations of the ANA and Manchester Unity.

I also want to thank the Group Managing Director and all of the Group Executives and staff for a very fine performance over the last year. We confidently expect to achieve continued excellent performance for our members in the years ahead. Having high quality executives not only assists in achieving such performance but also allows us to play influential roles in our industries, as well as with government and the community.

Finally I wish to thank our members and customers and our fraternal organisations for their support in all our activities.

I now encourage you to read further through this report for much more information on our activities and plans.

Alan Castleman, Chairman

Group Managing Director's Report

The 2007 financial year was another positive and successful year for Australian Unity, in terms of financial strength, in terms of the sustainable development of the Company's operations and in terms of services to customers.

During the year, we implemented a range of initiatives consistent with our plans to develop the Company around wellbeing services. These actions led to continuing sound improvement in the financial position of Australian Unity.

Profit before tax rose 50 percent to $42.3 million, up from $28.2 million in 2006. Profit after tax rose 35 percent to $32.1 million, up from $23.8 million in the prior year. Members' funds grew to $270 million, a rise of $32 million over the year.

These positive financial improvements are important measures of the Company's capacity to continue to develop its operations sustainably and to provide the resources to support continued investment in business operations and services to members and customers.

One important area where our capacity for investing is being called upon, is the broader health insurance arena that has been opened by recent legislative changes. For many years, health insurers were extremely constrained in the services that the law permitted. From 1 April 2007, new national laws for private health insurance came into effect. These laws allow health insurers to offer additional services beyond the traditional boundaries of in-hospital procedures.

Assisted by these laws, Australian Unity was able to move promptly to implement a new program, COACH, to support our health fund customers who have cardiovascular disease. Over coming years we are hoping that the COACH Program will support thousands of health fund customers and materially lower rates of hospital re-admission.

During the financial year our healthcare operations made a number of additional investments in programs looking to address other chronic diseases and we plan to introduce and pilot programs progressively.

During the year we also made significant investments in our customer service centre and in our internet services, following the difficult decision to close our retail outlets. For some years the relative costs of our retail outlets were becoming more difficult to support as our operations expanded materially beyond their historical Victorian roots and as more and more customers chose to use electronic means of transacting. The Company has continuing investment plans for our other service areas and the coming period will see further material development of these areas, particularly the internet and customer service centre.

The last period started to see the positive results of past year investments in the Company's retirement living and financial services operations.

Our retirement living services business had a year of major achievement as it completed construction of our Constitution Hill retirement centre in New South Wales, along with the acquisition of additional sites to expand its operations. This business saw a solid rise in pre-tax profits to $8.9 million, up 223 percent from $2.8 million in 2006.

Our plans for the growth of this business are focused around development of combined, or adjacent, independent living units and aged care facilities. Where opportunities present, we will also consider acquisition of mature, already-developed facilities.

However, we are generally cautious in this area as the past few years have seen the actions of a few commercial players, principally financial intermediaries such as investment banks, materially inflate prices in this sector.

Our plans are focused on the sustainable development of this business over time. We have a medium term goal of achieving over 4,000 independent living units, up from our current position of some 1,700. We believe that sound, not over-reaching, growth plans will support our approach of providing high quality care and services to our residents.

Our financial services businesses were another area of the Group's operations with considerable activity during the period under review.

The remodelled and restructured financial advisory business demonstrated solid growth in funds under advice, rising some $110 million during the period to over $300 million. While solid growth in customers and funds under advice was achieved, restructuring costs and investments in new advisers (who take some time to develop their productivity within the business) resulted in a pre-tax loss of $5 million. Looking ahead, we see continued investment in this business as we manage it for growth in the near term and for greater value over the medium term.

During the year, the historical investment in the development and growth of Australian Unity Investments started to yield very positive results. Profit before tax grew some 35 percent, up $1.8 million to $7.1 million for the year to 30 June 2007. Funds under management grew strongly from $3.6 billion to $5.7 billion at year end, growth of some 60 percent.

The increased diversity in the sources of funds under management has been particularly encouraging. Australian Unity Investments has now built four discrete areas of its operations to some $1 billion in funds under management: a joint venture with Acorn Capital and its microcap equities activities; direct property management of a range of retail and commercial sites; mortgage trusts; and a joint venture with Platypus Asset Management and its Australian equities activities.

Our joint venture in the fixed interest arena with Vianova Asset Management also achieved good growth. Given Vianova's investment approach – an approach that has led it away from recently troubled areas of fixed interest investing – we anticipate further growth here as the market re-evaluates sensible modes of investing in this sector. In all, the investment styles we offer were well supported by investors, and our property team achieved valuable purchases for our property vehicles.

After many years of development within the group, our general insurance business posted a very positive financial contribution for the period, notwithstanding some adverse weather events that might have materially affected financial performance. Pre-tax profit for the year was $13.9 million, up 224 percent and $9.6 million from $4.3 million in 2006.

Despite the sound performance in 2007, the Company decided to divest its general insurance operations after balance date. Our decision stemmed from our strategic plans to develop our Company in the areas of wellbeing and after analysis of the future capital required to support continued growth for the general insurance business. While a tough decision, our desire to focus our resources sensibly on the requirements of our other businesses led us to conclude a transaction with Calliden Group Limited for the sale of these operations.

Our developing operations demanded growing numbers of increasingly skilled and capable staff. During the period we continued to attract staff in a competitive market for quality employees. We have been able to do this largely because of significant investments in training and development and by building a culture that is challenging yet supportive.

I would like to thank all my executive and staff colleagues for their efforts in 2007. These efforts have contributed greatly to the development of Australian Unity as a wellbeing company, focused on the challenges that our demography is creating in retirement savings and planning, retirement living and in healthcare. We look forward to the further positive development of your Company in the period ahead.

Rohan Mead, Group Managing Director

Outlook

Australia is getting older…

In around 20 years, Australia is expected to cross an important demographic milestone: for the first time ever, there will be fewer Australians aged under 15 than those over the age of 65. A century ago, Australians 65 years and older made up four percent of the population. In 40 years from now, around the time the first of the baby-boomers hit their 100th birthdays, one in four Australians will be in that age group.

In many respects, ageing Australia is something to celebrate. It stems, in part, from the ability to treat diseases that a century ago would almost certainly have been fatal. Infectious and parasitic diseases were, in 1907, responsible for one quarter of all deaths – now they account for only one percent. We now have better drugs, better hospitals, better technologies and more information at our fingertips to treat and manage disease.

This presents interesting questions for us all. What do we plan to do with all this extra time? How can we manage our health and wealth so that our older years are also happy years?

Adding Years to Your Life:

- Girls born in 1901 could expect to live 58.8 years.
- Boys born in 1901 had a life expectancy of 55.2 years.
- Girls born in 2007 can expect to live until they are 83.8.
- Boys born in 2007 have a life expectancy of 79.1 years.
- Women who are now 60 can expect to live another 26.1 years.
- Men now aged 60 have another 22.6 years of life expectancy.

The challenges are increasing…

As a community we are living longer, but when we get sick we stay sick for longer. The Australian Institute of Health and Welfare has concluded that more than 2.63 million years of healthy life are lost due to the burden of disease and injury in Australia. Other data from the institute says that chronic diseases, including cancer, account for 80 percent of the burden. Encouragingly, much of chronic disease is preventable.

As the population ages, so too do Australian Unity members. Older members are more likely to use health services and more likely to be higher claimers from the health funds. These individuals have a right to be confident that their health fund will be there for them when they need it.

Since 1993, when the organisation became known as Australian Unity, members' funds have grown from $10 million to some $270 million. This represents in part the contingent economic interest of each of our 190,000 members, but also the resources supporting the Company's sustainability.

As one of Australia's oldest mutuals, we are observing with interest other health funds' moves towards demutualisation and listing on the Australian Stock Exchange. Australian Unity is different from many of these funds. Australian Unity operates a portfolio of diverse and valuable businesses.

We will continue to act responsibly in this changing environment, testing business development and corporate structure propositions with assessments of sustainability, strategic sense and member interests.

The opportunities are growing…

The rise in chronic and preventable disease, along with the ageing population, presents as many opportunities as challenges. It allows us to think creatively about how best to support our members as they navigate their individual life challenges.

Traditionally, the Australian Unity health fund was the primary driver of the Company's revenue and profits. Now we have broadened our outlook so the Company can sustain its services over the long term. For example, we recognise that the demand for places in both residential aged care facilities and retirement villages are expected to outstrip supply and have developed a strategy of creating integrated villages and aged care units that allow people to age in one place.

Australians' growing wealth has also opened up opportunities for Australian Unity to offer additional funds management and financial advice services to our members. In what are expected to be uncertain economic times ahead, we anticipate more customers will see value in the Australian Unity brand given our long history and service focus.

We are proud of the fact that we exist to serve the interests of our members and customers. This primarily means providing high-trust services to people making high-trust purchases. But it also means advocating member interests in the wider community and responding to each and every opportunity that allows us to secure our growth and enhance sustainability.

Community

Australian Unity has a long history of community contribution dating back more than 165 years.

Our community strategy aims to advance the wellbeing of Australians in the areas of health, ageing and financial security, and to support and celebrate Australian achievements, heritage and culture.

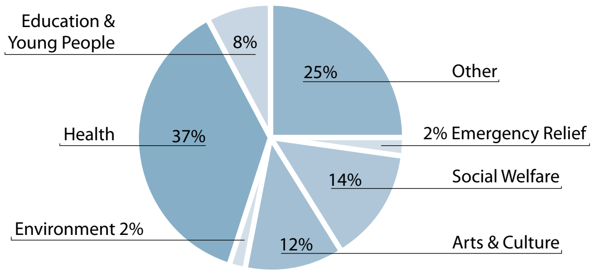
The Australia Day People's March, held in Melbourne each year, is perhaps the most visible example of Australian Unity's community connections. The family-fun march celebrates Australia and stems from the key role one of our antecedent organisations, the Australian Natives' Association, played in the establishment of Australia Day.

Some of our other community projects are less public, but no less important. They vary from theatre workshops for young people responsible for caring for others, to education programs for remote communities.

The establishment of the Australian Unity Foundation in 2006 was one part of our community engagement strategy. This year the foundation awarded its inaugural grants. The MS Society, Mission Australia, the International Diabetes Institute, the Australian Youth Orchestra, SANE Australia and Carers Australia were each beneficiaries of $20,000 grants. Australian Unity intends to commit one percent of pre-tax profit to the foundation each year.

Australian Unity also continues to support the Australian Centre for Health Research and the Australian Unity Wellbeing Index.

Areas we supported



Our partnership with Deakin University on the Wellbeing Index has continued for more than six years, providing national insights on the big issues impacting Australians' happiness.

Last year we provided seed funding for the Australian Centre for Health Research (ACHR). The ACHR aims to contribute to non-partisan research on public health and ageing. This year, the ACHR has released papers on prosthetics, e-health, Medicare, Australia's healthcare system, as well as chronic pain after breast cancer surgery.

Other programs to receive our support include Australia 21, an organisation looking at big problems confronting us in the new century, and the Song Room which delivers free music and arts programs to Australian schools and communities. We also continue to support the Australian Centre for Fraternal Studies.

Staff engagement

A payroll-giving scheme was established during the year to engage staff in our community program. Approximately $25,000 has been donated by staff since the program's inception on 1 July 2006. In May 2007, Australian Unity started matching these donations dollar-for-dollar.

Employees are also provided with one day of paid leave each year to volunteer at a community organisation of their choice. This year, more than 10 percent of eligible employees took the opportunity, and we expect this figure to increase in coming years. A number of staff-initiated activities also featured throughout the year including blood donation drives, toy and gift drives and cork recycling.

Did you know?

In 1934, ANA board member, Mr W Slater spoke to a meeting in Numurkah, Victoria about the ANA ideals, telling the audience that "The ANA interested itself not only in its members, but in affairs of State, upon the happy solution of which the wellbeing of the community rested," according to a newspaper clipping of the day.

Evaluation

We use the London Benchmarking Group international benchmarking model to measure the value of our community contributions and achievements. This allows us to measure what we do against other companies, and helps us gauge the impact of our initiatives.

Last year, the majority of our contributions were targeted at health, wellbeing, heritage and culture. This suggests it will be important for Australian Unity to look more actively at how it can contribute to the areas of ageing and financial security to address all areas of our guiding theme.

Our People

Nurturing talent

Our diversified business interests mean we have a diversified workforce, encompassing such professionals as accountants, lawyers, nurses, business analysts, actuaries, customer solutions representatives and fund managers.

Like other Australian companies, we have felt the effects of skills shortages in some operating areas. The management of these issues will become an increasing part of our future, but we continue to work hard to remain an employer that people want to work for.

One of our more significant people initiatives for the year was the launch of the Australian Unity Business School, offering the highest standards of education in business skills and leadership.

The school's inaugural executive leadership program began in June 2007 with the first of two residential workshops. The 12 month program for a cohort of 35 leaders represents a significant commitment by Australian Unity and its top managers.

Our Values

Customer Driven	→ we always act with the customer in mind
Results Oriented	→ we set clear goals and deliver results
Integrity	→ we are open, honest and trustworthy
Our People	→ we promote personal growth and balance
Innovation	→ we champion new ways of doing things
Teamwork	→ we work together, committed to a shared vision and group goals
Community	→ we respect our heritage and are involved in the community

Engagement

If you ask employees what they like most about working at Australian Unity, they almost always answer: "the people".

We work hard to protect the friendly, values-based culture that reflects our origins. We preserve the best of our traditions, and have sought to create a vibrant workplace with the energy we need to achieve personal and organisational goals.

The strength of Australian Unity's people practices and culture is highlighted in the engagement results of our annual staff survey.

Engagement suggests the level of employee ownership of an organisation. It tells us the willingness of employees to really strive to be successful and also their level of pride in the Company.

In our most recent survey, Australian Unity scored an employee engagement factor of 76 percent, steady with the previous year's result. This is particularly pleasing given our ambitious change and development agenda and increased expectations of employees.

Wellbeing

Just as our customers' wellbeing is at the heart of everything we do, we also pay special attention to the wellbeing of our people. Australian Unity offers staff free annual flu shots, fresh fruit, skin cancer checks, and one day of paid leave a year to volunteer in the community. We also support workplace yoga and pilates, shiatsu massages, and corporate teams for a range of sporting events including Around the Bay in a Day, the BRW Triathlon and the Melbourne Marathon.

This year we held a health expo to encourage staff to be the healthiest they can be. More than 600 staff participated in activities ranging from free health checks to strength and flexibility testing and pilates classes. Nutrition advice and health seminars on good sleep, happiness, wellness and stress management were also well received.

Observation Good staff are becoming harder to find. Labour force growth is projected to slow to 0.4% per year by 2016, compared with average growth of 1.9% per year from 1979 to 1998.

Action Our key people focus is on the practice of sound management leadership and nurturing the Company's talent.

Sustainability

Environmental concerns are dominating policy agendas and dinner table conversations around Australia. Climate change is indeed a major challenge globally.

While Australian Unity's operations do not have an overt impact on the environment, we are always looking at ways to reduce our environmental footprint. Reducing our energy and water consumption are key priorities.

Water and energy conservation

As part of the refurbishment of Australian Unity's head office in South Melbourne, Victoria, we have installed sensors and energy efficient lighting on all new floors. This simple improvement will decrease energy consumption by around 30 percent.

Non-essential lighting continues to be turned off each night, and staff are encouraged to adopt environmentally friendly behaviours such as turning off their computers at the end of each day.

Tap aerators have also been installed on all floors. These reduce consumption by adding air to the water flow, reducing the amount of water flowing out of the tap.

Other water saving initiatives included removing the cooling towers and upgrading the air conditioning systems. As a result, overall water consumption has decreased by an average 230 kilolitres per month at the South Melbourne office since September 2006. A kilolitre is made up of 1,000 litres, takes up one cubic metre of space and weighs one tonne.

Recycling and paper

During the year, Australian Unity continued its commitment to recycling. Staff are encouraged to consider the environment before printing, and to recycle paper.

To assist the process, each desk was provided with a recycling box in 2006. This has seen a significant reduction in paper waste. Toner cartridges from printers and photocopiers are also recycled, and recycling bins for bottles and cans are provided in the staff cafeteria.

Australian Unity's marketing material is usually printed using environmentally friendly techniques. Paper is sourced from sustainable forests, is 100 percent recyclable and has been bleached without the use of chlorine gas.

We have also joined Environment Business Australia and intend, where sustainable and feasible, to experiment with improved environmental practices.

Other operations

Our dental centres continue to run an efficient and environmentally responsible waste management system that complies with Australian Standard AS 4031. All Australian Unity dental surgeries' clinical waterlines are equipped with anti-retraction valves to ensure that the integrity of the public water supply is maintained.

Australian Unity's retirement villages and aged care facilities are also commited to developing good environmental practices. The program this year is two-fold: best practice chemical storage and handling and the identification of water management practices appropriate for each location. Our latest development, a new retirement village and aged care facility in Vermont South, Victoria, will advance on current sustainability practices when it opens in 2008. We will then look to build further on these advances in future developments.

Did you know?

- 99 percent of Australian households engaged in some form of recycling in 2006.
- One fifth of customers recycle Australian Unity's magazine, Lifeplus, and almost half pass it onto someone else or keep it.
- Water consumption in Australia decreased by nearly 3,000 gigalitres, or 14 percent, between 2000-01 and 2004-05.

Observation As a global community, we currently need about 1.2 planets to meet our average resource consumption levels.

Action This annual report and many other publications are made available through electronic means to reduce paper consumption.

Business Overview

Healthcare

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

The business has a strong focus on preventative healthcare and continues to develop evidence based programs that help prevent lifestyle associated diseases. We aim to be a central partner in our members' personal wellbeing by empowering them with the knowledge they need to stay well and live longer.

Retirement Living

Australian Unity's retirement living business is a major provider of accommodation and related services to retirees. We operate 13 retirement villages and three aged care facilities in New South Wales and Victoria, with 1,701 home units, 341 aged care beds and 53 community care places.

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

Financial Services

Australian Unity's financial services operations include a boutique investments business, a financial planning network and in-house teams of finance and life insurance brokers.

Australian Unity's investment business uses its established in-house expertise in property and mortgages while developing joint ventures to broaden its product suite. The business currently has more than $5.7 billion in funds under management, and offers a range of wholesale and retail managed funds in mortgages, fixed interest securities, property and equities.

Australian Unity commenced financial advisory operations in 2002 and added mortgage broking in 2006. It currently has 30 advisers, and a team of insurance specialists and mortgage brokers operating in Sydney, Brisbane, Melbourne and regional Victoria. The financial planning business has more than $300 million in funds under advice.

Healthcare

Information. Support. Encouragement. These concepts define Australian Unity's approach to our health fund members. Through on-line and written material, one-on-one support programs and quit smoking and weight-loss incentives, we're working with our members to help them stay healthy.

More than 45,000 members were hospitalised last year. This represents an enormous amount of personal pain for each of those individuals. Any program that can reduce the likelihood of hospitalisation is good for members' health – and good for the health of the fund.

Our wellness approach partly responds to legislative changes that now allow health funds to design and offer chronic disease and prevention programs. Partly, it stems from the 'mutually beneficial' philosophy that has guided our organisation for decades.

Last year our healthcare business delivered another sound financial performance, recording a profit before tax of $50.2 million, in line with 2006. This result was achieved in the context of significant investments in wellness and preventative health programs, along with customer service improvements.

Most common ailments members experienced last year

	Patients	*Total benefits paid*	*Avg per patient*
digestive system	18,324	$23,224,719	$1,267
musculoskeletal system	7,285	$43,683,951	$5,996
circulatory disease	5,560	$44,174,177	$7,945

Revenues for the combined operations, which include two health funds, three dental clinics and an eyecare clinic, increased to $456.2 million, up from $433.5 million in 2006.

Results were influenced by strong investment income and increased premium revenue. Our decision to withdraw from aggressively-marketed broking services contributed to a net reduction in overall memberships. This was a carefully considered decision based on our analysis that the high commissions charged by these services offset any economic benefit of the memberships.

Australian Unity operates two health funds. The retail fund – Australian Unity Health – is open to the public and covers more than 305,000 lives. The corporate fund – GU Health – provides tailored health plans to some of Australia's leading corporations and covers more than 12,000 employees.

Observation Up to 7.5 percent of Australian adults have diabetes.

Action One step Australian Unity has taken is to introduce an online health risk assessment that allows members to measure their own risk. Many more initiatives are planned.

In the retail health fund, premium increases were below the industry average for the sixth consecutive year, while claims paid to members rose to $327.3 million, up from $309 million in 2006. Importantly, around 90 percent of medical services consumed by members incurred no out-of-pocket expenses.

The Management Expense Ratio (MER) for our retail health fund remained steady at 9.7 percent (excluding non-resident insurance business impacts). This was achieved despite substantial investment in preventative health programs with the long-term aim of improving members' health and containing growth in claims.

Corporate health fund claim payments increased to $30.1 million, up from $27.8 million in 2006. Premium increases were 1.98 percent lower than the previous year and members incurred no out-of-pocket expenses for 79 percent of medical services.

High client retention rates and several key acquisitions contributed to strong growth for the corporate fund. This was underpinned by a new marketing program and high levels of member satisfaction.

The corporate health fund has been operating on a relatively high-cost system. Major work has been undertaken to prepare the business for transfer to a more cost efficient platform. We anticipate that this will occur in the first half of the 2008 financial year. The corporate health fund MER, currently 17.8 percent, should commence a downward trend after the transfer.

Customer service

During the year we completed our shift to telephone and web-based customer services. Australian Unity members are becoming increasingly confident using our online services. We have also seen a substantial uptake of members submitting their claims via the telephone.

To meet this demand, we increased the number of people in our customer service centre from 70 to 130, and made a significant investment in upgrading facilities to help us recruit and retain quality staff.

We also invested heavily in improving the service capability of the Australian Unity website. As a result, the website recently attracted the highest score in an independent Usability One survey which assessed 10 major health fund websites against 162 usability criteria. The website also achieved top five rankings in the health insurance category by Global Reviews and Hitwise.

Members have further benefited from the shift to web and telephone services this year, with a lower annual premium increase. The average premium increase for retail health fund members is 3.84 percent for 2007-08, the second lowest among Australia's top 10 funds, and well below the industry average of 4.52 percent.

Observation The Australian Unity Wellbeing Index shows that depression and anxiety are likely to have a bigger impact on wellbeing than many other physical medical conditions.

Action Australian Unity is investigating evidence based programs to assist in the early treatment of mental illness.

Wellness

Australian Unity was an early mover among private health funds in recognising the benefits of preventative health programs. This year we continued investing in new wellness initiatives including innovative programs to improve health and prevent chronic disease.

Our approach tailors initiatives for members across the wellness spectrum, and includes education for those who are well or who might be at risk of a preventable disease.

However, we believe members who have already had significant chronic health problems are in immediate need, so we have introduced our first chronic disease management and secondary intervention program.

The COACH Program is the world's first evidence-based program using telephone coaching to help prevent the progression of coronary heart disease. It is the result of 12 years of research on how to best assist patients to minimise coronary risk factors.

Cardiovascular disease affects a significant number of Australian Unity members. Around 2,000 members are hospitalised each year for treatment of heart attacks and related conditions.

Top 5 individual member claims 2006/07

$158,483	cancer
$148,410	cancer
$109,114	infection
$94,442	heart
$89,627	heart

We based our investment in the COACH Program after concluding that many hundreds of members could avoid having a second heart attack or event leading to hospitalisation as a result of participating in the program. We therefore hope it can make a big difference to the wellbeing of many members, as well as containing the cost of claims in this area.

Other efforts to prevent chronic disease include research into programs to manage diabetes and Chronic Obstructive Pulmonary Disease. We are also developing an online risk assessment service to help members identify whether they might be at risk of developing a chronic health condition and how they can maintain good health.

Observation Cardiovascular disease kills more Australians than any other disease group.

Action Members suffering heart problems are offered the opportunity to partner with a personal dietician to help prevent the progression of coronary heart disease.

Advocacy

Australian Unity was one of the most active contributors to the Federal Government's consultation process on private health reform. We contributed to a number of important amendments to private health insurance regulations, all of which benefited members.

The centrepiece of the new *Private Health Insurance Act* is a set of reforms known as broader health cover. These allow private health funds to pay benefits for services provided outside of hospitals by a range of healthcare providers.

The new rules give funds the flexibility to support smarter and better ways of preventing health problems or getting members back to health. The COACH Program is a great example of the innovative services we are now able to cover.

Our member support program is another service offered under broader health cover. It is designed to make recovery easier for members. It enables members to go home from hospital sooner and continue receiving care in the comfort of their own home.

Did you know?

- 85 percent of Australians don't eat enough vegetables.
- A general rule of thumb: the greener the vegetable, the more beneficial it is.
- In the past year, 99 percent of Australian Unity members say they have tried to eat healthily, and 85 percent say they have exercised regularly.
- One in two adults don't get enough exercise.
- The average claim by Australian Unity members for prosthetics, including hip replacements, rose by 13.6 percent in the year to June 2007.
- Members over the age of 60, on average, receive more in benefits from Australian Unity than they pay in premiums.
- The most number of people covered by one Australian Unity health policy is 12.

Financial Services

Australian Unity's financial services operations continue to grow as more and more customers look for financial advisers and investment managers they can trust.

Investments

Australian Unity Investments enjoys being "smaller and smarter" than its competitors. The business philosophy is to build specialist investment products that are managed by excellent people. With funds under management more than doubling in two years, Australian Unity's investments business shows you can still achieve big things when you are smaller.

Funds under management increased by almost 60 percent to $5.7 billion at 30 June 2007, up from $3.6 billion in 2006 ($2.8 billion in 2005). Profit before tax increased to $7.1 million, up 35.2 percent from $5.2 million in the previous year.

Australian Unity Investments' joint venture strategy was a key driver of the growth, along with our established mortgage and property operations.

During the year four of our investment areas each grew to some $1 billion or more in funds under management. These include our microcap equities joint venture with Acorn Capital, our Australian equities joint venture with Platypus Asset Management and our mortgage and property portfolios.

These areas are expected to continue their growth with strong investment performance attracting support from institutional fund managers and retail investors, with both likely to drive further growth in funds under management in the coming year.

In one of the largest projects undertaken in the investments business this year, we replaced our unit registry system. This new information technology platform helps the business better achieve its customer service goals and manage future growth. The new system also enables us to better support the businesses of our joint venture partners, allowing them to focus on what they do best – managing investors' money.

Observation The fixed interest market has changed significantly, requiring a very different set of management skills.

Action We partner with Vianova Asset Management, a boutique fund manager specialising in absolute return fixed interest investments. Vianova was ranked the number one performing Australian fixed interest manager by Mercer Investment Consulting for the year to 30 June 2007.

Equities

One of our Australian equities operations, launched just over a year ago with joint venture partner Platypus Asset Management, topped $1.1 billion in funds under management at 30 June 2007.

The rapid growth was driven by Platypus' outstanding investment performance. Platypus was ranked the number one performing Australian equities manager over one, three and five years at 30 June 2007, in Intech Investment Consulting's Australian share manager survey, with returns of 40.1 percent, 40.9 percent and 27.5 percent over these periods.

Our pioneer joint venture with microcap equity specialists Acorn Capital has also continued to excel. The Australian Unity Investments Acorn Microcap Trust-Wholesale returned 53.6 percent over one year, 35.1 percent over three years and 28.7 percent over five years for the year to 30 June 2007.

Fixed Interest

Our fixed interest joint venture partner Vianova Asset Management continued to achieve exceptional investment returns. Mercer Investment Consulting's fixed interest manager survey ranked Vianova the number one performing Australian fixed interest manager for the year to 30 June 2007.

During the year Vianova formed an alliance with global fixed interest manager, Newton Asset Management, which manages more than $8 billion in global fixed interest securities. This resulted in the creation of a new product, the Australian Unity Investments Vianova Core Plus Trust, which invests in a blend of Australian and global fixed interest securities.

Mortgages

The mortgages business continued to experience strong growth, with funds under management increasing by more than 70 percent to $1.3 billion at 30 June 2007 (from $750 million in 2006).

All mortgages products continue to earn research ratings of the highest grade. This is the result of astute risk management processes, consistent returns and an experienced and stable team which has increased commensurate with the increasing assets that we now manage.

Our aim is to continue to provide investors with consistently solid returns through true-to-label mortgage funds, backed by first mortgages, while maintaining solid controls on risk levels.

Observation The ageing population is driving greater demand for healthcare services.

Action The Australian Unity Investments Healthcare Property Trust acquired almost $90 million in new property during the year, and remains the largest trust of its type in Australia.

Property

The value of the combined property portfolio increased to around $1 billion by 30 June 2007 (up from $755 million at 30 June 2006).

In May 2007, Australian Unity Investments re-opened the Healthcare Property Trust to new investors for the first time since 2005. The trust is the largest trust of its type in Australia, with $319 million in assets at 30 June 2007 (2006: $210 million). It was recently awarded a 'highly recommended' rating, the highest possible by Lonsec, a leading provider of investment research for Australia's funds management industry.

The Healthcare Property Trust acquired almost $90 million in new property during the year, including the Peninsula Private Hospital on Victoria's Mornington Peninsula and a two-level medical centre and mental health hospital in Prahran, Victoria. It also made its first foray into the Queensland market with the acquisition of three medical centres with additional land in North Mackay and a medical centre and adjoining day hospital at Ipswich.

Australian Unity Investments' $35 million re-development of the Waurn Ponds Shopping Centre in Geelong also made solid progress during the year. The second phase of construction is now underway, with the expanded store for retailer Target nearing completion, and occupancy rates ahead of schedule.

In other key developments the properties in Australian Unity Property Syndicate No. 5 and Australian Unity Property Syndicate No. 6 were put on the market after the decision was made to wind-up both syndicates at their termination date as originally planned. The strong property market will likely see investors enjoy strong capital gains on their original investment.

During the year, Australian Unity received investor approval to assume trusteeship of Multiplex Capital's Acumen Office Trust, increasing funds under management by a further $65 million. The trust was established in 2002 and owns the Olderfleet Building at 477 Collins Street in Melbourne, Victoria. It was recently renamed the Australian Unity Investments Office Property Trust.

Financial Planning

Financial planning and advice is an increasingly important part of Australian Unity's services. The modern financial adviser is ideally equipped to help improve the financial wellbeing of members and their families.

During the year we made a significant investment in growing our financial planning network. Financial planner numbers more than doubled to 30 across New South Wales, Queensland and Victoria. The number of advisers will continue to grow as we further expand the business.

2006 was the first full year of operation for our new home loan, finance and risk broking services. Our financial planners work closely with our finance broking team to provide for customers' full range of financial needs.

During the year funds under our advice grew 57 percent to $300 million at 30 June 2007 (2006: $190 million), while revenues increased from $1.5 million to $2.3 million.

The business recorded a loss before tax of $5 million in the year ended 30 June 2007, compared to $1.8 million in the previous year. This loss arose due to restructuring costs and the significant start up costs of these activities which exceed early revenue.

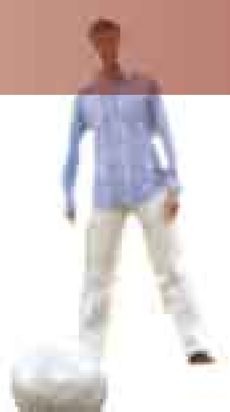
Did you know?

- More than half of Australians own shares either directly or indirectly.
- The total value of Australia's pool of superannuation savings recently broke through the thousand billion dollar, or one trillion dollar, mark. This is growth of around 350 percent during the past decade.
- If you had invested $1,000 in bank bills in June 1997, it would have grown to $1,717 in just 10 years. You would have $3,495 from the same investment in Australian equities.
- Women, on average, have less than half the superannuation of men.
- A $10,000 investment in the Australian Unity Investments Acorn Microcap Trust – Retail would have given you $1,402 in dividends for the year to the end of June 2007, as well as $3,764 in capital growth. Or, if you reinvested the dividends, the investment would have grown to $15,170*.

***Past performance is not an indication of future performance.**

Observation The Australian Unity Wellbeing Index found that one-fifth of Australians are at risk of depression because they feel uncertain about their future income.

Action Australian Unity is growing its financial planning business to help customers build a stronger financial future.



Retirement Living

As a result of three new acquisitions and other announcements during the year, Australian Unity Retirement Living Services is confidently on track to fulfil its growth plans – allowing more and more of our members to come home to something special.

We plan to double our business to 4,000 home units over the next few years. In a period of industry consolidation, these expansion plans demonstrate our commitment to becoming an industry leader, differentiated by a commitment to quality and resident wellbeing. Our growth will help us continue to attract high quality staff, while our heritage and approach will help ensure resident wellbeing remains at the heart of all of the services we provide.

This past year, profit before tax for the business increased to $8.9 million, up from $2.8 million in 2006. This reflects improved performance in day-to-day operations, revaluation of independent living units and development profits from the Constitution Hill retirement village.

Australian Unity is a major provider of accommodation and related services to retirees. We operate 13 retirement villages and three aged care facilities in New South Wales and Victoria, offering 1,701 home units, 341 aged care beds and 53 community care places. A pipeline of an additional 350 units and beds was secured during the year. This makes Australian Unity a major provider in a highly fragmented market, where the largest operator has around 6,000 home units.

Our largest village is at Constitution Hill in northwest Sydney with 425 independent living units and 121 aged care beds. The multi-award winning Constitution Hill is one of the largest retirement living communities in Australia. The construction of Constitution Hill was completed in April 2007, with the sale of the last unit anticipated to be settled before July 2008.

Observation One third of people over age 85 live in aged care accommodation.

Action Australian Unity is investigating remote sensing technology to monitor the health of elderly residents so they can remain in their homes for longer.

Sound growth plans

During the year, the business continued to build its reputation as a provider of positive retirement living experiences, and took some important steps toward achieving growth targets.

- A partially complete village was purchased in Vermont South in eastern metropolitan Melbourne. The village, to be known as Victoria Grange, has an aged care facility (110 beds) scheduled for completion in January 2008 and approval to build a retirement village of more than 120 units.
- Kiah Lodge on the Central Coast of New South Wales was acquired in January 2007. Australian Unity Retirement Living Services had previously managed the 81 unit village.
- Oxley Gardens in Port Macquarie, New South Wales was purchased as a development site to complement the thriving Governor's Retirement Resort Village. The village currently has five completed units with approval to build a further 62.
- The newly built Lifestyle Manor Bondi in New South Wales was successfully opened in May 2007. Australian Unity manages this premium village.

The retirement living growth strategy is underpinned by a rapidly rising demand for retirement and aged care accommodation.

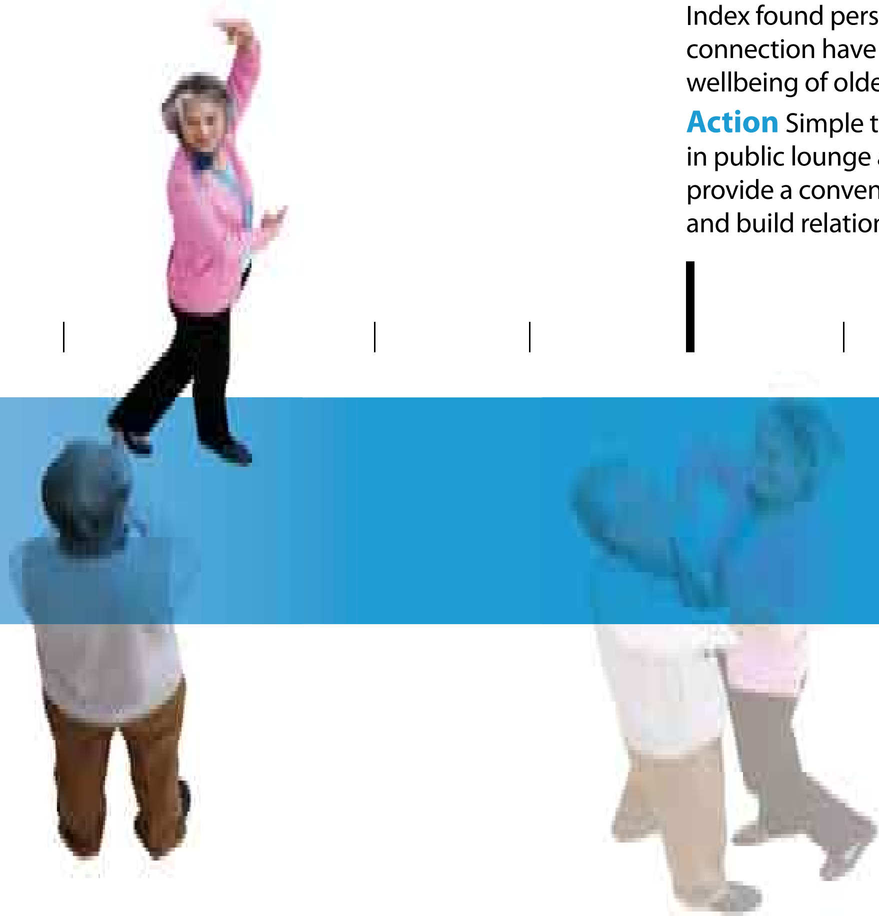
The number of people living in retirement villages is expected to almost double in the next two decades, from approximately 120,000 to an estimated 200,000 by 2026. This means around 50,000 new homes are needed to meet demand, assuming that the percentage of Australians who choose village living remains constant. In fact, this percentage could likely rise.

Overseas experience suggests this figure will be much higher. In the United States, 10 percent of all people aged 65 years or more already live in retirement villages.

If the Australian figure rises to just eight percent (from where it is today at roughly five percent), we can expect 350,000 Australians aged 65 years or more to choose retirement village accommodation by 2026 – an almost three-fold increase on the current level. This would require the construction of about 1,500 new retirement villages over the next 20 years.

Observation The Australian Unity Wellbeing Index found personal relationships and community connection have a significant impact on the wellbeing of older Australians.

Action Simple things like having coffee machines in public lounge areas in our retirement villages provide a convenient way for residents to interact and build relationships.



Ageing at home

With the benefit of more than 40 years experience in this industry, we confirmed a three-tiered integrated regional services model during the year. This model consists of:

- retirement living
- community services
- residential aged care

Australian Unity is one of the few commercial providers in the eastern states to take this approach. Our central strategy is to offer all three tiers of service in the same location, wherever possible. Our residents tell us this is what they want because it means they can stay in the home and community of their choosing for longer, as they inevitably require additional services as they age.

During the coming years considerable effort will be directed toward developing clusters of integrated services to facilitate this approach. This includes the ongoing development of our community services division.

Our community services division provides assistance with certain needs – such as medical, shopping and cleaning – so that members can remain independent even when declining health means they can no longer do everything for themselves.

Looking out for members

A significant trend in the past year was aggressive investment by fund managers and investment banks in the retirement living and aged care sector, which they regard as a new type of asset class with high growth potential.

We expect the involvement of these types of institutions to lead to greater corporatisation of the retirement living industry, and a greater emphasis on financial returns for investors. It is unclear if these ventures have yet developed sustainable business models that can successfully balance the needs of investors and residents.

We will closely monitor developments in the interests of all Australians in retirement living and aged care facilities. We see an increasing role for Australian Unity as advocates for the industry and our residents as the rapidly ageing population stretches Australia's social infrastructure in coming years.

Observation There are 57 primary carers for every 100 people aged over 65 who need care at home. This is expected to drop to 35 carers for every 100 needing care by 2031.

Action We are developing integrated facilities to allow people to age in one place, with co-located retirement villages, community care and aged care services.

Did you know?

- The proportion of people 75-84 who don't exercise is 53 percent.
- Number of Australian Unity residents who are over 100 years old: five.
- A person aged 70 has a 36 percent chance of needing high-level residential care during their life.
- Australian Unity's 1,700 independent living units have a retail value of more than $700 million.
- People aged 65 years and over are less than half as likely to be victims of fraud than people aged 16-64.
- The male retirement age of 65 was set in 1909, when the average male lifespan was around 58 years.

Board of 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 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. Since late 2006 he has been an executive director and principal of the ProNed Organisation involved in board search and advisory services. Before 1993, his executive career was at BHP where he held a number of senior executive positions. Over the last 14 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 and of the Australian Health Service Alliance. He is chair of Platypus Asset Management, deputy chair of Acorn Capital and a 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, 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. 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, and was Group Managing Director and CEO from 2002 to 2004. He is chair of the Investment Committee, a member of the Audit and Compliance 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. Mr Ferres is chairman of Treasury Corporation of Victoria, a director of St Vincent's Health (Melbourne), and was previously president of Monash Medical Centre. Since 1990 he has served as chair or director of 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. 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 Odd Fellows, and president of the Centre for Fraternal Studies Inc.

Stephen Maitland

OAM, RFD, B Ec, FCPA, FAICD, FCIS, 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 29 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 was formerly the managing director of Grand United. Mr Stretton is a professional director. He holds a Federal Government appointment to the board of Australian Hearing, and has wide commercial experience gained in the motor, computer and entertainment industries.

Executive Team

Rohan Mead
Group Managing Director
Biography on page 31

David Bryant
GAICD
Group Executive – Investments & Chief Investment 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 Limited subsidiaries including Australian Unity Funds Management Limited, Australian Unity Property Limited and Australian Unity Finance Limited. Mr Bryant has 25 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 20 years experience in human resource management, organisational development, change management consulting and employer associations. Before joining Australian Unity, Ms Byrnes was general manager organisational development and human resources, Yallourn Energy. She has also worked for Wheeler Strobel Consulting Group, Western Health, the Minerals Council of Australia and held other roles in the mining sector.

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
BEc (Acc), LLB
General Counsel & Company Secretary
Mr Fehlberg joined Australian Unity in 2000. As General Counsel and Company Secretary since 2006, 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 Limited 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.

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 operations and development of the Group's retirement living business, spanning retirement villages, residential aged care and community care. He is also a director of a number of Australian Unity Limited subsidiaries including Australian Unity Retirement Living Services Limited, Australian Unity Health Limited and Australian Unity Financial Planning Limited. Mr McMillan has 20 years commercial experience, developed from a range of senior positions in the healthcare, financial services 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 Limited 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 Limited subsidiaries including Australian Unity Health Limited, Grand United Corporate Health Limited and Australian Unity Group Services Pty Ltd. Mr O'Connor has more than 37 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 Limited 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 Perpetual Trustees Australia Limited.

Our Journey So Far

Manchester Unity

1840
Manchester Unity founded in Victoria.

1846
Dr A F A 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 post-depression building industry recovery).

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.

Australian Natives' Association

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

1888
ANA resolves to commemorate Foundation Day (26 January), 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.

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 and 501 were 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.

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

Australian Unity's operations today

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

Financial Services
Investments, financial planning, home loan broking, finance broking and risk broking.

Healthcare
Health insurance, dental, optical and wellness programs.

Governance and Regulation

Australian Unity Limited is not a listed shareholding company; it is a mutual company comprising 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. The board has adopted a governance charter that reflects many of these principles, as relevant to a mutual company.

Board Composition and Structure

As at 30 June 2007, there were nine 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 current committees are the:

- audit and compliance committee
- risk committee
- investment committee
- marketing committee
- 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.

Regulation

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

During the year enhanced governance frameworks were put into place for various regulated Group entities (including for life insurance and benefit funds), in line with new APRA prudential standards.

Risk management

In recognition of the important role that effective risk management plays in sustaining and enhancing Australian Unity'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.

Our risk management framework is periodically revised to facilitate a continued 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 2006, and are in the advanced stages of planning to further upgrade our physical disaster recovery facilities in order to accommodate business growth.

Our framework for supporting protected disclosures was enhanced this year with the introduction of the Australian Unity Group policy on reporting of ethical issues, consistent with relevant Australian standards and APRA prudential standards.

Remuneration

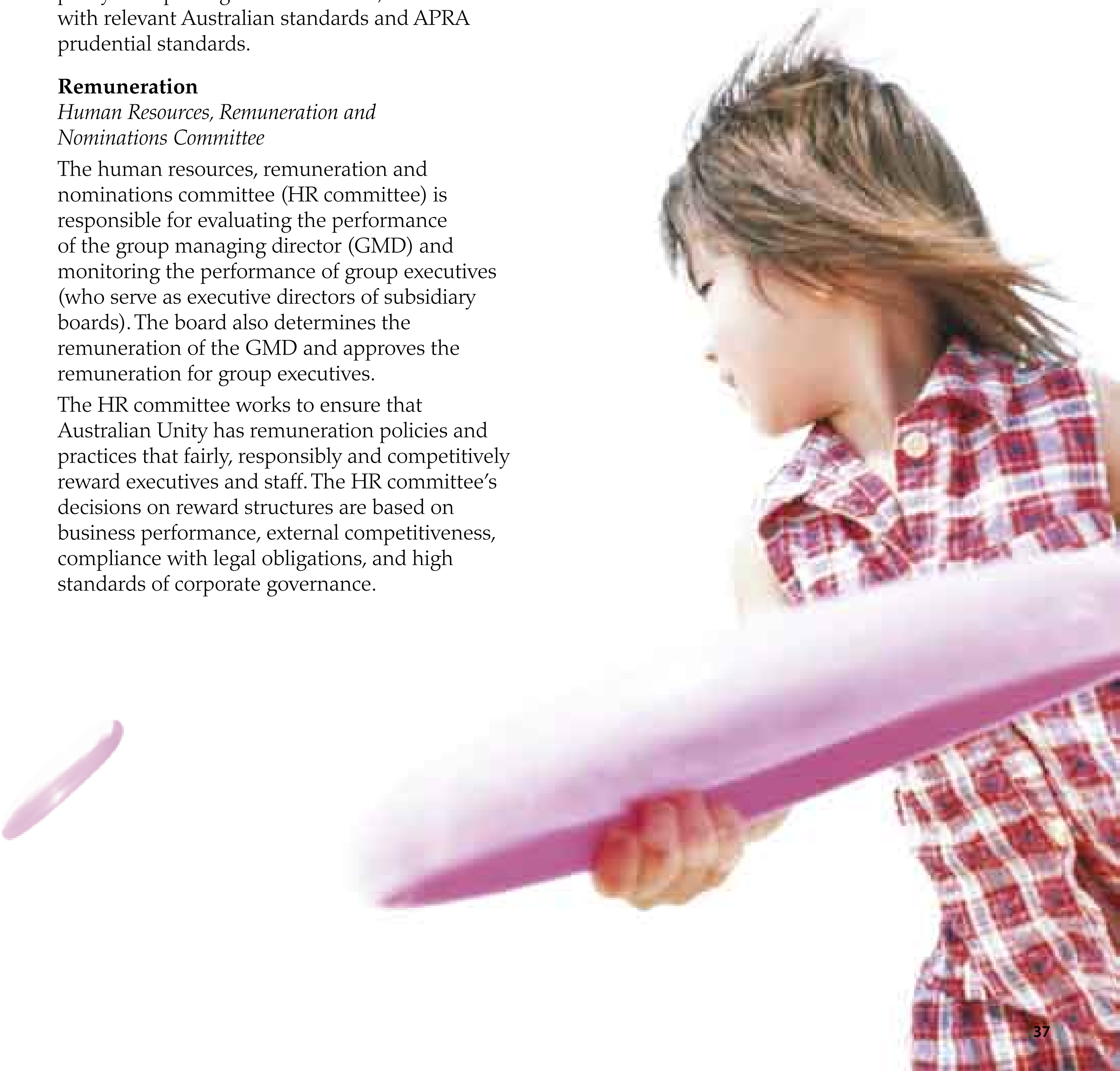
Human Resources, Remuneration and Nominations Committee

The human resources, remuneration and nominations committee (HR committee) is responsible for evaluating the performance of the group managing director (GMD) and monitoring the performance of group executives (who serve as executive directors of subsidiary boards). The board also determines the remuneration of the GMD and approves the remuneration for group executives.

The HR committee works to ensure that Australian Unity has remuneration policies and practices that fairly, responsibly and competitively reward executives and staff. 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, including the GMD and Group Executives, is therefore determined within the following remuneration policy developed by the HR committee and approved by the board.



Governance and Regulation

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 service and value, with the proportion of "at risk" performance-based remuneration generally increasing with seniority;
- The design of reward programs recognises member interests by aligning performance to business and strategic plans;
- Measures of total reward (fixed plus variable reward) are externally focused, 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 should recognise adherence to cultural values and ethical behaviour.

Approval

Australian Unity follows a process of "two-up" approval for all individual senior 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.

Our executive remuneration structure is comprised of two components:

1. Fixed Reward:

A total employment cost 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 Superannuation Guarantee 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 was also implemented with effect from 1 July 2006, in order to more explicitly balance the focus of executive efforts on sustainable longer-term development of Australian Unity. The plan provides for the payment of bonuses related to the performance of the Group over multi-year periods. The earliest date for payment of these bonuses will be 1 July 2009.

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 percent 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 our values. Actual bonus in a given year is calculated by reference to the achievement of the agreed individual and business goals and adherence to Australian Unity'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.

Participation in the long term incentive scheme is determined by the HR committee in accordance with the potential of individual roles to influence the long term performance of Australian Unity. Vesting of the incentive rights under the plan is dependent on individual performance criteria but the rewards are calculated purely by reference to the financial performance of the Group.

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.

Non-executive directors' superannuation

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

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 28 August 2007.

Data Sources for Industry Statistics

Outlook (page 8)

- Australian Government's Second Intergenerational Report, 2007
- Australian Institute of Health and Welfare, Mortality Data, www.aihw.gov.au, 2007
- Australian Institute of Health and Welfare, The Burden of Disease and Injury in Australia, 2003

Our People (page 13)

- Australian Bureau of Statistics, Labour Force Projections, Australia, Oct 1999

Sustainability (page 15)

- Australian Bureau of Statistics, Environmental Issues: Peoples Views and Practices, Mar 2006
- Open Mind Research Group, Australian Unity Lifeplus Readership Survey, 2007
- Australian Bureau of Statistics, Water Account Australia, 2004-05
- EPA Victoria (www.epa.vic.gov.au/ecologicalfootprint)

Healthcare (page 16)

- PHIAC Quarterly Report, June 2007

Healthcare (page 18)

- International Diabetes Institute, The Australian Diabetes, Obesity and Lifestyle Study, 2001

Healthcare (page 19)

- Australian Unity Wellbeing Index, Survey 16, Oct 2006

Healthcare (page 20)

- Australian Institute of Health and Welfare and National Heart Foundation of Australia, Heart, Stroke and Vascular Diseases: Australian Facts, 2004

Healthcare (page 21)

- Australian Institute of Health and Welfare, Chronic Diseases and Associated Risk Factors in Australia, 2006
- Open Mind, Australian Unity Health and Wellness Survey, 2007

Financial services (page 25)

- Australian Prudential Regulatory Authority, Insight, Issue 2, 2007
- ASFA Research & Resource Centre, Are Your Retirement Savings On Track?, June 2007
- Business Council of Australia, BCA Quarterly, Issue 3, 2006-07
- Australian Unity Wellbeing Index, Survey 15, May 2006

Retirement living (page 26)

- Australian Bureau of Statistics, Australian Social Trends, 2006

Retirement living (page 27)

- Australian Unity Wellbeing Index, Survey 15, May 2006

Retirement living (page 28)

- National Centre for Social and Economic Modelling, Who's Going to Care? Informal Care and an Ageing Population, 2004

Retirement living (page 29)

- Australian Bureau of Statistics, Health of Older People in Australia: A Snapshot, 2004-05
- Department of Health and Ageing, Aged Care In Australia, May 2006
- Australian Institute of Criminology, Older People and Consumer Fraud, Trends and Issues in Crime and Criminal Justice, 2002 Data Sources for Industry Statistics

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 2007.

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
Stephen Maitland, Director
Bruce Siney, Director
Warren Stretton, Director
Leonard Hickey, Director (deceased 30 December 2006)

Company Secretary

Verran Fehlberg BEc (Acc), LLB was company secretary of Australian Unity Limited at 30 June 2007.

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 and customers 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 2007 of $32,104,000 (2006: $23,818,000).

Australian equivalents to International Financial Reporting Standards

One effect of the adoption of Australian equivalents to International Financial Reporting Standards (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.

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.

Review of operations

The directors are of the opinion that the consolidated entity had another successful year with the launch of new products and significant funds under management growth in the Investments business, further growth in Healthcare, with further development of preventative health initiatives and the acquisition of retirement village and aged care assets in the Retirement Living Services operation. 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 $50,186,000 for the year ended 30 June 2007 (2006: $50,375,000).

Revenues for the year of $456,157,000 (2006: $433,539,000) were influenced by continued strong investment income for much of the year and an increase in retail health fund contribution rates by an average of 5.44% in April 2006 (once again under the national average of 5.68%).

The retail health fund paid out $327,286,000 in claims to customers during the financial year up from $308,996,000 in the previous year. Importantly, some 90% of medical services consumed by members incurred no out-of-pocket expenses.

The corporate health fund paid out $30,136,000 in claims for the same period (2006: $27,826,000), while members incurred no out-of-pocket expenses for 79% of medical services.

High client retention rates and several key acquisitions contributed to strong growth for the corporate fund. This was underpinned by a new marketing program and high levels of member satisfaction.

The Management Expense Ratio (MER) for the retail health fund remained steady at 9.7% (excluding the impact of overseas visitors cover and other non-health insurance business). This was achieved despite substantial investment in preventative health programs with the long-term aim of improving members' health and containing growth in claims. In the low contribution rate rise environment which we continue to pursue the containment of the MER requires increasing restrictions on all operating cost movements.

Significant progress was achieved with the Group's preventative health strategy with the successful launch of the multi award winning COACH program in February 2007. This is designed to support members back to good health who have been hospitalised with coronary heart disease.

We are also developing an online health risk assessment service to help members identify where they may be at risk of developing a chronic health condition and how they can maintain good health.

During the year a major project commenced to migrate the back-office processes for the corporate health fund to a common system to increase operational efficiencies. This should see the corporate fund MER take a downward trend in coming years from 17.8% in 2007 (2006: 17.4%).

Statutory reserves at 30 June 2007 were above minimum requirements.

Retirement Living Services

Australian Unity's retirement living business recorded a profit before tax of $8,910,000 for the year ended 30 June 2007 (2006: $2,756,000).

As part of the expansion strategy commenced last year, a site has been purchased in eastern metropolitan Melbourne, with a 110 bed aged care facility scheduled for completion in January 2008 and approved plans for over 120 independent living units.

In addition, ownership of an 81 independent living unit village on the central coast of New South Wales, previously managed by the Group, was acquired in January 2007. Plans have been drawn up for redevelopment of the current 106 bed aged care facility in Glen Waverley (Wahroonga) into a larger facility comprising 153 beds, and the addition of 50 to 60 independent living units.

A new development team has also been established under the supervision of an experienced retirement and residential Head of Development.

The construction of the Constitution Hill Retirement Village was completed in April 2007. However, the slowing of the New South Wales real estate market resulted in settlements slowing from rates achieved in prior years to that generally experienced by the industry. The last independent living unit is anticipated to be sold by the end of the 2007/08 financial year. This has resulted in a delay in the realisation of the full development profit from this site until then, although $2,757,000 was recognised in the current year (2006: $1,170,000) and represents a significantly increased profit result.

The Group continued to develop its community services division with the successful transfer of its Retirement Village Care Pilot packages into mainstream Community Services packages during the year. This area is expected to grow with further expansion of user pays services in the 2007/08 financial year, as well as applications for additional government funded packages.

The successful May 2007 opening of Lifestyle Manor Bondi which is managed by the Group, came after several months of intense preparation. This newly built village took in its first residents in June 2007.

Operations across existing villages and aged care facilities continued to show improved performance flowing from investments in branding and business systems, ensuring that the challenge of developing, acquiring and operating new facilities can be faced with confidence.

Investments

Profit before tax for the investments business increased to $7,079,000, up 35.2% from $5,234,000 in the previous year. Funds under management increased 60% to $5.7 billion at 30 June 2007, up from $3.6 billion at 30 June 2006 and $2.8 billion in 2005.

The Group's Australian equities business, launched just over a year ago with joint venture partner Platypus Asset Management, reached $1.1 billion in funds under management at 30 June 2007. Platypus was ranked the number one performing Australian equities manager over one, three and five years to 30 June 2007 in the Intech Investment Consulting Australian Share manager survey.

The Group's fixed interest joint venture partner, Vianova Asset Management was ranked the number one performing Australian fixed interest manager in Mercer Investment Consulting's Australian fixed income manager survey for the year to 30 June 2007. During the year Vianova formed an alliance with Newton Asset Management, which manages more than $8 billion in global fixed interest securities. This resulted in the launch of a new blended Australian and global fixed interest product – the Core Plus Trust.

The Healthcare Property Trust re-opened to new investors in May 2007, having acquired over $90 million in new property during the year. The trust remains the largest in the market, with $319 million in assets at 30 June 2007 (2006: $210 million). It was recently awarded a 'highly recommended' rating, the highest possible by Lonsec, a leading provider of investment research for Australia's fund management industry.

In other key developments investor approval was granted to assume trusteeship of Multiplex Capital's Acumen Office Trust, increasing funds under management by a further $65 million. The $35 million redevelopment of the Waurn Ponds Shopping Centre in Geelong continued to progress solidly. The properties making up Australian Unity Property Syndicate No. 5 and Australian Unity Property Syndicate No. 6 were put on the market after the decision was made to wind-up both syndicates in the best interests of investors.

Overall the combined property portfolio increased to just over $1 billion (2006: $755 million) and mortgage funds under management increased by 73% to more than $1.3 billion at 30 June 2007 (2006: $750 million).

In one of the largest projects undertaken this year within the investments business, the unit registry system was replaced with a leading information technology platform.

The Trusteeship of the Freedom of Choice Superannuation Masterfund was transferred to Equity Trustees after receiving approval from the Australian Prudential Regulation Authority on 29 June 2007. Australian Unity Investments will receive approximately $5 million in consideration for intellectual property relating to the fund over the next 15 months.

Financial Planning

The 2006/2007 financial year saw the completion of the retail distribution network restructure and a return to growth in the developing financial planning business. Restructuring and business development cost contributed to a loss before tax of $5,016,000 to 30 June 2007 (2006: loss of $1,822,000).

With a settled and appealing business model, considerable success was achieved in attracting new financial planners. As a result, the number of financial planners more than doubled during the year.

Revenues of $2,268,000 (2006: $1,534,000) were achieved and funds under advice increased by over 57 % to $300 million at 30 June 2007 (2006: $190 million).

This was the first full year of operation for the new home loan and finance broking service as well as the new risk broking service. During the year the loan book grew to $17,800,000.

The business now has 30 financial planners and 6 brokers in 28 practices across New South Wales, Queensland and Victoria. Recruitment of additional planners continues.

General Insurance

Australian Unity's general insurance businesses recorded a profit before tax of $13,897,000 for the year ended 30 June 2007 (2006: $4,289,000).

Gross written premiums rose 40.3% to $96,800,000 (2006: $69,000,000) including revenues for part of the year arising from the acquisition on 1 December 2006 of the Australian portfolio of Farmers' Mutual Insurance Ltd.

The improved profit result was achieved despite significant claims from a major weather event around Newcastle, New South Wales in June. Despite this event the net claims ratio was an excellent 43.5% (2006: 51.5%).

Increased scale, moderately higher risk retentions and stronger investment performance were factors in this record result for the general insurance operation.

Mansions of Australia also contributed significantly to the result through its joint venture in the rural and regional underwriting agency, Farmers Mutual Insurance Ltd and by achieving excellent underwriting outcomes for the housing portfolio it manages as agent of Lloyds of London.

Capital adequacy at 30 June 2007 was 202% (166% last year).

Directors' report

Significant changes in the state of affairs
Total Members' fund increased to $ 269,610,000 at 30 June 2007, an increase of $ 32,074,000 during the financial year. This movement was largely the result of increased profit.

Subsequent to 30 June 2007, the Group disposed of its general insurance operations. This is discussed in further detail below.

Matters subsequent to the end of the financial year
On 9 July 2007, the Group acquired the 50% interest in Farmers' Mutual Insurance Limited it did not already own, for a consideration of $6,000,000. Farmers' Mutual Insurance Limited is an insurance agency specialising in the rural and regional general insurance market in Australia.

Also on 9 July 2007, the Group announced the sale of all its general insurance operations, comprising wholly-owned subsidiaries Australian Unity General Insurance Limited ("AUGIL") and Mansions of Australia Limited ("MoA"), to Calliden Group Limited, an ASX listed insurer.

As part of this transaction, Calliden Group Limited acquired 100% of the issued share capital of both AUGIL and MoA and, through MoA, Calliden Group Limited also holds a 50% interest in Farmers' Mutual Insurance Limited.

Consideration for the sale amounted to $62,500,000, comprising cash consideration of $48,634,000 plus 30,142,850 shares in Calliden Group Limited.

The sale, which was approved by the Australian Prudential Regulation Authority, was completed on 31 July 2007. Subsequent to completion, the Group holds around 13% of the issued ordinary shares of Calliden Group Limited.

On 22 August 2007, the Group completed the acquisition of Oxley Gardens, a partially developed retirement village in Port Macquarie, New South Wales. The village has five completed independent living units and development approval for the construction of an additional 60 units.

The board is not aware of any other matter or circumstance arising since 30 June 2007 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 in office at the date of this report

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. Since late 2006 he has been an executive director and principal with the ProNed organisation involved in Board search and advisory services. Before 1993, his executive career was at BHP where he held a number of senior executive positions. Over the last 14 years he has been a chairman or 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 December 2003. Mr Mead is also a director of the Australian Health Insurance Association and the Australian Health Service Alliance. He is chair of Platypus Asset Management, deputy chair of Acorn Capital and a 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, 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. 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, and was Group Managing Director and CEO from 2002 to 2004. He is chair of the Investment Committee, a member of the Audit and Compliance 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. Mr Ferres is chairman of Treasury Corporation of Victoria, a director of St Vincent's Health (Melbourne), and was previously president of Monash Medical Centre. Since 1990 he has served as chair or director of 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. 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 Odd Fellows, and president of the Centre for Fraternal Studies Inc.

Stephen Maitland
OAM, RFD, B Ec, FCPA, FAICD, FCIS, 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 29 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 was formerly the managing director of Grand United. Mr Stretton is a professional director. He holds a Federal Government appointment to the board of Australian Hearing, and has wide commercial experience gained in the motor, computer and entertainment industries.

Company secretary
Verran Fehlberg
BEc (Acc), LLB, General Counsel and Company Secretary
Mr Fehlberg joined Australian Unity in 2000. As General Counsel and Company Secretary since 2006, 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.

Directors' report

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 2007, 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	10	11	5	8	3	4	–	–	–	–	5	5
Rohan Mead	11	11	–	–	4	4	5	6	4	4	5	5
Murray Campbell	11	11	8	8	4	4	–	–	–	–	5	5
Eve Crestani	11	11	–	–	4	4	–	–	4	4	5	5
Ian Ferres	11	11	8	8	–	–	6	6	–	–	–	–
Warren French	11	11	–	–	4	4	–	–	–	–	–	–
Leonard Hickey	4	5	–	–	–	–	2	3	–	–	–	–
Stephen Maitland	11	11	8	8	–	–	2	2	–	–	–	–
Bruce Siney	10	11	–	–	–	–	–	–	4	4	–	–
Warren Stretton	11	11	8	8	–	–	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, and an ex–officio member of all other board committees; 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), Rohan Mead and Warren Stretton.
Australian Unity Funds Management Limited	Alan Castleman (Chairman), Murray Campbell, Ian Ferres, Stephen Maitland, Rohan Mead, Bruce Siney and Warren Stretton.
Australian Unity Investment Bonds Limited	Alan Castleman (Chairman), Murray Campbell, Ian Ferres, Stephen Maitland, Rohan Mead, Bruce Siney and Warren Stretton.
Australian Unity Property Limited	Alan Castleman (Chairman), Murray Campbell, Ian Ferres, 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 33.

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 48.

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 and financial report. Amounts in the directors' report and financial 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
28 August 2007

Rohan Mead
Group Managing Director
South Melbourne
28 August 2007

Auditor's independence declaration

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

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 2007, 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
28 August 2007

Income statements
For the year ended 30 June 2007

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Revenue	4, 42	**683,616**	614,360	**92,849**	43,072
Expenses, excluding finance costs	5, 42	**(629,255)**	(573,990)	**(62,066)**	(21,944)
Finance costs	5,42	**(6,583)**	(6,130)	**(1,508)**	(1,223)
Share of net profits of associates accounted for using the equity method	14,42	**2,676**	784	**–**	–
Profit before income tax		**50,454**	35,024	**29,275**	19,905
Income tax (expense)/benefit	6,42	**(18,350)**	(11,206)	**3,110**	5,562
Profit after income tax		**32,104**	23,818	**32,385**	25,467
Profit attributable to members of Australian Unity Limited	42	**32,104**	23,818	**32,385**	25,467

The above income statements should be read in conjunction with the accompanying notes, specifically note 42 which identifies the allocation between Members' Funds and Benefit Funds.

Balance sheets
As at 30 June 2007

	Notes	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
ASSETS					
Current assets					
Cash and cash equivalents	7	**236,203**	210,165	**19,026**	20,485
Trade and other receivables	8	**149,743**	123,335	**18,224**	22,885
Inventories	9	**586**	541	**–**	–
Other financial assets at fair value through profit or loss	10	**626,343**	585,643	**4,654**	3,293
Total current assets		**1,012,875**	919,684	**41,904**	46,663
Non current assets					
Receivables	12	**25,399**	29,687	**–**	–
Investments accounted for using the equity method	13	**16,772**	1,505	**–**	–
Other financial assets	15	**1,102**	444	**267,406**	192,388
Property, plant and equipment	17	**63,259**	61,529	**420**	422
Investment properties	18	**250,308**	213,697	**–**	–
Deferred tax assets	19	**24,834**	15,782	**4,440**	1,145
Intangible assets	20	**25,289**	24,178	**–**	–
Derivative financial instruments	11	**2,008**	3,227	**–**	–
Other non current assets	21	**730**	526	**89**	334
Total non current assets		**409,701**	350,575	**272,355**	194,289
Total assets		**1,422,576**	1,270,259	**314,259**	240,952
LIABILITIES					
Current liabilities					
Trade and other payables	22	**66,939**	43,159	**17,657**	10,480
Interest bearing liabilities	23	**3**	752	**6,780**	17,380
Provisions	24	**81,333**	66,109	**2,311**	1,493
Current tax liabilities	25	**16,493**	18,364	**14,267**	18,236
Other current liabilities	26	**323,759**	268,068	**–**	–
Benefit fund policy liabilities	40	**55,336**	45,949	**–**	–
Total current liabilities		**543,863**	442,401	**41,015**	47,589
Non current liabilities					
Interest bearing liabilities	27	**102,242**	80,696	**50,000**	–
Deferred tax liabilities	28	**22,213**	11,434	**192**	3,028
Provisions	29	**29,022**	21,837	**332**	–
Derivative financial instruments	11	**1,566**	2,741	**–**	–
Other non current liabilities	30	**4,897**	5,225	**–**	–
Benefit fund policy liabilities	40	**449,163**	468,389	**–**	–
Total non current liabilities		**609,103**	590,322	**50,524**	3,028
Total liabilities		**1,152,966**	1,032,723	**91,539**	50,617
Net assets		**269,610**	237,536	**222,720**	190,335
Members' funds					
Members' balances		**169,048**	169,048	**168,755**	168,755
Reserves	31(a)	**2,772**	2,802	**–**	–
Retained profits	31(b)	**97,790**	65,686	**53,965**	21,580
Total equity		**269,610**	237,536	**222,720**	190,335

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

Statements of changes in equity
For the year ended 30 June 2007

	Notes	**Consolidated 2007 $'000**	Consolidated 2006 $'000	**Parent 2007 $'000**	Parent 2006 $'000
Total equity at the beginning of the financial year		**237,536**	213,378	**190,335**	164,868
Hedging reserve – cash flow hedges		**(43)**	486	**–**	–
Tax effect of cash flow hedge reserve	31	**13**	(146)	**–**	–
Net income recognised directly in equity		**(30)**	340	**–**	–
Profit for the year		**32,104**	23,818	**32,385**	25,467
Total recognised income and expense for the year		**32,074**	24,158	**32,385**	25,467
Total equity at the end of the financial year		**269,610**	237,536	**222,720**	190,335
Total recognised income and expense for the year is attributable to:					
Members of Australian Unity Limited		**32,074**	24,158	**32,385**	25,467

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 2007

	Notes	**Consolidated 2007 $'000**	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Cash flows from operating activities					
Receipts from customers		**682,829**	559,393	**8,418**	24,525
Payments to suppliers and employees		**(272,502)**	(203,665)	**(2,679)**	(8,876)
		410,327	355,728	**5,739**	15,649
Premiums received – Life insurance		**476**	561	**–**	–
Policy claims – Life insurance		**(1,813)**	(1,344)	**–**	–
Life investment contracts – contribution receipts		**17,897**	23,496	**–**	–
Life investment contracts – withdrawals		**(52,753)**	(40,319)	**–**	–
Dividends received		**10,870**	10,567	**83,171**	40,990
Interest received		**9,943**	12,609	**4,577**	1,060
Claims and benefits paid		**(371,197)**	(340,527)	**–**	–
Borrowing costs		**(6,312)**	(5,927)	**(1,508)**	(1,235)
Other revenue		**10,304**	20,446	**234**	20
Income taxes received/(paid)		**(18,694)**	(9,975)	**(18,694)**	(9,902)
Net cash (outflow)/inflow from operating activities	32	**9,048**	25,315	**73,519**	46,582
Cash flows from investing activities					
Payment for purchase of subsidiaries, net of cash acquired	34	**–**	–	**(115,745)**	(42,815)
Payments for property, plant and equipment		**(24,657)**	(41,596)	**(1,155)**	(77)
Payments for investments		**(394,439)**	(533,648)	**(4,434)**	(2,000)
Payments for franchise buyback		**–**	(2,706)	**–**	–
Proceeds from sale of property, plant and equipment		**2**	28	**2**	5
Proceeds from sale of investments		**384,184**	548,434	**4,104**	2,196
Net cash (outflow)/inflow from investing activities		**(34,910)**	(29,488)	**(117,228)**	(42,691)
Cash flows from financing activities					
Net increase/(decrease) in borrowings		**21,206**	19,337	**42,250**	1,165
Net increase/(decrease) in refundable lease deposits		**30,694**	29,580	**–**	–
Net cash inflow/(outflow) from financing activities		**51,900**	48,917	**42,250**	1,165
Net increase/(decrease) in cash and cash equivalents		**26,038**	44,744	**(1,459)**	5,056
Cash and cash equivalents at the beginning of the financial year		**210,165**	123,443	**20,485**	15,429
Opening cash adjustment due to first time reporting of benefit funds		**–**	41,978	**–**	–
Cash and cash equivalents at end of year	7	**236,203**	210,165	**19,026**	20,485

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

Notes to the financial statements
For the year ended 30 June 2007

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. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures. 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).

Early adoption of standard
The Group has elected to apply AASB 8 *Operating segments* (issued in February 2007) to the annual reporting period beginning 1 July 2006.

This includes applying AASB 8 to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*
As a result AASB 2007–3 Amendments to Australian Accounting Standards arising from AASB 8 has also been applied.

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.

Australian Accounting Standards issued but not yet effective

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

AASB	*Title*	*Operative Date*
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
AASB 7	Financial instruments: Disclosures	1 January 2007
2006 – 1	Amendments to Australian Accounting Standard [AASB 121]	31 December 2006
2007 – 4	Amendments to Australian Accounting Standard arising from ED151 and other amendments	1 July 2007
2007 – 6	Amendments to Australian Accounting Standard arising from AASB 123	1 January 2009

The above are not yet effective for the annual reporting period ending 30 June 2007 and have not been applied in preparing the Group's financial statements. The Group will apply the other amendments to the annual reporting periods beginning on or after the operative dates set out above. Application of these amendments is not expected to require any changes to accounting policies.

1. Summary of significant accounting policies (continued)

(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 2007 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(e)).

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 14).

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) Borrowings

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.

(d) 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.

(e) 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 n(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.

(f) 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 change in value, net of outstanding bank overdrafts.

(g) Deferred acquisition costs

Acquisition costs incurred in obtaining general and health 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.

(h) Derivatives

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 11. Movements in the hedging reserve in members' equity are shown in note 31.

(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 that are 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.

(i) 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 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.

(j) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and 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.

1. Summary of significant accounting policies (continued)

(k) Financial guarantee contracts
Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

(l) 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 the income statement. Levies and charges payable by the Group are expensed in the income statement.

(m) 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.

Recoverable amount 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.

(n) 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.

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.

(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.

(o) Interests in wholly-owned subsidiaries
The parent entity has valued its investment in wholly-owned subsidiaries at cost.

(p) Investments and other financial assets
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
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. 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 8 and 12).

(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.

(q) 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 modeling of incoming and outgoing residents and includes a discounted cashflow analysis using the current 90 day bank bill rate plus management's required rate of return.

(r) 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.

(s) 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 Group, 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.

1. Summary of significant accounting policies (continued)

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.

(t) Outwards reinsurance
Amounts paid to reinsurers under insurance contracts held by the Group 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.

(u) 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 Group 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 Group derives fee income from 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 40.

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.

(v) 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(m)).

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.

(w) 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.

(x) 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 even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(y) Resident loans
Retirement village residents, upon entering certain accommodation types, provide a loan to the village operator, from which deferred management fees are deducted in respect of the provision of certain services and facilities. The actual amount repayable upon departure from the accommodation is determined by the terms of the existing tenancy contracts. In certain cases, the amount repayable includes the resident's share of any increase in the value of the property occupied by the resident during the period of tenancy. As these amounts are payable on demand, they are treated as a current liability and are stated at face value even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(z) 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.

(aa) Reinssurance – health benefits
From 1 April 2007
Under the provisions of the Private Health Insurance Act 2007, stipulated in the Private Health Insurance (Risk Equalisation Administration) Rules 2007, which became effective from 1 April 2007, all health insurers must participate in the Risk Equalisation Trust Fund ("RETF"). These rules charge a levy to all health insurers and share a proportion of the hospital claims on a sliding scale (by age) for all persons aged 55 years and over regardless of their length of stay in hospital. In certain circumstances, these rules also provide for a High Cost Claimants Pool.

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

Before 1 April 2007
Under the provisions of the National Health Act 1953, all health insurers were required to participate in the Health Benefits Reinsurance Trust Fund ("HBRTF"), which charged a levy to all health insurers and shared 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 were determined by the Private Health Insurance Administration Council after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable were recognised on an accruals basis.

(ab) 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
Interest revenue is recognised using the effective interest method when the entity has control of the right to receive the interest payment.

(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.

1. Summary of significant accounting policies (continued)

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.

(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
Fee income is recognised based upon the contractual obligations of the 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.

(ac) Rounding of amounts
The Company 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.

(ad) 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 6.

(ae) Trade and other payables
Trade payables and other payables, which are generally settled on 30-90 day terms, are carried at amortised cost 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.

(af) Trade receivables
Trade receivables, which are generally settled on 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.

(ag) Unexpired risk liability
At each reporting date the Group 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 Group 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.

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(m). 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) Insurance liabilities
The estimates, uncertainties and judgements arising as a result of the Group's general, health and life insurance operations are detailed in notes 39 and 40.

(iii) 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.

(iv) Long service leave provision
As noted in note 1(i)(ii),the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, attrition rates and pay increases as a result of inflation have been taken into account.

(v) Retirement village investment property
The fair value of retirement village investment property is determined as the present value of future cash flows based upon statistical modelling of incoming and outgoing residents and includes assumptions in respect of a number of factors, including average length of residence and expected changes in property prices.

(vi) Financial guarantees
The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. In order to estimate the fair value using this approach, the following assumptions were made:

Probability of default (PD): this represents the likelihood of the guaranteed party defaulting at any time during the period of the guarantee and is assessed based on expected surplus funds generated from investments during the guarantee period and made available to all guarantors to meet the exposure.

Exposure at default (EAD): this represents the maximum loss that the Group is exposed to if the guaranteed party was to default.

Loss given default (LGD): this represents the proportion of the EAD which the Group is exposed to if the guaranteed party was to default.

The value of the financial guarantee over each future year of the period of the guarantee is then equal to PD x EAD x LGD, which is discounted over the contractual term of the guarantee, to reporting date, to determine fair value at reporting date. The discount rate applied represents the weighted average interest rate applicable to the total exposure.

(b) Critical judgements in applying the entity's accounting policies

(i) Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as the directors consider it probable that future taxable profits will be available to utilise these temporary differences.

(ii) Classification of life insurance liabilities
Life insurance liabilities held within benefit funds managed by the Group 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.

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3. Segment information

2007
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

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

Business segments comprise the following:

Corporate Functions	Provision of retail product distribution, 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.
Retirement Living	Provision of aged care facilities and support services for independent living units.
Benefit Funds	Provision of life insurance and investment bonds.
Financial Planning	Provision of financial planning and finance broking services.

[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.

Corporate Functions $'000	Investments $'000	General Insurance $'000	Healthcare $'000	Financial Planning $'000	Retirement Living $'000	Benefit Funds[1] $'000	Inter-Segment $'000	**Consolidated $'000**
7,142	47,579	80,870	453,629	2,268	42,440	49,688	–	**683,616**
102,096	11,704	–	2,528	–	1,113	–	(117,441)	**–**
109,238	59,283	80,870	456,157	2,268	43,553	49,688	(117,441)	**683,616**
23	2,239	414	–	–	–	–	–	**2,676**
12,622	7,079	13,897	50,186	(5,016)	8,910	8,151	(45 ,375)	**50,454**
7,429	(433)	(2,445)	(15,361)	1,497	(164)	(8,151)	(722)	**(18,350)**
20,051	6,646	11,452	34,825	(3,519)	8,746	–	(46,097)	**32,104**
447,867	85,736	195,824	247,522	1,420	330,854	505,969	(392,616)	**1,422,576**
160,803	42,489	144,168	163,933	521	262,199	505,969	(127,116)	**1,152,966**
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	(332,594)	**1,270,259**
121,277	41,565	105,247	152,950	653	205,736	514,584	(109,289)	**1,032,723**

4. Revenue

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	***Parent 2007 $'000***	*Parent 2006 $'000*
Sales revenue				
Contributions and premiums	**488,108**	443,874	**–**	–
	488,108	443,874	**–**	–
Other revenue				
Commission received	**13,817**	14,271	**–**	–
Management fees	**45,802**	36,814	**107**	142
Retirement village fees and subsidies	**31,127**	25,331	**–**	–
Dental sales	**7,589**	6,142	**–**	–
Property	**2,987**	2,329	**7**	6
Interest income received from wholly owned entities	**–**	–	**1,770**	980
Dividends and distributions	**14,523**	10,299	**86,254**	41,325
Other revenue	**16,807**	8,183	**3,911**	–
Other investment revenue	**13,168**	15,823	**800**	619
Revenue from benefit funds (note 40)	**49,688**	51,294	**–**	–
	195,508	170,486	**92,849**	43,072
	683,616	614,360	**92,849**	43,072

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5. Expenses

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	***Parent 2007 $'000***	*Parent 2006 $'000*
Expenses, excluding finance costs, included in the income statement classified by nature				
Raw materials and consumables used	**(57)**	–	**–**	–
Employee benefits expense	**(103,146)**	(87,345)	**(2,978)**	(4,027)
Depreciation and amortisation expense	**(9,748)**	(6,849)	**(1,154)**	(4)
Impairment expense	**(3,031)**	(1,139)	**–**	–
Fund manager fees	**(7,407)**	(5,153)	**(3)**	(8)
Commission	**(31,440)**	(25,915)	**–**	(5)
Claims expense	**(401,791)**	(372,090)	**–**	–
Advertising costs	**(19,786)**	(12,925)	**(6,990)**	(1,968)
Occupancy costs	**(7,626)**	(6,926)	**(430)**	(344)
Communication costs	**(5,100)**	(5,767)	**(51)**	(535)
Net loss on disposal of assets	**(313)**	(423)	**(349)**	(162)
Shared service costs	**–**	–	**(7,314)**	(12,089)
Bank charges	**(2,827)**	(2,493)	**–**	–
Computer and equipment costs	**(6,466)**	(7,091)	**–**	(271)
Legal and professional fees	**(10,707)**	(10,978)	**(1,545)**	(1,957)
Reinsurance recoveries	**38,821**	28,833	**–**	–
Financial and insurance costs	**(1,926)**	(1,816)	**(1)**	–
Other direct expenses	**(7,813)**	(5,637)	**–**	–
Write down of carrying value of subsidiary(note 16)	**–**	–	**(40,731)**	–
Other expenses	**(7,355)**	(5,928)	**(520)**	(574)
Expenses in relation to benefits funds (note 40)	**(41,537)**	(44,348)	**–**	–
	(629,255)	(573,990)	**(62,066)**	(21,944)
Net gains and expenses				
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	**848**	955	**–**	–
Plant and equipment	**1,560**	2,411	**–**	–
Leasehold improvements	**1,840**	1,135	**–**	–
Total depreciation	**4,248**	4,501	**–**	–
Amortisation				
Intangibles	**2,281**	559	**–**	–
Software	**3,219**	1,789	**1,154**	4
Total amortisation	**5,500**	2,348	**1,154**	4
Finance costs				
Interest and finance charges paid/payable	**6,583**	6,130	**1,508**	1,223

6. Income tax expense/(benefit)

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
(a) Income tax expense/(benefit)				
Current tax	**16,211**	10,322	**2,096**	(5,976)
Current tax – benefit funds	**5,368**	9,201	**–**	–
Deferred tax	**(3,454)**	(2,298)	**(2,627)**	2,370
Deferred tax – benefit funds	**2,643**	(2,562)	**–**	–
Under/(over) provision in prior years	**(2,558)**	(3,300)	**(2,579)**	(1,956)
Under/(over) provision in prior years – benefit funds	**140**	(157)	**–**	–
	18,350	11,206	**(3,110)**	(5,562)
Income tax expense/(benefit) is attributable to:				
Profit/(loss) from continuing operations	**18,350**	11,206	**(3,110)**	(5,562)
Deferred income tax (benefit)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 19)	**(8,537)**	(4,902)	**(2,463)**	(427)
(Decrease)/increase in deferred tax liabilities (note 28)	**7,726**	42	**(164)**	2,797
	(811)	(4,860)	**(2,627)**	2,370
(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable				
Profit from continuing operations before income tax expense	**50,454**	35,024	**29,275**	19,905
Less: profit in benefit funds	**(8,151)**	(6,828)	**–**	–
	42,303	28,196	**29,275**	19,905
Tax at 30% (2006 – 30%)	**12,691**	8,459	**8,783**	5,971
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-assessable dividends/income	**(5,198)**	(4,715)	**(13,848)**	(12,255)
Unrealised gain on investments	**–**	3,425	**–**	–
Net exempt and other differences	**–**	3,888	**–**	–
Other assessable amounts	**7,079**	–	**4,509**	1
Non-deductible expenditure	**3,108**	–	**435**	2,677
Other deductible expenditure	**(614)**	(668)	**(434)**	–
	17,066	10,389	**(556)**	(3,606)
Other deferred tax adjustment	**(5,127)**	(2,711)	**(17)**	–
Tax in benefit funds	**8,151**	6,828	**–**	–
Tax Offsets/Credits	**(516)**	–	**(5)**	–
Research and development expenditure allowance	**–**	(833)	**–**	–
Under/(over) provision in prior years	**(2,558)**	(2,467)	**(2,532)**	(1,956)
Prior year underpayment of tax	**1,334**	–	**–**	–
	1,284	817	**(2,554)**	(1,956)
Total income tax expense/(benefit)	**18,350**	11,206	**(3,110)**	(5,562)
(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 (note 28)	**(13)**	146	**–**	–

6. Income tax expense/(benefit) (continued)

(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(ad).

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 instalments. The funding amounts are recognised as current intercompany receivables or payables.

7. Current assets – Cash and cash equivalents

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Cash at bank and on hand	**17**	194	**–**	2
Bank balances	**12,744**	16,254	**2,100**	898
Deposits at call	**223,442**	193,717	**16,926**	19,585
	236,203	210,165	**19,026**	20,485

(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 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Balances as above	**236,203**	210,165	**19,026**	20,485
Balances per statement of cash flows	**236,203**	210,165	**19,026**	20,485

(b) Bank balances and deposits at call
The bank balances and deposits at call bear average floating interest rates of 5.8% (2006: 5.3%).

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

8. Current assets – Trade and other receivables

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Net trade receivables				
Trade receivables	**59,546**	43,325	**–**	–
Provision for doubtful receivables	**(757)**	(737)	**–**	–
	58,789	42,588	**–**	–
Related party receivables				
Loans to controlled entities	**–**	–	**14,200**	17,050
Amounts due from related parties	**–**	–	**2**	5,628
	–	–	**14,202**	22,678
Other receivables				
Other debtors	**20,245**	24,045	**3,966**	190
Reinsurance recoveries	**23,097**	16,501	**–**	–
Interest receivable	**867**	882	**56**	17
	44,209	41,428	**4,022**	207
Prepayments				
Prepayments	**5,054**	4,068	**–**	–
Prepaid reinsurance	**11,846**	15,066	**–**	–
Management fees	**7,487**	3,858	**–**	–
Deferred acquisition costs	**22,358**	16,327	**–**	–
	46,745	39,319	**–**	–
	149,743	123,335	**18,224**	22,885

Loans to controlled entities earn interest at an average annual rate of 7.26% (2006: 6.65%) 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 12).

9. Current assets – Inventories

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Inventories at cost – dental and optical	**544**	434	**–**	–
Other inventories – at cost	**42**	107	**–**	–
	586	541	**–**	–

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

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
At the beginning of the financial year	**585,643**	135,630	**3,293**	3,646
Adjustment on adoption of AASB 1038	**–**	416,893	**–**	–
Net additions	**40,700**	33,120	**1,361**	–
Net disposals (sale and redemption)	**–**	–	**–**	(353)
At the end of the financial year	**626,343**	585,643	**4,654**	3,293

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Securities managed by related entities	**625,939**	544,353	**4,654**	3,293
Discount securities	**404**	41,290	**–**	–
	626,343	585,643	**4,654**	3,293

Securities managed by related entities and discount securities comprise the following:

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Cash and fixed interest securities	**349,529**	323,786	**–**	–
Equities	**52,500**	71,518	**–**	–
Mortgage trusts	**180,825**	130,017	**434**	381
Property syndicates and trusts	**20,326**	24,106	**770**	695
Other securities	**23,163**	36,216	**3,450**	2,217
	626,343	585,643	**4,654**	3,293

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.

The carrying amounts of the above financial assets are classified as follows:

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Designated at fair value on initial recognition	**626,343**	585,643	**4,654**	3,293

11. Derivative financial instruments

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	***Parent 2007 $'000***	*Parent 2006 $'000*
Non-current assets				
Interest rate swaps – fair value hedges ((a))	**2,008**	3,227	**–**	–
Non-current liabilities				
Interest rate swaps – fair value hedges ((a))	**1,566**	2,741	**–**	–
Total net derivative financial instruments	**442**	486	**–**	–

(a) 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.

As disclosed in note 27, 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.

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

	2007 $'000	*2006 $'000*
Interest rate swap contracts		
1 – 2 years	**25,000**	–
2 – 3 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.

The hedging instruments were effective during each of the years ended 30 June 2007 and 30 June 2006.

(b) 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 reporting date the following amounts are receivable by the consolidated entity in respect of the fair value of interest rate swap contracts:

	2007 $'000	*2006 $'000*
Interest rate swaps	**442**	486

The parent entity has no derivative financial instruments outstanding at 30 June 2007 (2006: $nil).

11. Derivative financial instruments (continued)

(c) 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: Over 1 to 2 years $'000	Over 2 to 3 years $'000	*Total* $'000
Assets			
2007			
Interest rate swaps*	25,000	–	25,000
2006			
Interest rate swaps*	–	25,000	25,000
Liabilities			
2007			
Interest rate swaps*	25,000	–	25,000
2006			
Interest rate swaps*	–	25,000	25,000

* Notional principal amounts.

12. Non-current assets – Receivables

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	***Parent 2007 $'000***	*Parent 2006 $'000*
Reinsurance recoveries	**6,412**	3,082	**–**	–
Receivable from associates	**822**	700	**–**	–
Mortgage loans	**8,751**	18,857	**–**	–
Policy loans	**391**	721	**–**	–
Other receivables	**9,023**	6,327	**–**	–
	25,399	29,687	**–**	–

The receivable from associates comprises a loan receivable from Vianova Asset Management Pty Ltd. This 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 14). A loan advance of $250,000 was made on 8 August 2006.

Interest rate on this loan facility is charged at a rate of 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.

Termination date of the loan agreement is 16 February 2010.

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 13 November 2028 and earn interest at average annual interest rates between 6.90% and 8.35% (2006: 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*
2007							
Trade receivables(note 8)	–	–	–	–	–	58,789	58,789
Mortgages (including receivable from associates)(note 12)	6,191	1,288	–	2,094	–	–	9,573
Policy loans(note 12)	391	–	–	–	–	–	391
Other receivables(note 8 and 12)	–	–	–	–	–	63,632	63,632
	6,582	1,288	–	2,094	–	122,421	132,385
Weighted average interest rate	7.79%	7.72%	–%	4.95%	–%	–%	

	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(note 8)	–	–	–	–	–	42,588	42,588
Mortgages (including receivable from associates)(note 12)	10,073	6,309	1,288	1,415	472	–	19,557
Policy loans(note 12)	721	–	–	–	–	–	721
Other receivables(note 8 and 12)	–	–	–	–	–	50,837	50,837
	10,794	6,309	1,288	1,415	472	93,425	113,703
Weighted average interest rate	7.51%	6.53%	7.72%	3.73%	7.45%	–%	

(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.

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

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	***Parent 2007 $'000***	*Parent 2006 $'000*
Investments in associates (note 14)	**16,772**	1,505	**–**	–

14. Investments in associates

(a) Carrying amounts

On 22 November 2006, Australian Unity Strategic Holdings Pty Ltd (formerly Strode 4 Pty Ltd) ("AUSH"), a controlled entity, acquired 50% of the issued units of the Project HAL Trust, an unlisted property development trust operating in Australia. Consideration for this acquisition amounted to $300,000.

On 6 December 2006, AUSH acquired additional units in Project HAL Trust for a consideration of $8,009,000. Following this acquisition, AUSH's holding in the issued units of Project HAL Trust remained at 50%.

On 8 May 2007, AUSH redeemed 985,354 units in Project HAL Trust for a consideration of $985,354. Following this redemption, AUSH's holding in the issued units of Project HAL Trust remained at 50%.

On 1 December 2006, Mansions of Australia Limited, a controlled entity, acquired 50% of the issued share capital of Farmers' Mutual Insurance Limited, an insurance agency which specialises in the rural and regional general insurance market in Australia. Consideration for this purchase amounted to $6,000,000.

14. Investments in associates (continued)

Information relating to associates is set out below:

Name of company	*Principal activity*	*Ownership interest* **2007** **%**	*2006* *%*	***Consolidated*** **2007** **$'000**	*Consolidated* *2006* *$'000*	***Parent*** **2007** **$'000**	*Parent* *2006* *$'000*
Unlisted							
Acorn Capital Limited	Investment management	**50**	50	**1,793**	1,217	**–**	–
Vianova Unit Trust	Investment management	**50**	50	**149**	88	**–**	–
Platypus Asset Management Pty Ltd	Investment management	**50**	50	**963**	200	**–**	–
Project HAL Trust	Property development	**50**	–	**7,361**	–	**–**	–
Farmers' Mutual Insurance Limited	Insurance agency	**50**	–	**6,506**	–	**–**	–
				16,772	1,505	**–**	–

Other than Farmers' Mutual Insurance Limited, which is incorporated in New Zealand, each of the above associates is incorporated in Australia.

A controlled entity owns an additional 4.36% of the issued share capital of Acorn Capital Limited as a short term investment in addition to the Group's long term 50% interest noted above. The voting rights attached to the additional interest are such that this additional interest does not enable the Group to control the associate.

	Consolidated **2007** **$'000**	*Consolidated* *2006* *$'000*
(b) Movements in carrying amounts		
Carrying amount at the beginning of the financial year	**1,505**	1,470
Investments acquired during the year	**13,430**	200
Increase in existing investments during the year	**330**	330
Share of profits after income tax	**2,676**	784
Dividends received/receivable	**(1,169)**	(1,279)
Carrying amount at the end of the financial year	**16,772**	1,505
(c) Share of associates' profits or losses		
Profit before income tax	**3,929**	1,309
Income tax expense	**(1,253)**	(525)
Profit after income tax	**2,676**	784

(d) Summarised financial information of associates

	Group's share of: Assets $'000	*Liabilities* *$'000*	*Revenues* *$'000*	*Profit after tax* *$'000*
2007				
Total	21,376	(10,650)	8,885	2,676
2006				
Total	2,769	(1,594)	3,777	784

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.

15. Non–current assets – Other financial assets

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	***Parent 2007 $'000***	*Parent 2006 $'000*
Share in controlled entities (note 16)	**–**	–	**267,215**	192,201
Deferred costs	**–**	57	**–**	–
Other investments	**1,102**	387	**191**	187
	1,102	444	**267,406**	192,388

16. 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(o).

Name of entity	*Country of incorporation*	*Class of Shares*	*Equity holding* ***2007 %***	*Equity holding 2006 %*	*Value of investment* ***2007 $'000***	*Value of investment 2006 $'000*
Held wholly by parent entity						
Australian Unity Capital Management Ltd (formerly Grand United Friendly Society Ltd)	Australia	Ordinary	**100**	100	**6,210**	46,941
Australian Unity Dispensaries Friendly Society Ltd	Australia	Ordinary	**100**	100	**1**	1
Australian Unity Financial Planning Ltd	Australia	Ordinary	**100**	100	**5,695**	2,045
Australian Unity Finance Ltd	Australia	Ordinary	**100**	100	**3,000**	3,000
Australian Unity Funds Management Ltd	Australia	Ordinary	**100**	100	**12,690**	12,690
Australian Unity General Insurance Ltd	Australia	Ordinary	**100**	100	**23,496**	17,496
Australian Unity Group Services Pty Ltd	Australia	Ordinary	**100**	100	**28,566**	23,066
Australian Unity Health Ltd	Australia	Ordinary	**100**	100	**28,798**	28,798
Australian Unity Health Care Ltd	Australia	Ordinary	**100**	100	**1,500**	1,500
Australian Unity Investment Bonds Ltd	Australia	Ordinary	**100**	100	**6,020**	6,020
Australian Unity Nominees Pty Ltd (formerly MU Nominees Pty Ltd) (trustee company)	Australia	Ordinary	**100**	100	**–**	–
Australian Unity Property Ltd	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 Ltd	Australia	Ordinary	**100**	100	**15,351**	10,851
Australian Unity Retirement Living Investments Ltd	Australia	Ordinary	**100**	100	**8,215**	7,715
Australian Unity Retirement Living Services Ltd	Australia	Ordinary	**100**	100	**51,413**	6,773
Australian Unity Staff Superannuation Pty Ltd (trustee company)	Australia	Ordinary	**100**	100	**–**	–
Australian Unity Strategic Holdings Pty Ltd (formerly Strode 4 Pty Ltd)	Australia	Ordinary	**100**	100	**39,850**	14,900
Grand United Corporate Health Ltd	Australia	Ordinary	**100**	100	**15,296**	–
Grand United Health Fund Pty Ltd	Australia	Ordinary	**100**	100	**1,831**	–
Mansions of Australia Ltd	Australia	Ordinary	**100**	100	**9,250**	3,250
HealthSource Australia Pty Ltd	Australia	Ordinary	**100**	100	**2,878**	–
Strode 1 Pty Ltd (trustee company)	Australia	Ordinary	**100**	100	**–**	–
System Stanley Pty Ltd	Australia	Ordinary	**100**	100	**5**	5

16. Subsidiaries (continued)

Name of entity *(Continued)*	*Country of incorporation*	*Class of Shares*	*Equity holding* **2007 %**	*2006 %*	*Value of investment* **2007 $'000**	*2006 $'000*
Not held wholly by the parent entity						
Australian Unity Investment Trust	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Living Services (NSW) Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Australian Unity Retirement Village Trust #1	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Village Trust #2	Australia	Units	**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	**–**	–
Retirement Management Services Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
Willandra Village Management Pty Ltd	Australia	Ordinary	**100**	100	**–**	–
					267,215	192,201

The parent entity investment in wholly–owned subsidiaries is at cost, in accordance with accounting policy described in note 1(o).

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.

On 31 July 2007, the Group sold its general insurance operations, comprising wholly-owned subsidiaries Australian Unity General Insurance Limited and Mansions of Australia Limited (note 37).

Following receipt of a dividend of $40,731,000 from Australian Unity Capital Management Ltd (formerly Grand United Friendly Society Ltd) the carrying value of the investment in this subsidiary was written down by this same amount.

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

Consolidated	*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	15,744	103	21,899
Subsidiary sold	(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	16,725	4,721	61,529
At 30 June 2006					
– Cost	–	–	20,714	9,602	30,316
– Valuation	9,655	33,683	–	–	43,338
Accumulated depreciation	–	(3,255)	(3,989)	(4,881)	(12,125)
Net book amount	9,655	30,428	16,725	4,721	61,529

Consolidated	*Freehold land $'000*	*Freehold buildings $'000*	*Plant and equipment $'000*	*Leasehold improvements $'000*	*Total $'000*
Year ended 30 June 2007					
Opening net book amount	9,655	30,428	16,725	4,721	61,529
Additions	819	679	17,502	1,539	20,539
Disposals	(2)	(1)	(14,472)	(86)	(14,561)
Depreciation charge	–	(848)	(1,560)	(1,840)	(4,248)
Transfers	–	619	(2,841)	2,222	–
Closing net book amount	10,472	30,877	15,354	6,556	63,259
At 30 June 2007					
– Cost	–	–	20,512	11,613	32,125
– Valuation	10,472	34,981	–	–	45,453
Accumulated depreciation	–	(4,104)	(5,158)	(5,057)	(14,319)
Net book amount	10,472	30,877	15,354	6,556	63,259

Parent	*Freehold land $'000*	*Freehold buildings $'000*	*Total $'000*
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

Parent	*Freehold land $'000*	*Freehold buildings $'000*	*Plant and equipment $'000*	*Total $'000*
Year ended 30 June 2007				
Opening net book amount	345	77	–	422
Additions	–	–	1	1
Disposals	(2)	(1)	–	(3)
Closing net book amount	343	76	1	420
At 30 June 2007				
– Cost	–	–	1	1
– Valuation	343	76	–	419
Net book amount	343	76	1	420

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

(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 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Freehold land				
Cost	**9,262**	8,444	**343**	345
Accumulated depreciation	**–**	–	**–**	–
Net book amount	**9,262**	8,444	**343**	345
Buildings				
Cost	**36,297**	32,432	**76**	77
Accumulated depreciation	**(4,104)**	(3,255)	**–**	–
Net book amount	**32,193**	29,177	**76**	77

18. Non–current assets – Investment properties

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
At Fair value				
Balance at the beginning of the financial year	**213,697**	160,767	**–**	–
Acquisitions	**31,088**	29,963	**–**	–
Net gain/(loss) from fair value adjustment	**5,523**	1,924	**–**	–
Transfer (to)/from owner occupied property	**–**	21,043	**–**	–
Balance at the end of the financial year	**250,308**	213,697	**–**	–

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

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Revenue	**32,335**	33,344	**–**	–
Expenses	**(28,442)**	(27,391)	**–**	–
Changes in fair value recognised in profit and loss	**5,523**	1,924	**–**	–
	9,416	7,877	**–**	–

(b) Valuation basis
Investment properties comprise 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 modeling of incoming 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 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 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 2007 (2006:$nil).

19. Non–current assets – Deferred tax assets

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accrued expenses	**8,722**	4,475	**2,655**	318
Borrowing costs	**54**	–	**–**	–
Capitalised assets/expenses	**7,134**	1,623	**48**	45
Provisions	**4,112**	6,210	**369**	86
Depreciable professional fees	**1,304**	–	**–**	–
Capitalised professional fees	**51**	–	**–**	–
Deferred acquisition costs	**–**	83	**–**	–
Product distribution channel development costs	**–**	176	**–**	–
Investments	**–**	656	**–**	–
Employee benefits	**–**	217	**–**	–
Tax losses	**–**	1,024	**–**	–
Booked losses	**703**	–	**–**	–
Unrealised losses	**852**	–	**–**	–
Other assessable items	**1,902**	–	**–**	–
Other	**–**	1,318	**1,368**	696
Net deferred tax assets	**24,834**	15,782	**4,440**	1,145
Movements:				
Balance at the beginning of the financial year	**15,782**	8,600	**1,145**	918
Change on adoption of AASB 1038 (note 1)	**–**	144	**–**	–
Credited/(charged) to the income statement (note 6)	**8,537**	4,902	**2,463**	427
Deferred balances transferred in	**73**	–	**–**	–
Under/(over) provision	**442**	2,136	**832**	(200)
Balance at the end of the financial year	**24,834**	15,782	**4,440**	1,145
Deferred tax assets to be recovered after more than 12 months	**16,111**	11,853	**3,653**	707
Deferred tax assets to be recovered within 12 months	**8,723**	3,929	**787**	438
	24,834	15,782	**4,440**	1,145

20. Non–current assets – Intangible assets

	Goodwill $'000	Computer software $'000	Product Distribution Channel $'000	Total $'000
Consolidated				
Year ended 30 June 2006				
Opening net book amount	14,835	5,834	1,096	21,765
Additions	271	1,220	3,405	4,896
Disposals	–	–	(135)	(135)
Amortisation charge	–	(1,789)	(559)	(2,348)
Closing net book amount	15,106	5,265	3,807	24,178
At 30 June 2006				
Cost	15,106	20,980	4,366	40,452
Accumulated amortisation and impairment	–	(15,715)	(559)	(16,274)
Net book amount	15,106	5,265	3,807	24,178

	Goodwill $'000	Computer software $'000	Product Distribution Channel $'000	Total $'000
Consolidated				
Year ended 30 June 2007				
Opening net book amount	15,106	5,265	3,807	24,178
Additions	1,189	7,550	903	9,642
Impairment expense	–	–	(3,031)	(3,031)
Amortisation charge	(602)	(3,219)	(1,679)	(5,500)
Closing net book amount	15,693	9,596	–	25,289
At 30 June 2007				
Cost	15,711	27,280	–	42,991
Accumulated amortisation and impairment	(18)	(17,684)	–	(17,702)
Net book amount	15,693	9,596	–	25,289

	Computer software $'000	Total $'000
Parent		
Year ended 30 June 2007		
Opening net book amount	–	–
Additions	1,154	1,154
Amortisation charge	(1,154)	(1,154)
Closing net book amount	–	–

(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*
2007				
Australian Unity General Insurance Limited	1,992	–	–	1,992
Mansions of Australia Limited	2,491	–	–	2,491
Australian Unity Capital Management Ltd 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	–	–	2,013	2,013
Australian Unity Property Limited	–	–	2,613	2,613
	5,838	5,229	4,626	15,693

	Insurance $'000	*Retirement Living Services $'000*	*Investments $'000*	*Total $'000*
2006				
Australian Unity General Insurance Limited	1,661	–	–	1,661
Mansions of Australia Limited	2,491	–	–	2,491
Australian Unity Capital Management Ltd 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

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 of 6.91% (2006: 6.17%) 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 2007 $'000	*Consolidated 2006 $'000*	***Parent 2007 $'000***	*Parent 2006 $'000*
Borrowings arrangement costs	***142***	*192*	**–**	–
Other non-current assets	**588**	334	**89**	334
	730	526	**89**	334

22. Current liabilities – Trade and other payables

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Trade payables	**16,857**	12,535	**–**	–
Amounts due to related entities	**–**	–	**8,887**	9,259
Accrued expenses	**49,661**	30,452	**8,517**	1,208
Goods and services tax (GST) payable	**421**	172	**253**	13
	66,939	43,159	**17,657**	10,480

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

23. Current liabilities – Interest bearing liabilities

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Secured				
Lease liabilities (note 35)	**3**	18	**–**	–
Unsecured				
Payable to controlled entities	**–**	–	**6,780**	17,380
Unsecured borrowing	**–**	734	**–**	–
Total current borrowings	**3**	752	**6,780**	17,380

(a) Unsecured borrowing
This represents the current portion of a loan to finance a systems development project. This loan was repaid during the financial year.

(b) Amounts payable to controlled entities
The amounts payable to controlled entities incur interest at an average annual rate of 7.26% (2006:6.65%) 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 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Employee benefits	**5,137**	4,199	**120**	–
Claims	**72,722**	59,123	**–**	–
Other provisions	**3,474**	2,787	**2,191**	1,493
	81,333	66,109	**2,311**	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 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Income tax	**16,493**	18,364	**14,267**	18,236

26. Current liabilities – Other current liabilities

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Unearned income	**140,676**	117,770	**–**	–
Other	**1,462**	2,124	**–**	–
Refundable deposits	**181,621**	148,174	**–**	–
	323,759	268,068	**–**	–

Unearned income represents general and health insurance premium revenue not yet recognised in the income statement.

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

27. Non-current liabilities – Interest bearing liabilities

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Secured				
Mortgage loans	**3,234**	3,234	**–**	–
Lease liabilities (note 35)	**8**	11	**–**	–
Bills of exchange and promissory notes	–	14,000	**–**	–
Total secured non-current borrowings	**3,242**	17,245	**–**	–
Unsecured				
Loans payable to a related entity	**–**	12,341	**–**	**–**
Cash advance facility	**50,000**	–	**50,000**	–
Unsecured borrowing	**–**	2,110	**–**	–
Subordinated capital notes	**25,000**	25,000	**–**	–
Retirement village investment notes	**24,000**	24,000	**–**	–
Total unsecured non-current borrowings	**99,000**	63,451	**50,000**	–
Total non-current borrowings	**102,242**	80,696	**50,000**	–
(a) Total secured liabilities				
The total secured liabilities (current and non-current) are as follows:				
Mortgage loans	**3,234**	3,234	**–**	–
Lease liabilities	**11**	29	**–**	–
Bills of exchange and promissory notes	**–**	14,000	**–**	–
Total secured liabilities	**3,245**	17,263	**–**	–

(b) Mortgage loans
The mortgage loan, which is stated at fair value, is secured by first registered mortgage over the property of Australian Unity Property Syndicate – Footscray, and is repayable on 30 June 2010.

Interest on the loan is charged at a variable rate. The average annual interest rate for the year ended 30 June 2007 was 6.59% (2006: 6.72%).

(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 were repaid during the financial year.

(d) Cash advance facility
The cash advance facility is a revolving facility entered into on 14 June 2007, with a maximum of $60 million available for drawdown. Amounts drawndown are repayable in full on or before 14 June 2010 and interest on the facility is charged at a rate equal to the relevant BBSY interest rate plus a margin of 0.8%. Repayment of amounts drawndown under this facility are guaranteed by certain controlled entities within the Group.

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

(e) Bills of exchange and promissory notes
Bill acceptance and discount facilities of $14 million were repaid in full during the financial year. As a result, the charge over the Group's head office building situated at 114 Albert Road, South Melbourne was released. Interest on these facilities was charged at 6.39% per annum (2006: 5.62%).

(f) Unsecured borrowing
The unsecured borrowing represents the non–current portion of a loan to finance systems development. This loan was repaid during the financial year.

(g) 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 11 (a)).

(h) 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.

(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*
2007							
Mortgage loans (note 27)	3,234	–	–	–	–	–	3,234
Cash advance facility (note 27)	–	–	–	50,000	–	–	50,000
Retirement Village Investment Notes (note 27)	–	–	–	9,916	5,094	8,990	24,000
Subordinated capital notes (note 27)	25,000	–	–	–	–	–	25,000
Lease liabilities (notes 23, 27 and 35)	–	3	3	5	–	–	11
Interest rate swaps* (note 11)	(25,000)	–	25,000	–	–	–	–
	3,234	3	25,003	59,921	5,094	8,990	102,245
Weighted average interest rate	6.59%	13.63%	5.18%	7.40%	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	Over 3 to 5 years $'000	Over 5 to 7 years $'000	Total $'000
2006							
Mortgage loans (note 27)	3,234	–	–	–	–	–	3,234
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 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)	–	18	3	3	5	–	29
Interest rate swaps* (note 11)	(25,000)	–	–	25,000	–	–	–
	18,419	14,018	3	34,919	5,099	8,990	81,448
Weighted average interest rate	5.65%	5.62%	13.63%	7.68%	8.75%	9.00%	

* 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:

	2007		2006	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
On-balance sheet				
Non-traded financial liabilities				
Mortgage loans	**3,234**	**3,234**	3,234	3,234
Bills of exchange and promissory notes	**–**	**–**	14,000	14,000
Retirement Village Investment Notes	**24,000**	**24,000**	24,000	24,000
Loans payable to a related entity	**–**	**–**	12,341	12,341
Cash advance facility	**50,000**	**50,000**	–	–
Unsecured borrowing	**–**	**–**	2,844	2,844
Subordinated capital notes	**25,000**	**25,000**	25,000	25,000
Lease liabilities	**11**	**11**	29	29
	102,245	**102,245**	81,448	81,448

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.

(k) 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.

28. Non-current liabilities – Deferred tax liabilities

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Prepayments	**18**	65	**–**	–
Interest and commission receivables	**241**	674	**17**	5
Fixed assets	**11,088**	–	**–**	–
Financial assets at fair value through profit or loss	**–**	1,537	**–**	–
Investments	**–**	5,809	**–**	2,666
Unrealised gain	**7,458**	1,363	**112**	258
Deferred acquisition costs	**–**	71	**–**	–
Allocable cost adjustment on consolidation	**1,537**	1,537	**–**	–
R&D adjustment	**694**	–	**–**	–
Other deductible items	**1,044**	–	**–**	–
Other	**–**	232	**63**	99
	22,080	11,288	**192**	3,028
Amounts recognised directly in equity				
Cash flow hedges	**133**	146	**–**	–
Net deferred tax liabilities	**22,213**	11,434	**192**	3,028
Balance at the beginning of the financial year	**11,433**	10,134	**3,028**	137
Change on adoption of AASB 132 and AASB 139 (note 1)	**–**	82	**–**	–
Charged/(credited) to the income statement (note 6)	**7,726**	42	**(164)**	2,797
Charged/(credited) to equity (note 31)	**(13)**	146	**–**	–
Charged/(credited) to the income statement – on sale of entities	**–**	(15)	**–**	–
Deferred balances transferred out to subsidiary	**–**	–	**(2,666)**	–
Deferred balances transferred in	**666**	–	**–**	–
Under/(over) provision	**2,401**	1,045	**(6)**	94
Balance at the end of the financial year	**22,213**	11,434	**192**	3,028
Deferred tax liabilities to be settled after more than 12 months	**21,954**	10,261	**1**	3,023
Deferred tax liabilities to be settled within 12 months	**259**	1,173	**191**	5
	22,213	11,434	**192**	3,028

29. Non-current liabilities – Provisions

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Employee benefits	**4,691**	3,803	**332**	–
Claims	**23,882**	17,874	**–**	–
Other provisions	**449**	160	**–**	–
	29,022	21,837	**332**	–

Claims
Provision is made for claims outstanding at the end of the financial year, being claims for services incurred but not yet reported. 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.

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

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Unearned income	**4,897**	5,225	**–**	–

Unearned income represents general insurance premium revenue of $ 3,647,000 (2006: $ 5,225,000) and revenue of $ 1,250,000 (2006: $ nil) from the sale of intellectual property in respect of the Freedom of Choice Superannuation Masterfund.

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

31. Reserves and retained profits

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
(a) Reserves				
Asset revaluation reserve	**2,462**	2,462	**–**	–
Other reserves	**310**	340	**–**	–
	2,772	2,802	**–**	–
Movements:				
Asset revaluation reserve				
Balance at the beginning of the financial year	**2,462**	2,462	**–**	–
Balance at the end of the financial year	**2,462**	2,462	**–**	–
Movements:				
Other reserves – Hedging reserve				
Balance at the beginning of the financial year	**340**	–	**–**	–
Adjustment on adoption of AASB 132 and AASB 139 – gross	**–**	273	**–**	–
Revaluation – gross	**(43)**	213	**–**	–
Deferred tax (note 28)	**13**	(146)	**–**	–
Balance at the end of the financial year	**310**	340	**–**	–

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

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Balance at the beginning of the financial year	**65,686**	41,868	**21,580**	(3,887)
Profit for the year	**32,104**	23,818	**32,385**	25,467
Balance at the end of the financial year	**97,790**	65,686	**53,965**	21,580

(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(h)(ii). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

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

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	***Parent 2007 $'000***	*Parent 2006 $'000*
Profit for the year	**32,104**	23,818	**32,385**	25,467
Depreciation and amortisation	**12,780**	6,849	**1,154**	4
Net market value movements	**(9,381)**	20	**581**	2,884
Dividend and interest income	**–**	–	**–**	–
Net (gain)/loss on sale of non-current assets	**313**	3	**349**	162
Change in operating assets and liabilities				
Decrease/(increase) in trade debtors	**(15,048)**	(12,686)	**2,012**	466
Decrease/(increase) in inventories	**(45)**	(207)	**–**	–
Decrease/(increase) in deferred tax asset	**(9,052)**	(7,182)	**(3,295)**	(227)
(Increase)/decrease in other operating assets	**(61,965)**	(27,308)	**3,554**	(2,891)
(Decrease)/increase in trade creditors	**28,093**	8,296	**42,763**	11,032
(Decrease)/increase in other operating liabilities	**18,851**	20,786	**701**	879
Increase/(decrease) in provision for income taxes payable	**(1,871)**	4,929	**(3,969)**	5,915
Increase/(decrease) in provision for deferred income tax	**10,779**	1,301	**(2,836)**	2,891
Increase/(decrease) in other provisions	**3,490**	6,696	**120**	–
Net cash inflow/(outflow) from operating activities	**9,048**	25,315	**73,519**	46,582

33. 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

Stephen Maitland

Bruce Siney

Warren Stretton

Leonard Hickey (deceased 30 December 2006)

(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 16.

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 2007 and 30 June 2006 were as follows:

- Interest received/receivable from controlled entities, $3,714,000 (2006: $980,000).
- Dividends received from controlled entities, $83,100,000 (2006: $40,850,000).
- Amounts paid/payable to controlled entity for shared services, $7,314,000 (2006: $12,089,000).

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 8, 22 and 23.

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

- Dividends received from associates, $1,169,000 (2006: $1,279,000).

At 30 June 2007, a loan of $822,000 (2006:$700,000) was receivable from an associate (see note 12).

(c) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2007 and 30 June 2006 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.

	Short-term benefits	*Termination benefits*	*Total*
	$	*$*	*$*
Consolidated			
2007	**6,431,870**	**186,083**	**6,617,953**
2006	6,057,834	904,816	6,962,650
Parent			
2007	**753,862**	**21,332**	**775,194**
2006	388,217	–	388,217

(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 2007 amounted to $899,910, (2006: $877,909). 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(i). The consolidated entity has also set aside a provision for directors' retirement allowances of $1,116,108 (2006: $1,334,791). 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 2007	*Consolidated 2006*	***Parent 2007***	*Parent 2006*
	$	*$*	***$***	*$*
Loans to key management personnel – secured	**–**	80,488	**–**	–

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

The secured loan principal sum of $80,000 was advanced on 29 May 2006 and was repaid in full during the year ended 30 June 2007. Interest on the loan was 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 was added to the principal sum.

34. Business combination

Consolidated

Current year

(a) Portfolio transfer
On 1 December 2006, Australian Unity General Insurance Limited, a controlled entity, entered into a Portfolio Transfer Deed with Farmers' Mutual Insurance Limited ('FMIL') to effect a transfer of FMIL's insurance liabilities including outstanding claims liabilities, and certain insurance related assets, for a net settlement of $16,293,000. Following the transaction, FMIL, which specialises in the rural and regional Australian general insurance market, ceased to be an insurance underwriter and became an insurance agency only. On the same date, Mansions of Australia Limited, also a controlled entity, acquired 50% of the issued share capital of FMIL.

Details of the fair value of the net assets acquired are as follows:

	$'000
Purchase consideration	
Cash received	16,293
Total purchase consideration	16,293
Fair value of net identifiable liabilities acquired	(16,293)
Goodwill	–

(b) Purchase consideration

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	***Parent 2007 $'000***	*Parent 2006 $'000*
Inflow of cash on portfolio transfer				
Cash received	**16,293**	–	**–**	–

(c) Assets and liabilities acquired

The assets and liabilities arising from the portfolio transfer were as follows:

	Carrying amount $'000	*Fair value $'000*
Contribution and premium receivables	5,086	5,086
Reinsurance receivables	615	615
Other receivables	115	115
Outstanding claims liability	(10,435)	(10,435)
Unearned premium liability	(16,514)	(16,514)
Commission on gross unearned premium	4,696	4,696
Reinsurance reinstatement premium	(472)	(472)
Deferred reinsurance adjustment (liability)	616	616
Net liabilities	(16,293)	(16,293)

Net identifiable liabilities acquired	(16,293)

Consolidated

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

Parent

Current year
As part of a re–organisation of the Australian Unity Group's corporate structure, during the year Australian Unity Limited purchased 100% ownership of four controlled entities of Australian Unity Capital Management Limited (formerly Grand United Friendly Society Limited), a wholly–owned controlled entity.

The entities acquired were:

(i) Grand United Retirement Services Pty Limited – acquired 22 December 2006;

(ii) Grand United Corporate Health Limited – acquired 8 February 2007;

(iii) HealthSource Australia Pty Ltd – acquired 8 February 2007; and

(iv) Grand United Health Fund Pty Limited – acquired 19 June 2007.

Each entity was acquired for the fair value of its assets and liabilities. The total purchase consideration, and net outflow of cash, by the parent was $17,805,000.

In addition the parent entity subscribed for additional shares in existing controlled entities, amounting to $97,940,000.

Parent

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

35. Commitments

(a) Capital commitments

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

	***Consolidated* 2007 $'000**	*Consolidated 2006 $'000*	***Parent* 2007 $'000**	*Parent 2006 $'000*
Property, plant and equipment				
Payable:				
Within one year	**32,911**	2,204	**–**	–

Included in capital expenditure commitments is an amount of $31,500,000 in respect of the acquisition of a retirement living site comprising an aged care facility currently under construction, with approved plans for the construction of independent living units.

(b) Lease commitments : Group company as lessee

	***Consolidated* 2007 $'000**	*Consolidated 2006 $'000*	***Parent* 2007 $'000**	*Parent 2006 $'000*
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**4,034**	4,249	**–**	–
Later than one year but not later than five years	**5,296**	3,725	**–**	–
Later than five years	**295**	948	**–**	–
	9,625	8,922	**–**	–
Representing:				
Non-cancellable operating leases	**9,619**	8,922	**–**	–
Future finance charges on finance leases	**6**	–	**–**	–
	9,625	8,922	**–**	–

35. Commitments (continued)

(i) Operating leases

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of 3 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**4,028**	4,249	**–**	–
Later than one year but not later than five years	**5,296**	3,725	**–**	–
Later than five years	**295**	948	**–**	–
Commitments not recognised in the financial statements	**9,619**	8,922	**–**	–

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of $5,000 (2006 – $34,000) under finance leases with an average outstanding term of two years.

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Commitments in relation to finance leases are payable as follows:				
Within one year	**5**	21	**–**	–
Later than one year but not later than five years	**8**	13	**–**	–
Minimum lease payments	**13**	34	**–**	–
Future finance charges	**(2)**	(5)	**–**	–
Total lease liabilities	**11**	29	**–**	–
Representing lease liabilities:				
Current (note 23)	**3**	18	**–**	–
Non-current (note 27)	**8**	11	**–**	–
	11	29	**–**	–

The weighted average interest rate implicit in the leases is 13.63% (2006 – 13.63%).

(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 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Within one year	**421**	451	**–**	–
Later than one year and not later than five years	**720**	420	**–**	–
Later than five years	**–**	703	**–**	–
	1,141	1,574	**–**	–

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

36. Contingencies and guarantees

Guarantees

The parent entity, jointly with twenty of its wholly owned controlled entities, has guaranteed borrowings of a controlled entity. The borrowings guaranteed compromise a revolving cash advance facility of up to $60,000,000 for a term of three years ending 14 June 2010. The guarantors for this facility have joint and several liability for repayment of all outstanding amounts in the event of a default by the borrowing entity.

The fair value of the guarantee, which has been determined in accordance with the accounting policy set out in note 1, has not been recognised as the amount is not material.

The parent entity has given an undertaking to a controlled 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 2006. At present, no material loss is anticipated in respect of this undertaking.

37. Events occurring after the balance sheet date

On 9 July 2007, the Group acquired the 50% interest in Farmers' Mutual Insurance Limited it did not already own, for a consideration of $6,000,000. Farmers' Mutual Insurance Limited is an insurance agency specialising in the rural and regional general insurance market in Australia.

Also on 9 July 2007, the Group announced the sale of its general insurance operations, comprising wholly–owned subsidiaries Australian Unity General Insurance Limited ("AUGIL") and Mansions of Australia Limited ("MoA"), to Calliden Group Limited, an ASX listed insurer.

As part of this transaction, Calliden Group Limited acquired 100% of the issued share capital of both AUGIL and MoA and, through MoA, Calliden Group Limited also holds a 50% interest in Farmers' Mutual Insurance Limited.

Consideration for the sale amounted to $62,500,000, comprising cash consideration of $48,634,000 plus 30,142,850 shares in Calliden Group Limited.

The sale, which was approved by the Australian Prudential Regulation Authority, was completed on 31 July 2007. Subsequent to completion, the Group holds around 13% of the issued ordinary shares of Calliden Group Limited.

On 22 August 2007, the Group completed the acquisition of Oxley Gardens, a partially developed retirement village in Port Macquarie, New South Wales. The village has five completed independent living units and development approval for the construction of an additional 60 units.

The board is not aware of any other matter or circumstance arising since 30 June 2007 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.

38. 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 2007 $	*Consolidated 2006 $*	***Parent 2007 $***	*Parent 2006 $*
(a) Assurance services				
Audit services				
Ernst & Young Australian firm				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**854,028**	939,900	**74,220**	71,170
Total remuneration for audit services	**854,028**	939,900	**74,220**	71,170
(b) Taxation services				
Ernst & Young Australian firm				
Tax compliance services, including review of company income tax returns	**547,737**	217,176	**199,708**	95,674
Total remuneration for taxation services	**547,737**	217,176	**199,708**	95,674
	1,401,765	1,157,076	**273,928**	166,844

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.

39. General and Health Insurance

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

The disclosures below relate only to the general and health insurance activities of the relevant controlled entities and do not therefore include the non–insurance activities of the General Insurance and Healthcare businesses.

(a) Details of income and expenses

Consolidated ***2007***	*General Insurance* *$'000*	*Health Insurance* *$'000*	*Total* *$'000*
Premium revenue	96,968	424,816	521,784
Fire service levies and other income	10,067	–	10,067
Outwards reinsurance premium expense	(33,760)	–	(33,760)
Net premium revenue	73,275	424,816	498,091
Claims expense	(45,765)	(357,423)	(403,188)
Reinsurance and other recoveries revenue	18,255	20,566	38,821
State levies	–	(2,982)	(2,982)
Net claims incurred	(27,510)	(339,839)	(367,349)
Acquisition costs	(29,599)	(15,947)	(45,546)
Other underwriting expenses	(6,387)	(1,717)	(8,104)
Fire service levies paid	(9,822)	–	(9,822)
Commissions received and receivable	7,362	–	7,362
Underwriting expenses	(38,446)	(17,664)	(56,110)
Underwriting result	7,319	67,313	74,632
Investment revenue	5,782	18,249	24,031
Other revenue	–	294	294
Salary and employee benefits expense	–	(13,273)	(13,273)
Other expenses from ordinary activities	–	(18,622)	(18,622)
Direct investment expenses	(1,048)	–	(1,048)
	4,734	(13,352)	(8,618)
Profit before income tax	12,053	53,961	66,014
Income tax benefit/(expense)	(1,890)	(16,101)	(17,991)
Profit after income tax	10,163	37,860	48,023

Consolidated 2006	*General Insurance $'000*	*Health Insurance $'000*	*Total $'000*
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	(21,541)	(15,429)	(36,970)
Other underwriting expenses	(7,886)	(1,585)	(9,471)
Fire service levies paid	(7,398)	–	(7,398)
Commissions received and receivable	7,744	–	7,744
Underwriting expenses	(29,081)	(17,014)	(46,095)
Underwriting result	(1,035)	60,008	58,973
Investment revenue	4,819	18,337	23,156
Other revenue	–	122	122
Salary and employee benefits expense	–	(8,989)	(8,989)
Other expenses from ordinary activities	–	(19,396)	(19,396)
Direct investment expenses	(355)	–	(355)
	4,464	(9,926)	(5,462)
Profit before income tax	3,429	50,082	53,511
Income tax benefit/(expense)	(990)	(14,370)	(15,360)
Profit after income tax	2,439	35,712	38,151

(b) Net claims incurred

	2007 Current period $'000	***2007 Prior period $'000***	***2007 Total $'000***
General Insurance			
Direct business			
Gross claims incurred and related expenses	**42,912**	**2,853**	**45,765**
Reinsurance and other recoveries	**(13,926)**	**(4,329)**	**(18,255)**
Net claims incurred	**28,986**	**(1,476)**	**27,510**

	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

39. General and Health Insurance (continued)

(c) Outstanding claims liability

Reconciliation of movement in discounted outstanding claims liabilities

	Consolidated 2007 $'000	Consolidated 2006 $'000
General Insurance		
At the beginning of the financial year (before claims handling expense/risk margins and non-reinsurance recoveries)	**25,459**	23,942
Portfolio transfer discounted liability brought forward (before claims handling expense/risk margins)	**8,192**	–
Claim payments/recoveries during the year (prior years)	**(11,671)**	(10,227)
Movement in discounting	**1,143**	697
	23,123	14,412
Effect of changes in		
Experience	**(4,111)**	(2,288)
Deferred premium on underwriting year valuations	**181**	184
Change in actuarial assumptions – incurred cost development basis	**566**	2,119
Change in actuarial assumptions – loss ratios	**(1,418)**	(1,136)
Change in actuarial assumptions – reinsurance recoveries	**(609)**	414
Other	**(374)**	(608)
Change in economic assumptions – discount rate	**(145)**	(91)
	(5,910)	(1,406)
Discounted liability carried forward (prior years)	**17,213**	13,006
Discounted liability carried forward (current year)	**17,310**	12,453
Non-reinsurance recoveries	**(1,178)**	(653)
Margins (claims handling expense and risk margin)	**4,818**	3,894
Carried forward	**38,162**	28,700
Reinsurance recoveries on outstanding claims liabilities and other recoveries	**19,042**	11,031
Gross outstanding claims liabilities	**57,204**	39,731

(d) Outstanding claims and recoveries

Consolidated **2007**	*General Insurance* *$'000*	*Health Insurance* *$'000*	*Total* *$'000*
(i) Outstanding claims			
Central estimate	56,301	34,058	90,359
Risk margin	3,606	4,404	8,010
Claims handling expenses	1,654	938	2,592
	61,561	39,400	100,961
Discount to present value	(4,357)	–	(4,357)
Liability for outstanding claims	57,204	39,400	96,604
Current	33,322	39,400	72,722
Non-current	23,882	–	23,882
	57,204	39,400	96,604
(ii) Reinsurance and other recoveries			
Expected future claim payments (undiscounted)	20,093	5,309	25,402
Discount to present value	(1,051)	–	(1,051)
Reinsurance and other recoveries	19,042	5,309	24,351
Current	12,630	5,309	17,939
Non-current	6,412	–	6,412
	19,042	5,309	24,351

Consolidated *2006*	*General Insurance* *$'000*	*Health Insurance* *$'000*	*Total* *$'000*
(i) Outstanding claims			
Central estimate	38,282	32,392	70,674
Risk margin	2,696	3,948	6,644
Claims handling expenses	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

39. 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 6.50% (2006: 5.75%)

* 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 liability adequacy test has identified a surplus for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

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

The risk margin of $4,404,000 (2006: $3,948,000) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2006: 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.

The outstanding claims estimate for the retail health business 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 both a stochastic model, based on historical experience, and the modified chain ladder method. For the corporate health business the outstanding claims liability is derived using separate calculations on the data for hospital claims and ancillary claims and the outstanding claims liability has been calculated by the fund's external actuary using a modified chain ladder method.

The weighted average expected term to settlement of claims from the balance sheet date is estimated to be 1.7 months (2006: 1.2 months).

The calculation of the above outstanding claims and recoveries has identified that there is no deficiency for outstanding claims and recoveries at 30 June 2007 (2006: no deficiency) at a 95% probability of adequacy.

(e) Claims development tables

General insurance

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.

Gross Accident year	*2003 $'000*	*2004 $'000*	*2005 $'000*	*2006 $'000*	*2007 $'000*	*Total $'000*
Estimate of ultimate claims cost:						
At end of accident year	7,771	7,216	6,223	7,312	9,030	
One year later	5,482	6,301	5,680	8,595	–	
Two years later	5,354	5,002	5,993	–	–	
Three years later	4,599	6,528	–	–	–	
Four years later	6,529	–	–	–	–	
Current estimate of cumulative claims cost	6,529	6,528	5,993	8,595	9,030	36,675
Cumulative payments	(4,611)	(2,257)	(1,844)	(1,261)	(395)	(10,368)
Outstanding claims – undiscounted	**1,918**	**4,271**	**4,149**	**7,334**	**8,635**	**26,307**
Discount						(3,685)
Claims handling expense						701
Risk margin						1,878
Outstanding claims						**25,201**
Long tail outstanding claims – 2002 and prior						3,917
Short tail outstanding claims						28,086
Total gross outstanding claims per the Balance Sheet						**57,204**

Net Accident year	*2003* *$'000*	*2004* *$'000*	*2005* *$'000*	*2006* *$'000*	*2007* *$'000*	*Total* *$'000*
Estimate of ultimate claims cost:						
At end of accident year	7,020	6,394	5,465	6,756	6,989	
One year later	4,812	5,618	5,043	6,891	–	
Two years later	4,641	4,547	4,933	–	–	
Three years later	4,438	5,506	–	–	–	
Four years later	4,746	–	–	–	–	
Current estimate of cumulative claims cost	4,746	5,506	4,933	6,891	6,989	29,065
Cumulative payments	(3,535)	(2,254)	(1,844)	(1,261)	(395)	(9,289)
Outstanding claims – undiscounted	**1,211**	**3,252**	**3,089**	**5,630**	**6,594**	**19,776**
Discount						(2,924)
Claims handling expense						701
Risk margin						1,878
Outstanding claims						**19,431**
Long tail outstanding claims – 2002 and prior						1,796
Short tail outstanding claims						16,935
Total net outstanding claims per the Balance Sheet						**38,162**

Health insurance
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
Through controlled entities, the Group writes general insurance and health insurance business. The process for determining the value of outstanding claims liabilities in respect of these two classes of insurance business is described below.

Health insurance
With health insurance business, there is not a significant delay between the occurrence of a claim and the claim being reported to the insurer. The costs of claims notified to the insurer 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 process for determining the value of outstanding claims liabilities in respect of general insurance business is described below.

Short tail classes
With general insurance business, there is not a significant delay between the occurrence of the claim and the claim being reported to the insurer. The costs of claims notified to the insurer 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.

39. General and Health Insurance (continued)

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

	2007 General Insurance	*2006 General Insurance*
Average weighted term to settlement from reporting date	**0 – 4 years**	*0 – 4 years*
Claims handling expense rate	**4%**	4%
Discount rate	**6.50%**	5.75%

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 are calculated by reference to past experience of claims handling costs as a percentage of past payments.

Discount rate

Discount rates derived from market yields on Commonwealth Government securities as at the balance date have been adopted. As discussed above, only Liability and Owner Builder classes of General Insurance are subject to discounting.

Inflation

Economic inflation assumptions are set by reference to current economic indicators. The valuation models used for General Insurance made implicit allowance for the impact of inflation.

Sensitivity

The Group 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 Group. 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	The liability for short tail classes is determined using a number of methods to develop losses reported to date to an ultimate expected cost.

Impact of changes in key variables

The following table shows the impact on amounts recognised in the financial statements of the Group's general insurance subsidiary arising from movements in selected key variables.

	Gross of reinsurance $'000	*Net of reinsurance $'000*	*Equity $'000*
Recognised amounts per the financial statements	57,204	38,162	40,537

Variable	*Movement in variable*	*Impact – profit/(loss)*	*Impact – profit/(loss)*	*Adjusted equity*
General Insurance				
Initial loss ratio – latest year	+10%	(537)	(429)	40,107
	-10%	537	429	40,965
Future claims development factor – latest year	+5%	(2,125)	(1,733)	38,803
	-5%	2,125	1,733	42,269
Expense rate	+1%	(573)	(573)	39,963
	-1%	573	573	41,109
Discount rate	+2%	1,104	836	41,372
	-2%	(1,197)	(908)	39,628

(g) Insurance contracts-risk management policies and procedures

The financial condition and operation of the Group 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 Group'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 Group 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 Group'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 Group. Annually, the board of directors of the Group's general insurance subsidiary certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Group has systems in place to ensure compliance with legislative and prudential requirements and that these directors have satisfied themselves as to the Group's compliance with the RMS and REMS.

39. General and Health Insurance (continued)

The RMS and REMS have been approved by both the board of the general insurance subsidiary 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.
- 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 39(e) show estimates of total claims outstanding for each underwriting year at successive balance sheet dates.

(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.

40. Benefit fund policy liabilities

The parent entity 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.

(a) Analysis of policy liabilities

	Consolidated 30 June 2007 $'000	*Consolidated 30 June 2006 $'000*	**Parent 30 June 2007 $'000**	*Parent 30 June 2006 $'000*
Life investment contract liabilities	**75,000**	64,342	**–**	–
Life insurance contract liabilities	**401,868**	426,623	**–**	–
Unvested policyholder liabilities	**27,631**	23,373	**–**	–
Total policy liabilities	**504,499**	514,338	**–**	–
Expected to be realised within 12 months	**55,336**	45,949	**–**	–
Expected to be realised in more than 12 months	**449,163**	468,389	**–**	–
	504,499	514,338	**–**	–

(b) Reconciliation of changes in policy liabilities

	Consolidated 30 June 2007 $'000	*Consolidated 30 June 2006 $'000*	**Parent 30 June 2007 $'000**	*Parent 30 June 2006 $'000*
Life investment contract liabilities at the beginning of the financial year	**64,342**	54,345	**–**	–
Increase in life investment contract liabilities recognised in the income statement	**7,318**	6,428	**–**	–
Premiums recognised as a change in life investment contract liabilities	**8,387**	7,893	**–**	–
Claims recognised as a change in life investment contract liabilities	**(5,047)**	(4,324)	**–**	–
Life investment contract liabilities at the end of the financial year	**75,000**	64,342	**–**	–
Net life insurance contract liabilities at the beginning of the financial year	**426,623**	429,889	**–**	–
Movement in life insurance contract liabilities recognised in the income statement	**(24,755)**	(3,266)	**–**	–
Life investment contract liabilities at the end of the financial year	**401,868**	426,623	**–**	–
Unvested policyholder benefits liability at the beginning of the financial year	**23,373**	26,409	**–**	–
Movement in unvested policyholder benefits liability recognised in the income statement	**4,258**	(3,036)	**–**	–
Unvested policyholder benefits liability at the end of the financial year	**27,631**	23,373	**–**	–
Net policy liabilities at the end of the financial year	**504,499**	514,338	**–**	–

40. Benefit fund policy liabilities (continued)

(c) Analysis of policy liability revenue and expenses

	Consolidated 2007 $'000	*Consolidated 2006 $'000*	**Parent 2007 $'000**	*Parent 2006 $'000*
Revenue				
Total life insurance and participating contract premium revenue	**10,492**	15,260	**–**	–
Reinsurance recoveries	**(286)**	(282)	**–**	–
Life insurance and participating contract premium revenue	**10,206**	14,978	**–**	–
Financial assets held at fair value through profit and loss				
– Interest income	**136**	443	**–**	–
– Distribution income	**33,189**	36,646	**–**	–
– Realised gains	**1,208**	8,276	**–**	–
– Unrealised gains/(losses)	**3,716**	(11,720)	**–**	–
Other investment income	**1,233**	2,030	**–**	–
Other income	**–**	641	**–**	–
Total revenue from benefit funds	**49,688**	51,294	**–**	–
Expenses				
Total life insurance and participating contract claims expense	**49,635**	37,634	**–**	–
Reinsurance recoveries	**(172)**	(154)	**–**	–
Life insurance contract claims expense	**49,463**	37,480	**–**	–
Policy maintenance expenses – life insurance contracts	**30**	35	**–**	–
Other expenses	**5,223**	6,707	**–**	–
Movement in life insurance contracts	**(24,755)**	(3,266)	**–**	–
Movement in unvested policyholder liabilities	**4,258**	(3,036)	**–**	–
Movement in investment contract liabilities	**7,318**	6,428	**–**	–
	41,537	44,348	**–**	–
Finance costs	**–**	118	**–**	–
Total expenses from benefit funds	**41,537**	44,466	**–**	–

(d) Actuarial methods and assumptions
The effective date of the actuarial report on policy liabilities and solvency reserves is 30 June 2007. 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 defined benefit 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 defined benefit funds other than the Personal Risk Insurance Fund ("PRIF") 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. No profit carrier will be established and surplus can be transferred as recommended in the actuarial report each year.

The benefit fund rules of the PRIF allow for surplus to be transferred to the management fund. No surplus is to be used for augmenting benefits. It is therefore appropriate to treat surplus as equity. As a practical solution to the selection of the profit carrier for a small fund that is in wind down, the carrier was set equal to the excess of assets over the capital adequacy requirement. 100% of this will transfer to the management fund after the normal year end valuation.

For the defined contribution 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. The current bonus declaration simply results in a movement from unvested policyholder benefit liabilties to vested policy liability subject to the amount vesting being no more than the distributable portion of unvested policyholder benefit liabilities. The Grand Bonds Assurance Fund has an additional death benefit and bonus guarantee. The liability for these extra benefits is significantly less than the investment account liability. The liability has been evaluated assuming 80% of Australian Life Tables 2000–2002 mortality and a gross discount rate of 6.97% which is 4.18% net of tax and 1% of assets for fees. The assumptions were derived using actuarial judgement.

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. Following declaration of the bonus, there would then be no surplus under this arrangement.

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 3.08% to 6.87% (2006: 3.05% to 6.35%).

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. The investment account funds expect to deduct between 1.50% and 2.05% of the fund's assets from investment earnings for expense allowance. It has been assumed that interest will be earned in future years at rates after tax sufficient at least to meet this level of expense.

The expenses of the benefit funds are equal to the management allowances transferred to the management fund.

Mortality assumption
The mortality basis used for the valuation of the traditional funds assumes mortality of members to be at 60% (2006: 80%) of Australian Life Tables (ALT) (Male & Female) 2000–2002, except for the Income Protection Fund which assumes 100% and the PRIF and Central Sick and Funeral Fund which assumes 70% (2006: 70%).

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. Discontinuance rates are based on the funds experience.

Profit carriers
Each benefit fund contributes to the management fund 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. For the investment account funds there is no provision in the funds' rules for any surplus to be transferred to the management fund. The management fund receives specified fee transfers from the funds to cover expenses. All remaining assets are to be used to provide benefits to members and hence there is no profit and consequently, no need for a profit carrier.

Restrictions on assets
Assets held in benefit funds for the benefit of policyholders can only be used in accordance with Life Insurance Act 1995 regulations.

Assets backing policy liabilities
Assets backing benefit fund policy liabilities are measured at fair value through profit and loss. All of the assets backing 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.

The level of future bonus rates are not guaranteed. Given the nature of the underlying assets held by the various benefit funds the level of any future bonuses declared will be subject to the performance of the investment markets and assets that the funds are invested in.

Sensitivity analysis
The Group 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 Group 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 at 30 June 2007. Actuarial assumptions are derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgement. The expense assumptions are based on the allowable fee transfers to the management fund in the fund rules.

40. Benefit fund policy liabilities (continued)

(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. For endowment contracts the sum assured plus bonuses are paid automatically upon reaching required age. For whole of life endowment contracts the sum assured plus bonus is paid on death. For lump sum risk and benefits paid on death or ill health, benefits are payable upon death, disablement or defined trauma events.

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 Group's Investment Committee. The Group also uses the appointed actuary's annual financial condition report to inform decision on capital management issues.

Changes in economic conditions and demographics may alter the unallocated surplus. The Capital Requirements are designed to ensure there is sufficient unallocated surplus to cover the effect of these changes. The equity will not change. For all the defined benefit funds other than the PRIF, if experience varies from expectation, then the member liability and the unallocated benefit funds will change by equal and opposite amounts. As the management fund has sufficient unallocated benefit funds to cover fluctuations in experience, the equity will not change. Due to the simplifications employed in the valuation of the PRIF, reasonable changes in assumptions will not impact the liability. Due to the small size of the fund, any changes in equity will not be significant for the Group.

Concentrations
The Group is not exposed to large concentrations of insurance risk. Mortality risk is adequately reinsured with highly rated counterparties thereby reducing concentration risk.

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, the Group is 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. These standards are Actuarial Standards 2.04 and 3.04. These standards have been met for all benefit funds as at 30 June 2007.

For each benefit fund subject to a solvency requirement, the figures in the table below represent the ratio of the solvency reserve to the assets available for solvency.

	SR ratio 2007 %	*SR ratio 2006 %*
Ratio of solvency requirement (SR) to gross assets		
Capital Guaranteed Bond	**99.62**	99.78
Capital Guaranteed Mortgage Bond	**99.28**	99.64
Growth Fund	**96.58**	95.80
Capital Guaranteed Funeral Bond (Non-taxable)	**99.97**	100.00
Capital Secure Funeral Bond	**99.96**	100.00
AU Capital Guaranteed Funeral Bond (Taxable)	**99.93**	100.00
Central Sick and Funeral Fund	**83.40**	87.70
Endowment Fund	**78.70**	81.30
Funeral Fund	**84.80**	86.30
Personal Risk Fund	**62.30**	56.50
Assurance Benefit Fund	**84.80**	88.90
Grand Bonds Assurance Fund	**96.58**	98.51
Income Protection Insurance Fund	**58.00**	56.60
Life Assurance Fund	**86.00**	91.40

(g) Capital adequacy
The Group has maintained adequate levels of capital in accordance with the prudential standards specified by the Life Insurance Act 1995.

(h) Disaggregated information – Benefit funds
Note 41 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

41. Disaggregated information for benefit funds – income statements for the year ended 30 June 2007

	Total *$'000*
Direct life insurance premium revenue	671
Outwards reinsurance expense	(286)
Net life insurance premium revenue	385
Deposits received – investment contracts with DPF[1]	9,821
Investment income	39,482
Other revenue	–
Total revenue	49,688
Life insurance claims expense	2,020
Reinsurance recoveries	(172)
Net life insurance contract claims expense	1,848
Benefits and withdrawals paid – investment contracts with DPF[1]	47,615
Decrease in policyholder liabilities – investment contracts with DPF[1]	(37,794)
Distribution to policyholders	24,615
Other expenses	5,253
Total expenses	41,537
Profit before tax	8,151
Income tax expense	(8,151)
Profit after tax	–

[1]DPF = Discretionary Participation Feature

Endowment Fund $'000	Funeral Fund $'000	Personal Risk Fund $'000	Assurance Benefit Fund $'000	Income Protection Insurance Fund $'000	Life Assurance Fund $'000	Central Sick and Funeral Fund $'000
			Non-investment linked Insurance contracts			
–	–	454	18	166	33	–
–	–	(286)	–	–	–	–
–	–	168	18	166	33	–
–	–	–	–	–	–	–
31	180	17	262	66	1,314	570
–	–	–	–	–	–	–
31	180	185	280	232	1,347	570
90	592	202	338	212	314	272
–	–	(172)	–	–	–	–
90	592	30	338	212	314	272
–	–	–	–	–	–	–
–	–	–	–	–	–	–
(63)	(465)	(4)	(292)	65	195	127
(4)	53	161	213	36	348	171
23	180	187	259	313	857	570
8	–	(2)	21	(81)	489	–
(8)	–	2	(21)	81	(489)	–
–	–	–	–	–	–	–

41. Disaggregated information for benefit funds (continued) – income statements for the year ended 30 June 2007 (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[1]	173	65	7,257	1,025	1,271	30	–
Investment income	4,168	3,191	2,903	12,605	3,294	493	6
Other revenue	–	–	–	–	–	–	–
Total revenue	4,341	3,256	10,160	13,630	4,565	523	6
Life insurance claims expense	–	–	–	–	–	–	–
Reinsurance recoveries	–	–	–	–	–	–	–
Net life insurance contract claims expense	–	–	–	–	–	–	–
Benefits and withdrawals paid – investment contracts with DPF[1]	3,550	3,356	2,616	29,175	7,821	1,095	2
Decrease in policyholder liabilities – investment contracts with DPF[1]	(3,377)	(3,291)	4,641	(28,150)	(6,550)	(1,065)	(2)
Distribution to policyholders	3,433	2,837	1,759	7,277	2,133	297	–
Other expenses	735	354	390	2,193	249	85	2
Total expenses	4,341	3,256	9,406	10,495	3,653	412	2
Profit before tax	–	–	754	3,135	912	111	1
Income tax expense	–	–	(754)	(3,135)	(912)	(111)	(1)
Profit after tax	–	–	–	–	–	–	–

[1] DPF = Discretionary Participating Feature

	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			
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	21	293	1,014	6,206	1,868	980
	–	–	–	–	–	–
	21	293	1,014	6,206	1,868	980
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	14	208	718	4,402	1,283	691
	1	5	24	122	91	24
	15	213	742	4,524	1,374	715
	6	80	272	1,682	494	265
	(6)	(80)	(272)	(1,682)	(494)	(265)
	–	–	–	–	–	–

41. Disaggregated information for benefit funds (continued) – balance sheets as at 30 June 2007

	Total $'000
ASSETS	
Current assets	
Cash and cash equivalents	217
Loans and receivables	5,554
Financial assets at FVTPL[1]	474,392
Total current assets	480,163
Non-current assets	
Loans and receivables	9,142
Financial assets at FVTPL[1]	22,492
Deferred tax	656
Total non-current assets	32,290
Total assets	512,453
LIABILITIES	
Current liabilities	
Payables	518
Non-interest bearing liabilities	6,151
Benefit fund policy liabilities	55,336
Total current liabilities	62,005
Non-current liabilities	
Deferred tax liabilities	1,285
Benefit fund policy liabilities	449,163
Total non-current liabilities	450,448
Total liabilities	512,453
Net assets	–

[1] FVTPL = Fair Value Through Profit or Loss

Endowment Fund $'000	Funeral Fund $'000	Personal Risk Fund $'000	Assurance Benefit Fund $'000	Income Protection Insurance Fund $'000	Life Assurance Fund $'000	Central Sick and Funeral Fund $'000
			Non-investment linked Insurance contracts			
11	10	11	11	10	11	11
1	1	34	4	6	417	7
156	150	356	827	1,049	13,310	6,541
168	161	401	842	1,065	13,738	6,559
–	–	–	26	–	–	–
850	9,922	–	10,935	–	157	628
25	–	–	159	–	12	–
875	9,922	–	11,120	–	169	628
1,043	10,083	401	11,962	1,065	13,907	7,187
–	–	86	20	–	21	10
36	(14)	8	150	(52)	367	15
100	1,010	31	1,174	112	1,326	716
136	996	125	1,344	60	1,714	741
7	–	1	53	–	259	–
900	9,087	275	10,565	1,005	11,934	6,446
907	9,087	276	10,618	1,005	12,193	6,446
1,043	10,083	401	11,962	1,065	13,907	7,187
–	–	–	–	–	–	–

41. Disaggregated information for benefit funds (continued) – balance sheets as at 30 June 2007 (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	11	11	10	11	11	11	10
Loans and receivables	264	123	163	979	234	39	1
Financial assets at FVTPL[1]	53,663	40,934	42,015	189,342	45,974	7,640	99
Total current assets	53,938	41,068	42,188	190,332	46,219	7,690	110
Non-current assets							
Loans and receivables	–	–	–	4,150	4,934	–	–
Financial assets at FVTPL[1]	–	–	–	–	–	–	–
Deferred tax	–	–	–	–	–	–	–
Total non-current assets	–	–	–	4,150	4,934	–	–
Total assets	53,938	41,068	42,188	194,482	51,153	7,690	110
LIABILITIES							
Current liabilities							
Payables	56	23	135	165	19	6	–
Non-interest bearing liabilities	13	7	434	3,486	966	155	6
Benefit fund policy liabilities	3,552	3,318	3,096	26,296	7,185	994	2
Total current liabilities	3,621	3,348	3,665	29,947	8,170	1,155	8
Non-current liabilities							
Deferred tax liabilities	–	–	340	–	–	–	–
Benefit fund policy liabilities	50,317	37,720	38,183	164,535	42,983	6,535	102
Total non-current liabilities	50,317	37,720	38,523	164,535	42,983	6,535	102
Total liabilities	53,938	41,068	42,188	194,482	51,153	7,690	110
Net assets	–	–	–	–	–	–	–

[1] FVTPL = Fair Value Through Profit or 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			
	10	11	11	14	11	10
	5	89	410	1,945	465	367
	176	1,858	6,378	40,300	17,897	5,727
	191	1,958	6,799	42,259	18,373	6,104
	–	–	–	32	–	–
	–	–	–	–	–	–
	1	–	88	295	26	50
	1	–	88	327	26	50
	192	1,958	6,887	42,586	18,399	6,154
	–	(1)	(3)	(19)	3	(3)
	(4)	(48)	(96)	398	281	43
	19	199	698	3,485	881	1,142
	15	150	599	3,864	1,165	1,182
	1	22	7	486	102	7
	176	1,786	6,281	38,236	17,132	4,965
	177	1,808	6,288	38,722	17,234	4,972
	192	1,958	6,887	42,586	18,399	6,154
	–	–	–	–	–	–

41. Disaggregated information for benefit funds (continued) – 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[1]	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[1]	35,302
Decrease in policyholder liabilities – investment contracts with DPF[1]	(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	–

[1] DPF = Discretionary Participating Feature

Endowment Fund $'000	Funeral Fund $'000	Personal Risk Fund $'000	Assurance Benefit Fund $'000	Income Protection Insurance Fund $'000	Life Assurance Fund $'000	Central Sick and Funeral Fund $'000
			Non-investment linked Insurance contracts			
–	–	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)	–
–	–	–	–	–	–	–

41. Disaggregated information for benefit funds (continued) – 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[1]	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[1]	3,556	3,255	2,308	21,960	3,711	511	1
Decrease in policyholder liabilities – investment contracts with DPF[1]	(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	–	–	–	–	–	–	–

[1] DPF = Discretionary Participating Feature

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)
–	–	–	–	–	–

41. Disaggregated information for benefit funds (continued) – 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 or Loss

Endowment Fund $'000	Funeral Fund $'000	Personal Risk Fund $'000	Assurance Benefit Fund $'000	Income Protection Insurance Fund $'000	Life Assurance Fund $'000	Central Sick and Funeral Fund $'000
			Non-investment linked Insurance contracts			
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
–	–	–	–	–	–	–

41. Disaggregated information for benefit funds (continued) – 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 or 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
	–	–	–	–	–	–

42. Reconciliation of profit attributable to members of Australian Unity Limited

	2007			2006		
	Attributable to members of Australian Unity Limited $'000	***Attributable to Benefit Fund policy-holders $'000***	***Consolidated Income Statement $'000***	*Attributable to members of Australian Unity Limited $'000*	*Attributable to Benefit Fund policyholders $'000*	*Consolidated Income Statement $'000*
Revenue	**633,928**	**–**	**633,928**	563,066	–	563,066
Direct life insurance premium revenue	**–**	**671**	**671**	–	678	678
Outwards reinsurance expense	**–**	**(286)**	**(286)**	–	(282)	(282)
	633,928	**385**	**634,313**	563,066	396	563,462
Investment income	**–**	**39,482**	**39,482**	–	35,675	35,675
Deposits received – investment contracts with DPF[1]	**–**	**9,821**	**9,821**	–	14,582	14,582
Other revenue	**–**	**–**	**–**	–	641	641
Total revenue	**633,928**	**49,688**	**683,616**	563,066	51,294	614,360
Life insurance claims expense	**–**	**2,020**	**2,020**	–	2,332	2,332
Reinsurance recoveries	**–**	**(172)**	**(172)**	–	(154)	(154)
Benefits and withdrawals paid – investment contracts with DPF[1]	**–**	**47,615**	**47,615**	–	35,302	35,302
Decrease in policyholder liabilities – investment contracts with DPF[1]	**–**	**(37,794)**	**(37,794)**	–	(20,721)	(20,721)
Distribution to policyholders	**–**	**24,615**	**24,615**	–	20,846	20,846
Expenses excluding finance costs	**587,718**	**5,253**	**592,971**	529,642	6,743	536,385
Total expenses, excluding finance costs	**587,718**	**41,537**	**629,255**	529,642	44,348	573,990
Finance costs	**(6,583)**	**–**	**(6,583)**	(6,012)	(118)	(6,130)
Share of net profits of associates accounted for using the equity method	**2,676**	**–**	**2,676**	784	–	784
Profit before tax	**42,303**	**8,151**	**50,454**	28,196	6,828	35,024
Income tax expense	**(10,199)**	**(8,151)**	**(18,350)**	(4,378)	(6,828)	(11,206)
Profit after tax	**32,104**	**–**	**32,104**	23,818	–	23,818

[1] DPF = Discretionary Participating Feature

43. Capital Adequacy

Legislation requires a number of the Group's controlled entities to maintain certain levels of capital. Throughout the year ended 30 June 2007 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 49 to 126 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 2007 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
28 August 2007

Rohan Mead
Group Managing Director
South Melbourne
28 August 2007

Independent audit report to the members

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Australia

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Independent auditor's report to the members of Australian Unity Limited

We have audited the accompanying financial report of Australian Unity Limited and the entities it controlled during the year, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity, and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1a, the directors also state that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Ernst & Young

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. 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.

Auditor's Opinion

In our opinion:

1. 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 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and

(b) other mandatory financial reporting requirements in Australia.

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1a.

Ernst & Young

A J (Tony) Johnson
Partner
Melbourne
28 August 2007

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