Australian Unity

Annual Report 2008

Welcome

At Australian Unity, we do more than offer quality, affordable products and services. We are building a leading, commercial, sustainable portfolio of businesses that foster customer wellbeing.

We have a strong history and tradition of developing products and services that meet members' and customers' needs. As we look to the future, with all of its challenges, we remain determined to preserve this vital, member-focused approach.

Australian Unity is a national health, financial services and retirement living organisation with more than $600 million in revenues and some 400,000 customers including some 190,000 members nationwide. Our operations employ more than 1,250 people.

Australian Unity Limited is a public company and a mutual organisation 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 42.

Annual Highlights 2008

funds under advice

$471m

08:	471m
07:	300m
06:	190m
05:	125m
04:	60m

retirement units and aged care beds

2,166

08:	2,166
07:	2,095
06:	1,970
05:	1,934
04:	1,516

members' funds

$302m

08:	302m
07:	270m
06:	238m
05:	213m
04:	156m

*revenues**

$617m

08:	617m
07:	684m
06:	614m
05:	445m
04:	402m

funds under management

$6,525m

08:	6,525m
07:	5,721m
06:	3,564m
05:	2,864m
04:	2,334m

health claims paid for members

$385m

08:	385m
07:	357m
06:	337m
05:	271m
04:	231m

*profit before tax**

$39.1m

08:	39.1m
07:	42.3m
06:	28.2m
05:	19.3m
04:	12.6m

*profit after tax**

$32.3m

08:	32.3m
07:	32.1m
06:	23.8m
05:	15.4m
04:	8.1m

Notes to the annual highlights

Profits before tax 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.

* The year's financial performance was materially affected by the sale of a substantial operating business, general insurance.

Our Changing World

In life and in business, change is constant. All of the businesses in the Australian Unity portfolio are designed to help our members and customers respond to life's changes: from the arrival of children, to unexpected illness and to ageing. Our products are designed to build security and certainty. They also help our customers to engage in preventative health and in wealth-building strategies that protect against their changing financial needs.

A key to the ability to respond to change appropriately is awareness, knowledge and information. Successful adaptation comes from intelligent assessment, but also from taking action, assessing again, adjusting actions and so on.

The economic conditions are changing

The landscape around us has changed dramatically over the past year. Financial markets here and abroad ended their record bull run and launched into a period of volatility. The credit crunch sparked by the shock of the US sub-prime crisis forced up interest rates in Australia, while inflationary pressures of record oil and food prices took a toll on household budgets. Surveys of the Australian Unity Wellbeing Index during the year demonstrated that there was a breaking point in personal wellbeing between February and April of 2008. The Wellbeing Index also showed us that when the rate of CPI rises, Australians' wellbeing falls.

These conditions occurred amid growing concerns about some key long-term issues that will impact on Australia's ability to remain a robust society. Climate change continued to dominate community debate with discussions ranging from the future of the Murray River through to the need for a carbon trading scheme.

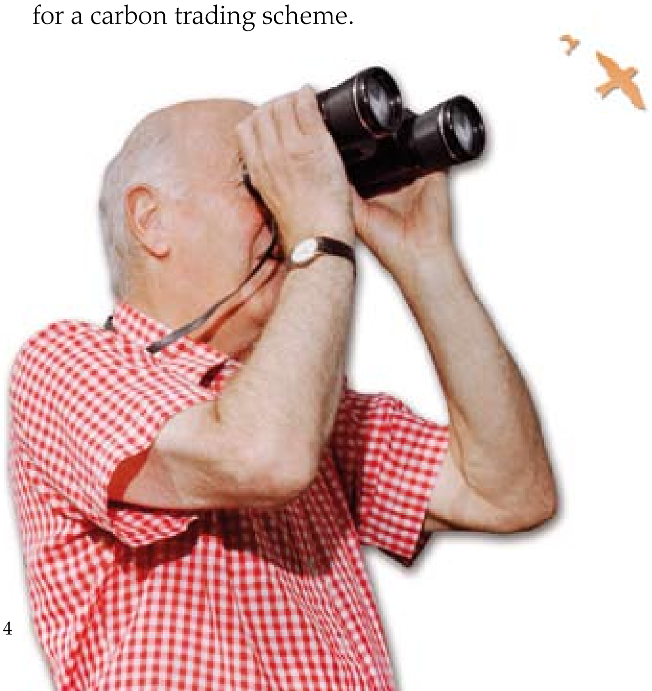
Australian society is changing

Factored into this picture are long-term trends that could impact on future prosperity. Australia's population is ageing and the incidence of chronic disease is rising. The burden of disease, in particular chronic disease, is one that will be borne largely by those affected Australians. But it will also have wider consequences.

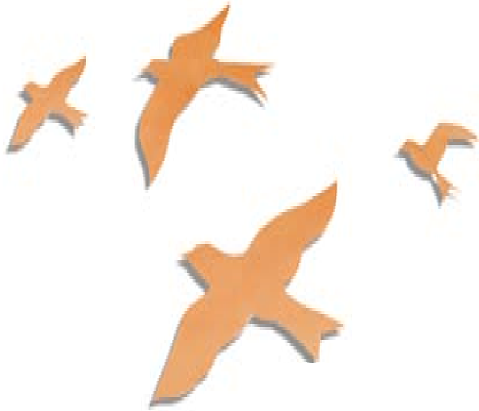
As the population ages, fewer people will be available to care for those who need care. Government data shows that between 2001 and 2006, the health workforce grew by 23 percent, but the proportion of those workers over 55 years old also increased, from 12 percent to 16 percent. The same demographics have implications for the wider economy. The Government's Intergenerational Report says that in 2007 there were five people of working age supporting each person aged over 65. By 2047, that proportion is expected to more than halve, to 2.4.

Analysis commissioned by Australian Unity of government data estimates that on current trends, total health spending in Australia could rise to 22 percent of GDP by 2047, from around 9 percent currently. Much of this cost will be borne by individuals who together are already contributing $15.5 billion each year to their health needs on top of their taxes and health premiums.

We welcome the growing debate about these issues. Topics for urgent consideration include a shift in emphasis from measurement of activity (how many operations are performed) to measurement of outcomes (how well patients became as a result of the treatment). Only then can we be certain that we are receiving value for our health dollars, or even spending them on the right things.



The number of Australians aged 85 years and over is projected to increase from 333,000 in 2006 to 1.1 million in 2036.



These changes are global

During the year Australian Unity studied some of the most innovative healthcare and aged care operations and facilities across Europe. This included examinations of chronic disease management programs, integrated-age communities, patient hotels and rehabilitation centres. Australia's issues are experienced globally: concerns about ageing, chronic diseases and diseases of the aged are dominating the minds of policy makers, while funding and workforce issues remain critical concerns for operators.

Australian Unity is taking action

Australian Unity's business strategy seeks to respond to these issues. We continually explore ways we can support our members to become informed about their wellbeing and take action to support themselves as they progress through their lives. We believe this approach will make an important contribution to these generation-changing issues.

We expect change to continue. Concern for the environment will continue to build. So too will calls for an economy that can withstand the impact of a population growing in both age and sickness. We are expanding our range of preventative health programs to counter the growth of chronic disease. We are planning, building and operating more ageing-in-place communities that focus on quality of life to help respond to increasing community demand. We continue to develop our quality investment products and personal financial services with a careful eye on market conditions. We remain confident that Australian Unity is in an excellent position to provide services of increasing value to the community in coming years.

The relationship between the Consumer Price Index and wellbeing is significant. When CPI goes up, wellbeing goes down, according to the Australian Unity Wellbeing Index.

Chairman's Report

The 2007-08 financial year represented the 15th year since the merger that created Australian Unity in its current form. We celebrated this with a number of significant advances. Last year I commented on our role in promoting the concept of wellbeing. Wellbeing continues to underpin all of our strategic and customer-service thinking.

The financial landscape

For Australia at large and for much of the world, the year was marked by a growing awareness of the financial madness that has been developing over recent years. I refer to the collapse of the parts of the financial markets that pretended wealth could be created through self-delusions that passed for clever financial engineering. Whilst the collapse has caused pain for many, including many innocent players, it will put our financial markets on a better basis in the long term. Australian Unity, I am pleased to say, has been largely unaffected by these developments. While investment income was down, reflecting the stock market fall, it was still a positive result and the investment products we manage on behalf of investors have performed well, demonstrating the strength of our risk and portfolio management policies.

Building our future

We have made big strides in our retirement living business. We are now planning the development of major retirement complexes, comprising independent living units, aged care facilities, plus wellbeing centres. These complexes are designed to provide a high quality, attractive lifestyle for our residents as well as being valuable community assets. We have new facilities in Melbourne, and others planned for Mornington and Cranbourne in Victoria, as well as Bowral in New South Wales, with further opportunities in the pipeline.

Growing funds

Our investments business has continued to be a leader in terms of rates of return with top rankings in equities, mortgages and fixed interest funds. During the year we also launched an overseas fund known as Wingate Global Equity Income Fund in conjunction with a joint venture partner Wingate. This complements our joint ventures in equities (Platypus), fixed interest (Vianova) and small cap equities (Acorn) all of which, as mentioned, have performed well compared to industry benchmarks. All of our property investments (with the exception of a fund which is designed to move with the share market) have held values remarkably well.

Focusing on members' health

This year we invested significant effort in expanding our preventative health program. We are well advanced in our plans to introduce programs for members with congestive heart failure and osteoporosis in addition to our heart health program, which assists our members in recovery after hospitalisation from serious cardiac surgery.

In the private health insurance industry there have been major changes with three major funds acquiring or proposing to acquire other funds. If they all proceed, it will leave Australian Unity as the sixth largest fund out of the three dozen remaining. Our health fund is the product of pure mergers of three health funds over the years and our focus has been on continuing to improve the quality of service delivered as well as efficiency within our funds. For the past seven years our retail fund has delivered significantly lower than average premium increases whilst continuing to deliver high quality products to our members.

For Australia at large and for much of the world, the year was marked by a growing awareness of the financial madness that has been developing over recent years.

Australian Unity members have indicated they prefer us to operate in a mutual structure, and the board agrees this is currently the better structure for our many activities. The year ahead may well see further changes in this industry. We hope that the focus of the industry remains on improving the health and wellbeing of members.

Our Community contribution

Australian Unity is a community based company. We contribute one percent of our pre-tax profit to the Australian Unity Foundation which makes contributions to a range of organisations that deliver services in areas we judge to be both important and relatively neglected. Details are set out later in the report. Secondly, we support a number of organisations, including 170 Learn to Swim schools across Australia. Additionally, we allow each staff member to donate a day's work toward voluntary activities. Remembering that Australian Unity's predecessor organisations were all significant forces in Australia's 19th and 20th century society we think it appropriate to support heritage and community issues.

Key Developments

- *Made major investments in allied health programs.*
- *Acquired four parcels of land and two retirement villages for development.*
- *Launched a new online health management program.*
- *Announced a new international equities joint venture with Wingate Group.*

Board movements

Mr Murray Campbell retired from the board at the Annual General Meeting in October last year, after a lifetime's service to our company and Manchester Unity Victoria. We thanked him then for his sterling service. The board now comprises eight members, including the Group Managing Director. We are currently conducting a review of the board.

In many Annual Reports, the Chairman's report starts with a reference to the profitability of the company. In our case profit is important, but not our driving force. Profits ensure our security and enable us to grow, and I am happy to say that we have been able to sustain our profit at around last year's levels of $32 million after tax despite the negative effects of the financial markets. All of the funds generated have been spent on expanding our business, in particular our allied health services and in the retirement living area. Our Group Managing Director's report elaborates on this and all other areas of our activity.

On behalf of all Directors, I want to thank all of our staff, including of course our Group Managing Director and all of our Group Executives for their fine performance over the last year. We place considerable importance on continuing to develop the skills of our executives and staff to enable them to deliver our important services to our members and customers, in the highly competitive world in which all of our businesses operate.

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

I am pleased to report that the Company has continued to develop positively as a wellbeing organisation: a company whose operations and services are designed to meet key areas of need in healthcare, retirement living and in retirement savings and planning.

Operating conditions and financial outcomes

This development occurred during a period of substantial turmoil in international financial markets and general deterioration in Australian economic conditions. These conditions had a material impact on the financial performance of the Group, notably in the returns achieved on corporate investments, which were down, for continuing operations, from $21.8 million to $9.4 million year-on-year. Pleasingly our underlying operations strengthened their financial contribution over the year by more than 10 percent. The year's financial performance was also aided by the contribution from the profits on the sale of our general insurance operations, which was settled during the financial year.

Profit after tax was $32.3 million, up slightly from $32.1 million in the 2007 year. Profit before tax was $39.1 million, down from $42.3 million in the prior year. Members' funds grew to $302 million, a rise of $32 million over the year.

Given the external environment and the changed shape of our operations (after the sale of a significant business), the financial results represent a solid outcome and provide valuable support for the Company's strategic plans.

All of the Company's major operations also developed soundly during the year. As the Chairman has noted, this development has been informed by the theme of wellbeing. Our community faces enormous issues as we grow older and start to address seriously the savings, health funding and aged care and accommodation challenges that confront us.

Australian Unity's operating plans are designed to respond to these challenges, through the creation and provision of products and services that enhance wellbeing across a spectrum of community needs.

Operational highlights

During the year, our healthcare business continued its investment in programs to keep members healthy and to support them more effectively when they are sick. These programs involve many millions of dollars of investment and will produce valuable results, in terms of better health outcomes for members, over future years. Notwithstanding the long term nature of these investments, we have taken the view that they are vital for our long term sustainability. We look forward to building our range of allied health programs significantly over coming years.

The last year has seen some of the most difficult conditions experienced in living memory unfold in the financial markets. Despite these conditions our financial services operations continued to develop positively.

In our financial advisory business, funds under advice grew more than $170 million to $471 million at 30 June 2008. Recruitment of financial advisers continued well with the business now comprising some 50 authorised representatives in addition to specialist mortgage brokers and risk writers. We have been investing in this business over recent years and plan to continue to invest in its growth as a complementary operation to our other financial services activities. We anticipate further investment over the coming year. The performance of this business also continues to be directly affected by financial market conditions.

Our investments business continued its solid growth with funds under management rising from $5.7 billion to $6.5 billion over the year. This growth was spread across our product range with investors and their advisers strengthening support for the approach we take to investment and the approaches taken by our joint venture partners: Acorn, Platypus and Vianova. These established joint ventures all achieved sound investment returns for their investors relative to their sectors.

Our strategy provides a framework for sensible diversification and adds to our capacity to respond to community needs and provides added resilience in the face of change.

Our direct property and mortgage funds delivered strong performances in a year that proved very challenging for some other providers. As the Chairman has noted, during the year we were pleased to implement our fourth funds management joint venture.

Profit before tax for the investments business rose 12 percent over the year, to $8.1 million.

Our retirement living business achieved marked progress in its development as a provider of high quality independent living and aged care facilities. Major new facilities became operational during the year, new land and development opportunities were secured and our existing operations continued to perform well. The quality of our services was further recognised by the awarding of new government program support for aged care respite programs. Looking ahead we have a pipeline for the development of some 1,500 further independent living and aged care places. Given the increasingly significant focus that retirement and aged care is receiving from the Australian community, we believe that quality operators who understand the long term operating characteristics of this sector will be increasingly appreciated, and sought out, by the communities that they serve.

This year we continued to implement our plans to improve operational excellence in order to provide excellent customer service. We completed the task of integrating the operating systems of the Grand United Corporate Health business, finalising a project that began with the merger of the Australian Unity and Grand United, and successfully realising the desired benefits of integration. We also redesigned the customer service platform for both advisers and investors with our investments business and made significant progress in strengthening the systems that support resident care in our retirement communities. In parallel, we continued to implement programs designed to improve the wellbeing of our employees and the communities in which we operate.

More details on this range of achievements can be found in the pages of this report.

Strategic approach

As a company we are planning a strategy based on building a portfolio of businesses that support wellbeing, each with the potential to develop and sustain a leading position in their respective sectors. During the year, our non-health businesses contributed over $100 million in revenues, continuing an important growth trend in these businesses. Our strategy provides a framework for sensible diversification and adds to our capacity to respond to community needs and provides added resilience in the face of change. This is particularly important in relation to our health insurance activities, where demographic factors are exerting powerful influences and where our activities are most affected by regulatory changes. Our broadening operations—both within the general area of health and outside this area, in financial services and retirement living—underpin this resilience.

Outlook

We anticipate that the environmental conditions affecting our businesses will continue to pose challenges for the immediate future. We remain confident, however, that our products and services will continue to offer quality and value and will be appreciated by our customers and members for many years to come. We intend to continue to expand our suite of excellent services, homes, and investment products, to support our members' and customers' wellbeing.

I extend my thanks to the executives and staff who have worked hard in testing conditions. We look forward to the further positive development of the company over the coming year.

Rohan Mead, Group Managing Director

Community

Australian Unity has developed a special commitment to the community throughout our rich 165 year history.

From our earliest beginnings as a leader in the popular movement for Federation, to the introduction of a nation-wide survey to monitor Australians' wellbeing and the recent formation of a charitable foundation, connection to community has underpinned much of who we are.

Today, our aim in the community is to improve the wellbeing of Australians in the areas of health, ageing and financial security, and to support and celebrate Australian achievements, heritage and culture.

Australian Unity Foundation

The Australian Unity Foundation, central to our community engagement strategy, was established in 2006 and seeks to support community groups that make a real contribution where it's needed most.

This year the Foundation awarded its second round of grants to seven community groups. Grants of $25,000 each were awarded to the MS Society, Mission Australia, SANE Australia, Lighthouse Foundation, Alzheimer's Australia, Wesley Mission and the Australian Theatre for Young People. These organisations are using the grants to support the wellbeing of Australians through a wide range of initiatives such as a program to help people with multiple sclerosis to manage pain, a campaign to build awareness of dementia in indigenous communities and educational scholarships to support disadvantaged youth so they can stay at school longer.

Community Partnerships

Australian Unity's major partnership with Deakin University on the Australian Unity Wellbeing Index continues to offer valuable insights for policy makers.

In February the Wellbeing Index delivered a milestone report called *What makes us happy?* The report drew on the key findings from seven years of research and looked at what factors contributed most to the wellbeing of Australians.

The research is freely available, with the data and methodology continuing to be utilised by various organisations and academics, including Carers Australia and the Australian Conservation Foundation, to further their own research and policy purposes.

The Australian Centre for Health Research is another public policy research program that we continue to support after providing seed funding in 2006. The research conducted by the centre evaluates complex issues and aims to help create a better health system for Australians. Recent research has examined Australian healthcare agreements and evaluated the health outcomes in Australia's health system.

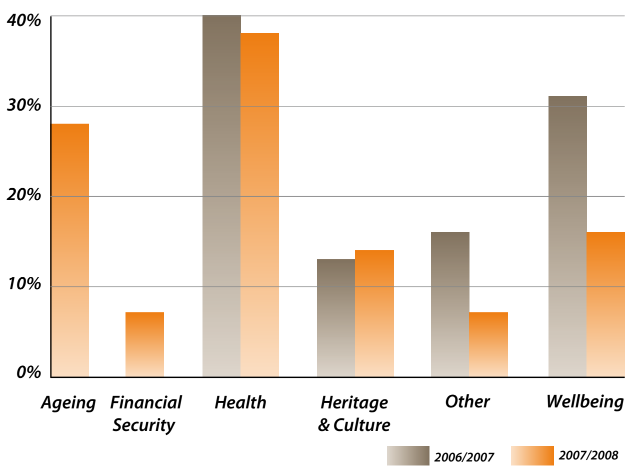
We also launched a new community partnership during the year as the proud sponsor of the Australian Unity Learn to Swim program. With the help of our Learn to Swim ambassador, swimming great Hayley Lewis, we are working to promote the health benefits of swimming and encourage, train and mentor our future swimming champions. We have also provided 170 swim schools with kickboards and other equipment.

Other community partnerships we continue to support include Carers Australia, Bell Shakespeare, Greatconnections, Song Room and Australia 21.

Our heritage

Australian Unity has a long and proud history as a member organisation. We continue to work on a project that will make this rich heritage more accessible to the public through an online interactive archive. We have also recently established the Australian Unity Bryan Kelleher Literary Award. The literary award celebrates Australian bush poetry and received hundreds of entries from across the country.

Areas we have supported



Staff participation

As part of Australian Unity's community commitment, employees are encouraged to actively support their communities through a number of company-sponsored initiatives.

Employees are given the opportunity to participate in payroll giving, and are offered an annual paid community leave day to help out in their communities.

Five percent of staff participated in workplace giving during the year, donating almost $25,000. This amount was fully matched by Australian Unity, so $50,000 was donated to our supported charities.

Importantly, more than 16 percent of eligible employees took their community leave day, helping out a large number of organisations such as Camp Quality, Guide Dogs Victoria and the Salvation Army. This was a sound improvement on last year's participation rate of 10 percent.

Staff were also actively involved in a number of other community awareness and fundraising initiatives throughout the year including charity walks, fun runs, blood donation drives, and food and gift drives.

Evaluation

Australian Unity uses the London Benchmarking Group model to evaluate and benchmark our community activities.

Through this, we can benchmark ourselves against other leading Australian companies and also against our guiding theme to help us to continually improve our community program.

Last year we found that the majority of our contributions were predominantly focused in the areas of health, wellbeing, heritage and culture. This year we actively sought opportunities to contribute more towards the ageing and financial security aspects of our guiding theme and were successful in broadening our activity program.

We provided 170 Australian swim schools with kickboards and other equipment.

Sustainability

Our approach

We believe that Australian Unity's business activities should have as small an impact on the natural environment as possible, and so we continue to improve our operations in ways that minimise our environmental footprint.

Building on last year's efforts to reduce our energy and water consumption, this year we have focused on reducing waste by decreasing paper use, improving recycling facilities and educating staff about the important role they can play in taking care of our planet.

Reducing waste

This year we introduced co-mingled recycling facilities in all staff kitchens at the head office in South Melbourne, Victoria. This is in addition to the paper and toner cartridge recycling already in operation, and enables staff to recycle bottles, cans and containers used during the day.

In addition, Australian Unity recycled 754 toner cartridges in conjunction with Planet Ark, weighing a total of 1,779 kilograms. The cartridges or their component parts are recycled into new products.

Total energy used in Australia increased by 107 percent over the 30 years from 1976 to 2006.

Staff involvement

Increasing staff awareness and participation in environmental programs is a key element of improving our performance.

Australian Unity has established an intranet portal for all things 'green' to help build knowledge of how small changes can make a big difference. The portal updates staff on improvements at Australian Unity, provides tips for individuals to reduce their own impact, allows people to register their interest in car-pooling and provides information on Australian Unity's own 'green team'.

To help staff make greener transport choices, public transport tickets have been introduced as an alternate way of getting to and from off-site meetings. This has decreased our demand for taxis and helped reduce our carbon footprint.

A secure storage area for bikes, showers and changing facilities are also provided at our largest office to encourage people to walk and cycle to work.

Paper and printing

In the past year, 98.5 tonnes of paper from Australian Unity was recycled rather than sent to landfill. In addition to recycling initiatives, with all staff encouraged to use paper sparingly, there has been a 15 percent reduction in paper waste in the second half of the year.

An accredited environmental print broker manages all print requirements for Australian Unity. Our marketing material is printed using environmentally friendly techniques and a green-star rating system audits and rates our print suppliers. The rating criteria include waste management and water conservation practices and a requirement that raw materials are from sustainable sources.

Energy conservation

The refurbishment of Australian Unity's head office in South Melbourne is almost complete, with the installation of sensor and energy efficient lighting on all floors. Energy consumption at head office has decreased in the second half of the financial year by more than two percent. Although our sustainability program is in its infancy, we hope in the future to formalise the tracking of power, gas and water use so that we have a suite of environmental performance indicators.

In March 2008, Australian Unity participated in Earth Hour as part of a global initiative to create awareness and prompt action to reduce climate change. This staff-led initiative included both Sydney and Melbourne offices, our Box Hill dental centre and a number of properties owned by Australian Unity Investments.

Dental centres

Our dental centre network continues to run an efficient and environmentally responsible waste management system. All operations comply with Australian Standards AS 4031, with clinical waterlines equipped with anti-retraction valves to maintain quality of the public water supply.

Retirement living operations

In developing new retirement communities, Australian Unity's challenge is to meet the needs of the present without compromising the needs of future generations. We do this by considering the economic, social and environmental issues within the development and operations processes.

Programs such as the adoption of five-star standards in the building fabric and sustainable solutions such as energy efficiency, water efficiency and waste reduction are a range of initiatives that will help to meet the needs of tomorrow.

Over its life, a typical compact fluorescent lamp saves around a third of a tonne of greenhouse gas and avoids the cost of 6 or more incandescent globes.

Our People

Our people are a critical and valued part of our business. Their levels of engagement with Australian Unity and sense of wellbeing have a powerful impact on the level of service and value experienced by our members and customers. There are a number of initiatives that the Group provides to contribute to employees' engagement and wellbeing.

Engagement

We regularly conduct surveys into the engagement levels of our employees. This year Australian Unity scored an employee engagement factor of 81 percent. This means that four in five employees feel strongly committed to delivering to our members and customers, to the company's direction and to each other. This result is an improvement on the previous score of 76 percent and is pleasing given the ongoing dynamic nature of the business and markets in which we operate.

Strengths highlighted by the survey included employees' belief in the company's direction as a wellbeing company. The survey also revealed that our people greatly value the camaraderie and collegiality of working at Australian Unity.

Facts about our people

- ***More than 1,250 employees***
- ***Over two thirds are female***
- ***All ages are represented – from teenagers to those over 60***
- ***76 percent are in Victoria, 23 percent are in New South Wales***
- ***60 percent are full time, 30 percent are part time and 10 percent are casual***

Our way of being

In order to continue to support such high levels of engagement, this year Australian Unity articulated 'our way of being', a statement that describes our personality and how we hope to interact with customers, each other and the community.

We believe that if we can be bold, warm and honest in our dealings with others, we can deliver on our promise: 'Your wellbeing is at the heart of everything we do.'

We began our wellbeing journey some time ago and have developed activities and programs aimed at looking after our employees. These include yoga, pilates, team sport, triathlons, flu shots, skin cancer checks and the provision of fruit at work. We also offer broader wellbeing programs such as an employee assistance program, learning and development opportunities, and performance and career development systems. We intend to build on this and proactively assist the wellbeing of all our employees.

Our employees

To support our diverse portfolio of businesses we have a diverse workforce. We have professionals such as accountants, nurses, allied health, business analysts, customer service representatives and fund managers. Our workforce is predominantly located in Victoria and New South Wales, and is also represented in Queensland, South Australia and Western Australia.

As with all Australian companies, we face the challenge of attracting and retaining talented people. We invest in sound management practices that support our talented people and make Australian Unity a place people want to work.

The proportion of employed men aged 15-64 years working part time in Australia was 15 percent in 2005. This is double the rate of men in the USA (7 percent).

One initiative, now just over a year old, is the Australian Unity Business School. Our vision is to foster a community of leaders that work toward achieving Australian Unity's ambition, who demonstrate 'our way of being' and help bring wellbeing to life for our people and our customers.

More than 70 leaders have participated in leadership programs tailored to their roles. We have implemented a twelve-month program for senior leaders and two three-month programs for our front-line leaders. The business school aims to develop leaders through awareness and practice. All our programs are experiential and start with employees discussing their ideas and thoughts.

The programs and activities of the business school will be augmented over the coming years to provide Australian Unity's managers and leaders with opportunities to develop and build our business and their careers.

We have a strong performance recognition program that has been re-launched this year with a focus on career development for all employees. We know this is a key factor in what makes people happy at work and believe that this will support our employees' wellbeing.

Happiness levels remain constant on every day of the week... even on Monday, according to the Australian Unity Wellbeing Index.

In Australia, women are generally more satisfied with their work than males, but they become less satisfied once they clock up more than 40 hours a week, according to the Australian Unity Wellbeing Index.

Business Overview

Financial Services

Australian Unity's financial services operations include a boutique funds manager, 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 had over $6.5 billion in funds under management at 30 June 2008 and offers a range of wholesale and retail managed funds in property, equities, fixed interest securities and mortgage trusts.

Australian Unity commenced financial planning operations in 2002 and added mortgage broking in 2006. We have 47 advisers and 10 brokers operating in Sydney, Brisbane, Melbourne and regional Victoria. The business currently has more than $470 million in funds under advice.

$6,525 ***million***

in funds under management at 30 June 2008

more than **1,700**

home units for Australian retirees

6 ***th largest*** *health fund in Australia*

Retirement Living

Australian Unity's retirement living business is a major provider of accommodation and related services to retirees. We operate 15 retirement villages and four aged care facilities across New South Wales and Victoria, with 1,715 home units, 451 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.

Healthcare

Australian Unity operates the sixth largest health fund in Australia, covering more than 296,000 lives. We also own and operate a corporate health fund and three dental clinics.

The business has a strong focus on preventative health care and continues to develop evidence based programs that address lifestyle associated diseases. We aspire to be a central partner in members' wellbeing by empowering them by providing them with the information they need to be as healthy as they can be.

Healthcare

At Australian Unity, nothing is more important than the wellbeing of our members. This is the key premise underpinning our wellness philosophy. We strive to help healthy members stay healthy and assist those who are unwell to get better as quickly as possible.

A preventative approach to wellness helps wellbeing in all its dimensions – physical, emotional, and financial. But it also makes good economic sense by reducing the likelihood of claims, therefore keeping premiums lower for members.

For these reasons we continued to invest significantly in preventative health initiatives during the year. By working with experts to develop programs and provide information, encouragement and support to all our members, we aim to help members be the healthiest they can be.

This investment, combined with a significant decline in investment income following the downturn in the equities market, resulted in profit before tax for our healthcare operations decreasing to $44.0 million in 2008 (2007: $50.2 million).

However, the underwriting performance of the business (the measure of how well we balance the revenues and expenses of our fund) continues to be sound.

Total revenues for the combined operations, which include two health funds and three dental clinics, increased to $473.7 million, up by four percent from $456.2 million in 2007.

This was influenced by a significant increase in membership numbers for GU Health, our corporate health fund, and an increase in Australian Unity health fund contribution rates by an average of 3.84 percent in April 2007 (once again below the national average of 4.52 percent).

The premium rise reflects the cost of meeting increasing demands for the latest medical technologies and increasing private hospital costs. The number of claims is also rising with the ageing of the population, high levels of obesity and an increase in chronic conditions such as diabetes that require expensive, ongoing treatments.

Member value

Australian Unity operates two health funds. Australian Unity Health is open to the public and covers more than 296,000 lives. GU Health is a niche fund that provides tailored health plans to some of Australia's leading corporations.

During the year, the Australian Unity health fund continued its strategy of providing value to members. Premium increases were below the industry average for the seventh consecutive year, while total claims paid increased to $384.7 million (2007: $357.4 million).

The management expense ratio of the fund also continued to decrease from 10.1 percent in 2007 to 9.9 percent. This was achieved despite further investment in our preventative health programs which should provide sound returns over the medium to long term.

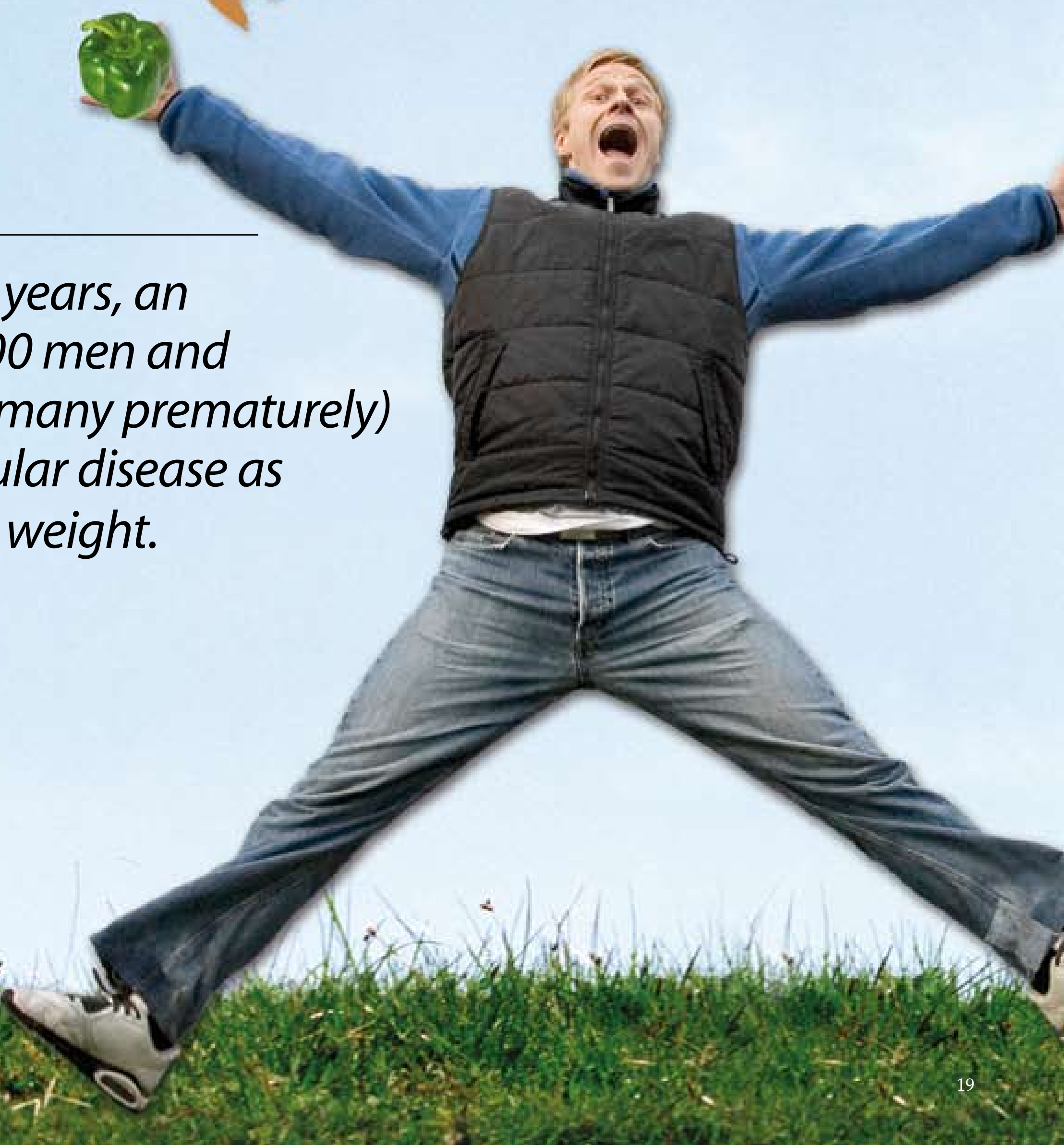
GU Health, which became part of the Group following the 2005 merger with Grand United, also delivered value with low premium increases and very attractive benefits. At the same time the fund's focus on service was rewarded with an increase in membership of 18 percent, making it one of the fastest growing private health funds in Australia. The combined effect of the growth in membership and the successful restructure and integration of the back end processes with the Australian Unity health fund reduced the GU Health management expenses ratio (excluding overseas visitors cover) to 11.6 percent (2007: 17.8 percent).

Importantly, some 87 percent of all medical services consumed by members incurred no out-of-pocket expenses. This is an important measure of the quality of Australian Unity's products and our efforts to minimise the gap between the cost of medical services and the level of cover provided.

Expenditure on health has contributed the second highest increase to government expenses over the last seven years.

Over the next 20 years, an estimated 123,000 men and women will die (many prematurely) from cardiovascular disease as a result of excess weight.

Almost a quarter of Victorian men aged 16-24 regularly drink more than 20 standard drinks in a session.



Sustainable growth

The past year has signalled uncertain times for private health funds with industry consolidation, increasing competition and the federal government's proposed changes to the Medicare Levy Surcharge. As a result, the number of health members has remained relatively static at around 296,000 people covered.

Australian Unity has a sustainable growth strategy. We do not engage in unprofitable competition for new business, as this leads to higher costs for existing members. Instead we aim to attract and retain people who value private health cover by offering quality products with meaningful benefits.

This year we launched a new health insurance product for members transitioning from basic to more comprehensive cover. Hospital Essentials is designed specifically for healthy singles, couples and young families. It bridges the gap between our existing hospital products, as it is more extensive than our 'no frills' products but without all the features of the top-of-the-line comprehensive product.

We also increased our efforts to educate members on how to make the most of their cover. This saw customer retention improve greatly during the year with the percentage of members leaving Australian Unity dropping to only 7.4 percent (2007: 9.7 percent), which is below the industry average of 8.9 percent.

Online health management

Australian Unity's preventative health strategy passed another milestone during the year with the launch of Wellplan Online – an innovative internet and email based health and wellness program.

Wellplan Online responds to research findings that indicate many people are relying on the internet for health information. While the broad use of the internet for knowledge is not surprising, it can be difficult to determine if information is credible. Wellplan Online empowers members with the knowledge they need to help them stay well and live longer by providing information developed by medical professionals and based on current Australian guidelines.

The program includes an online health risk assessment, which involves a series of questions about the key factors that influence health. Based on the answers to these questions, the program can estimate a person's life expectancy and current health age and provide tips on ways to improve their health outlook.

As an added benefit, users are given the opportunity to subscribe to regular personalised health emails and also have access to a wellbeing goal planner with suggestions of positive changes they can make in their life and ways of measuring them along the way.

Importantly, more than 85 percent of members who have completed the online assessment have provided consent to receive further information on programs designed to help them address their risk factors. This level of response far exceeded expectations, and indicates how important health matters are to our members.

Most common ailments members experienced last year

	Patients	Total benefits paid	Avg per patient
Digestive System	18, 758	$29,344 ,926	$1,564
Musculoskeletal System	7,725	$52,780,792	$6,832
Circulatory Disease	5,720	$46,394,720	$8,111

Wellness programs

The introduction of Wellplan Online follows the launch of Australian Unity's first chronic disease and secondary intervention program in early 2007. The heart health program, which uses telephone coaching to help prevent the progression of coronary heart disease, is proving highly effective in guiding members back to good heart health, reducing the risk of relapse and re-admission to hospital.

The success of our wellness programs has confirmed that members want more tools to help them stay healthy. As such, we will continue to develop our preventative health strategy and enhance our position as an industry expert in the area.

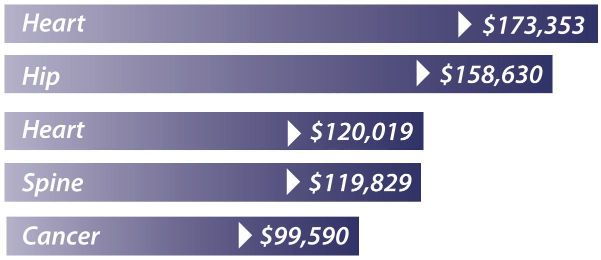
In the year ahead, we plan to introduce a number of additional chronic disease management programs. We also plan to launch several new services including a supported, in-home care program as an alternative to staying in a rehabilitation hospital, where clinically appropriate.

These new healthcare alternatives have been made possible by the broader health cover reforms in the new Private Health Insurance Act. Australian Unity successfully contributed to the development of this legislation.

Advocacy

Australian Unity has a long history of speaking up for the interests of our members. This is achieved in a number of ways, such as our support of health fund industry associations, our frequent contributions to public knowledge on wellbeing and our submissions to government.

Top 5 individual member claims 2007/2008



In the past year, Australian Unity was the only private health fund to make a written submission to the Inquiry into Obesity by the Federal Government's House of Representatives Standing Committee on Health and Ageing. We believe that although private health insurers are already actively fighting the onset of obesity, there is much more that we can do by offering chronic disease management programs targeted at members with obesity complications. We also believe there can and should be more coordination between private health funds and the public sector in tackling the common goal of reducing the economic burden of obesity, along with other preventable diseases.

We are watching closely decisions by the new Federal Government, such as a proposal to raise the Medicare Levy Surcharge which we believe could have an impact on premium inflation. We are concerned the policy is likely to be most felt by our older members who often live on fixed, sometimes small, incomes. We will continue to support and advocate for our members to find ways to improve the health of Australians.

One third of Australia's privately insured population has a household income of less than $50,000.

Financial Services

Investments

Australian Unity Investments weathered the past year's market volatility extremely well.

The period began with the sub-prime mortgage crisis in the US, which quickly evolved into a global credit crunch. The crisis toppled a number of financial institutions in the northern hemisphere and caused the collapse of some highly leveraged Australian companies in the property investment and financial services sectors. Sharemarkets around the world were also affected. In Australia, the benchmark All Ordinaries Index ended the year down 15.49 percent from its level at the beginning of July 2007 and was down by 22.41 percent from its peak of 6,873 in November 2007. Despite this, Australian Unity's investment business finished the financial year in a stronger position than it began, reaping the rewards of well-managed risk and credit fundamentals.

Profit before tax increased from $7.2 million to $8.1 million while funds under management grew 14 percent to $6.5 billion as at 30 June 2008 ($5.7 billion in 2007).

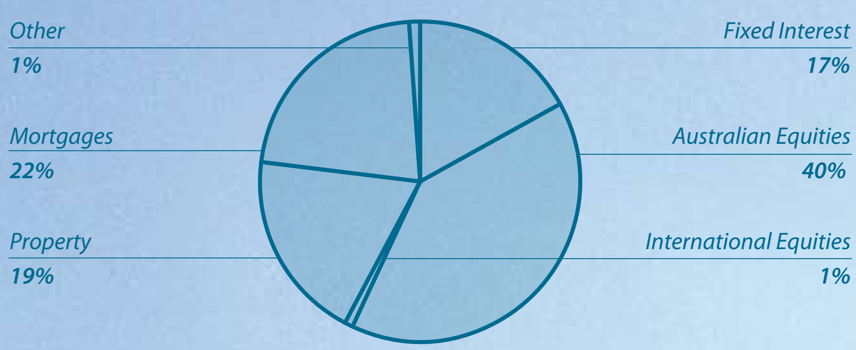
Australian Unity Investments' continued success is largely attributable to a well-considered diversification strategy, the strong investment management skills within its joint venture fund management businesses and the very high credit and investment standards of its in-house mortgage and property funds.

As a further step in its diversification strategy, the business launched a new partnership with Wingate Group in June 2008. This international equities joint venture is the fourth for the investments business, which has Acorn Capital in Australian microcap stocks, Platypus Asset Management in Australian equities and Vianova Asset Management in fixed interest securities.

Wingate's investment philosophy is a sound match with Australian Unity's positioning of being a differentiated, high-performance fund manager. Wingate's Global Opportunity Fund has been operating since 2005 and its performance since inception has been outstanding.

A well diversified portfolio

Funds managed by Australian Unity Investments and our joint venture partners



Over 70 percent of Australians have experienced financial difficulty at some point in their lives.

Nearly 6.1 million superannuation accounts are listed on the Lost Members Register, with total balances approaching $12 billion.

The economic environment is currently the single largest negative influence on Australians' sense of wellbeing, according to the Australian Unity Wellbeing Index.

Infrastructure upgrade

During the year, the investments business concluded a long-term program to build and upgrade its base infrastructure, which included the replacement of its unit registry system and the recent launch of a new website for investors and their financial advisers. The new website is easier to navigate, has quick links to popular information and video interviews with our investment managers on market trends.

As part of the website, a new secure section for financial advisers was launched. Advisers can now view their clients' funds under management, individual investor details and account transaction history online. This functionality is now being extended to personal investors, allowing them secure access to view their account information.

These initiatives have created a very sound platform for the future growth of our customer base, which will be a major focus in the coming year.

Equities

Platypus' funds under management grew during the year to more than $1.6 billion (2007: $1.1 billion). Platypus also remained the best performing Australian equities manager over three, five and seven years as at 30 June 2008, according to the Intech Investment Consultants' Australian share manager survey.

Due to the extremely volatile sharemarket the Australian Unity Investments Platypus Australian Equities Trust (Wholesale) returned -13.35 percent for the year to 30 June 2008, which was above the -13.67 percent returned by the broader S&P/ASX 300 Accumulation Index.

Strong investment performance relative to industry benchmarks was achieved by the Australian Unity Acorn Microcap Trust which returned -18.04 percent for the year to 30 June 2008, despite the microcap equities benchmark returning -28.32 percent for this period.

Fixed interest

Vianova continued to achieve sound investment performance. It was one of the few fixed interest fund managers to sense the looming problems in the sub-prime mortgage market in the US, and had adopted a defensive investment position well before the crisis emerged in July 2007.

Vianova significantly increased its funds under management to more than $1 billion at 30 June 2008 and the Australian Unity Investments Vianova Strategic Fixed Interest Trust (Wholesale) returned 6.26 percent for the year to 30 June 2008, well above the industry benchmark of 4.42 percent.

As a result, Vianova remains the number one performing fixed interest manager over one and two years as at 30 June 2008 according to Intech Investment Consultants' Australian fixed interest manager survey and Mercer's Australian core fixed income survey.

Property

The total value of the property portfolio lifted 20 percent during the year to $1.2 billion at 30 June 2008 (2007: $1 billion).

Solid growth was achieved by one of our most popular funds, the Australian Unity Healthcare Property Trust, which increased funds under management to $351 million at 30 June 2008 (2007: $319 million). The Trust was again awarded a 'highly recommended' rating by Lonsec Limited, a leading provider of investment research for Australia's funds management industry.

The Trust remains the largest of its kind in Australia and one of the highest rated funds in its field. Australian Unity Investments anticipates further growth in this area in the coming year as the acquisition and development pipeline for the Trust is strong. This includes six hectares of land in the New South Wales Orange Base Hospital precinct which was purchased during the year for $7.1 million. This land will be used for a major $80 million private hospital development, due to be completed in 2010 and will form a major medical services facility for the western New South Wales region.

The Property Income Fund was also well positioned to take advantage of opportunities in the market and acquired four properties during the year, including a combined warehouse and office building in Arundel, Queensland for $7.1 million and an office building in Brunswick, Victoria for $13 million. The Fund ended the year with direct investment in nine properties and a total of $159.5 million in funds under management, an increase of 13 percent from the previous year.

According to the Australian Unity Wellbeing Index, money loses its ability to reliably raise wellbeing beyond a household income of $100,000.

During the year, the Australian Unity Property Syndicates No.5 and No.6 reached the end of their seven-year terms. The properties in Syndicate No.5 were purchased for $18.9 million in April 2000 and sold for $38.7 million in December 2007, after investing $7 million in capital improvements. The properties in Syndicate No.6 were sold for $35.8 million after investing $4.5 million in capital improvements to the purchase price of $24.4 million.

Mortgages

The mortgages business also fared well with $1.4 billion in funds under management as at 30 June 2008 (2007: $1.3 billion). This was primarily due to the mortgages team only lending against Australian first registered mortgages which means it has no exposure to 'low doc' or sub prime style loans and no exposure to offshore US based loans.

Advocacy

Investment practices came under increased scrutiny during the year as a result of the significant sharemarket declines. Short selling became a hot topic and Australian Unity took a leadership role in driving the debate for greater regulation and transparency in this area.

Short selling can allow investors to manipulate a company's value. It is not the practice itself which is the problem but rather the misuse of it, as well as the outdated rules governing this activity. According to the ASX, there hasn't been a comprehensive review of these rules since 1985.

During the year Australian Unity provided a detailed submission to the ASX on how these rules may be updated and improved. We were also vocal in supporting government, ASIC and the ASX in their efforts to improve the transparency and reporting of short selling activity as well as the development and enforcement of associated regulations.

We continue to advocate for change and have called on the broader financial services industry to work together to ensure the best possible standards and regulations are put in place to protect investors and to preserve market integrity.

The Australian Stock Exchange's most recent share ownership study showed that six million Australians, or 38 percent of the population, were direct investors in the sharemarket.

Personal financial services

The financial advisory business continued to invest heavily in its expansion, with the number of authorised representatives increasing to 47 from 30 in the previous year. Our network now also includes 10 brokers and referral agreements with 25 accountants throughout New South Wales, Queensland and Victoria. Revenues and funds under advice grew, despite a tough year in financial markets. Revenues more than doubled to $4.9 million (2007: $2.3 million), and funds under advice increased by 57 percent to $471 million as at 30 June 2008 (2007: $300 million).

The business recorded a result before tax of -$8.3 million (2007: -$5.0 million). This investment is in line with our plans to build this part of our operations organically over a period of some years. The business continues to achieve milestones in its development and despite its current loss, is growing in value as an important element of the Group's broader financial services activities.

The high start up costs associated with establishing new advisers, who typically take up to two years to produce significant revenue, is expected to impact profitability for the medium term. We continue to invest in new advisers in order to build a dealership of significant size and service standards.

The average retirement payouts in 2006 were in the order of $130,000 for men, and $45,000 for women.

Retirement Living

Several land acquisitions led to the retirement living business reaching a strategic milestone in its growth plans during the year. The business has now locked in a pipeline of development projects that will see it double in size and enhance its geographic alignment to Australian Unity's existing membership base.

Australian Unity is already a major provider of retirement living services, with 15 retirement villages and four aged care facilities across New South Wales and Victoria. These offer 1,715 completed home units, 451 aged care beds and 53 community care places.

The business continues to build a retirement living portfolio of sufficient size and quality that will see it become a substantial contributor to Group earnings over the medium term. With industry demand expected to accelerate and an established pipeline of villages for development, these growth plans are not dependent on the purchase of additional land or facilities. We are well placed to grow organically and will also respond to future opportunities as they meet our assessment criteria.

During the year profit before tax increased to $10.6 million, up from $8.9 million in the previous year. This largely reflected improvements in operations and further sales and profits from the Group's largest retirement village, Constitution Hill in north western Sydney.

Established growth program

New development projects secured in the past year have set the business on a sound growth trajectory, ensuring it is well placed to keep pace with Australia's rapidly rising demand for retirement accommodation.

Around five percent of older Australians currently live in retirement villages. If this increases to just eight percent, demand will treble, requiring the construction of around 1,500 new retirement villages across Australia over the next 20 years.

Australian Unity will be a key operator in this industry growth phase with an attractive development pipeline and a well established existing portfolio of businesses. Furthermore, the financial strength of the Australian Unity Group and our long history as a recognised operator of retirement living services are creating competitive advantages that help us to better support residents' wellbeing.

Older Australians deserve to look forward to retirement living in communities that support their quality of life and foster wellbeing. As such, the wellbeing of residents is at the forefront of our planning, development and operational approach.

Currently two in every 10,000 people are aged at least 100. By 2050, this will be 23 in every 10,000 people.

The Australian Unity Wellbeing Index has found that the older we get, the happier we tend to become.

Almost half of all people aged 65–74 years provide unpaid assistance to someone outside their household.

Project pipeline secured...

After a review of many development opportunities, Australian Unity completed the purchase of four parcels of land for new developments and two existing villages for upgrade and expansion.

- A site in Port Macquarie was acquired in August 2007 to complement our existing village in the area, The Governors Retirement Resort. Sienna Grange is now operating with the first stage nearing completion and will consist of 67 independent living units once fully developed.
- The Oaks retirement village in Croydon, Victoria was acquired in October 2007. This 20-unit retirement village is in close proximity to and shares facilities with, Australian Unity's Walmsley Retirement Village in Kilsyth.
- A site in Vermont South in Melbourne was acquired in December 2007. Known as Victoria Grange, this site consists of a 110-bed aged care facility and eight independent living units, with a further 120-units to be constructed on site. The aged care facility began operation on 30 June 2008.
- A contract to acquire the first stage development of Lifestyle Manor Bondi in New South Wales was entered into in December 2007. The acquisition of this premium facility will be completed when the retirement village is fully occupied. This 42-unit retirement village opened in May 2007 under Australian Unity management. Australian Unity has also entered into a joint venture with the vendors to build the second stage of this development, scheduled for construction in 2009.
- Karagi Court at Bateau Bay on the central coast of New South Wales was acquired in February 2008. This 68-unit retirement village was previously managed by Australian Unity.
- Land for the development of a 242-unit village in Mornington, Victoria and a 200-unit retirement village in Cranbourne, Victoria, was acquired in February 2008 and April 2008 respectively. In addition, land with approval to construct a 180-bed aged care facility and wellbeing centre adjoining the Mornington village site is due to settle following certain conditions being met by the vendor.
- A joint venture with Australand was signed in April 2008 to develop a retirement living complex in Bowral, New South Wales. The complex is intended to consist of up to 170 independent living units, 153 residential aged care beds and a wellbeing centre that will provide a range of additional services to the broader community.

Almost half of working Australians do not know the age they plan to retire.

Something special

As the retirement living industry matures and demand for services and accommodation increases, Australian Unity's operating approach of being a full-service provider is responding to a great need in the community.

Our strategy is to provide independent living units, residential aged care and community services in the same region, wherever possible. Our residents tell us the co-location of services means that they can stay longer in the home and the community of their choosing.

Our community services staff provide assistance with certain needs, such as collecting prescriptions from the pharmacy or helping with shopping and cleaning. This bridges the gap between retirement village living and residential aged care, and allows many of our residents to continue to live independently for as long as possible.

In the past year, we began a trial of a new type of service that is designed to support the increasing number of Australians who have taken the responsibility of caring for elderly relatives or friends in their own home.

The new trial is part of the Respite for Carers program sponsored by the Federal Government, with Australian Unity one of 25 participants selected from around the country. The program provides public assistance to private carers in recognition of the load they are taking off the public aged care and hospital systems. An estimated 2.6 million carers currently provide more than $30 billion of unpaid care each year.

Under the trial, Australian Unity has remodelled part of its facilities at Constitution Hill to create a short-term respite centre. We provide the private carer a much-needed break by taking over their responsibilities for a day. The carer can choose to go with their loved one to Constitution Hill, where they can relax and take advantage of the many personal services such as hair salons, swimming pools and games facilities. Or they can spend their day at home, with Australian Unity even taking care of transport for the day.

Demand for the 30 places in Australian Unity's day respite program has been strong and early indications are that the trial will prove successful.

The trial has demonstrated the effectiveness of closer relationships between the public and private sector in easing the strain of our ageing population on Australia's public system. Australian Unity is well placed to play a larger role in this kind of cooperative approach, which mirrors many of the attributes of our own integrated service model for retirement living services.

Around 57 million place-days are used in aged care services each year.

Carers have the lowest wellbeing of any group surveyed through the Australian Unity Wellbeing Index.

Board of Directors

Alan Castleman

Rohan Mead

Eve Crestani

Ian Ferres

Warren French

Stephen Maitland

Bruce Siney

Warren Stretton

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 except the audit & compliance committee. He also chairs the Australian Centre for Health Research Limited and is a director (former chair) of the National Ageing Research Institute Inc. Before 1993, his executive career was at BHP where he held a number of senior executive positions. Over the last 15 years he has been a director of over 15 public or private companies outside the Australian Unity Group.

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. An actuary by profession, Mr Ferres worked with the National Mutual Group for 34 years, including as executive manager of all worldwide investment, property, unit trust, and banking and finance operations from 1975 to 1988 (which was at that time the second largest investment group in Australia), and as an executive director from 1983 to 1990. Mr Ferres is currently a consultant with TressCox Lawyers, chairman of Treasury Corporation of Victoria, and a director of Committee for the Economic Development of Australia, St Vincent's Hospital Melbourne and several other organisations. He was previously president of Monash Medical Centre. Over the past 40 years he has served as chair, director or member of almost 50 private and public sector boards.

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 director ships 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.

Rohan Mead
Group Managing Director
Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. Up until that time, Mr Mead held the position of Group Managing Director (Designate), from December 2003. Mr Mead is also a director of the Australian Health Insurance Association (the peak representative body for the health insurance industry) and of the Australian Health Service Alliance (a cooperative hospital contracting and data management company formed by 24 health insurance funds). He is chair of Platypus Asset Management, deputy chair of Acorn Capital and 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 as head of marketing and communications.

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, at which time he was the chairman of Grand United. Other directorships include a number of Australian Unity Limited subsidiaries. Mr French has also served as a director of other mutual and charitable organisations. He is currently (since 1984) the Grand Secretary of the Grand United Order of Oddfellows.

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

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 chairman of Mercer Investment Nominees Limited. Other director ships include Pillar Australia, Booking.com Limited and a number of Australian Unity Limited subsidiaries. Ms Crestani is a professional director who is qualified in law and management, and is a member of the ASX Disciplinary Tribunal and chairman of several compliance committees. 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.

Stephen Maitland
OAM, RFD, B Ec, M Bus (App Fin), 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, the Royal Automobile Club of Queensland Limited, and a number of Australian Unity Limited subsidiaries and 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 35 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.

Executive Team

Rohan Mead

Sharon Beaumont

David Bryant

Anthony Connon

Verran Fehlberg

Amanda Hagan

Kimina Lyall

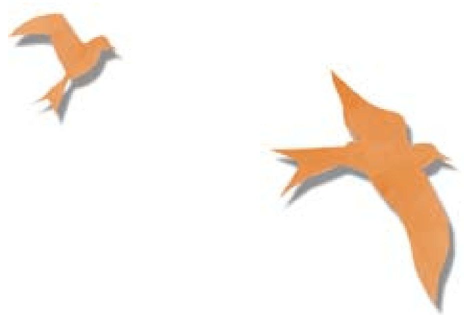
Derek McMillan

Travers Stow

Rohan Mead
Group Managing Director
Biography on page 31.

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 a non-executive director of Calliden Group Limited, the Honorary Treasurer of the Australian Friendly Societies Association and is the Chairman of the Lord Mayor's Charitable Foundation.

Kimina Lyall
Group Executive – Corporate Development
Ms Lyall joined Australian Unity in 2007 and was appointed Group Executive – Corporate Development in August 2008. In this role she is responsible for business innovation and development, corporate communications, member relations and the development of the corporate brand. Ms Lyall 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. Prior to joining Australian Unity Ms Lyall worked as a journalist for 15 years. She worked for Time Australia and The Australian newspaper, where she held senior reporting, foreign correspondent and management positions.



Sharon Beaumont
BSc (physiotherapy), Grad Dip OHS, MBA
Group Executive – Human Resources
Ms Beaumont joined Australian Unity in 2007. 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 Beaumont has over 10 years experience in risk management, organisation development and human resource management. Before joining Australian Unity, Ms Beaumont worked in various human resources, organisational development and safety roles at ColesMyer and BHP and prior to that worked as a physiotherapist in government and private organisations.

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, Freehills and Minter Ellison.

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 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.

David Bryant
GAICD
Group Executive – Investments & Chief Investment Officer
Mr Bryant joined Australian Unity in 2004. As Group Executive – Investments & Chief Investment Officer, he is responsible for all of the investment management activities across Australian Unity's financial and property assets. He is also a director of a number of Australian Unity subsidiaries including Australian Unity Funds Management Limited, Australian Unity Property Limited and Australian Unity Finance Limited. Mr Bryant is a member of the Investment and Financial Services Association Investment Board Committee, and has 25 years experience in investment and financial services with high profile organisations such as Westpac, State Street and Intech. Before joining Australian Unity, Mr Bryant was chief operating officer – personal financial services at Perpetual Trustees Australia Limited.

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

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

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

1898
Leading ANA Victoria member Alfred Deakin delivers a rousing dinner address which is 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.

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, allied health, dental and wellness programs.

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.

Governance Statement

Australian Unity Limited is a public company with a number of wholly-owned and closely-held subsidiaries carrying out the major operational business activities of the Australian Unity Group. Australian Unity Limited is not a listed shareholding company; it is a mutual company comprising some 190,000 members.

Our Approach to Corporate Governance

ASX Listing Rules

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.

Our Regulators

Australian Unity's business operations are extensively regulated by PHIAC (health), APRA (friendly society benefit funds and life insurance) 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.

Australian Unity Limited Board of Director's

Board Composition & Expertise

As at 30 June 2008, there were eight directors on the Australian Unity Limited board, each with specific expertise and experience relevant to the Group's activities. The board is comprised of a majority of directors who are non-executive and judged by the board to be independent and free of material relationships that might influence their ability to act in the interests of the company and its members.

The personal qualities required of our directors are: honesty and integrity, strategic insight, capacity to relevantly question, probe and challenge and a commitment to both the values of the Group and the highest standards of corporate governance.

Each director must also possess particular skills or experience relevant to the business operations of the Group. These may include specific skills, knowledge and experience in insurance, healthcare, retirement living services, investment management and/or financial services, as well as general skills, knowledge and experience in management, legal, financial, accounting, actuarial, regulatory, human resources, marketing and commercial disciplines.

Board Role and Responsibilities

The role of the Australian Unity Limited board is to promote and protect the interests of the Company and its members. It does so by strategically directing and soundly governing the Group's activities and by seeking the highest standards of ethical conduct and service from employees.

The roles and responsibilities of the board are formalised in the board charter. Some of the key matters the board has reserved for itself include:

- Appointment and terms of appointment of the Group Managing Director;
- Approval of Group and business unit strategies;
- Approval of Group and business unit annual operating plans, including capital and operating budgets and the overall salaries and benefits budget;
- Approval of delegated authorities;
- Approval of financial expenditures and allocations and changes to the Group's capital structure above the Group Managing Director's delegated limits;
- Approval and adoption of annual group accounts;
- Approval of new subsidiaries and subsidiary board members;
- Approval of Group policies;
- Approval of matters reserved to the board committees by their terms of reference; and
- Approval of any other matters that, in the opinion of the board, are necessary from time to time to maintain a high standard of corporate governance.

The objective of Australian Unity Limited is to provide high-trust services and products to members and customers in three core areas of healthcare, retirement living and financial services.

As at 30 June 2008, there were eight directors on the parent board, each with specific expertise and experience relevant to the Group's activities.

Role of Chairman

The board annually elects the Chairman after the Annual General Meeting. The Chairman must be an independent non-executive director.

The Chairman is responsible for the efficient conduct of the board's meetings, setting the agenda, facilitating the work of the board at its meetings and ensuring that the procedures and standards of the board are observed.

Meetings of the Board

The Australian Unity Limited board has up to 10 scheduled meetings each year, each usually scheduled over two days and where necessary will meet between scheduled meetings to deal with matters as and when appropriate. Once a year the board meets to develop the strategic plan and its application to the year ahead.

Avoidance of Conflicts of Interests

In addition to their standing notices, directors must declare any specific conflicts of interest arising from the business of a particular meeting.

Review of Board Performance

The board regularly conducts performance assessments of the board as a whole, its committees, the Chairman, individual directors and its governance process. The board, led by the Chairman, reviews the skills represented by the directors on the board from time to time to ensure that the mix of skills remains appropriate to achieve Australian Unity Limited's objectives.

Succession Planning

The board periodically considers and identifies suitable candidates for board appointment as successors to current directors or to supplement and renew the skills and experience of the board. The board is responsible for the Group Managing Director's succession planning.

Retirement & Re-election of Directors

Directors (other than the Group Managing Director) serve for a term of three years from the conclusion of the Annual General Meeting at which they are elected. Directors are subject to retirement in rotation. At each Annual General Meeting one third of the directors, or if their number is not three or a multiple of three, then the number nearest to one third must retire. No director shall retain office past the third Annual General Meeting following the director's appointment or three years, whichever is the longest, although they may offer themselves for re-election at that time.

Committees

The board has established committees that are necessary to assist it in monitoring, and where relevant advising, the management of the Group and maintaining appropriate standards. Each committee is composed of the individual directors determined by the board to be best suited to fulfil the committee's terms of reference. The Chairman of Australian Unity is either a member or an ex-officio member of, or is invited to attend, each committee.

Each committee is chaired by a non-executive director appointed by the board. The Chairman of each committee provides regular reports to the board about the activities of the committee. The minutes of the committee are tabled at the following board meeting. The Chairman reviews the composition of the board's committees annually, taking into account the skills and interests of directors.

The current committees established by the board to assist it in the performance of its duties are:

Audit & Compliance Committee

The audit & compliance committee (A&C committee) approves the annual audit plan and monitors the Group audit department's performance against this plan. The main objective of the A&C committee is to oversee the credibility and objectivity of financial reporting and the compliance with Group obligations.

The primary audit related goal of the A&C committee is to assist the board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices of the Group. Other goals are:

- To oversee and appraise the quality of the audits conducted by both the Group's internal and external auditors;
- To determine the adequacy of the Group's controls and evaluate adherence;
- To ascertain the adequacy of management financial reports;
- To serve as an independent and objective party to review the financial information presented to members, regulators and the general public; and
- To maintain open lines of communication with the external auditor.

The A&C committee consists of three non-executive directors. Others invited to attend meetings include the Chairman of Australian Unity Limited, the Group Managing Director, Chief Financial Officer, Group Financial Controller, General Counsel, Head of Risk & Compliance, General Manager Group Audit and our external audit and actuarial partners.

Risk Committee

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.

Investment Committee

The investment committee reviews and monitors the performance of Australian Unity Investments and any investment managers utilised by it. It also approves the investment policies, strategies and other guidelines for the Group's own investable assets. The investment committee plays a critical role in assessing and reviewing our investment approach and outlook to support their appropriateness and our compliance with relevant covenants.

Marketing Committee

The marketing committee's role is to review the strategic direction of the Group's overall marketing activities, review the annual marketing plans of the business units and the progress against these plans and assist management in the identification and resolution of key business risks relating to the Group's overall marketing strategies.

Human Resource, Remuneration & Nominations Committee

The human resources, remuneration and nominations committee (HR committee) is responsible for evaluating the performance of the Group Managing Director and monitoring the performance of Group Executives (who generally also serve as executive directors of subsidiary boards). The HR committee also recommends the remuneration of the Group Managing Director to the full board and also reviews and recommends 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 considerations on reward structures are based on business performance, external competitiveness, compliance with legal obligations, and high standards of corporate governance.

Apart from the Group Managing Director, 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 Group Managing Director and Group Executives, is therefore determined within the remuneration policy developed by the HR committee and approved by the board.

The board, led by the Chairman, reviews the skills represented by the directors on the board from time to time to ensure that the mix of skills remains appropriate to achieve Australian Unity Limited's objectives.

Remuneration

The total aggregate remuneration paid by the company to non-executive directors as fees for their services cannot exceed the maximum approved at its annual general meeting.

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

Non-Executive Director Remuneration Policy

Non-executive directors remuneration will generally comprise a base annual fee and a substantial involvement fee, based on the chairmanship of board committees and subsidiary boards and participation on subsidiary boards and board committees.

When reviewing non-executive directors' fees, the board may seek the advice of independent remuneration consultants to ensure market alignment. The board also aims to achieve parity between directors.

Executive Remuneration Principles

Australian Unity's executive remuneration policy sets the framework for rewarding Australian Unity's Group Managing Director and Group Executives.

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 recognise adherence to cultural values and ethical behaviour.

Executive Remuneration Structure

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 Group Managing Director, approves plans and outcomes for Group Executives. The HR committee is also responsible for approving any significant remuneration arrangements outside of general policy guidelines.

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 (TEC) approach is used which is the total salary package value and includes:

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

The Group Managing Director receives a long term incentive based on a framework developed by the board and reviewed annually. The framework results in part payment of granted entitlements over multi-year periods. The terms of these arrangements allow for review of future payments against the criteria established at the time of grant.

In order to receive full bonus potential, an individual executive must perform against their financial, strategic development, operational management and compliance objectives. As the performance outcome for executives includes a weighting on financial achievement, the cost to the Company of overall incentive payments is linked to the financial performance of the Group.

Audit, Risk & Compliance

External Auditor

Ernst & Young has been appointed to conduct an audit of the financial report and to report to members in accordance with the requirements set out in the *Corporations Act 2001*. Their audit report is provided at the end of this Report.

A representative from Ernst & Young attends the Annual General Meeting and is available to answer questions from members on the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted in the preparation of the financial statements and Ernst & Young's independence in relation to the conduct of the audit of the Group's financial statements.

Internal Audit

The Group's audit department aims to provide independent, objective assurance and consulting services designed to add integrity and value to improve the Group's operations. By bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes, it can help the Group accomplish its objectives.

The Group audit team assesses whether the Group's network of risk management, control, and governance processes is adequate and functioning in a manner that supports various aims including: the appropriate identification, reporting and management of risks; the accuracy, reliability and relevance of financial, managerial and operating information and that employees actions are in compliance with policies, standards, procedures and applicable laws and regulations.

Risk Management

Our risk management framework is periodically revised to facilitate a continued proactive and consistent approach to risk management across all areas of activity. During 2008 we successfully commissioned our new disaster recovery facility at Clayton in Victoria and conducted a staged testing of our business continuity plan.

Compliance

Australian Unity has a Group Compliance Manager and Compliance Officers in specific business units where appropriate. The focus of this function is to ensure ongoing compliance with all laws and regulatory requirements, with particular focus on industry specific requirements. The Group Compliance Manager is also responsible for the administration of the Group training system and the computer-based compliance tracking system.

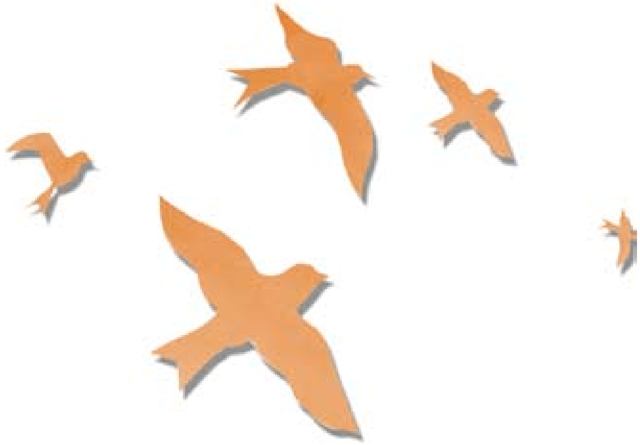
During 2008 we successfully commissioned our new disaster recovery facility and conducted a staged testing of our business continuity plan.

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 26 August 2008.



Data Sources for Industry Statistics

Our changing world (page 4)
- Australian Institute of Health and Welfare, Australia's Health, 2008
- Australian Institute of Health and Welfare, Health Expenditure Australia, 2005-2006
- Australian Institute of Health and Welfare, Older Australians at a Glance, 4th edition

Sustainability (page 12 & 13)
- Australian Bureau of Statistics, Australia's Environment: Issues and Trends, 2007
- Australian Government, Department of Environment, Water, Heritage and the Arts (www.climatechange.gov.au/resources/community)

Our people (page 14 & 15)
- Australian Bureau of Statistics, Australian Social Trends, 2007

Healthcare (page 18 & 19)
- ABS government finance statistics 5512.0 2005-6, Port Jackson Partners' analysis
- Australia's Future 'Fat Bomb', Baker Heart Research Institute, 2008
- Alcohol Education and Rehabilitation Foundation (www.aerf.com.au)

Healthcare (page 20 & 21)
- Australian Health Insurance Association, The Demographics of Private Health Insurance, 2008

Financial services (page 22 & 23)
- Financial Planning Association (www.fpa.asn.au)
- Association of Superannuation Funds of Australia (www.superannuation.asn.au)

Financial services (page 24 & 25)
- Association of Superannuation Funds of Australia (www.superannuation.asn.au)

Retirement living (page 26 & 27)
- Department of Health and Ageing (www.health.gov.au)
- Australian Institute of Health and Welfare (www.aihw.com.au)

Retirement living (page 28 & 29)
- Australian Bureau of Statistics, Retirement and Retirement Intentions, July 2006-June 2008
- Australian Institute of Health and Welfare, Residential Aged Care in Australia, 2006-2007

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 2008.

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
Eve Crestani, Director
Ian Ferres, Director
Warren French, Director
Stephen Maitland, Director
Bruce Siney, Director
Warren Stretton, Director
Murray Campbell, Director (ceased 25 October 2007)

Company Secretary

Verran Fehlberg BEc (Acc), LLB was company secretary of Australian Unity Limited at 30 June 2008.

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, health and life insurance, financial planning, dental services, aged care and retirement living facilities.

Consolidated results

The Group recorded a profit after income tax for the year ended 30 June 2008 of $32,258,000 (2007: $32,104,000).

International Financial Reporting Standards

As a result of the adoption of International Financial Reporting Standards in Australia, the assets, liabilities, revenues and expenses of the Benefit Funds managed by the Group are included in the consolidated financial statements in accordance with Australian Accounting Standard AASB 1038 *Life Insurance Contracts*.

Review of operations

The Group's operations were reshaped during the year by further investment in the growth and development of the continuing operations following the sale of the general insurance business. Despite difficult trading conditions generated by general economic conditions and financial market issues, the Group's development continued successfully, with increased operating earnings attenuated by reduced investment income. The Group launched new products and generated significant funds under management growth in the investments business; further growth in healthcare, including 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 healthcare business continued to maintain a strong underwriting performance in the year ended 30 June 2008. However, investment income declined significantly due to the downturn in the equities market in the second half of the year. This was reflected in a decrease in profit before tax from $50,186,000 in 2007 to $43,960,000 in 2008.

Total revenue for the combined healthcare business, which includes the Australian Unity and Grand United Corporate health insurance businesses and the Australian Unity dental business was $473,694,000 (2007: $456,157,000). The revenue results were influenced on two fronts:

- A significant increase in membership numbers for Grand United Corporate Health ("GU Health"); and
- An increase in Australian Unity health fund contribution rates by an average of 3.84% in April 2007 (once again under the national average of 4.52%).

Total claims payable to members increased to $384,739,000 for the financial year, up from $357,423,000 in the previous year. Importantly, some 87% of medical services consumed by members incurred no out-of-pocket expenses.

The performance of GU Health was one of the highlights for the year. The corporate health fund, which became part of the group following the 2005 merger with Grand United, has a long history of providing specialist and innovative health plans to large businesses.

In the past year, GU Health membership numbers lifted by 18%, making it the fastest growing private health insurance fund in the Australian market. The combined effect of the growth in membership and the successful restructure and integration of the back end processes with Australian Unity health fund operations has reduced the GU Health Management Expenses Ratio ("MER") of its health insurance business (excluding the overseas visitors cover business) to 11.6% (2007: 17.8%).

After including further investment in preventative health programs, which should provide sound returns over the medium to long term, the MER for the Australian Unity health fund improved slightly to 9.9% (2007: 10.1%).

Other highlights for the year include the launch of Hospital Essentials and Wellplan Online.

Hospital Essentials is a new health insurance product which offers a step up from Australian Unity's basic hospital cover.

Wellplan Online is an interactive tool developed by medical professionals to help members manage their health. The program includes an online health risk assessment which questions users on the key factors that influence health and life expectancy and provides guidance on how they could improve their health outlook.

Retirement Living Services

The Group's retirement living services business recorded a profit before tax of $10,581,000 for the year ended 30 June 2008 (2007: $8,910,000).

These results were largely influenced by:

- Further development profits and valuation increments following completion of construction of Constitution Hill in north western Sydney, the Group's largest retirement village;
- Acquisition of new assets; and
- Improvement in operations increasing the value of the retirement village assets

During the year, the business took a major step towards realising its growth plans. After an exhaustive review of many opportunities, the business completed the purchase of four parcels of land for new developments and two existing villages for upgrade and expansion. A further two parcels of land are to be settled when certain conditions are met by the vendor.

Karagi Court, at Bateau Bay on the central coast of New South Wales, was acquired in February 2008. This is a 68 unit retirement village which was previously managed by the Group. The Oaks retirement village in Croydon, Victoria was acquired in October 2007. This is a 20 unit retirement village in close proximity to the Group's existing Walmsley Retirement Village in Kilsyth, Victoria.

Partially developed sites in Vermont South, Victoria and Port Macquarie, NSW were acquired in December 2007 and August 2007 respectively. The Vermont South site consists of a 110 bed aged care facility and eight independent living units, with a further 120 units to be constructed on site. The aged care facility at Vermont South began operation on 30 June 2008. The first residents moved into the Port Macquarie site in October 2007 and on completion, the village will consist of 67 independent living units.

Land for the development of a 242 unit village in Mornington, Victoria and a 200 unit retirement village in Cranbourne, Victoria were acquired in February 2008 and April 2008 respectively. In addition a site for a 180 bed aged care and wellbeing centre adjoining the Mornington retirement village site is due to settle following certain conditions being met by the vendor.

A contract to acquire the first stage development of Lifestyle Manor Bondi in New South Wales was entered into in December 2007. The acquisition will be completed when the retirement village is fully occupied. This 42 unit retirement village opened in May 2007 under the Group's management. A joint venture has also been entered into with the vendors to build a second stage of this development.

A joint venture with property developer Australand was signed in April 2008 to develop a retirement living complex in Bowral, New South Wales. This complex is expected to consist of up to 170 independent living units, a residential aged care facility of up to 153 beds and a wellbeing centre which will provide a range of additional services to the broader community.

The Group is already a major provider of retirement living services, with fifteen retirement villages and four aged care facilities across New South Wales and Victoria. These offer a total of 1,715 independent living units, 451 aged care beds and 53 community care places.

The retirement living services business is now building a portfolio of sufficient size and quality that will see it become a substantial contributor to Group earnings over the medium term. With industry demand expected to accelerate and an established pipeline of villages for development, these growth plans are largely within the Group's control.

In the past year, the business expanded its team of professionals to provide the expertise to manage a substantially higher level of operations and project development.

The business also began a trial of a new respite service as part of the Respite for Carers program sponsored by the Federal Government. The program grants public assistance to private carers in recognition of the load they are taking off the public aged care and hospital systems. Under the trial, the Group has remodelled its facilities at Constitution Hill to create a day care respite centre. Demand for places has been very strong.

The trial has demonstrated the effectiveness of closer relationships between the public and private sector in easing the strain of the ageing population on Australia's aged care and hospital systems. Australian Unity is well placed to play a larger role in this kind of co operative approach, which mirrors many of the attributes of the retirement living integrated service model.

Investments

Affected by extremely volatile financial markets throughout the year, the Group's investments business achieved a profit before tax of $8,063,000 (2007: $7,179,000).

Funds under management increased to $6.5 billion at 30 June 2008, up 14% from $5.7 billion in 2007 – a strong result despite the 15.49% drop in the overall value of the Australian share market, measured by the All Ordinaries Index during the same period.

This strong performance was largely attributable to well considered diversification in the investments business, the spread of investment asset classes and the Group's well regarded investment products.

As a further step in the Group's diversification strategy, a new partnership with Wingate Group was launched in June 2008. This international equities joint venture is the fourth for the investments business, joining Acorn Capital in Australian microcap stocks, Platypus Asset Management in Australian equities and Vianova Asset Management in fixed interest securities.

The combination of well established mortgage and property businesses and this joint venture approach helped the Group's investments business weather the challenging financial market conditions throughout the year.

Platypus' funds under management grew during the year to over $1.6 billion (2007: $1.1 billion). Platypus also remained the best performing Australian equities manager over three, five and seven years as at 30 June 2008, according to Intech Investment Consultants' Australian share manager survey. Due to the volatile share market, the Australian Unity Investments Platypus Australian Equities Trust (Retail) returned -13.81% for the year to 30 June 2008, which was in line with the -13.67% returned by the broader S&P/ASX 300 Accumulation Index.

Acorn Capital ended the year with $929 million in funds under management and the Australian Unity Acorn Microcap Trust returned -18.64% for the year to 30 June 2008, despite the microcap equities benchmark returning -28.32%.

Vianova significantly increased its funds under management to over $1 billion as at 30 June 2008 and continued to achieve strong investment performance in the fixed interest sector. The Australian Unity Investments Vianova Strategic Fixed Interest Trust (Retail) returned 5.70% for the year to 30 June 2008, well above the industry benchmark of 4.42%. As a result, Vianova remains the number one performing fixed interest manager over one and two years as at 30 June 2008 according to Intech Investment Consultants' Australian Fixed Interest Manager survey and the Mercer Australian Core Fixed Interest Survey report.

The total value of the property portfolio lifted 20% during the year to $1.2 billion at 30 June 2008 (2007: $1.0 billion).

Solid growth was achieved by one of the Group's most popular funds, the Australian Unity Healthcare Property Trust, which increased funds under management to $351 million (2007: $319 million).

The Trust remains the largest of its kind in Australia and one of the highest rated funds in its class. The Group anticipates further growth in the coming year as the acquisition and development pipeline for the Trust is strong.

One of the Trust's major initiatives during the year was the acquisition of six hectares of land in the Orange Base Hospital precinct, New South Wales for $7.1 million. This land will be used for an $80 million private hospital development, due to be completed in 2010, and will form a major medical services facility for the western New South Wales region.

The Property Income Fund was also well positioned to take advantage of opportunities in the market and acquired four properties during the year, including a combined warehouse and office building in Arundel, Queensland for $7.1 million and an office building in Brunswick, Victoria for $13 million.

Directors' report

The Fund ended the year with direct investment in nine properties and a total of $159.5 million in funds under management, an increase of 13% from the previous year.

During the year, the Australian Unity Property Syndicates No. 5 and No. 6 reached the end of their seven-year terms. The properties in Syndicate No.5 were purchased for $18.9 million in April 2000 and sold for $38.7 million in December 2007, after adding $7 million in capital improvements. The properties in Syndicate No.6 were sold for $35.8 million after adding $4.5 million in capital improvements to the purchase price of $24.4 million.

Despite the sub prime mortgage crisis, the mortgages business fared well with $1.4 billion in funds under management at 30 June 2008 (2007: $1.3 billion). This was primarily due to the mortgages team lending only against first registered Australian mortgages which means it has no exposure to "low doc" or sub prime style loans and no exposure to offshore US based loans.

During the year, the business concluded a long-term program to build and upgrade its base infrastructure, which included the replacement of its unit registry system and the launch of a new website. As part of the new website, a new secure section for advisers was launched. Advisers can now view their clients' funds under management, individual investor details and account transaction history online. This functionality will be extended to investors in the coming year, allowing them secure access to view information including their account details and transaction history.

The initiatives throughout the year have created a sound platform for continued growth of the diversified portfolio in the years to come.

Personal Financial Services

The financial advisory business continued to invest heavily in growing its adviser network during the year. This contributed to a loss before tax of $8,280,000 (2007: loss of $5,016,000).

This investment is in line with our plans to build this part of our operations organically over a period of some years. The business continues to achieve milestones in its development and despite its current loss, is growing in value as an important element of the Group's broader financial services activities.

The high start-up costs associated with establishing new advisers, who typically take up to two years to produce significant revenue, is expected to impact profitability for the medium term.

However, revenues and funds under advice continued to grow despite a challenging year in financial markets. Revenues more than doubled to $4,869,000 (2007: $2,268,000) and funds under advice grew by 57% to $471 million at 30 June 2008 (2007: $300 million). The finance and risk broking loan book grew to $45,100,000 at 30 June 2008 (2007: $17,800,000).

As at 30 June 2008 the financial advisory business had 47 authorised representatives (up from 30 at 30 June 2007), 10 brokers and referral agreements with 25 accountants in locations throughout New South Wales, Queensland and Victoria.

General Insurance

On 31 July 2007, the Company disposed of its general insurance operations to Calliden Group Limited ("Calliden"), an ASX listed insurance underwriter.

Consideration for the sale amounted to $66,720,000, resulting in recognition in the financial statements of a disposal profit after tax of $15,177,000. Settlement of the sale comprised cash of $48,634,000 and 30,142,850 shares in Calliden Group Limited, representing approximately 13% of the issued share capital of Calliden at 30 June 2008. The market value of the Calliden shares on the acquisition date amounted to $18,086,000.

In line with the fall in equity markets during the second half of the financial year, the Calliden share price has also fallen from the acquisition price. Consequently, a provision has been recognised in the financial statements in order to restate the value of the investment in Calliden to current estimates of its medium-term value.

The share sale deed under which the sale was effected included provision, under certain circumstances, for post-completion adjustments to the sale consideration.

The purchaser contends that there should be a post-completion adjustment in its favour. The Company does not agree and is vigorously defending this position.

Significant changes in the state of affairs

Total Members' funds increased to $301,675,000 at 30 June 2008 (2007: $269,610,000), an increase of $32,065,000 during the financial year. This movement reflects profit for the year, offset by movements in reserves.

As noted above, the Group disposed of its general insurance operations on 31 July 2007.

Matters subsequent to the end of the financial year

On 11 July 2008, the $25,000,000 subordinated capital notes outstanding at 30 June 2008 were repaid and $25,000,000 of new subordinated capital notes were issued. The floating interest rate on the new notes is equal to the 90 day BBSW rate plus a margin of 4.9%. The new notes have a maturity of 11 July 2018, with a non-call period of five years. Given the current level of market interest rates, the board has decided not to hedge the floating rate interest payable on the new notes.

On 30 July 2008, the Group's cash advance facility with Westpac Institutional Bank was increased by $4,500,000 to $94,500,000. This additional $4,500,000 facility is repayable on or before 30 January 2009 and is secured by a mortgage over property owned by a controlled entity. This additional facility has not yet been drawndown.

The board is not aware of any other matter or circumstance arising since 30 June 2008 which has significantly affected or may significantly affect the financial status or results of the Group.

Likely developments and expected results of operations

On 13 May 2008, the Federal government announced proposed changes to the Medicare Levy Surcharge; these changes may have an impact on the Group's health insurance operations.

However, the proposed legislation has been passed to a Senate committee for review and consultation with the electorate. This review process is expected to conclude shortly.

Consequently, in the absence of enacted legislation, the Group is not yet in a position to determine the effect, if any, that the proposals will have on the Group's operations or expected results of operations, though if passed in the form proposed in the 2008 Federal budget, the measures will increase inflationary pressures on health insurance premiums.

The board is not aware of any other developments which may affect the Group'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, other than the Audit and Compliance Committee. He also chairs the Australian Centre for Health Research Limited and is a director (former chair) of the National Ageing Research Institute Inc. Before 1993, his executive career was at BHP where he held a number of senior executive positions. Over the last 15 years he has been a director of over 15 public or private companies outside the Australian Unity Group.

Rohan Mead

Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. Up until this time, Mr Mead held the position of Group Managing Director (Designate), from December 2003. Mr Mead is also a director of the Australian Health Insurance Association (the peak representative body for the health insurance industry) and of the Australian Health Service Alliance (a cooperative hospital contracting and data management company formed by 24 health insurance funds). He is chair of Platypus Asset Management, deputy chair of Acorn Capital and 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 as head of marketing and communications.

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 chairman of Mercer Investment Nominees Limited. Other directorships include Pillar Australia, Booking.com Limited and a number of Australian Unity Limited subsidiaries. Ms Crestani is a professional director who is qualified in law and management, and is a member of the ASX Disciplinary Tribunal and chairman of several compliance committees. 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. An actuary by profession Mr Ferres worked with the National Mutual Group for 34 years, including as executive manager of all worldwide investment, property, unit trust, and banking and finance operations from 1975 to 1988 (which was at that time the second largest investment group in Australia), and as an executive director from 1983 to 1990. Mr Ferres is currently a consultant with TressCox Lawyers, chairman of Treasury Corporation of Victoria, and a director of CEDA, St Vincent's Hospital Melbourne and several other organisations. He was previously president of Monash Medical Centre. Over the past 40 years he has served as chair, director or member of almost 50 private and public sector boards.

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, at which time he was the chairman of Grand United. Other directorships include a number of Australian Unity Limited subsidiaries. Mr French has also served as a director of other mutual and charitable organisations. He is currently (since 1984) the Grand Secretary of the Grand United Order of Oddfellows.

Stephen Maitland

OAM, RFD, B Ec, MBus (App Fin), 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, the Royal Automobile Club of Queensland Limited, and a number of Australian Unity Limited subsidiaries and 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 35 years experience in the banking and finance industries and was chief executive officer of the Queensland Office of Financial Supervision between 1992 and 1999. Mr Maitland is the honorary treasurer of the Surf Life Saving Foundation Inc.

Bruce Siney

FAMI, CPM, MAICD

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

Warren Stretton

FAICD, FCPA, FCIS, FTIA, FAMI

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

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, 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 2008, 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	11	12	–	–	–	–	–	–	–	–	4	4
Rohan Mead	12	12	–	–	4	4	6	6	4	4	4	4
Eve Crestani	12	12	–	–	4	4	–	–	4	4	4	4
Ian Ferres	10	12	7	8	–	–	5	6	–	–	–	–
Warren French	12	12	–	–	4	4	–	–	–	–	–	–
Stephen Maitland	12	12	8	8	3	3	6	6	–	–	–	–
Bruce Siney	11	12	–	–	–	–	–	–	4	4	–	–
Warren Stretton	11	12	7	8	–	–	6	6	–	–	–	–
Murray Campbell	3	4	4	4	1	1	–	–	–	–	2	2

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, other than the Audit and Compliance Committee; Stephen Maitland 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.

Alan Castleman's frequent attendances at board committees in an ex-officio capacity are not reported above.

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

Australian Unity Capital Management Limited	Rohan Mead (Chairman), Alan Castleman, Ian Ferres and Warren Stretton
Australian Unity Finance Limited	Ian Ferres (Chairman), Rohan Mead and Warren Stretton
Australian Unity Funds Management Limited	Alan Castleman (Chairman), Ian Ferres, Stephen Maitland, Rohan Mead, Bruce Siney and Warren Stretton
Australian Unity Investment Bonds Limited	Alan Castleman (Chairman), Ian Ferres, Stephen Maitland, Rohan Mead, Bruce Siney and Warren Stretton
Australian Unity Property Limited	Alan Castleman (Chairman), Ian Ferres, Stephen Maitland, Rohan Mead, Bruce Siney and Warren Stretton

Rohan Mead is also a director of all other entities within the Group.

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 35.

Insurance and indemnification of directors and officers

During the financial year the Group paid a premium for a contract insuring the directors, company secretaries and executive officers of the Group 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 50.

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
26 August 2008

Rohan Mead
Group Managing Director
South Melbourne
26 August 2008

Auditor's independence declaration

ERNST & YOUNG

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

In relation to our audit of the financial report of Australian Unity Limited for the financial year ended 30 June 2008, 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

AJ (Tony) Johnson
Partner
26 August 2008

Income statements

For the year ended 30 June 2008

	Notes	**Consolidated 2008 $'000**	Consolidated 2007 $'000	**Parent 2008 $'000**	Parent 2007 $'000
Revenue from continuing operations	5, 44	**609,107**	602,748	**43,116**	92,849
Expenses, excluding finance costs	6, 44	**(583,051)**	(562,563)	**(29,277)**	(62,066)
Finance costs	6, 44	**(8,917)**	(5,890)	**(11,093)**	(1,508)
Share of net profits of associates	16	**4,853**	2,262	**–**	–
Profit before income tax		**21,992**	36,557	**2,746**	29,275
Income tax (expense)/benefit	7, 44	**(4,763)**	(15,905)	**3,993**	3,110
Profit from continuing operations after income tax		**17,229**	20,652	**6,739**	32,385
Profit from discontinued operations	8	**15,029**	11,452	**25,665**	–
Profit after income tax and discontinued operations		**32,258**	32,104	**32,404**	32,385
Profit attributable to members of Australian Unity Limited	44	**32,258**	32,104	**32,404**	32,385

The above income statements should be read in conjunction with the accompanying notes, specifically the allocation of the consolidated income statement between Members' Funds and Benefit Funds outlined in note 44.

Balance sheets

As at 30 June 2008

	Notes	**Consolidated 2008 $'000**	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
ASSETS					
Current assets					
Cash and cash equivalents	9	**302,953**	236,203	**1,718**	19,026
Trade and other receivables	10	**87,643**	149,893	**72,031**	18,224
Inventories	11	**422**	586	**–**	–
Other financial assets	12	**876**	–	**–**	–
Financial assets at fair value through profit or loss	13	**408,599**	626,343	**1,418**	4,654
Derivative financial instruments	14	**488**	–	**–**	–
Total current assets		**800,981**	1,013,025	**75,167**	41,904
Non-current assets					
Loans and receivables	15	**15,354**	25,399	**–**	–
Investments in associates	16	**34,541**	16,772	**–**	–
Investments in subsidiaries	17	**–**	–	**329,285**	267,215
Other financial assets	18	**229**	952	**186**	191
Property, plant and equipment	19	**90,486**	58,806	**566**	420
Investment properties	20	**345,730**	250,308	**–**	–
Deferred tax assets	21	**27,392**	24,834	**3,204**	4,440
Intangible assets	22	**39,831**	29,742	**–**	–
Derivative financial instruments	14	**–**	2,008	**–**	–
Other non-current assets	23	**1,471**	730	**–**	89
Total non-current assets		**555,034**	409,551	**333,241**	272,355
Total assets		**1,356,015**	1,422,576	**408,408**	314,259
LIABILITIES					
Current liabilities					
Trade and other payables	24	**39,393**	66,939	**25,672**	17,657
Interest bearing liabilities	25	**64,916**	3	**50,780**	6,780
Provisions	26	**60,327**	81,333	**3,100**	2,311
Current tax liabilities	27	**2,368**	16,493	**13,640**	14,267
Other current liabilities	28	**281,044**	323,759	**–**	–
Derivative financial instruments	14	**322**	–	**–**	–
Benefit fund policy liabilities	42	**49,903**	55,336	**–**	–
Total current liabilities		**498,273**	543,863	**93,192**	41,015
Non-current liabilities					
Interest bearing liabilities	29	**87,318**	102,242	**60,000**	50,000
Non-interest bearing liabilities	30	**82**	4,897	**–**	–
Deferred tax liabilities	31	**32,139**	22,213	**92**	192
Provisions	32	**5,670**	29,022	**–**	332
Derivative financial instruments	14	**–**	1,566	**–**	–
Benefit fund policy liabilities	42	**430,858**	449,163	**–**	–
Total non-current liabilities		**556,067**	609,103	**60,092**	50,524
Total liabilities		**1,054,340**	1,152,966	**153,284**	91,539
Net assets		**301,675**	269,610	**255,124**	222,720
Members' funds					
Members' balances		**169,049**	169,048	**168,755**	168,755
Reserves	33(a)	**2,578**	2,772	**–**	–
Retained profits	33(b)	**130,048**	97,790	**86,369**	53,965
Total equity		**301,675**	269,610	**255,124**	222,720

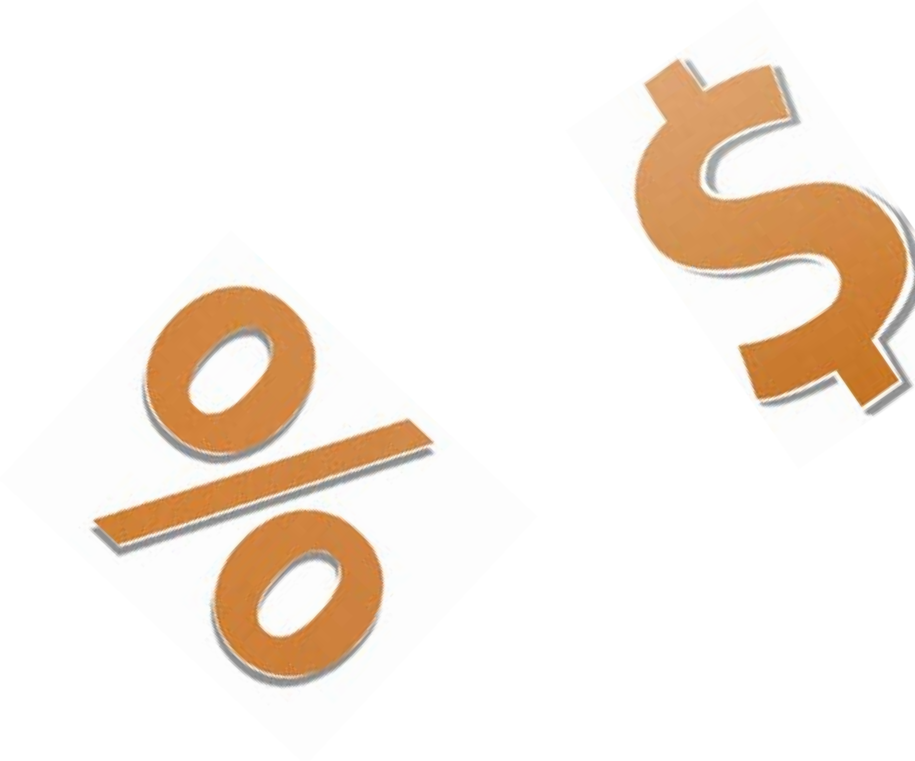
The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity

For the year ended 30 June 2008

	Notes	**Consolidated 2008 $'000**	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Total equity at the beginning of the financial year		**269,610**	237,536	**222,720**	190,335
Hedging reserve – cash flow hedges	33	**(277)**	(43)	**–**	–
Tax effect of cash flow hedge reserve	33	**84**	13	**–**	–
Net income recognised directly in equity		**(193)**	(30)	**–**	–
Profit for the year		**32,258**	32,104	**32,404**	32,385
Total recognised income and expense for the year		**32,065**	32,074	**32,404**	32,385
Total equity at the end of the financial year		**301,675**	269,610	**255,124**	222,720
Total recognised income and expense for the year attributable to members of Australian Unity Limited		**32,065**	32,074	**32,404**	32,385

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 2008

	Notes	**Consolidated 2008 $'000**	Consolidated 2007 $'000	**Parent 2008 $'000**	Parent 2007 $'000
Cash flows from operating activities					
Receipts from customers		**646,926**	682,829	**2,516**	8,418
Payments to suppliers and employees		**(241,711)**	(272,502)	**(5,611)**	(2,679)
		405,215	410,327	**(3,095)**	5,739
Premiums received – Life insurance		**582**	476	**–**	–
Policy claims – Life insurance		**(2,853)**	(1,813)	**–**	–
Life investment contracts – contribution receipts		**26,664**	17,897	**–**	–
Life investment contracts – withdrawals		**(55,121)**	(52,753)	**–**	–
Dividends received		**12,867**	10,870	**29,496**	83,171
Interest received		**5,428**	9,943	**9,622**	4,577
Claims and benefits paid		**(361,086)**	(371,197)	**–**	–
Borrowing costs		**(9,523)**	(6,312)	**(11,093)**	(1,508)
Other revenue		**4,980**	10,304	**2,046**	234
Income taxes paid		**(15,848)**	(18,694)	**(15,845)**	(18,694)
Net cash inflow from operating activities	34	**11,305**	9,048	**11,131**	73,519
Cash flows from investing activities					
Payment for purchase of subsidiaries, net of cash acquired		**–**	–	**(94,815)**	(115,745)
Payments for property, plant and equipment		**(37,081)**	(12,956)	**(2)**	(1,155)
Payments for investments		**(227,951)**	(363,351)	**(949)**	(4,434)
Payments for intangible assets		**(17,809)**	(11,701)	**–**	–
Payments for investment properties		**(85,384)**	(31,088)	**–**	–
Loans to related entities		**(16,735)**	–	**–**	–
Proceeds from sale of business (net)	8	**665**	–	**48,634**	–
Proceeds from sale of property, plant and equipment		**613**	2	**7**	2
Proceeds from sale of investments		**385,654**	384,184	**22,086**	4,104
Proceeds from sale of intangible assets		**14**	–	**–**	–
Net cash inflow/(outflow) from investing activities		**1,986**	(34,910)	**(25,039)**	(117,228)
Cash flows from financing activities					
Net increase/(decrease) in borrowings		**49,989**	21,206	**(3,400)**	42,250
Net increase in refundable lease deposits		**3,470**	30,694	**–**	–
Net cash inflow/(outflow) from financing activities		**53,459**	51,900	**(3,400)**	42,250
Net increase/(decrease) in cash and cash equivalents		**66,750**	26,038	**(17,308)**	**(1,459)**
Cash and cash equivalents at the beginning of the financial year		**236,203**	210,165	**19,026**	20,485
Cash and cash equivalents at the end of the financial year	9	**302,953**	236,203	**1,718**	19,026

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 2008

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 Group consisting of Australian Unity Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, International Financial Reporting Standards and the Corporations Act 2001.

Statement of Compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards.

First time adoption of standard

The Group has applied AASB 7 *Financial Instruments: Disclosures* (issued in October 2007) for the annual reporting period beginning 1 July 2007. This includes applying AASB 7 to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The application of AASB 7 has not resulted in any changes to the financial results or financial position of the Group.

Early adoption of standard

The Group has also elected to apply amendments to AASB 140 *Investment Property* arising from AASB 2008-5 Amendments to Australian Accounting Standards (issued in July 2008) to the annual reporting period beginning 1 July 2007.

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 Australian Accounting Standards 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 3.

Australian Accounting Standards issued but not yet effective

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

AASB	*Title*	*Operative Date*
AASB 123 and AASB 2007-6	Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and interpretations 1 & 12]	1 January 2009
AASB 101 and AASB 2007-8	Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101	1 January 2009
AASB 3	Business Combinations	1 July 2009

The above are not yet effective for the annual reporting period ended 30 June 2008 and have not been applied in preparing the Group's financial statements. Where applicable, the Group will apply the 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.

Notes to the financial statements

For the year ended 30 June 2008

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 2008 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) Investments in 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 identified on acquisition (refer to note 16).

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 Group are not eliminated. Balances outstanding between benefit funds and other entities within the Group are eliminated.

(c) Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received.

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

(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. Other borrowing costs are expensed.

(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 1(p(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 Group'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

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

(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 and hedging activities

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 14. Movements in the hedging reserve in members' equity are shown in note 33.

(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. The gain or loss relating to the ineffective portion is recognised immediately in the income statement and is within other income or other expenses.

(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 and is within other income or other expenses.

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).

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 and are included in other income or other expenses.

(i) Discontinued operations

A discontinued operation is a component of the Group's business representing a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period. Non-current assets classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

(j) 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 Group 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 nominated by employees. 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 Group is required to contribute to the above mentioned plans in accordance with the superannuation guarantee legislation.

(k) Financial guarantee contracts

A financial guarantee contract is a contract requiring the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with terms of the debt instrument. 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) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all conditions attached to the grant.

Notes to the financial statements

For the year ended 30 June 2008

1. Summary of significant accounting policies (continued)

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(n) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(o) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carrying-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

On 1 July 2002, the Company and its wholly owned Australian controlled entities formed a tax consolidation group, as allowed under the tax consolidation legislation.

The Company, as head entity, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Company has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and 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 controlled entities in the tax consolidated 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 arrangement are disclosed at note 7.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when 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; and
- receivables and payables, which 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.

(p) 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, based on value in-use calculations, 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) Aged care bed licences

Bed licences for aged care facilities are recognised at cost of acquisition. No amortisation has been provided as these licences are perpetual and so the Group considers the useful life of these assets to be indefinite. Intangible assets are reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(iv) 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.

(q) Interests in wholly-owned subsidiaries

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

(r) 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.

(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 10 and 15).

(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. Held-to-maturity investments are measured at amortised cost using the effective interest method.

(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. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

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.

Notes to the financial statements

For the year ended 30 June 2008

1. Summary of significant accounting policies (continued)

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.

(s) 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. For those facilities that are complete or substantially complete, fair value represents 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.

Land held for development purposes is also classified as investment property.

(t) 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.

(u) 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.

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.

(v) 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.

(w) 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 Group 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 42.

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.

(x) 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 Group. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

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

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

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

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

(y) Provisions

Provisions are recognised when the Group has a legal, equitable or constructive obligation to make future sacrifice of economic benefits 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.

(z) 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.

(aa) 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.

Notes to the financial statements

For the year ended 30 June 2008

1. Summary of significant accounting policies (continued)

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.

(ab) 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.

(ac) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Interest income

Interest revenue is recognised using the effective interest method when the Group 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. 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 property development contracts – retirement village developments

Share of development profits is recognised based upon cumulative development sales revenue as a proportion of total expected development sales revenue. On completion of a property development, all previously unrecognised share of development profits is recognised in the income statement.

(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 are 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, 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.

(ad) Risk equalisation trust fund

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.

(ae) Rounding of amounts

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

(af) Trade and other payables

Trade and other payables, which are generally settled on 30-90 day terms and are unsecured, 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.

(ag) Trade and other receivables

Trade and other 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.

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

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

(ah) 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.

Notes to the financial statements

For the year ended 30 June 2008

2. Financial risk management

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The board has established the Risk Committee, which is responsible for developing and monitoring risk management policies.

The Risk Committee reviews the adequacy of the risk management framework in relation to the risks faced by the Group and the parent entity and reports regularly to the board on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group and the parent entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's and the parent entity's activities. The Group and the parent entity, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In addition, the board has established the Investment Committee to oversee the particular activities and risks associated with the Group's investment responsibilities.

The Group Audit and Compliance Committee oversees how management monitors compliance with the Group and the parent entity risk management policies and procedures. The Group Audit and Compliance Committee is assisted in its role by Internal Audit, Group Compliance and Group Finance. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, Group Compliance oversees compliance with controls and procedures and Group Finance measures the quantitative aspects of the controls. The results of these reviews are reported to the Group Audit and Compliance Committee and the board.

The Group and the parent entity hold the following financial instruments:

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2008 $'000*
Financial assets				
Cash and cash equivalents	**302,953**	236,203	**1,718**	19,026
Trade and other receivables	**87,643**	149,893	**72,031**	18,224
Financial assets at fair value through profit or loss	**408,599**	626,343	**1,418**	4,654
Derivative financial instruments	**488**	2,008	**–**	–
Loans and receivables	**15,354**	25,399	**–**	–
Other financial assets	**1,105**	952	**186**	191
	816,142	1,040,798	**75,353**	42,095
Financial liabilities				
Trade and other payables	**39,393**	66,939	**25,672**	17,657
Borrowings	**152,316**	102,245	**110,780**	56,780
Derivative financial instruments	**322**	1,566	**–**	–
Refundable lease deposits	**32,606**	30,366	**–**	–
Resident loans	**166,334**	151,255	**–**	–
Other financial liabilities	**2,368**	16,493	**13,640**	14,267
	393,339	368,864	**150,092**	88,704

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of an overseas financial instrument will fluctuate as a result of movements in international exchange rates. The Group and the parent entity do not operate internationally and are not directly exposed to any material foreign exchange risk, there are however small exposures through various International Share Fund Trust Investments which are also immaterial.

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument may fluctuate because of changes in market prices. The Group and the parent entity are exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as fair value through profit or loss. Neither the Group nor the parent entity are directly exposed to commodity price risk.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with investment policy overseen by the Investment Committee, the objective of which is to manage risk within acceptable limits.

The majority of the Group's and the parent entity's equity investments are held via investments in trusts managed by related entities. The equity investments held by these trusts are publicly traded and are included within market indices such as the Standard & Poor's ASX 200 Index.

The tables below summarise the possible impact of increases / decreases of the index on the Group's and the parent entity's post tax profit for the year and on equity. The analysis is based on the assumption that the equity index had increased/decreased by 10% at balance date (2007: 5%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index.

	Impact on post tax profit		*Impact on equity*	
Group	***2008***	*2007*	***2008***	*2007*
Index	***$'000***	*$'000*	***$'000***	*$'000*
ASX 200	**4,393**	2,125	**4,393**	2,125
Parent entity				
Index				
ASX 200	**23**	145	**23**	145

The price risk for unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. It has therefore not been included in the sensitivity analysis.

The assumptions used in the sensitivity analysis are based on an analysis of published economic data.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group analyses variable interest rate exposures on borrowings and will hedge at a fixed rate using interest rate swaps where this is in line with current management view of potential benefit. During the years ended 30 June 2008 and 30 June 2007, the Group's borrowings at variable rate were denominated in Australian Dollars.

As at the reporting date, the Group and parent entity had the following unhedged variable rate borrowings outstanding:

	30 June 2008		*30 June 2007*	
Group	***Weighted average interest rate %***	***Balance $'000***	*Weighted average interest rate %*	*Balance $'000*
Cash advance facility	**8.78**	**90,000**	7.40	50,000
Amounts due to preferential unit holders	**9.38**	**10,000**	–	–
Mortgage loans	**6.50**	**3,234**	6.49	3,234
Net exposure to cash flow interest rate risk		**103,234**		53,234
Parent entity				
Loans payable to controlled entities	**8.74**	**110,780**	7.40	56,780

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the interest bearing positions. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the board and monitored by management.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts; refer to note 14(a).

Notes to the financial statements

For the year ended 30 June 2008

2. Financial risk management (continued)

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Impact on post tax profit		*Impact on equity*	
Judgements of reasonably possible movements:	***2008 $'000***	*2007 $'000*	***2008 $'000***	*2007 $'000*
Group				
+ 0.50% (50 basis points)	**(119)**		**(119)**	
- 0.50% (50 basis points)	**119**		**119**	
+ 0.25% (25 basis points)		(112)		(112)
- 0.25% (25 basis points)		112		112
Parent entity				
+ 0.50% (50 basis points)	**(131)**		**(131)**	
- 0.50% (50 basis points)	**131**		**131**	
+ 0.25% (25 basis points)		(68)		68
- 0.25% (25 basis points)		68		68

The movements in profit are due to higher/lower interest costs from variable rate debt and higher/lower interest income from cash equivalents and other interest bearing investments.

The assumptions used in the sensitivity analysis are based upon an analysis of published economic data.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk is managed on a group basis to ensure that this risk is minimised. Credit risk arises from derivative financial assets, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, an internal assessment is made in relation to the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by wholesale customers is regularly monitored by line management. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

Trade receivables

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

There is generally no significant concentration of credit risks as the organisation transacts with a large number of individually immaterial debtors. This is further mitigated in relation to health insurance policy debtors where the credit risk will only continue during the grace period as specified by legislation and/or in the policy document, after this period the policy is either paid up or terminated.

In relation to any other individually material debtors, it is the Group's policy that any customers who are likely to have such material balances owing and wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific board approval.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. 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 impairment. 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.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Financing arrangements

The Group and the parent entity had access to the following undrawn borrowing facilities at the reporting date:

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	***Parent 2008 $'000***	*Parent 2007 $'000*
Floating rate – cash advance facility				
Expiring beyond one year	–	10,000	–	10,000

The cash advance facility is a revolving facility of up to $60,000,000 (2007: $60,000,000) for a term of 3 years ending 14 June 2010 and an additional $30,000,000 facility (2007: $nil) for a term of 12 months ending 28 March 2009. Interest on the facility is charged at a rate equal to the relevant BBSY interest rate plus a margin of 0.7% and 0.85% respectively. Repayment of amounts drawn down under this facility are guaranteed by certain controlled entities within the Group.

Maturities of financial liabilities

The tables below analyse the Group's and the parent entity's financial liabilities and net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date.

Group – At 30 June 2008	***Less than 6 months $'000***	***6 – 12 months $'000***	***Between 1 & 2 years $'000***	***Between 2 & 5 years $'000***	***Over 5 years $'000***	***Carrying Amount $'000***
Non-derivatives						
Non-interest bearing	**240,783**	**–**	**–**	**–**	**–**	**240,783**
Variable rate	**25,000**	**30,000**	**63,234**	**–**	**10,000**	**128,234**
Fixed rate	**9,916**	**–**	**–**	**14,084**	**–**	**24,000**
Total non-derivatives	**275,699**	**30,000**	**63,234**	**14,084**	**10,000**	**393,017**
Derivatives						
Gross settled (interest rate swaps)						
– (inflow)	**(488)**	**–**	**–**	**–**	**–**	**(488)**
– outflow	**322**	**–**	**–**	**–**	**–**	**322**
Total derivatives	**(166)**	**–**	**–**	**–**	**–**	**(166)**

Group – At 30 June 2007	*Less than 6 months $'000*	*6 – 12 months $'000*	*Between 1 & 2 years $'000*	*Between 2 & 5 years $'000*	*Over 5 years $'000*	*Carrying Amount $'000*
Non-derivatives						
Non-interest bearing	265,053	–	–	–	–	265,053
Variable rate	–	–	25,000	53,234	–	78,234
Fixed rate	–	3	9,924	5,094	8,990	24,011
Total non-derivatives	265,053	3	34,924	58,328	8,990	367,298
Derivatives						
Gross settled (interest rate swaps)						
– (inflow)	–	–	(2,008)	–	–	(2,008)
– outflow	–	–	1,566	–	–	1,566
Total derivatives	–	–	(442)	–	–	(442)

Notes to the financial statements

For the year ended 30 June 2008

2. Financial risk management (continued)

Parent entity – At 30 June 2008	Less than 6 months $'000	6 – 12 months $'000	Between 1 & 2 years $'000	Between 2 & 5 years $'000	Over 5 years $'000	Carrying Amount $'000
Non-derivatives						
Non-interest bearing	**39,312**	**–**	**–**	**–**	**–**	**39,312**
Variable rate	**20,780**	**30,000**	**60,000**	**–**	**–**	**110,780**
Total non-derivatives	**60,092**	**30,000**	**60,000**	**–**	**–**	**150,092**

Parent entity – At 30 June 2007	Less than 6 months $'000	6 – 12 months $'000	Between 1 & 2 years $'000	Between 2 & 5 years $'000	Over 5 years $'000	Carrying Amount $'000
Non-derivatives						
Non-interest bearing	31,924	–	–	–	–	31,924
Variable rate	6,780	–	50,000	–	–	56,780
Total non-derivatives	38,704	–	50,000	–	–	88,704

(d) Fair value estimation

The fair value of financial assets and financial liabilities is required to be estimated for recognition and measurement or for disclosure purposes by asset class, therefore information relating to the estimation of fair values is provided in the relevant note to the accounts.

Generally fair value estimation is made based upon:

- The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.
- Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.
- The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.
- The carrying value less impairment provision of all other financial assets and liabilities on the balance sheets including trade receivables and payables are assumed to approximate their fair values due to their short term nature. 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.

(e) Capital risk management

Capital is represented by members' funds and comprises earnings retained in relation to past activities of Australian Unity Limited. It is the board's policy to maintain a strong capital base so as to maintain member, stakeholder, creditor and market confidence and to sustain future development of the business.

Capital management plays a central role in managing risk to create member value whilst also ensuring that the interests of all stakeholders including investors, policyholders, lenders and regulators are met.

Capital finances growth, capital expenditure and business plans and also provides support if adverse outcomes arise from the Group's activities.

The appropriate level of capital is determined by the board based on both regulatory and economic considerations.

Legislation requires a number of the controlled entities to maintain certain levels of capital, the specific details of which are discussed in the relevant individual controlled entities financial statements. Throughout the year ended 30 June 2008 and currently, these controlled entities have maintained capital in excess of prudential requirements at all times. For entities not subject to specific legislation, capital risk management is determined in conjunction with the above mentioned considerations and the economic and operational and capital needs of the business.

There were no changes in the Group's approach to capital management during the year.

3. 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(p). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions.

(ii) Insurance liabilities

The estimates, uncertainties and judgements arising as a result of the Group's health and life insurance operations are detailed in notes 41 and 42.

(iii) Long service leave provision

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 projected inflation have been taken into account.

(iv) 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.

(v) 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 Group'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*.

(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.

Notes to the financial statements

For the year ended 30 June 2008

4. Segment information

2008	*Corporate Functions $'000*	*Investments $'000*
Revenue		
External revenue	5,083	50,007
Inter-segment revenue	60,282	12,999
Total segment revenue	65,365	63,006
Share of net profits of associates	787	4,040
Segment result before income tax	(1,382)	8,063
Income tax (expense) / benefit	2,109	(1,306)
Segment result after income tax	727	6,757
Segment assets	618,209	114,133
Segment liabilities	271,089	64,736

2007		
Revenue		
External revenue	7,144	47,579
Inter-segment revenue	102,096	11,804
Total segment revenue	109,240	59,383
Share of net profits of associates	23	2,239
Segment result before income tax	12,622	7,179
Income tax (expense) / benefit	10,527	(532)
Segment result after income tax	23,149	6,647
Segment assets	447,867	85,736
Segment liabilities	160,803	42,489

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.
Personal Financial Services	Provision of financial planning and finance broking services.
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.
Discontinued Operations	General insurance (underwriting and agency), principally home and contents, commercial and public liability insurance.

All of the above segments operate solely in Australia.

[1] 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.

[2] Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures.

	Healthcare $'000	Personal Financial Services $'000	Retirement Living $'000	Benefit Funds $'000[1]	Inter-Segment $'000	Total Continuing Operations $'000	Discontinued Operations $'000	Consolidated $'000
	472,213	4,869	50,085	26,850	–	**609,107**	7,651	**616,758**
	1,481	–	1,923	–	(76,685)	**–**	–	**–**
	473,694	4,869	52,008	26,850	(76,685)	**609,107**	7,651	**616,758**
	–	–	–	–	–	**4,827**	103	**4,930**
	43,960	(8,280)	10,581	2,140	(33,090)	**21,992**	19,239	**41,231**
	(14,405)	2,459	(4,125)	(2,140)	12,645	**(4,763)**	(4,210)	**(8,973)**
	29,555	(5,821)	6,456	–	(20,445)	**17,229**	15,029	**32,258**
	264,438	2,176	474,195	487,275	(604,411)	**1,356,015**	–	**1,356,015**
	166,488	198	346,652	487,275	(282,098)	**1,054,340**	–	**1,054,340**
	453,629	2,268	42,440	49,688	–	**602,748**	80,870	**683,618**
	2,528	–	1,113	–	(117,541)	**–**	–	**–**
	456,157	2,268	43,553	49,688	(117,541)	**602,748**	80,870	**683,618**
	–	–	–	–	–	**2,262**	414	**2,676**
	50,186	(5,016)	8,910	8,151	(45,475)	**36,557**	13,897	**50,454**
	(15,361)	1,497	(3,262)	(8,151)	(623)	**(15,905)**	(2,445)	**(18,350)**
	34,825	(3,519)	5,648	–	(46,098)	**20,652**	11,452	**32,104**
	247,522	1,420	330,854	512,453	(399,100)	**1,226,752**	195,824	**1,422,576**
	163,933	521	262,199	512,453	(133,600)	**1,008,798**	144,168	**1,152,966**

Notes to the financial statements

For the year ended 30 June 2008

5. Revenue from continuing operations

	Consolidated 2008 $'000	Consolidated 2007 $'000	**Parent 2008 $'000**	Parent 2007 $'000
Contributions and premiums (note 41)	**454,419**	424,816	**–**	–
Commission received	**4,534**	2,451	**–**	–
Management fees	**48,650**	45,529	**–**	107
Retirement village fees and subsidies	**35,358**	31,127	**–**	–
Profit from property development contracts	**2,033**	2,590	**–**	–
Dental and optical sales	**8,217**	7,589	**–**	–
Property	**2,762**	2,987	**–**	7
Interest income received from wholly owned entities	**–**	–	**8,873**	1,770
Dividends and distributions	**12,000**	13,666	**29,496**	86,254
Other revenue	**6,859**	8,691	**2,367**	3,911
Other net investment gains/(losses)	**(2,613)**	8,091	**2,380**	800
Revenue from benefit funds (note 42)	**26,850**	49,688	**–**	–
Fair value gains on investment property	**10,038**	5,523	**–**	–
	609,107	602,748	**43,116**	92,849

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Notes to the financial statements

For the year ended 30 June 2008

6. Expenses

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	***Parent 2008 $'000***	*Parent 2007 $'000*
Expenses, excluding finance costs, included in the income statement classified by nature:				
Raw materials and consumables used	**(81)**	(57)	**–**	–
Employee benefits expense	**(99,473)**	(93,711)	**(1,245)**	(2,978)
Depreciation and amortisation expense	**(8,102)**	(9,189)	**(458)**	(1,154)
Impairment expense	**–**	(3,031)	**–**	–
Fund manager fees	**(8,170)**	(7,189)	**–**	(3)
Commission	**(11,504)**	(10,255)	**(48)**	–
Claims expense	**(383,376)**	(356,026)	**–**	–
Advertising costs	**(15,101)**	(19,219)	**(3,910)**	(6,990)
Occupancy costs	**(7,660)**	(6,887)	**(608)**	(430)
Communication costs	**(4,476)**	(4,667)	**(15)**	(51)
Net loss on disposal of assets	**(354)**	(313)	**(381)**	(349)
Shared service costs	**–**	–	**(17,585)**	(7,314)
Shared service recoveries from discontinued operations	**200**	2,285	**–**	–
Bank charges	**(3,461)**	(2,682)	**(46)**	–
Computer and equipment costs	**(5,947)**	(5,631)	**(7)**	–
Legal and professional fees	**(11,914)**	(10,137)	**(4,205)**	(1,545)
Reinsurance recoveries	**25,587**	20,566	**–**	–
Financial and insurance costs	**(1,188)**	(1,308)	**(11)**	(1)
Other direct expenses	**(10,936)**	(6,280)	**–**	–
Write down of carrying value of subsidiaries	**–**	–	**–**	(40,731)
Impairment of investment in associate	**(3,600)**	–	**–**	–
Other expenses	**(8,785)**	(7,295)	**(758)**	(520)
Expenses in relation to benefit funds (note 42)	**(24,710)**	(41,537)	**–**	–
	(583,051)	(562,563)	**(29,277)**	(62,066)
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	**901**	848	**–**	–
Plant and equipment	**1,622**	1,560	**172**	–
Leasehold improvements	**2,392**	1,840	**62**	–
Depreciation recharge from related entity	**–**	–	**217**	–
Depreciation recharge attributable to discontinued operations	**(32)**	(559)	**–**	–
Total depreciation	**4,883**	3,689	**451**	–
Amortisation				
Intangibles	**71**	2,281	**–**	–
Software	**3,148**	3,219	**7**	1,154
Total amortisation	**3,219**	5,500	**7**	1,154
Finance costs				
Interest and finance charges paid/payable	**8,917**	5,890	**11,093**	1,508

7. Income tax expense/(benefit)

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
(a) Income tax expense/(benefit)				
Current tax	**2,622**	15,625	**1,573**	2,096
Current tax – benefit funds	**6,036**	5,368	**–**	–
Deferred tax	**12,142**	(291)	**2,525**	(6,131)
Deferred tax – benefit funds	**(4,637)**	2,032	**–**	–
Adjustments for current tax of prior periods	**(7,906)**	(5,244)	**(3,398)**	925
Adjustments for current tax of prior periods – benefit funds	**716**	860	**–**	–
	8,973	18,350	**700**	(3,110)
Income tax expense / (benefit) is attributable to:				
Profit / (loss) from continuing operations	**4,763**	15,905	**(3,993)**	(3,110)
Profit / (loss) from discontinued operations	**4,210**	2,445	**4,693**	–
Total income tax expense / (benefit)	**8,973**	18,350	**700**	(3,110)
Deferred income tax expense / (benefit) included in income tax expense comprises:				
Decrease / (increase) in deferred tax assets (note 21)	**(3,867)**	(9,052)	**1,236**	(3,295)
(Decrease) / increase in deferred tax liabilities (note 31)	**11,372**	10,793	**(100)**	(2,836)
	7,505	1,741	**1,136**	(6,131)
(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable				
Profit from continuing operations before income tax expense	**21,992**	36,557	**2,746**	29,275
Add: profit from discontinued operations before income tax	**19,240**	13,897	**30,358**	–
Less: profit in benefit funds	**(2,140)**	(8,151)	**–**	–
	39,092	42,303	**33,104**	29,275
Tax at 30% (2007 – 30%)	**11,728**	12,691	**9,931**	8,783
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-assessable dividends / income	**(4,864)**	(2,767)	**(7,841)**	(13,848)
Other assessable amounts	**3,937**	5,428	**3,426**	4,509
Non-deductible expenditure	**879**	1,686	**57**	1
Other deductible expenditure	**(106)**	(101)	**–**	–
Other deferred tax adjustment	**(3,164)**	(3,690)	**(1,776)**	(17)
Tax in benefit funds	**2,140**	8,151	**–**	–
Tax offsets / credits	**(1,200)**	1,392	**(6)**	(5)
Under / (over) provision in prior years	**(377)**	(4,440)	**(3,091)**	(2,532)
Total income tax expense	**8,973**	18,350	**700**	(3,110)
(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 31)	**83**	(13)	**–**	–

Notes to the financial statements

For the year ended 30 June 2008

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

(d) Tax consolidation legislation

The Company and its wholly owned Australian controlled entities have formed a tax consolidated group with effect from 1 July 2002. Australian Unity Limited is the head entity of the tax consolidated group. The accounting policy in relation to this legislation is set out in note 1(o).

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. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

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.

8. Discontinued operation

(a) Discontinued operation

On 31 July 2007, the Group disposed 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 insurance underwriter.

As part of the disposal of the general insurance operations, Calliden Group Limited acquired 100% of the issued share capital of both AUGIL and MoA.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(b) Financial performance and cash flow information

The 2008 financial performance and cash flow information presented are for the month ended 31 July 2007.

Details of the divestment of the general insurance operations are as follows:

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	***Parent 2008 $'000***	*Parent 2007 $'000*
Revenue	**7,754**	81,284	**–**	–
Expenses	**(8,385)**	(67,387)	**–**	–
(Loss)/profit before income tax	**(631)**	13,897	**–**	–
Income tax (expense)/benefit	**483**	(2,445)	**–**	–
Profit after income tax of discontinued operations	**(148)**	11,452	**–**	–
Gain on sale of the division before income tax	**19,870**	–	**30,358**	–
Income tax expense	**(4,693)**	–	**(4,693)**	–
Gain on sale of the division after income tax	**15,177**	–	**25,665**	–
Profit from discontinued operations	**15,029**	11,452	**25,665**	–
Net cash inflow from operating activities	**1,627**	24,696	**–**	–
Net cash outflow from investing activities	**(1,012)**	(14,598)	**–**	–
Net increase in cash generated by the division	**615**	10,098	**–**	–

8. Discontinued operation (continued)

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at 31 July 2007 and 30 June 2007 were:

	Consolidated 31 July 2007 $'000	Consolidated 30 June 2007 $'000	Parent 31 July 2007 $'000	Parent 30 June 2007 $'000
Cash and cash equivalents	47,969	55,778	–	–
Trade and other receivables	91,900	86,628	–	–
Other financial assets at fair value through profit or loss	30,321	28,212	–	–
Non-current receivables	–	6,412	–	–
Investment in subsidiaries	–	–	32,745	32,745
Investment in associates	6,609	6,506	–	–
Deferred tax assets	1,309	1,143	–	–
Intangible assets	4,484	4,483	–	–
Total assets	182,592	189,162	32,745	32,745
Trade and other payables	(14,583)	(15,324)	–	–
Current provisions	(59,612)	(36,834)	–	–
Other current liabilities	(63,504)	(56,255)	–	–
Deferred tax liabilities	(1,363)	(1,563)	–	–
Non-current provisions	(296)	(23,882)	–	–
Other non-current liabilities	–	(3,647)	–	–
Total liabilities	(139,358)	(137,505)	–	–
Net assets	43,234	51,657	32,745	32,745

(d) Details of the sale of the division

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Sale of General Insurance Business				
Consideration received or receivable:				
Cash	48,634	–	48,634	–
Shares in Calliden Group Limited	18,086	–	18,086	–
Total disposal consideration	66,720	–	66,720	–
Net asset value as at 31 July 2007	(43,234)	–	(32,745)	–
Less: Expenses of sale	(3,616)	–	(3,616)	–
Gain on sale before income tax	19,870	–	30,359	–
Income tax expense	(4,693)	–	(4,693)	–
Gain on sale after income tax	15,177	–	25,666	–

The share sale deed, under which the sale of the Group's general insurance operations to Calliden Group Limited ("the purchaser") was effected, included provision, under certain circumstances, for post completion adjustments to the sale consideration.

The purchaser contends that there should be a post completion adjustment in its favour. The Company does not agree and is vigorously defending this position.

Provision has been made in the financial statements for the costs of this defence.

Notes to the financial statements

For the year ended 30 June 2008

8. Discontinued operation (continued)

(e) Net cash inflow

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Consideration received, satisfied in cash	**48,634**	–	**48,634**	–
Cash included in balance sheets of entities sold	**(47,969)**	–	**–**	–
Net cash inflow	**665**	–	**48,634**	–

9. Current assets – Cash and cash equivalents

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Cash at bank and on hand	**16**	17	**–**	–
Bank balances	**10,063**	12,744	**1,696**	2,100
Deposits at call	**292,874**	223,442	**22**	16,926
	302,953	236,203	**1,718**	19,026

(a) Fair value

The carrying amount for cash and cash equivalents approximates their fair value.

(b) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 2.

10. Current assets – Trade and other receivables

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Net trade receivables				
Trade receivables	**20,554**	59,546	**–**	–
Provision for impairment of receivables	**(240)**	(607)	**–**	–
	20,314	58,939	**–**	–
Related party receivables				
Loans to controlled entities	**–**	–	**71,600**	14,200
Amounts due from related parties	**–**	–	**–**	2
Loans to related entities	**12,075**	–	**–**	–
	12,075	–	**71,600**	14,202
Other receivables				
Other debtors	**18,379**	20,245	**431**	3,966
Reinsurance recoveries	**9,850**	23,097	**–**	–
Goods and services tax (GST) receivable	**685**	–	**–**	–
Interest receivable	**539**	867	**–**	56
	29,453	44,209	**431**	4,022
Prepayments				
Prepayments	**2,861**	5,054	**–**	–
Prepaid reinsurance	**39**	11,846	**–**	–
Management fees	**7,646**	7,487	**–**	–
Deferred acquisition costs	**4,793**	22,358	**–**	–
	15,339	46,745	**–**	–
Other property receivables				
Accrued property development profit	**7,782**	–	**–**	–
Property deposits	**2,680**	–	**–**	–
	10,462	–	**–**	–
	87,643	149,893	**72,031**	18,224

(a) Impaired trade receivables

Trade receivables are non-interest bearing and are generally on 30-90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

At 30 June 2008, current trade receivables of the Group with a nominal value of $240,000 (2007: $607,000) were impaired. An impairment provision of $240,000 (2007 – $607,000) has been recognised.

There were no impaired trade receivables for the parent at 30 June 2008 (2007: $nil).

The ageing of these receivables is as follows:

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
1 to 3 months	**218**	228	**–**	–
3 to 6 months	**–**	235	**–**	–
Over 6 months	**22**	144	**–**	–
	240	607	**–**	–

Notes to the financial statements

For the year ended 30 June 2008

10. Current assets – Trade and other receivables (continued)

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2008 $'000	Consolidated 2007 $'000	**Parent 2008 $'000**	Parent 2007 $'000
Balance at the beginning of the financial year	**607**	737	**–**	–
Provision for impairment recognised during the year	**(124)**	607	**–**	–
Receivables written off during the year as uncollectible	**(20)**	–	**–**	–
Unused amount reversed	**(223)**	(737)	**–**	–
Balance at the end of the financial year	**240**	607	**–**	–

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement; refer to note 1(ag).

(b) Past due but not impaired

As of 30 June 2008, trade receivables of $4,117,000 (2007: $1,141,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing of these trade receivables is as follows:

	Consolidated 2008 $'000	Consolidated 2007 $'000	**Parent 2008 $'000**	Parent 2007 $'000
Up to 3 months	**–**	77	**–**	–
3 to 6 months	**3,270**	872	**–**	–
6 to 12 months	**847**	192	**–**	–
	4,117	1,141	**–**	–

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(c) Loans to controlled entities

Loans to controlled entities are repayable on demand and accrue interest on a monthly basis at the 90 day bank bill rate plus a margin of 1%; at 30 June 2008 this rate amounted to 8.74% (2007: 7.40%).

(d) Loans to related entities

Included in the loans to related entities are fixed rate loans of $11,563,000 which accrue interest on a monthly basis at a fixed rate of 12% per annum and variable rate loans of $512,000 which accrue interest on a monthly basis at the 3 month bank bill rate plus a 3% margin; at 30 June 2008 this rate amounted to 10.04%.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

11. Current assets – Inventories

	Consolidated 2008 $'000	Consolidated 2007 $'000	**Parent 2008 $'000**	Parent 2007 $'000
Inventories at cost – healthcare	**324**	544	**–**	–
Other inventories at cost	**98**	42	**–**	–
	422	586	**–**	–

12. Current assets – Other financial assets

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Call option	876	–	–	–

(a) Description of financial asset

The call option relates to an option to acquire a development site in Bowral, New South Wales, for consideration of $10,500,000, to be funded by interest free loans from the development joint venture partners. The option may be exercised during the period commencing 1 August 2008 and ending on 28 February 2009.

(b) Fair value

Due to the short term nature of these other financial assets, their carrying value is assumed to approximate their fair value.

(c) Risk exposures

Information about the Group's and the parent entity's exposure to risk arising from these other financial assets are set out in note 2.

13. Current assets – Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are all held for trading in active markets and include the following:

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Securities held by benefit funds	258,909	445,886	–	–
Securities held in funds managed by related entities	149,612	180,053	1,418	4,654
Discount securities	78	404	–	–
	408,599	626,343	1,418	4,654

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.

Securities held by benefit funds comprise the following:

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Cash and fixed interest securities	59,733	235,941	–	–
Equities	52,466	64,709	–	–
Mortgage trusts	141,411	139,775	–	–
Other securities	5,299	5,461	–	–
	258,909	445,886	–	–

Securities held in funds that are managed by related entities comprise the following:

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Cash and fixed interest securities	47,728	67,325	–	–
Equities	41,381	40,779	357	3,660
Mortgage trusts	38,295	40,843	238	224
Property syndicates and trusts	22,208	28,759	823	770
Other securities	–	2,347	–	–
	149,612	180,053	1,418	4,654

The above analysis is the notional split of the underlying investments in funds that subsidiaries have invested in via units in the funds.

Notes to the financial statements

For the year ended 30 June 2008

13. Current assets – Financial assets at fair value through profit or loss (continued)

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

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Designated at fair value on initial recognition	**408,599**	626,343	**1,418**	4,654

Risk exposure

Information about the Group's and the parent entity's exposure to credit risk, foreign exchange and price risk is provided in note 2.

14. Derivative financial instruments

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Current assets				
Interest rate swaps – cash flow hedges (a)	**488**	–	**–**	–
Non-current assets				
Interest rate swaps – cash flow hedges	**–**	2,008	**–**	–
Total derivative financial instrument assets	**488**	2,008	**–**	–
Current liabilities				
Interest rate swaps – cash flow hedges (a)	**322**	–	**–**	–
Non-current liabilities				
Interest rate swaps – cash flow hedges (a)	**–**	1,566	**–**	–
Total derivative financial instrument liabilities	**322**	1,566	**–**	–
Total net derivative financial instruments	**166**	442	**–**	–

(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 (refer to note 2).

As disclosed in note 29 the Group 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.

The hedging instruments were effective during each of the years ended 30 June 2008 and 30 June 2007.

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; refer to note 33. Any ineffective portion is recognised in income immediately.

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

	2008 $'000	*2007 $'000*
Interest rate swap contracts		
Less than 1 year	**25,000**	–
1 – 2 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.

14. Derivative financial instruments (continued)

(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.

Information about the Group's and the parent entity's exposure to credit risk is provided in note 2.

	2008 $'000	*2007 $'000*
Interest rate swaps	**166**	442

The parent entity has no derivative financial instruments outstanding at 30 June 2008 (2007: $nil).

(c) Interest rate risk exposures

For an analysis of the sensitivity of derivatives to interest rate risk refer to note 2.

15. Non-current assets – Loans and receivables

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Reinsurance recoveries	**–**	6,412	**–**	–
Receivable from associates	**794**	822	**–**	–
Loan to related entity	**4,660**	–	**–**	–
Mortgage loans	**6,314**	8,751	**–**	–
Policy loans	**304**	391	**–**	–
Other receivables	**3,282**	9,023	**–**	–
	15,354	25,399	**–**	–

(a) Receivable from associates

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 16). A further loan advance of $50,000 was made on 2 January 2008.

Interest rate on this loan facility is charged at a rate of 1% per annum and has been extended to 16 December 2008, or unless otherwise agreed. At this date the interest charge will be on commercial terms, being an annual rate equal to the bank bill swap rate plus 1.5% per annum.

(b) Loan to related entity

The loan to related entity accrues interest on a monthly basis at a fixed rate of 12.00% per annum.

(c) Mortgage loans

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 7.00% and 9.65% (2007: 6.90% and 8.35%).

(d) Policy loans

The policy loans are also secured on real property. These loans mature at various dates up to 29 January 2032 and earn interest at average annual interest rates between 3.98% and 10.95% (2007: 3.98% and 9.50%).

(e) Other receivables

Other receivables at 30 June 2008 comprises an unsecured, interest bearing loan due from investors in a property syndicate of which a controlled entity is Responsible Entity (2007: $3,282,000). Interest on this loan is charged at a variable rate. The average annual interest rate for the year ended 30 June 2008 was 6.60% (2007: 6.59%).

At 30 June 2007, other receivables also included accrued property development profit arising on the Group's Constitution Hill retirement living development. Accrued property development profit at 30 June 2008 is included in current assets; refer to note 10.

(f) Impaired receivables

None of the non-current receivables are impaired or past due but not impaired (2007: $nil).

Notes to the financial statements

For the year ended 30 June 2008

15. Non-current assets – Loans and receivables (continued)

(g) Fair values

The fair values and carrying values of non-current receivables are as follows:

Consolidated	2008 Carrying amount $'000	2008 Fair value $'000	2007 Carrying amount $'000	2007 Fair value $'000
Reinsurance recoveries	**–**	**–**	6,412	6,412
Receivable from associates	**794**	**794**	822	822
Loan to related entity	**4,660**	**4,660**	–	–
Mortgage loans	**6,314**	**6,314**	8,751	8,751
Policy loans	**304**	**304**	391	391
Other receivables	**3,282**	**3,282**	9,023	9,023
	15,354	**15,354**	25,399	25,399

(h) Risk exposure

Information about the Group's and the parent entity's exposure to credit risk and interest rate risk is provided in note 2.

16. Non-current assets – Investments in associates

(a) Carrying amounts

On 9 July 2007, the Group acquired a further 50% interest in ARGIS Limited (formerly Farmers' Mutual Insurance Limited), a New Zealand registered company operating as an insurance agency in rural and regional Australia, for a consideration of $6,000,000. This holding was subsequently sold to Calliden Group Limited ("Calliden") on 10 June 2008 for a consideration of $6,300,000.

On 31 July 2007, the Group disposed of its 50% holding in ARGIS Limited which it held through its then controlled entity Mansions of Australia Limited. This disposal arose as part of the sale of the Group's general insurance operations to Calliden (see note 8).

On various dates during the financial year, the Group acquired additional units in the HAL Property Trust, an unlisted property development trust operating in Australia, for a total consideration of $6,650,000. Following these acquisitions, the Group continued to hold a 50% interest in the issued units of the HAL Property Trust.

Effective 31 July 2008, the Group acquired 30,142,850 ordinary shares in Calliden, an ASX listed insurance underwriter. This investment was acquired as part consideration for the sale of the Group's general insurance operations to Calliden (see note 8) and was recognised at its market value of $18,086,000 on the date of acquisition. This holding represents approximately 13% of the issued ordinary share capital of Calliden.

The Group appoints one member to the Calliden board of directors and Group entities distribute Calliden insurance products; some administrative support is also provided to Calliden. Consequently, the Group recognises the investment in Calliden as an investment in an associate.

In line with the fall in equity markets during the second half of the financial year, the Calliden share price has also fallen from the acquisition price. Consequently, an impairment provision of $3,600,000 has been recognised in the financial statements in order to restate the carrying value of the Group's investment in Calliden to current estimates of its medium term value. At 30 June 2008, the fair value of the investment in Calliden, when measured at the closing Calliden share price on that date, is lower than carrying value.

On 30 November 2007, the Group also acquired beneficial ownership of 51% of the issued share capital of Lifestyle Manor Angelsea Pty Ltd, a property development company operating as a developer of retirement villages in Australia. Although the Group beneficially holds 51% of the issued share capital of this company, the governance structure of the company is such that the Group is unable to effect control. Consequently, this investment is recognised as an investment in an associate.

On 6 June 2008, the Group acquired 45% of the issued share capital of Wingate Asset Management Pty Ltd, an investment company operating in Australia. Consideration for this acquisition amounted to $248,000.

16. Non-current assets – Investments in associates (continued)

Name of company	*Principal activity*	*Ownership interest* **2008 %**	*2007 %*	***Consolidated* 2008 $'000**	*Consolidated 2007 $'000*	***Parent* 2008 $'000**	*Parent 2007 $'000*
Listed							
Calliden Group Limited	General insurance underwriting	**13**	–	**15,086**	–	**–**	–
Unlisted							
Acorn Capital Limited	Investment management	**50**	50	**1,756**	1,793	**–**	–
Vianova Unit Trust	Investment management	**50**	50	**151**	149	**–**	–
Platypus Asset Management Pty Ltd	Investment management	**50**	50	**2,275**	963	**–**	–
Wingate Asset Management Pty Limited	Investment management	**45**	–	**248**	–	**–**	–
HAL Property Trust	Property development	**50**	50	**14,025**	7,361	**–**	–
Lifestyle Manor Angelsea Pty Ltd	Property development	**51**	–	**1,000**	–	**–**	–
ARGIS Limited	Insurance agency	**–**	50	**–**	6,506	**–**	–
				34,541	16,772	**–**	–

Other than ARGIS Limited, which is incorporated in New Zealand, each of the above associates is incorporated in Australia.

	***Consolidated* 2008 $'000**	*Consolidated 2007 $'000*
(b) Movements in carrying amounts		
Carrying amount at the beginning of the financial year	**16,772**	1,505
Investments acquired during the year	**32,019**	13,430
Increase in existing investments during the year	**–**	330
Provision for impairment of investment in Calliden Group Limited	**(3,600)**	–
Share of profits after income tax	**4,853**	2,262
Share of profits after income tax included in discontinued operations	**103**	414
Dividends received	**(2,763)**	(1,169)
Disposals	**(12,843)**	–
Carrying amount at the end of the financial year	**34,541**	16,772
(c) Fair value of listed investments in associates		
Calliden Group Limited	**11,605**	–
(d) Share of associates' profits or losses		
Profit before income tax	**6,761**	3,337
Income tax expense	**(1,908)**	(1,075)
Profit after income tax	**4,853**	2,262

(e) Summarised financial information of associates

	Group's share of:			
2008	*Assets $'000*	*Liabilities $'000*	*Revenues $'000*	*Profit after tax $'000*
Total	**73,539**	**42,830**	**38,873**	**4,853**
2007				
Total	19,212	8,923	5,798	2,262

Notes to the financial statements

For the year ended 30 June 2008

17. Non-current assets – Investments in 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(b):

			Equity holding		*Value of investment*	
Name of entity	*Country of incorporation*	*Holding*	***2008 %***	*2007 %*	***2008 $'000***	*2007 $'000*
Wholly owned by parent entity						
Australian Unity Capital Management Ltd	Australia	Shares	**100**	100	**6,210**	6,210
Australian Unity Dispensaries Friendly Society Ltd	Australia	Shares	**100**	100	**1**	1
Australian Unity Financial Planning Ltd	Australia	Shares	**100**	100	**12,595**	5,695
Australian Unity Finance Ltd	Australia	Shares	**100**	100	**3,000**	3,000
Australian Unity Funds Management Ltd	Australia	Shares	**100**	100	**12,690**	12,690
Australian Unity General Insurance Ltd	Australia	Shares	**–**	100	**–**	23,496
Australian Unity Group Services Pty Ltd	Australia	Shares	**100**	100	**28,566**	28,566
Australian Unity Health Ltd	Australia	Shares	**100**	100	**28,798**	28,798
Australian Unity Health Care Ltd	Australia	Shares	**100**	100	**1,500**	1,500
Australian Unity Nominees Pty Ltd (trustee company)	Australia	Shares	**100**	100	**–**	–
Australian Unity Property Ltd	Australia	Shares	**100**	100	**7,900**	7,150
Australian Unity Property Management Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Property Syndicate (Finance) Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retail Network Ltd	Australia	Shares	**100**	100	**15,351**	15,351
Australian Unity Retirement Living Investments Ltd	Australia	Shares	**100**	100	**8,215**	8,215
Australian Unity Retirement Living Services Ltd	Australia	Shares	**100**	100	**112,129**	51,413
Australian Unity Staff Superannuation Pty Ltd (trustee company)	Australia	Shares	**100**	100	**–**	–
Australian Unity Strategic Holdings Pty Ltd	Australia	Shares	**100**	100	**66,300**	39,850
Grand United Corporate Health Ltd	Australia	Shares	**100**	100	**15,296**	15,296
Grand United Health Fund Pty Ltd	Australia	Shares	**100**	100	**1,831**	1,831
Mansions of Australia Ltd	Australia	Shares	**–**	100	**–**	9,250
HealthSource Australia Pty Ltd	Australia	Shares	**100**	100	**2,878**	2,878
Strode 1 Pty Ltd (trustee company)	Australia	Shares	**100**	100	**–**	–
System Stanley Pty Ltd	Australia	Shares	**100**	100	**5**	5
Not wholly owned by the parent entity						
Australian Unity Aged Care Trust #1	Australia	Units	**100**	–	**–**	–
Australian Unity Aged Care Trust #2	Australia	Units	**100**	–	**–**	–
Australian Unity Aged Care Trust #3	Australia	Units	**100**	–	**–**	–
Australian Unity Aged Care Trust #4	Australia	Units	**100**	–	**–**	–
Australian Unity Aged Care Trust #5	Australia	Units	**100**	–	**–**	–
Australian Unity Aged Care Trust #6	Australia	Units	**100**	–	**–**	–
Australian Unity Bondi Trust	Australia	Units	**100**	–	**–**	–
Australian Unity Bowral Development Pty Ltd (formerly Grand United Retirement Services Pty Ltd)	Australia	Shares	**100**	100	**–**	–

Name of entity	Country of incorporation	Holding	Equity holding 2008 %	2007 %	Value of investment 2008 $'000	2007 $'000
Australian Unity Cranbourne Development Pty Ltd (formerly RLS Holdings Pty Ltd)	Australia	Shares	**100**	–	**–**	–
Australian Unity Investment Bonds Ltd	Australia	Shares	**100**	100	**6,020**	6,020
Australian Unity Investment Trust	Australia	Units	**100**	100	**–**	–
Australian Unity Lilydale Development Trust	Australia	Units	**100**	–	**–**	–
Australian Unity Retirement Development Management Pty Ltd	Australia	Shares	**100**	–	**–**	–
Australian Unity Retirement Development No. 1 Pty Ltd	Australia	Shares	**100**	–	**–**	–
Australian Unity Retirement Development No. 2 Pty Ltd	Australia	Shares	**100**	–	**–**	–
Australian Unity Retirement Development No. 3 Pty Ltd	Australia	Shares	**100**	–	**–**	–
Australian Unity Retirement Development No. 4 Pty Ltd	Australia	Shares	**100**	–	**–**	–
Australian Unity Retirement Development No. 5 Pty Ltd	Australia	Shares	**100**	–	**–**	–
Australian Unity Retirement Development No. 6 Pty Ltd	Australia	Shares	**100**	–	**–**	–
Australian Unity Retirement Development No. 7 Pty Ltd	Australia	Shares	**100**	–	**–**	–
Australian Unity Retirement Living Services (NSW) Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Village Trust #1	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Village Trust #2	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Village Trust #5	Australia	Units	**100**	–	**–**	–
Australian Unity Retirement Village Trust #6	Australia	Units	**100**	–	**–**	–
Australian Unity Retirement Village Trust #7	Australia	Units	**100**	–	**–**	–
Centennial Road Development Pty Ltd	Australia	Shares	**100**	–	**–**	–
Grand United NHO Pty Ltd	Australia	Shares	**100**	100	**–**	–
Grand United Properties Pty Ltd	Australia	Shares	**100**	100	**–**	–
Grand United RVO Pty Ltd	Australia	Shares	**100**	100	**–**	–
Greglea Village Management Pty Ltd	Australia	Shares	**100**	100	**–**	–
Retirement Management Services Pty Ltd	Australia	Shares	**100**	100	**–**	–
The Australian Unity Mornington Development Trust	Australia	Units	**100**	–	**–**	–
The Australian Unity Sienna Grange Development Trust	Australia	Units	**100**	–	**–**	–
The Australian Unity Victoria Grange Development Trust	Australia	Units	**100**	–	**–**	–
The Governor's Retirement Resort Pty Ltd	Australia	Shares	**100**	100	**–**	–
Willandra Village Management Pty Ltd	Australia	Shares	**100**	100	**–**	–
National Friendly Society Limited*	Australia		**–**	–	**–**	–
					329,285	267,215

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

*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.

Information on related party transactions is included in note 35.

Notes to the financial statements

For the year ended 30 June 2008

18. Non-current assets – Other financial assets

	Consolidated 2008 $'000	Consolidated 2007 $'000	**Parent 2008 $'000**	Parent 2007 $'000
Unlisted investments	**229**	952	**186**	191

19. 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 2007					
Opening net book amount	9,655	30,428	5,933	4,721	50,737
Additions	819	679	9,378	1,539	12,415
Disposals	(2)	(1)	(222)	(86)	(311)
Depreciation charge	–	(848)	(1,560)	(1,840)	(4,248)
Transfers	–	619	(2,628)	2,222	213
Closing net book amount	10,472	30,877	10,901	6,556	58,806
At 30 June 2007					
Cost	–	–	16,059	11,613	27,672
Valuation	10,472	34,981	–	–	45,453
Accumulated depreciation	–	(4,104)	(5,158)	(5,057)	(14,319)
Net book amount	10,472	30,877	10,901	6,556	58,806

Consolidated	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Year ended 30 June 2008					
Opening net book amount	**10,472**	**30,877**	**10,901**	**6,556**	**58,806**
Additions	**1,182**	**27,083**	**2,285**	**6,531**	**37,081**
Disposals	**(46)**	**(41)**	**(92)**	**(307)**	**(486)**
Depreciation charge	**–**	**(901)**	**(1,622)**	**(2,392)**	**(4,915)**
Closing net book amount	**11,608**	**57,018**	**11,472**	**10,388**	**90,486**
At 30 June 2008					
Cost	**–**	**–**	**18,193**	**17,183**	**35,376**
Valuation	**11,608**	**62,023**	**–**	**–**	**73,631**
Accumulated depreciation	**–**	**(5,005)**	**(6,721)**	**(6,795)**	**(18,521)**
Net book amount	**11,608**	**57,018**	**11,472**	**10,388**	**90,486**

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

Parent	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Leasehold improvements $'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

Parent	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Year ended 30 June 2008					
Opening net book amount	**343**	**76**	**1**	**–**	**420**
Additions	**–**	**–**	**173**	**280**	**453**
Disposals	**(46)**	**(27)**	**–**	**–**	**(73)**
Depreciation charge	**–**	**–**	**(172)**	**(62)**	**(234)**
Closing net book amount	**297**	**49**	**2**	**218**	**566**
At 30 June 2008					
Cost	**–**	**–**	**3**	**315**	**318**
Valuation	**297**	**49**	**–**	**–**	**346**
Accumulated depreciation	**–**	**–**	**(1)**	**(97)**	**(98)**
Net book amount	**297**	**49**	**2**	**218**	**566**

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 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Freehold land				
Cost	**10,474**	9,262	**297**	343
Accumulated depreciation	**–**	–	**–**	–
Net book amount	**10,474**	9,262	**297**	343
Buildings				
Cost	**32,933**	32,266	**49**	76
Accumulated depreciation	**(3,982)**	(3,982)	**–**	–
Net book amount	**28,951**	28,284	**49**	76

Notes to the financial statements

For the year ended 30 June 2008

20. Non-current assets – Investment properties

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	***Parent 2008 $'000***	*Parent 2007 $'000*
At Fair value				
Balance at the beginning of the financial year	**250,308**	213,697	**–**	–
Acquisitions	**85,384**	31,088	**–**	–
Net fair value increments	**10,038**	5,523	**–**	–
Balance at the end of the financial year	**345,730**	250,308	**–**	–

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

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	***Parent 2008 $'000***	*Parent 2007 $'000*
Revenue	**15,760**	14,507	**–**	–
Expenses	**(5,040)**	(6,076)	**–**	–
Changes in fair value recognised in profit and loss	**10,038**	5,523	**–**	–
	20,758	13,954	**–**	–

(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 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.

(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 2008 (2007: $nil).

21. Non-current assets – Deferred tax assets

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accrued expenses	**3,829**	8,722	**199**	2,655
Borrowing costs	**17**	54	**–**	–
Capitalised assets / expenses	**5,793**	7,134	**111**	48
Provisions	**5,037**	4,112	**930**	369
Depreciable professional fees	**1,028**	1,304	**409**	582
Capitalised professional fees	**241**	51	**2**	–
Tax losses	**2,387**	703	**1,462**	–
Unrealised losses	**6,887**	852	**–**	173
Other assessable items	**2,173**	1,902	**91**	613
Net deferred tax assets	**27,392**	24,834	**3,204**	4,440
Movements:				
Balance at the beginning of the financial year	**24,834**	15,782	**4,440**	1,145
Credited / (charged) to the income statement (note 7)	**3,867**	9,052	**(1,236)**	3,295
Deferred tax asset transferred on sale of subsidiaries	**(1,309)**	–	**–**	–
Balance at the end of the financial year	**27,392**	24,834	**3,204**	4,440
Deferred tax assets to be recovered within 12 months	**18,578**	16,111	**1,985**	3,653
Deferred tax assets to be recovered after more than 12 months	**8,814**	8,723	**1,219**	787
	27,392	24,834	**3,204**	4,440

Notes to the financial statements

For the year ended 30 June 2008

22. Non-current assets – Intangible assets

Consolidated	Goodwill $'000	Computer software $'000	Product distribution channel $'000	Aged care bed licences $'000	Total $'000
Year ended 30 June 2007					
Opening net book amount	15,106	16,056	3,807	–	34,969
Additions	1,189	10,512	903	–	12,604
Disposals	–	(9,300)	–	–	(9,300)
Impairment charge	–	–	(3,031)	–	(3,031)
Amortisation charge	(602)	(3,219)	(1,679)	–	(5,500)
Closing net book amount	15,693	14,049	–	–	29,742
At 30 June 2007					
Cost	15,711	26,870	–	–	42,581
Accumulated amortisation	(18)	(12,821)	–	–	(12,839)
Net book amount	15,693	14,049	–	–	29,742

Consolidated	Goodwill $'000	Computer software $'000	Product distribution channel $'000	Aged care bed licences $'000	Total $'000
Year ended 30 June 2008					
Opening net book amount	**15,693**	**14,049**	**–**	**–**	**29,742**
Additions	**–**	**15,809**	**–**	**2,000**	**17,809**
Disposals	**(4,484)**	**(17)**	**–**	**–**	**(4,501)**
Amortisation charge	**(71)**	**(3,148)**	**–**	**–**	**(3,219)**
Closing net book amount	**11,138**	**26,693**	**–**	**2,000**	**39,831**
At 30 June 2008					
Cost	**11,138**	**42,507**	**–**	**2,000**	**55,645**
Accumulated amortisation	**–**	**(15,814)**	**–**	**–**	**(15,814)**
Net book amount	**11,138**	**26,693**	**–**	**2,000**	**39,831**

Parent	*Computer software $'000*
Year ended 30 June 2007	
Additions	1,154
Amortisation charge	(1,154)
Closing net book amount	–
At 30 June 2007	
Cost	–
Accumulated amortisation	–
Net book amount	–

Parent	*Computer software $'000*
Year ended 30 June 2008	
Opening net book amount	**–**
Additions	**7**
Amortisation charge	**(7)**
Closing net book amount	**–**
Cost	**62**
Accumulated amortisation	**(62)**
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.

	2008 $'000	*2007 $'000*
Health insurance	**1,355**	1,355
General insurance	**–**	4,483
Retirement living services	**5,229**	5,229
Investments	**4,554**	4,626
	11,138	15,693

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 7.09% (2007: 6.91%) 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.

Notes to the financial statements

For the year ended 30 June 2008

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

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Borrowings arrangement costs	**1,180**	142	**–**	–
Other non-current assets	**291**	588	**–**	89
	1,471	730	**–**	89

24. Current liabilities – Trade and other payables

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Trade payables	**9,257**	16,857	**–**	–
Amounts due to related entities	**–**	–	**23,089**	8,887
Accrued expenses	**30,136**	49,661	**2,574**	8,517
Goods and services tax (GST) payable	**–**	421	**9**	253
	39,393	66,939	**25,672**	17,657

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

(a) Fair value disclosures

Due to the short term nature of these trade and other payables, their carrying value is assumed to approximate their fair value.

(b) Risk exposures

Details of the Group's and the parent entity's exposure to risk arising from current trade and other payables are set out in note 2.

25. Current liabilities – Interest bearing liabilities

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Secured				
Lease liabilities	**–**	3	**–**	–
Unsecured				
Payable to controlled entities	**–**	–	**50,780**	6,780
Cash advance facility	**30,000**	–	**–**	–
Subordinated capital notes	**25,000**	–	**–**	–
Retirement village investment notes	**9,916**	–	**–**	–
	64,916	3	**50,780**	6,780

(a) Payable to controlled entities

The amounts payable to controlled entities are repayable on demand and accrue interest on a monthly basis at the 90 day bank bill rate plus a margin of 1%; at 30 June 2008 this rate amounted to 8.74% (2007: 7.40%).

(b) Cash advance facility

This represents the current portion of a revolving cash advance facility from Westpac Institutional Bank; for more information refer to note 29.

(c) Subordinated capital notes

This represents the subordinated capital notes which were redeemed on 11 July 2008; for more information refer to note 29.

25. Current liabilities – Interest bearing liabilities (continued)

(d) Retirement village investment notes

This represents the current portion of the retirement village investment notes which mature on 30 November 2008; for more information refer to note 29.

(e) Interest rate risk exposure

Details of the Group's and the parent entity's exposure to risk arising from current and non-current interest bearing liabilities are set out in note 2.

(f) Fair value disclosures

Details of the fair value of borrowings for the Group and parent entity are set out in note 29.

26. Current liabilities – Provisions

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Employee benefits	**5,042**	5,137	**–**	120
Claims	**47,244**	72,722	**–**	–
Other provisions	**8,041**	3,474	**3,100**	2,191
	60,327	81,333	**3,100**	2,311

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 and amounts paid or payable are recognised as part of expenses in the income statement.

27. Current liabilities – Current tax liabilities

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Income tax	**2,368**	16,493	**13,640**	14,267

28. Current liabilities – Other current liabilities

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Unearned income	**80,348**	140,676	**–**	–
Other	**1,756**	1,462	**–**	–
Refundable lease deposits	**32,606**	30,366	**–**	–
Resident loans	**166,334**	151,255	**–**	–
	281,044	323,759	**–**	–

Unearned income represents health insurance premium revenue not yet recognised in the income statement (2007 also includes general insurance premium income).

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

Risk exposures

Details of the Group's and the parent entity's exposure to risk arising from other current liabilities are set out in note 2.

Notes to the financial statements

For the year ended 30 June 2008

29. Non-current liabilities – Interest bearing liabilities

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Secured				
Mortgage loans	**3,234**	3,234	**–**	–
Lease liabilities	**–**	8	**–**	–
Total secured non-current borrowings	**3,234**	3,242	**–**	–
Unsecured				
Loan payable to a controlled entity	**–**	–	**60,000**	50,000
Cash advance facility	**60,000**	50,000	**–**	–
Subordinated capital notes	**–**	25,000	**–**	–
Retirement village investment notes	**14,084**	24,000	**–**	–
Preferential units	**10,000**	–	**–**	–
Total unsecured non-current borrowings	**84,084**	99,000	**60,000**	50,000
Total non-current borrowings	**87,318**	102,242	**60,000**	50,000

(a) Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Mortgage loans	**3,234**	3,234	**–**	–
Lease liabilities	**–**	11	**–**	–
Total secured liabilities	**3,234**	3,245	**–**	–

(b) Mortgage loans

The mortgage loan 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 2008 was 6.60% (2007: 6.59%).

(c) Loan payable to a controlled entity

The loan payable to a controlled entity comprises an unsecured loan from a controlled entity from the proceeds of the cash advance facility. The loan is repayable on or before 30 June 2010 in line with the repayment date of the cash advance facility. Interest is payable on a monthly basis at the 90 day bank bill rate plus 1%; at 30 June 2008 this rate amounted to 8.74% per annum (2007: 7.40%).

(d) Cash advance facility

The Group sourced external financing from Westpac Institutional Bank on 27 June 2007. At 30 June 2008 the borrowings comprised a revolving cash advance facility of $60,000,000 for a term of 3 years ending 30 June 2010 and an additional $30,000,000 facility for a term of 12 months ending 28 March 2009. At 30 June 2008, the cash facility had a face value of $90,000,000 (2007: $50,000,000) with a floating interest rate between 8.69% and 8.88% (2007: 7.07% and 7.32%). Repayment of amounts drawndown under this facility are guaranteed by certain controlled entities within the Group.

(e) 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%. The subordinated capital notes were redeemed on 11 July 2008.

Interest rate swap contracts have been entered into whereby the floating interest rate is exchanged for fixed rate obligations (see note 14(a)).

(f) 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.

(g) Preferential units

The preferential units were issued on 20 December 2007 by controlled entities, Australian Unity Aged Care Trust #1, Australian Unity Aged Care Trust #2 and Australian Unity Aged Care Trust #3 in order to fund their operations. The preferential units are held by Grand United Centenary Centre Limited, a related entity. Interest on the preferential units is payable quarterly at an annual interest rate equal to the BBSY interest rate plus a margin of 1.5%. At 30 June 2008, this rate amounted to 9.38% per annum.

(h) Fair value

The carrying amounts and fair values of borrowings (current and non-current) at balance date are:

Consolidated	2008 Carrying amount $'000	2008 Fair value $'000	2007 Carrying amount $'000	2007 Fair value $'000
Mortgage loans	**3,234**	**3,234**	3,234	3,234
Cash advance facility	**90,000**	**90,000**	50,000	50,000
Retirement village investment notes	**24,000**	**24,000**	24,000	24,000
Subordinated capital notes	**25,000**	**25,000**	25,000	25,000
Preferential units	**10,000**	**10,000**	–	–
Lease liabilities	**–**	**–**	11	11
	152,234	**152,234**	102,245	102,245
Parent entity				
Loans payable to controlled entities	**110,780**	**110,780**	56,780	56,780

(i) Risk exposures

Information about the Group's and the parent entity's exposure to interest rate changes is provided in note 2.

30. Non-current liabilities – Non-interest bearing liabilities

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Unearned income	**–**	4,897	**–**	–
Property development loan	**82**	–	**–**	–
	82	4,897	**–**	–

(a) Unearned income

Unearned income at 30 June 2007 represents general insurance premium revenue of $ 3,647,000 and revenue of $1,250,000 from the sale of intellectual property in respect of the Freedom of Choice Superannuation Masterfund.

(b) Property development loan

The property development loan represents the fair value of a loan with a face value of $115,500, which was advanced from a third party property developer. This loan has been utilised by the Group to pay the first instalment under a call option to acquire land in Bowral, New South Wales. The loan is non-interest bearing and is repayable on or before 17 April 2018.

(b) Fair value of non-interest bearing liabilities

The carrying amounts and fair values of non-interest bearing liabilities at balance date are:

	2008 Carrying amount $'000	2008 Fair value $'000	2007 Carrying amount $'000	2007 Fair value $'000
Unearned income	**–**	**–**	4,897	4,897
Property development loan	**82**	**82**	–	–
	82	**82**	4,897	4,897

Notes to the financial statements

For the year ended 30 June 2008

31. Non-current liabilities – Deferred tax liabilities

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Prepayments	**25**	18	**–**	–
Interest receivable	**106**	241	**–**	17
Trust distributions	**669**	2	**–**	–
Fixed assets	**18,474**	11,088	**(39)**	–
Health equalisation fund	**3,314**	596	**–**	–
Accrued property development contract income	**2,335**	–	**–**	–
Unrealised gain	**4,004**	7,458	**88**	112
Allocable cost adjustment on consolidation	**1,537**	1,537	**–**	–
R&D adjustment	**1,149**	694	**–**	–
Other deductible items	**476**	446	**–**	–
Other	**–**	–	**43**	63
	32,089	22,080	**92**	192
Amounts recognised directly in equity				
Cash flow hedges	**50**	133	**–**	–
Net deferred tax liabilities	**32,139**	22,213	**92**	192
Movements:				
Balance at the beginning of the financial year	**22,213**	11,433	**192**	3,028
Charged / (credited) to the income statement (note 7)	**11,372**	10,793	**(100)**	(2,836)
Credited to equity (note 33)	**(83)**	(13)	**–**	–
Deferred balances transferred on sale of subsidiaries	**(1,363)**	–	**–**	–
Balance at the end of the financial year	**32,139**	22,213	**92**	192
Deferred tax liabilities to be settled within 12 months	**31,880**	21,954	**4**	1
Deferred tax liabilities to be settled after more than 12 months	**259**	259	**88**	191
	32,139	22,213	**92**	192

32. Non-current liabilities – Provisions

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Employee benefits	**4,455**	4,691	**–**	332
Claims	**1,215**	23,882	**–**	–
Other provisions	**–**	449	**–**	–
	5,670	29,022	**–**	332

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 and amounts paid or payable are recognised as part of expenses in the income statement.

33. Reserves and retained profits

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
(a) Reserves				
Asset revaluation reserve	**2,462**	2,462	**–**	–
Other reserves	**116**	310	**–**	–
	2,578	2,772	**–**	–
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	**310**	340	**–**	–
Revaluation – gross	**(277)**	(43)	**–**	–
Deferred tax (note 31)	**83**	13	**–**	–
Balance at the end of the financial year	**116**	310	**–**	–

(b) Retained profits

Movements in retained profits were as follows:

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Balance at the beginning of the financial year	**97,790**	65,686	**53,965**	21,580
Net profit for the year	**32,258**	32,104	**32,404**	32,385
Balance at the end of the financial year	**130,048**	97,790	**86,369**	53,965

(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)). The amounts are recognised in the income statement when the associated hedged transaction affects profit and loss.

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

	Consolidated 2008 $'000	Consolidated 2007 $'000	**Parent 2008 $'000**	Parent 2007 $'000
Profit after income tax for the year	**32,258**	32,104	**32,404**	32,385
Depreciation and amortisation	**8,102**	9,189	**241**	1,154
Impairment provision	**3,600**	3,031	**–**	–
Net market value movements	**13,416**	(9,381)	**(162)**	581
Net (gain) / loss on sale of non-current assets	**(24,177)**	313	**(30,040)**	349
Change in operating assets and liabilities:				
Decrease / (increase) in trade debtors	**1,112**	(15,048)	**13,136**	2,012
Decrease / (increase) in inventories	**163**	(45)	**–**	–
(Increase) / decrease in deferred tax asset	**(2,615)**	(9,052)	**1,236**	(3,295)
Decrease / (increase) in other operating assets	**3,097**	(61,405)	**1,582**	3,554
(Decrease) / increase in trade creditors	**(2,544)**	28,093	**(5,189)**	42,763
(Decrease) / increase in other operating liabilities	**(17,099)**	18,851	**908**	701
(Decrease) / increase in provision for income taxes payable	**(14,448)**	(1,871)	**(2,764)**	(3,969)
Increase / (decrease) in provision for deferred income tax	**10,681**	10,779	**(100)**	(2,836)
(Decrease) / increase in other provisions	**(241)**	3,490	**(121)**	120
Net cash inflow from operating activities	**11,305**	9,048	**11,131**	73,519

35. 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, Eve Crestani, Ian Ferres, Warren French, Stephen Maitland, Bruce Siney, Warren Stretton and Murray Campbell (ceased 25 October 2007).

(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 17.

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 2008 and 30 June 2007 were as follows:

- Interest received / receivable from controlled entities, $11,388,395 (2007: $3,713,848).
- Dividends received from controlled entities, $29,172,780 (2007: $83,100,000).
- Amounts paid / payable to controlled entity for shared services, $17,585,395 (2007: $7,313,732).

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 10, 24, 25 and 29.

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

- Dividends received from associates, $2,763,000 (2007: $1,169,000).

At 30 June 2008, a loan of $794,155 (2007: $822,290) was receivable from an associate.

At 30 June 2008, loans of $16,734,822 (2007: $nil) were receivable from a related entity.

35. Related party transactions (continued)

(c) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2008 and 30 June 2007 is set out below. Key management personnel comprise all directors of the Company and those executives responsible for the strategic direction and management of the Company and Group.

Consolidated	*Short term benefits* $	*Termination benefits* $	*Total* $
2008	**7,009,797**	**560,142**	**7,569,939**
2007	6,431,870	186,083	6,617,953
Parent			
2008	**891,796**	**86,708**	**978,504**
2007	753,862	21,332	775,194

(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.

(i) 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 $1,200,000 per financial year. The actual amounts paid to non-executive directors for the financial year ended 30 June 2008 amounted to $1,039,071, (2007: $899,910). 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(j).

(ii) The consolidated entity has also set aside a provision for directors' retirement allowances. At 30 June 2008, this provision amounted to $1,034,896 (2007: $1,116,108). Payments from the provision during the year ended 30 June 2008 totalled $191,540 (2007: $186,083). There is 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.

(iii) During the year ended 30 June 2007, 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. No such fees have been incurred during the year ended 30 June 2008.

(iv) 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 Group. These transactions are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

36. Business combination

Consolidated

Current year

There were no business combinations during the year ended 30 June 2008.

Prior 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
Fair value of net identifiable liabilities acquired	(16,293)
Goodwill	–

Notes to the financial statements

For the year ended 30 June 2008

36. Business combination (continued)

Parent

Current year

There were no business combinations during the year ended 30 June 2008.

Prior 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) Australian Unity Bowral Development Pty Ltd (formerly 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.

37. Commitments

(a) Capital commitments

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

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Payable within one year:				
Property, plant and equipment	**10,864**	32,911	**–**	–
Investment property	**6,300**	–	**–**	–
Intangible assets	**3,750**	–	**–**	–
	20,914	32,911	**–**	–

(b) Lease commitments : Group as lessee

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Within one year	**4,394**	4,034	**–**	–
Later than one year but not later than five years	**7,771**	5,296	**–**	–
Later than five years	**1,139**	295	**–**	–
	13,304	9,625	**–**	–
Representing:				
Non-cancellable operating leases	**13,304**	9,619	**–**	–
Future finance charges on finance leases	**–**	6	**–**	–
	13,304	9,625	**–**	–

37. Commitments (continued)

(i) Operating leases

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of 4 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Within one year	**4,394**	4,028	**–**	–
Later than one year but not later than five years	**7,771**	5,296	**–**	–
Later than five years	**1,139**	295	**–**	–
Commitments not recognised in the financial statements	**13,304**	9,619	**–**	–

(ii) Finance leases

Neither the Group nor the Company had outstanding finance lease commitments at 30 June 2008 (2007:$11,000).

(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 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Within one year	**376**	421	**–**	–
Later than one year and not later than five years	**329**	720	**–**	–
	705	1,141	**–**	–

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

38. Contingencies and guarantees

Guarantees

The parent entity, jointly with 24 of its wholly owned controlled entities, has guaranteed borrowings of a controlled entity. The borrowings guaranteed comprise a revolving cash advance facility of up to $60,000,000 for a term of three years ending 14 June 2010 and an additional $30,000,000 for a term of 12 months ending 28 March 2009. 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(k), has not been recognised as the amount is not material.

39. Events occurring after the balance sheet date

On 11 July 2008, the $25,000,000 subordinated capital notes outstanding at 30 June 2008 were repaid and $25,000,000 of new subordinated capital notes were issued. The floating interest rate on the new notes is equal to the 90 day BBSW rate plus a margin of 490 basis points. The new notes have a maturity of 11 July 2018, with a non-call period of five years. Given the current level of market interest rates, the board has decided not to hedge the floating rate interest payable on the new notes.

On 30 July 2008, the Group's cash advance facility with Westpac Institutional Bank was increased by $4,500,000 to $94,500,000. This additional $4,500,000 facility is repayable on or before 30 January 2009 and is secured by a mortgage over property owned by a controlled entity. This additional facility has not yet been drawndown.

The board is not aware of any other matter or circumstance arising since 30 June 2008 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Notes to the financial statements

For the year ended 30 June 2008

40. 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 2008	Consolidated 2007	Parent 2008	Parent 2007
(a) Audit services				
Ernst & Young Australian firm				
Audit of financial reports and other audit work under the Corporations Act 2001	**794,023**	854,028	**37,500**	74,220
Total remuneration for audit services	**794,023**	854,028	**37,500**	74,220
(b) Taxation and other services				
Ernst & Young Australian firm				
Tax compliance services, including review of company income tax returns	**376,021**	547,737	**99,305**	199,708
Other assurance engagements	**360,660**	107,080	**–**	–
Total remuneration for taxation and other services	**736,681**	654,817	**99,305**	199,708
	1,530,724	1,508,845	**136,805**	273,928

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.

41. 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 health insurance activities of the relevant controlled entities and do not therefore include the non-insurance activities of the healthcare businesses.

(a) Details of income and expenses

Consolidated	2008 $'000	2007 $'000
Premium revenue	**454,419**	424,816
Claims expense	**(384,739)**	(357,423)
Net risk equalisation trust fund recoveries	**25,587**	20,566
State levies	**(2,267)**	(2,982)
Net claims incurred	**(361,419)**	(339,839)
Acquisition costs	**(20,387)**	(15,947)
Other underwriting expenses	**(1,697)**	(1,717)
	(22,084)	(17,664)
Underwriting result	**70,916**	67,313
Investment revenue	**5,192**	17,862
Other revenue	**37**	294
Salary and employee benefits expense	**(13,324)**	(13,273)
Other expenses from ordinary activities	**(15,999)**	(16,225)
Finance costs	**(2,016)**	(2,010)
	(26,110)	(13,352)
Profit before income tax	**44,806**	53,961
Income tax expense	**(14,665)**	(16,101)
Profit after income tax	**30,141**	37,860

41. Health insurance (continued)

(b) Net Risk Equalisation Trust Fund ("RETF") receivable

Consolidated	2008 $'000	2007 $'000
Movement in net RETF receivable		
Balance at the beginning of the financial year	**8,691**	6,771
Net RETF raised during the year	**41,495**	33,825
Net RETF received during the year	**(38,203)**	(31,905)
Balance at the end of the financial year	**11,983**	8,691

(c) Outstanding claims provision

Consolidated	2008 $'000	2007 $'000
Outstanding claims – central estimate of the expected present value of future payments for claims incurred	**35,534**	34,058
Risk margin	**2,758**	4,404
Claims handling costs	**966**	938
Gross outstanding claims liability	**39,258**	39,400
Movement in the gross outstanding claims liability		
Balance at the beginning of the financial year	**39,400**	37,266
Claims incurred during the year	**312,359**	297,951
Claims paid during the year	**(312,501)**	(295,817)
Balance at the end of the financial year	**39,258**	39,400
Current	**39,258**	39,400
Non-current	**–**	–
	39,258	39,400

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 $2,758,000 (2007: $4,404,000) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2007: 95%). The risk margin has been based on an analysis of the Company's past experience. 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 (2007: 1.7 months).

Impact of changes in key variables

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

	Movement in variable	*Profit /(loss) after tax $'000*	*Net assets $'000*
Central estimate	+ 5%	(1,706)	(1,192)
Central estimate	- 5%	1,706	1,192
Claims handling	+ 10%	(68)	(66)
Claims handling	- 10%	68	66

Notes to the financial statements

For the year ended 30 June 2008

41. Health insurance (continued)

(i) Unexpired risk liability

The calculation of the liability adequacy test has found that there is no need to provide for an unexpired risk liability at 30 June 2008 (2007: $nil) at a 75% (2007: 95%) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Company accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

42. 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 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Life investment contract liabilities	**69,098**	75,000	**–**	–
Life insurance contract liabilities	**385,947**	401,868	**–**	–
Unvested policyholder liabilities	**25,716**	27,631	**–**	–
Total policy liabilities	**480,761**	504,499	**–**	–
Expected to be realised within 12 months	**49,903**	55,336	**–**	–
Expected to be realised in more than 12 months	**430,858**	449,163	**–**	–
	480,761	504,499	**–**	–

(b) Reconciliation of changes in policy liabilities

	Consolidated 2008 $'000	*Consolidated 2007 $'000*	**Parent 2008 $'000**	*Parent 2007 $'000*
Life investment contract liabilities at the beginning of the financial year	**75,000**	64,342	**–**	–
Increase in life investment contract liabilities recognised in the income statement	**(6,299)**	7,318	**–**	–
Premiums recognised as a change in life investment contract liabilities	**6,601**	8,387	**–**	–
Claims recognised as a change in life investment contract liabilities	**(6,204)**	(5,047)	**–**	–
Life investment contract liabilities at the end of the financial year	**69,098**	75,000	**–**	–
Net life insurance contract liabilities at the beginning of the financial year	**401,868**	426,623	**–**	–
Movement in life insurance contract liabilities recognised in the income statement	**(15,921)**	(24,755)	**–**	–
Life investment contract liabilities at the end of the financial year	**385,947**	401,868	**–**	–
Unvested policyholder benefits liability at the beginning of the financial year	**27,631**	23,373	**–**	–
Movement in unvested policyholder benefits liability recognised in the income statement	**(1,915)**	4,258	**–**	–
Unvested policyholder benefits liability at the end of the financial year	**25,716**	27,631	**–**	–
Net policy liabilities at the end of the financial year	**480,761**	504,499	**–**	–

42. Benefit fund policy liabilities (continued)

(c) Analysis of policy liability revenue and expenses

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Revenue				
Total life insurance and participating contract premium revenue	**11,984**	10,492	**–**	–
Reinsurance recoveries	**(256)**	(286)	**–**	–
Total life insurance contract premium and related revenue	**11,728**	10,206	**–**	–
Financial assets held at fair value through profit and loss				
– Interest income	**109**	136	**–**	–
– Distribution income	**28,806**	33,189	**–**	–
– Realised gains	**3,044**	1,208	**–**	–
– Unrealised gains / (losses)	**(17,455)**	3,716	**–**	–
Other investment income	**618**	1,233	**–**	–
Total revenue from life insurance business	**26,850**	49,688	**–**	–
Expenses				
Total life insurance and participating contract claims expense	**42,923**	49,635	**–**	–
Reinsurance recoveries	**–**	(172)	**–**	–
Life insurance contract claims expense	**42,923**	49,463	**–**	–
Policy maintenance expenses – life insurance contracts	**12**	30	**–**	–
Other expenses	**5,910**	5,223	**–**	–
Movement in life insurance contracts	**(15,921)**	(24,755)	**–**	–
Movement in unvested policyholder liabilities	**(1,915)**	4,258	**–**	–
Movement in investment contract liabilities	**(6,299)**	7,318	**–**	–
Total expenses from life insurance business	**24,710**	41,537	**–**	–

(d) Actuarial methods and assumptions

The effective date of the actuarial report on policy liabilities and solvency reserves is 30 June 2008. 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 liabilities 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.

42. Benefit fund policy liabilities (continued)

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 8.00% which is 4.90% 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 3.70% to 7.29% (2007: 3.08% to 6.87%).

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% (2007: 60%) of Australian Life Tables (ALT) (Male & Female) 2000 2002, except for the PRIF which assumes 70% (2007: 70%), the Funeral Fund, which assumes 70% (2007: 60%) and the Central Sick and Funeral Fund which assumes 50% (2007: 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 fund's 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 2008. 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.

(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 is 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 decisions on capital management issues.

Changes in economic condition 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 and capital adequacy 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 2008.

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.

Ratio of solvency requirement (SR) to gross assets	***SR ratio 2008 %***	*SR ratio 2007 %*
Capital Guaranteed Bond	**99.47**	99.62
Capital Guaranteed Mortgage Bond	**99.21**	99.28
Growth Fund	**95.83**	96.58
Capital Guaranteed Funeral Bond (Non-taxable)	**100.00**	99.97
Capital Secure Funeral Bond	**100.00**	99.96
Capital Guaranteed Funeral Bond (Taxable)	**100.00**	99.93
Central Sick and Funeral Fund	**86.30**	83.40
Endowment Fund	**76.60**	78.70
Funeral Fund	**87.60**	84.80
Personal Risk Fund	**78.70**	62.30
Assurance Benefit Fund	**83.40**	84.80
Grand Bonds Assurance Fund	**97.98**	96.58
Income Protection Insurance Fund (terminated on 30 June 2008)	**–**	58.00
Life Assurance Fund	**86.80**	86.00

(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 43 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

Notes to the financial statements

For the year ended 30 June 2008

43. Disaggregated information for benefit funds
Income statements for the year ended 30 June 2008

	Total *$'000*
Direct life insurance premium revenue	**581**
Outwards reinsurance expense	**(257)**
Net life insurance premium revenue	**324**
Deposits received – investment contracts with DPF[1]	**11,404**
Investment income	**15,122**
Total revenue	**26,850**
Life insurance claims expense	**2,853**
Reinsurance recoveries	**–**
Net life insurance contract claims expense	**2,853**
Benefits and withdrawals paid – investment contracts with DPF[1]	**40,070**
Decrease in policyholder liabilities – investment contracts with DPF[1]	**(28,701)**
Distribution to policyholders	**5,518**
Other expenses	**4,970**
Total expenses	**24,710**
Profit before tax	**2,140**
Income tax expense	**(2,140)**
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			
–	**–**	**415**	**15**	**126**	**25**	**–**
–	**–**	**(257)**	**–**	**–**	**–**	**–**
–	**–**	**158**	**15**	**126**	**25**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**
43	**365**	**19**	**453**	**70**	**64**	**20**
43	**365**	**177**	**468**	**196**	**89**	**20**
83	**448**	**–**	**409**	**136**	**592**	**1,185**
–	**–**	**–**	**–**	**–**	**–**	**–**
83	**448**	**–**	**409**	**136**	**592**	**1,185**
–	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**
(50)	**(136)**	**24**	**(218)**	**(99)**	**(1,423)**	**(1,320)**
(3)	**53**	**146**	**205**	**234**	**321**	**161**
30	**365**	**170**	**396**	**271**	**(510)**	**26**
13	**–**	**7**	**72**	**(75)**	**599**	**(6)**
(13)	**–**	**(7)**	**(72)**	**75**	**(599)**	**6**
–	**–**	**–**	**–**	**–**	**–**	**–**

Notes to the financial statements

For the year ended 30 June 2008

43. Disaggregated information for benefit funds (continued)
Income statements for the year ended 30 June 2008 (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]	**250**	**78**	**9,128**	**1,026**	**900**	**22**	**–**
Investment income	**2,765**	**2,098**	**2,277**	**12,311**	**3,150**	**488**	**8**
Total revenue	**3,015**	**2,176**	**11,405**	**13,337**	**4,050**	**510**	**8**
Life insurance claims expense	–	–	–	–	–	–	–
Reinsurance recoveries	–	–	–	–	–	–	–
Net life insurance contract claims expense	–	–	–	–	–	–	–
Benefits and withdrawals paid – investment contracts with DPF[1]	**4,001**	**3,296**	**3,043**	**21,825**	**7,014**	**891**	**–**
Decrease in policyholder liabilities – investment contracts with DPF[1]	**(3,751)**	**(3,219)**	**6,085**	**(20,823)**	**(6,124)**	**(869)**	**–**
Distribution to policyholders	**2,107**	**1,814**	**1,401**	**7,341**	**2,074**	**299**	**4**
Other expenses	**679**	**305**	**512**	**1,861**	**192**	**66**	**2**
Total expenses	**3,036**	**2,196**	**11,041**	**10,204**	**3,156**	**387**	**6**
Profit before tax	**(21)**	**(20)**	**364**	**3,133**	**894**	**123**	**2**
Income tax expense	**21**	**20**	**(364)**	**(3,133)**	**(894)**	**(123)**	**(2)**
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					
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
(6)	**(258)**	**(1,304)**	**(5,740)**	**(538)**	**(1,163)**
(6)	**(258)**	**(1,304)**	**(5,740)**	**(538)**	**(1,163)**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
(5)	**(180)**	**(906)**	**(3,989)**	**(409)**	**(811)**
1	**5**	**19**	**116**	**75**	**20**
(4)	**(175)**	**(887)**	**(3,873)**	**(334)**	**(791)**
(2)	**(83)**	**(417)**	**(1,867)**	**(204)**	**(372)**
2	**83**	**417**	**1,867**	**204**	**372**
–	–	–	–	–	–

Notes to the financial statements

For the year ended 30 June 2008

43. Disaggregated information for benefit funds (continued)
Balance sheets for the year ended 30 June 2008

	Total *$'000*
ASSETS	
Current assets	
Cash and cash equivalents	**214,140**
Loans and receivables	**3,373**
Financial assets at FVTPL[1]	**258,909**
Total current assets	**476,422**
Non-current assets	
Loans and receivables	**6,618**
Deferred tax	**4,235**
Total non-current assets	**10,853**
Total assets	**487,275**
LIABILITIES	
Current liabilities	
Payables	**1,525**
Non-interest bearing liabilities	**4,763**
Benefit fund policy liabilities	**49,903**
Total current liabilities	**56,191**
Non-current liabilities	
Provisions	**–**
Deferred tax liabilities	**226**
Benefit fund policy liabilities	**430,858**
Total non-current liabilities	**431,084**
Total liabilities	**487,275**
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			
960	**9,985**	**43**	**11,418**	**1,007**	**8,340**	**2,071**
1	**2**	**40**	**5**	**6**	**23**	**8**
–	**–**	**186**	**–**	**–**	**4,315**	**3,784**
961	**9,987**	**269**	**11,423**	**1,013**	**12,678**	**5,863**
–	**–**	**–**	**29**	**–**	**–**	**–**
31	**–**	**–**	**250**	**–**	**28**	**–**
31	**–**	**–**	**279**	**–**	**28**	**–**
992	**9,987**	**269**	**11,702**	**1,013**	**12,706**	**5,863**
–	**1**	**72**	**36**	**959**	**30**	**11**
33	**(15)**	**(133)**	**96**	**(4)**	**832**	**11**
129	**1,364**	**45**	**1,570**	**8**	**1,613**	**796**
162	**1,350**	**(16)**	**1,702**	**963**	**2,475**	**818**
–	**–**	**–**	**–**	**–**	**–**	**–**
8	**–**	**–**	**54**	**–**	**6**	**–**
822	**8,637**	**285**	**9,946**	**50**	**10,225**	**5,045**
830	**8,637**	**285**	**10,000**	**50**	**10,231**	**5,045**
992	**9,987**	**269**	**11,702**	**1,013**	**12,706**	**5,863**
–	**–**	**–**	**–**	**–**	**–**	**–**

Notes to the financial statements

For the year ended 30 June 2008

43. Disaggregated information for benefit funds (continued)
Balance sheets for the year ended 30 June 2008 (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	**16,354**	**12,470**	**16,188**	**122,949**	**5,187**	**6,981**	**117**
Loans and receivables	**192**	**146**	**179**	**1,069**	**243**	**44**	**1**
Financial assets at FVTPL[1]	**35,710**	**27,015**	**32,703**	**52,194**	**37,484**	**–**	**–**
Total current assets	**52,256**	**39,631**	**49,070**	**176,212**	**42,914**	**7,025**	**118**
Non-current assets							
Loans and receivables	**–**	**–**	**–**	**2,891**	**3,698**	**–**	**–**
Deferred tax	**–**	**–**	**49**	**–**	**–**	**–**	**–**
Total non-current assets	**–**	**–**	**49**	**2,891**	**3,698**	**–**	**–**
Total assets	**52,256**	**39,631**	**49,119**	**179,103**	**46,612**	**7,025**	**118**
LIABILITIES							
Current liabilities							
Payables	**56**	**12**	**36**	**146**	**53**	**2**	**–**
Non-interest bearing liabilities	**(25)**	**(13)**	**313**	**1,633**	**450**	**63**	**10**
Benefit fund policy liabilities	**3,879**	**3,183**	**3,596**	**20,280**	**6,446**	**824**	**–**
Total current liabilities	**3,910**	**3,182**	**3,945**	**22,059**	**6,949**	**889**	**10**
Non-current liabilities							
Provisions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Deferred tax liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Benefit fund policy liabilities	**48,346**	**36,449**	**45,174**	**157,044**	**39,663**	**6,136**	**108**
Total non-current liabilities	**48,346**	**36,449**	**45,174**	**157,044**	**39,663**	**6,136**	**108**
Total liabilities	**52,256**	**39,631**	**49,119**	**179,103**	**46,612**	**7,025**	**118**
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			
	11	10	10	12	16	11
	3	38	117	897	265	94
	173	1,643	5,682	37,140	16,113	4,767
	187	1,691	5,809	38,049	16,394	4,872
	–	–	–	–	–	–
	4	99	519	2,397	406	452
	4	99	519	2,397	406	452
	191	1,790	6,328	40,446	16,800	5,324
	–	1	3	21	82	4
	(1)	(14)	(76)	988	535	80
	19	180	640	2,828	1,818	685
	18	167	567	3,837	2,435	769
	–	–	–	–	–	–
	–	2	–	131	25	–
	173	1,621	5,761	36,478	14,340	4,555
	173	1,623	5,761	36,609	14,365	4,555
	191	1,790	6,328	40,446	16,800	5,324
	–	–	–	–	–	–

Notes to the financial statements

For the year ended 30 June 2008

43. Disaggregated information for benefit funds (continued)
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
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 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				
–	–	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)	490	–
(8)	–	2	(21)	81	(490)	–
–	–	–	–	–	–	–

Notes to the financial statements

For the year ended 30 June 2008

43. 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
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	2,131	297	2
Other expenses	735	354	390	2,193	249	85	2
Total expenses	4,341	3,256	9,406	10,495	3,651	412	4
Profit before tax	–	–	754	3,135	914	111	2
Income tax expense	–	–	(754)	(3,135)	(914)	(111)	(2)
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)
–	–	–	–	–	–

Notes to the financial statements

For the year ended 30 June 2008

43. Disaggregated information for benefit funds (continued)
Balance sheets for the year ended 30 June 2007

	Total *$'000*
ASSETS	
Current assets	
Cash and cash equivalents	51,215
Loans and receivables	5,554
Financial assets at FVTPL[1]	445,886
Total current assets	502,655
Non-current assets	
Loans and receivables	9,142
Deferred tax	656
Total non-current assets	9,798
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	
Provisions	–
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			
1,017	9,932	151	11,773	1,059	3,462	2,019
1	1	34	4	6	417	7
–	150	216	–	–	10,016	5,161
1,018	10,083	401	11,777	1,065	13,895	7,187
–	–	–	26	–	–	–
25	–	–	159	–	12	–
25	–	–	185	–	12	–
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
–	–	–	–	–	–	–

Notes to the financial statements

For the year ended 30 June 2008

43. Disaggregated information for benefit funds (continued)
Balance sheets 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						
ASSETS							
Current assets							
Cash and cash equivalents	11	11	13,931	11	11	7,651	109
Loans and receivables	264	123	163	979	234	39	1
Financial assets at FVTPL[1]	53,663	40,934	28,094	189,342	45,974	–	–
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	–	–
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							
Provisions	–	–	–	–	–	–	–
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
–	–	–	–	–	–

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

	2008			2007		
	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 from continuing operations	**582,257**	**–**	**582,257**	553,060	–	553,060
Direct life insurance premium revenue	**–**	**581**	**581**	–	671	671
Outwards reinsurance expense	**–**	**(257)**	**(257)**	–	(286)	(286)
	582,257	**324**	**582,581**	553,060	385	553,445
Deposits received – investment contracts with DPF[1]	**–**	**11,404**	**11,404**	–	9,821	9,821
Investment income	**–**	**15,122**	**15,122**	–	39,482	39,482
Total revenue	**582,257**	**26,850**	**609,107**	553,060	49,688	602,748
Life insurance claims expense	**–**	**2,853**	**2,853**	–	2,020	2,020
Reinsurance recoveries	**–**	**–**	**–**	–	(172)	(172)
Net life insurance contract claims expense	**–**	**2,853**	**2,853**	–	1,848	1,848
Benefits and withdrawals paid – investment contracts with DPF[1]	**–**	**40,070**	**40,070**	–	47,615	47,615
Decrease in policyholder liabilities – investment contracts with DPF[1]	**–**	**(28,701)**	**(28,701)**	–	(37,794)	(37,794)
Distribution to policyholders	**–**	**5,518**	**5,518**	–	24,615	24,615
Expenses excluding finance costs	**558,341**	**4,970**	**563,311**	521,026	5,253	526,279
Total expenses, excluding finance costs	**558,341**	**24,710**	**583,051**	521,026	41,537	562,563
Finance costs	**(8,917)**	**–**	**(8,917)**	(5,890)	–	(5,890)
Share of net profits of associates	**4,853**	**–**	**4,853**	2,262	–	2,262
Profit before income tax	**19,852**	**2,140**	**21,992**	28,406	8,151	36,557
Income tax expense	**(2,623)**	**(2,140)**	**(4,763)**	(7,754)	(8,151)	(15,905)
Profit from continuing operations after income tax	**17,229**	**–**	**17,229**	20,652	–	20,652
Profit from discontinued operations	**19,239**	**–**	**19,239**	13,897	–	13,897
Income tax expense	**(4,210)**	**–**	**(4,210)**	(2,445)	–	(2,445)
Profit from discontinued operations after income tax	**15,029**	**–**	**15,029**	11,452	–	11,452
Profit after income tax and discontinued operations	**32,258**	**–**	**32,258**	32,104	–	32,104

[1]DPF = Discretionary Participation Feature

Directors' declaration

For the year ended 30 June 2008

In the directors' opinion:

(a) the financial statements and notes set out on pages 51 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

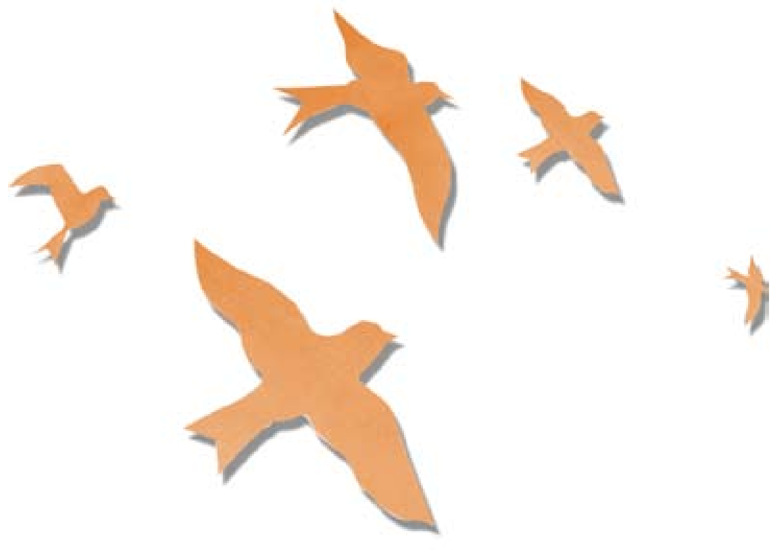
(ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and

(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	**Rohan Mead**
Chairman	Group Managing Director
South Melbourne	South Melbourne
26 August 2008	26 August 2008



Independent auditor's report to the members

ERNST & YOUNG

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

Report on the Financial Report

We have audited the accompanying financial report of Australian Unity Limited, which comprises the balance sheet as at 30 June 2008, 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 of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 1(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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.

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.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of Australian Unity Limited is in accordance with 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 2008 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young

A J (Tony) Johnson
Partner
Melbourne
26 August 2008

Mixed Sources
Product group from well-managed forests and recycled wood or fibre
FSC
www.fsc.org Cert no. SGS-COC-2486

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Australian Unity