Australian Unity Property Income Fund

ARSN 094 220 498

Annual report

for the year ended 30 June 2019

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Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Property Income Fund (the "Scheme"), present their report together with the financial statements of the Scheme for the year ended 30 June 2019.

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

Rohan Mead, Chairman and Group Managing Director
David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer
Esther Kerr-Smith, Group Executive Finance & Strategy
Amanda Hagan, Group Executive Customer, Digital & Technology (appointed 12 October 2018)

Principal activities
The Scheme's objective is to provide relatively consistent income on a quarterly basis, with some potential for capital growth over the medium to long-term.

The Scheme invests in direct property assets, listed and unlisted property trusts and cash type assets.

Review and results of operations
Consolidation of Retail units with Wholesale units
Effective 1 April 2019, all Retail units were consolidated with Wholesale units.

Property valuations
The current year revaluations were in total below the revalued properties' carrying values resulting in recording a net revaluation fair value increment of $2,751,000 (2018: decrement of $3,351,000).

Property acquisitions
On 31 October 2018, the Scheme completed the purchase of 2-10 Bliss Court, Derrimut, VIC at a purchase price of $11,350,000 and acquisition costs of $775,000.

On 12 June 2019, the Scheme completed the purchase of Lots 6 and 11, 133 South Pine Road, Brendale, QLD for purchase prices of $7,025,000 and $1,119,000, respectively, and acquisition costs of $567,000 and $96,000, respectively.

Property disposals
On 17 August 2018, the Scheme sold 1651-1657 Centre Road, Springvale, VIC for a consideration of $15,650,000, excluding selling costs of $265,000. The Scheme recognised a gain of $2,135,000 from the sale of the property.

Results
For the year ended 30 June 2019, the Scheme's Wholesale units posted a total return of 13.46% (split between a distribution return of 13.18% and a growth return of 0.28%)*.

Unit prices (ex distribution) as at 30 June 2019 (2018) is $0.9628 ($0.9600)*

*The reported performance numbers and reported unit prices (which are not audited) have been derived based on the declared unit prices calculated in accordance with the Responsible Entity's unit pricing policy, and are not based on the net assets of these IFRS compliant financial statements. Return calculations assume reinvestment of distributions.

Review and results of operations (continued)

Results (continued)

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

	2019 $'000	2018 $'000
Profit before finance costs attributable to unitholders	**22,237**	9,059
Distributions - Retail units		
Distributions paid and payable	**141**	358
Distributions - Wholesale units		
Distributions paid and payable	**26,106**	13,437

Significant changes in the state of affairs

In the opinion of the directors, there were no other significant changes in the state of affairs of the Scheme that occurred during the year, except those mentioned elsewhere in the report.

Events occurring after end of the year

On 17 July 2019, the Scheme exchanged a contract of sale for 40 Allara Street, Canberra, ACT for a sale price of $23,000,000. The contract of sale was subject to conditions precedent that were met on 24 July 2019. Settlement is expected to occur on or about 30 June 2020.

On 8 August 2019, the Scheme completed the purchase of 40 Scanlon Drive Epping, VIC for a consideration of $13,300,000, excluding acquisition costs of $872,000.

On 29 August 2019, the Scheme completed the purchase of 17 Byres Street, Newstead, QLD for a consideration of $11,000,000, excluding acquisition costs of $661,000.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years.

Likely developments and expected results of operations

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

Further information on likely developments in the operations of the Scheme and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Scheme.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Property Limited or the auditors of the Scheme. So long as the officers of Australian Unity Property Limited act in accordance with the Scheme's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Fees paid to and interests held in the Scheme by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in note 17 to the financial statements.

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

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

Units in the Scheme
The movement in units on issue in the Scheme during the year is disclosed in note 8 to the financial statements.

The value of the Scheme's assets and liabilities is disclosed in the statement of financial position and derived using the basis set out in note 2 to the financial statements.

Environmental regulation
The property operations of the Scheme are subject to environmental regulations under Australian law. There have been no known reportable breaches of these regulations.

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

Auditor's independence declaration
A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the directors of Australian Unity Property Limited.

Director

Director
20 September 2019

Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Property Income Fund for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
20 September 2019

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Statement of comprehensive income

	Notes	2019 $'000	2018 $'000
Income			
Rental income	3	**5,421**	5,873
Property expenses	4	**(1,737)**	(1,807)
Net property income		**3,684**	4,066
Interest income		**18**	5
Distribution income	5	**21,230**	10,283
Net losses on financial instruments held at fair value through profit or loss	6	**(6,504)**	(1,148)
Net fair value increment/(decrement) of investment properties	13(b)	**2,751**	(3,351)
Realised gain on disposal of investment property	13(b)	**2,135**	-
Other income		**817**	537
Total income net of property expenses		**24,131**	10,392
Expenses			
Responsible Entity's fees	17	**1,812**	1,332
Other expenses		**82**	1
Total expenses, excluding property expenses		**1,894**	1,333
Profit before finance costs attributable to unitholders		**22,237**	9,059
Finance costs attributable to unitholders			
Distributions to unitholders	9	**-**	(13,795)
Decrease in net assets attributable to unitholders	8	**-**	4,736
Profit/(loss) for the year		**22,237**	-
Other comprehensive income		**-**	-
Total comprehensive income attributable to unitholders		**22,237**	-

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

Statement of financial position

	Notes	**2019 $'000**	2018 $'000
Assets			
Cash and cash equivalents	10	**28,556**	3,932
Receivables	11	**16,872**	7,809
Financial assets held at fair value through profit or loss	12	**123,394**	73,042
Other assets		**824**	113
Properties held for sale	13	**18,752**	-
Investment properties	13	**50,400**	56,392
Total assets		**238,798**	141,288
Liabilities			
Distributions payable	9	**18,231**	8,203
Payables	14	**1,139**	329
Total liabilities (30 June 2018: excluding net assets attributable to unitholders)		**19,370**	8,532
Net assets attributable to unitholders - liability*	8	**-**	132,756
Net assets attributable to unitholders - equity*	8	**219,428**	-

**Net assets attributable to unitholders are classified as equity at 30 June 2019 and as a financial liability at 30 June 2018. Refer to note 1 for further details.*

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

Statement of changes in equity

	2019 **$'000**	2018 $'000
Balance at the beginning of the year*	**-**	-
Reclassification due to consolidation of Retail units with Wholesale units*	**132,756**	-
Comprehensive income for the year		
Profit for the year	**22,237**	-
Other comprehensive income	**-**	-
Total comprehensive income attributable to unitholders	**22,237**	-
Transactions with unitholders		
Applications	**109,282**	-
Redemptions	**(22,206)**	-
Units issued upon reinvestment of distributions	**3,605**	-
Distributions paid and payable	**(26,247)**	-
Total transactions with unitholders	**64,434**	-
Balance at the end of the year*	**219,427**	**-**

**Effective 1 April 2019, the Scheme's units have been reclassified from financial liability to equity. Refer to note 1 and note 8 for further details. As a result, statement of changes in equity has been disclosed for the year ended 30 June 2019 (2018: statement of changes in net assets attributable to unitholders - liability). The prior year comparative in note 8 shows units as financial liability.*

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

Statement of cash flows

	Notes	**2019 $'000**	2018 $'000
Cash flows from operating activities			
Interest received		**18**	5
Distributions received		**3,772**	1,925
Rental income received		**5,641**	6,312
Payments to suppliers		**(3,223)**	(2,859)
Net cash inflow from operating activities	18	**6,208**	5,383
Cash flows from investing activities			
Purchase of financial instruments held at fair value through profit or loss		**(54,780)**	(17,585)
Proceeds from sale of financial instruments held at fair value through profit or loss		**6,814**	12,104
Purchase of investment property		**(19,494)**	-
Acquisition costs on purchase		**(1,244)**	-
Payments for additions to owned investment properties		**(2,727)**	(762)
Proceeds from sale of investment property		**15,650**	-
Disposal costs paid		**(265)**	-
Net cash outflow from investing activities		**(56,046)**	(6,243)
Cash flows from financing activities			
Proceeds from applications by unitholders		**109,282**	55,273
Payments for redemptions by unitholders		**(22,206)**	(47,793)
Distributions paid		**(12,614)**	(6,663)
Net cash inflow from financing activities		**74,462**	817
Net increase/(decrease) in cash and cash equivalents		**24,624**	(43)
Cash and cash equivalents at the beginning of the year		**3,932**	3,975
Cash and cash equivalents at the end of the year	10	**28,556**	3,932

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

Notes to the financial statements

1 General information

These financial statements cover Australian Unity Property Income Fund ("the Scheme") as an individual entity. The Scheme was constituted on 1 December 1998 and will terminate on the 80th anniversary or earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Property Limited (ABN 58 079 538 499) (the "Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 15, 271 Spring Street, Melbourne, VIC 3000.

The Responsible Entity is incorporated and domiciled in Australia.

The financial statements are for the year 1 July 2018 to 30 June 2019.

The financial statements were authorised for issue by the directors of the Responsible Entity on 20 September 2019. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

On 1 April 2019, all Retail units were consolidated with Wholesale units, leaving only Wholesale units remaining in the Scheme. No other financial instruments are on issue that have total cash flows based substantially on profit and loss, the changes in the recognised net assets or the changes in the fair values of the recognised and unrecognised net assets of the Scheme. Consequently, the units in the Scheme have been reclassified from financial liability to equity on 1 April 2019, see note 8 for further information.

2 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The Scheme is a for-profit entity for the purposes of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within 12 months, except for investment properties, financial assets/(liabilities) held at fair value through profit or loss and net assets attributable to unitholders, where the amount expected to be recovered or settled within 12 months after the end of the year cannot be reliably determined.

(i) Compliance with Australian Accounting Standards and International Financial Reporting Standards
The financial statements of the Scheme comply with Australian Accounting Standards as issued by the AASB and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New accounting standards and amendments adopted by the Scheme
The Scheme applied the following accounting standards and amendments that became mandatory for the first time during the reporting period:

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has also introduced revised rules for hedge accounting and impairment. AASB 9 has been applied retrospectively by the Scheme and did not result in a change to the classification or measurement of the Scheme's financial instruments. The Scheme's investment portfolio continue to be classified as fair value through profit or loss. The derecognition rules have not been changed from the previous requirements and the Scheme does not apply hedge accounting. There was no material impact on the Scheme's financial statements from application of the new expected credit loss (ECL) impairment model.

AASB 15 *Revenue from Contracts with Customers* sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. The Scheme's main source of income includes rental income, distributions, interest and gains on financial instruments held at fair value through profit or loss. All of these are outside the scope of the Revenue standard. Consequently, the application of AASB 15 has no material impact on the Scheme's financial statements.

(iii) New accounting standards, amendments and interpretations not yet adopted

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for the 30 June 2019 reporting period and have not been early adopted by the Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

- AASB 16 *Leases* (effective 1 January 2019)

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

(b) Investment properties

Initially, investment properties are measured at the cost of acquisition, being the purchase consideration determined at the date of acquisition plus costs incidental to the acquisition. Costs incidental to acquisition may include legal fees, stamp duty and other government charges, professional fees preceding acquisition and where applicable financing charges incurred during the construction or development of an asset.

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

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

2 Summary of significant accounting policies (continued)

(b) Investment properties (continued)
Independent valuations of investment properties are obtained from suitably qualified valuers generally at least once in every 18 months if the property is in a construction phase; otherwise once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. Such valuations are reflected in note 13. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

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

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

(c) Financial instruments

(i) Classification
The classification depends on the Scheme’s business model for managing the financial instruments and the contractual terms of the relevant cash flows. The Scheme classifies its financial statements into the following measurement categories:

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

The Scheme's investments are classified as held at fair value through profit or loss. These may include investments in listed property trusts, unlisted property trusts and other unlisted trusts.

Financial assets and financial liabilities designated at fair value through profit or loss are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Amortised cost*

A financial asset is measured at amortised cost only if both of the following conditions are met:

(a) it is held within a business model which objective is to hold assets in order to collect contractual cash flows, and
(b) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

(ii) Recognition/derecognition
The Scheme recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
  (a) has transferred substantially all the risks and rewards of the asset; or
  (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Recognition/derecognition (continued)

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement
Financial assets and financial liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

For further details on how the fair values of financial instruments are determined please see Note 16 to the financial statements.

Borrowings and receivables/payables are measured initially at fair value plus transaction costs and subsequently are carried at amortised cost using the effective interest method.

(iv) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Net assets attributable to unitholders
Units are redeemable at the unitholders' option. The units can be put back to the Scheme for cash equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders.

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial Instruments: Presentation:*

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Scheme's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial instruments, or to exchange financial instruments with another entity under potentially unfavorable conditions to the Scheme, and it is not a contract settled in the Scheme's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

As at 30 June 2018, net assets attributable to unitholders are classified as a financial liability. Effective 1 April 2019, the Scheme's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

(e) Cash and cash equivalents
For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the statement of financial position.

2 Summary of significant accounting policies (continued)

(f) Investment income
Interest income is recognised in the statement of comprehensive income for all financial instruments using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(c).

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

Net gains/(losses) on financial assets and liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at the end of the year and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

(g) Expenses
All expenses, including property expenses, Responsible Entity's fees and custodian fees, are recognised in statement of comprehensive income on an accruals basis.

(h) Income tax
Under current legislation, the Scheme is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

(i) Distributions
In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. Where the Scheme's units are classified as liabilities, the distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders. Where the Scheme’s units are classified as equity, distributions are recognised in the statement of changes in equity as transactions with unitholders.

(j) Increase/decrease in net assets attributable to unitholders
Income not distributed is included in net assets attributable to unitholders. Where the Scheme’s units are classified as liabilities, movements in net assets attributable to unitholders are recognised in statement of comprehensive income as finance costs.

(k) Receivables
Receivables may include amounts for dividends, interest , rental income arrears, trust distributions and securities sold where settlement has not yet occurred. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

The Scheme applies the simplified expected credit loss approach in replacement of the incurred credit loss approach. Under the expected credit loss approach, the Scheme estimates the expected lifetime losses to be recognised from initial recognition of the receivables.

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

(l) Payables
Payables include liabilities and accrued expenses owed by the Scheme which are unpaid as at the end of the reporting period. These payables, which are generally settled on 30-90 day terms and are unsecured, are carried at amortised cost.

Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at the end of each reporting period are included in payables.

2 Summary of significant accounting policies (continued)

(l) Payables (continued)

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

Liabilities for trade creditors are carried at original invoice amount which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Scheme.

Payables to related parties are recognised and carried at the nominal amount due. They are carried at the nominal amount due to the short term nature of the payable. Interest is taken up as an expense on an accrual basis.

Provisions are recognised when the Scheme has a present obligation as a result of the past event and it is probable that the Scheme will be requested to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(m) Applications and redemptions

Applications received for units in the Scheme are recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined in accordance with the Scheme's Constitution by reference to the net assets of the Scheme divided by the number of units on issue.

(n) Goods and Services Tax (GST)

The statement of comprehensive income is shown exclusive of GST, unless the GST incurred (or part thereof) on expenses that are not recoverable. Expenses of various services provided to the Scheme by third parties, such as custodial services and investment management fees, may have non-recoverable GST components, as applicable. In these cases, the non-recoverable GST component is recognised as part of the particular expense in the statement of comprehensive income.

Accounts payable and receivable are stated inclusive of the GST receivable and payable, respectively. The net amount of GST recoverable, or payable, is included in receivables or payables in the statement of financial position.

Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue brought to account but not received at the end of the year is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

2 Summary of significant accounting policies (continued)

(o) Revenue (continued)

Rental revenue
Rental income is recognised on a straight line basis over the lease term.

Contingent rentals, such as turnover rent and market rent adjustments, are recognised as income in the financial reporting period in which they are earned.

Fixed rental increases which do not represent direct compensation for underlying cost increases or capital expenditure are recognised on a straight line basis over the term of the lease.

The rental adjustments resulting from this policy are disclosed in the financial statements for financial reporting presentation purposes only.

Incidental income (costs) derived from an investment property undergoing construction or development but not directly related to bringing the assets to the working condition, are recognised in profit for the year.

Rent not received at the end of the year is reflected in the statement of financial position as a receivable or if paid in advance, as a liability.

Interest revenue
Interest income is recognised in the statement of comprehensive income as it accrues.

(p) Leases

Leasing costs
Lease costs are costs that are directly associated with negotiating and arranging an operating lease (including commissions, legal fees and costs of preparing and processing documentation for new leases). These costs are capitalised and are amortised on a straight-line basis over the term of the lease as property expenses. The carrying amount of the leasing cost is reflected in the carrying value of investment properties.

Lease incentives
Incentives such as cash, rent-free periods, lessee or lessor owned fitouts may be provided to lessees to enter into an operating lease. These incentives are capitalised and are amortised on a straight-line basis over the term of the lease as a reduction of rental income or as property expenses. The carrying amount of the lease incentives is reflected in the carrying value of investment properties.

(q) Use of judgements and estimates

The preparation of the Scheme's financial statements requires it to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. However, estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements are made by the Scheme in respect of the fair values of investment properties. These investments are reviewed regularly by reference to external independent property valuations and market conditions, using generally accepted market practices.

The key weighted average assumptions used by the external independent property valuers in the latest valuations have been used by the Scheme for the investment properties and the weighted average total for all properties, including the weighted average lease expiry ("WALE"), have been disclosed in note 16.

2 Summary of significant accounting policies (continued)

(q) Use of judgements and estimates (continued)

The Scheme's financial instruments are valued primarily based on the prices provided by independent pricing services.

When the fair values of the reported financial instruments cannot be derived from active markets, they are determined using prices obtained from inactive or unquoted markets and/or other valuation techniques. The inputs to these valuation techniques (if applicable) are taken from observable markets to the extent practicable. Where observable inputs are not available, the inputs may be estimated based on a degree of judgements and assumptions in establishing fair values.

Where appropriate, the outcomes of the valuation techniques that are used in establishing fair values are validated using prices from observable current market transactions for similar instruments (without modification or repackaging) or based on relevant available observable market data.

The determination of what constitutes 'observable' requires significant judgement by the Scheme. The Scheme considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

In addition, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates and judgements. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

(r) Rounding of amounts

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

(s) Functional and presentation currency

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

(t) Structured entities

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

3 Rental income

	2019 $'000	2018 $'000
Rental income	**4,955**	5,355
Outgoings income	**466**	518
	5,421	5,873

Rental income includes an adjustment for the straight lining of rental income of $141,000 (2018: $55,000).

4 Property expenses

	2019 **$'000**	2018 $'000
Recoverable outgoings	**1,272**	1,352
Non-recoverable outgoings	**155**	159
Amortisation of lease commissions & lease incentives	**310**	296
	1,737	1,807

5 Distribution income

	2019 **$'000**	2018 $'000
Related unlisted managed investment schemes	**20,807**	9,887
Related listed property trust	**416**	396
Non-related unlisted managed investment scheme	**7**	-
	21,230	10,283

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

	2019 **$'000**	2018 $'000
Related unlisted managed investment scheme	**(7,357)**	(1,923)
Related listed property trust	**1,158**	711
Net unrealised losses on financial assets held at fair value through profit or loss	**(6,199)**	(1,212)
Related unlisted managed investment scheme	**(305)**	64
Net realised (losses)/gains on financial assets held at fair value through profit or loss	**(305)**	64
Total net losses on financial instruments held at fair value through profit or loss	**(6,504)**	(1,148)

7 Auditors' remuneration

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

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

	2019 **$**	2018 $
Audit services - PricewaterhouseCoopers		
Audit and review of financial statements	**20,000**	18,540
Taxation services - Ernst & Young		
Tax compliance services	**8,160**	8,160

8 Net assets attributable to unitholders

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Scheme shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions. Prior to 1 April 2019 the Scheme classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. Effective 1 April 2019, all Retail units were consolidated with Wholesale units, leaving only Wholesale units remaining in the Scheme. Therefore, the net assets attributable to unitholders of the Scheme meet the criteria set out under AASB 132 and are classified as equity from 1 April 2019 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Scheme's distributions are no longer classified as finance cost in the statement of comprehensive income, but rather as distributions paid in the statement of changes in equity.

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

Contributed equity	**2019 No. '000**	2018 No. '000	**2019 $'000**	2018 $'000
Opening balance	**138,463**	128,619	**162,069**	151,726
Retail units				
Applications	**6**	8	**6**	8
Redemptions	**(151)**	(205)	**(141)**	(195)
Units issued upon re-investment of distributions	**117**	78	**110**	73
Consolidation with Wholesale units	**(4,052)**	-	**(4,014)**	-
	(4,080)	(119)	**(4,039)**	(114)
Wholesale units				
Applications	**108,155**	55,139	**109,276**	55,265
Redemptions	**(22,092)**	(48,004)	**(22,065)**	(47,598)
Units issued upon reinvestment of distributions	**3,579**	2,828	**3,495**	2,790
Consolidation with Retail units	**3,894**	-	**4,014**	-
	93,536	9,963	**94,720**	10,457
Closing balance	**227,919**	138,463	**252,750**	162,069

Undistributed income	**2019 $'000**	2018 $'000
Opening balance	**(29,313)**	(24,577)
Decrease in net assets attributable to unitholders	**(4,010)**	(4,736)
Closing balance	**(33,323)**	(29,313)
Total net assets attributable to unitholders*	**219,427**	132,756

8 Net assets attributable to unitholders (continued)

*Net assets attributable to unitholders are classified as equity at 30 June 2019 and as financial liability at 30 June 2018.

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme.

Capital risk management

Daily applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

9 Distributions to unitholders

The distributions for the year were as follows:

Retail units	**2019 $'000**	**2019 CPU**	2018 $'000	2018 CPU
30 September	**44**	**1.0900**	47	1.1300
31 December	**44**	**1.0900**	45	1.1000
31 March	**53**	**1.3049**	45	1.0900
30 June (payable)	**-**	**0.0000**	221	5.4200
	141		358	
Wholesale units				
30 September	**1,975**	**1.4000**	1,735	1.4000
31 December	**2,570**	**1.4000**	1,849	1.4000
31 March	**3,330**	**1.6000**	1,871	1.4000
30 June (payable)	**18,231**	**7.9990**	7,982	5.9400
	26,106		13,437	
Total distributions	**26,247**		13,795	

10 Cash and cash equivalents

	2019 $'000	2018 $'000
Cash at bank	**737**	264
Cash management trusts	**27,819**	3,668
	28,556	3,932

11 Receivables

	2019	2018
	$'000	$'000
Trade receivables	**408**	125
Distribution receivable	**16,216**	7,641
GST receivables	**248**	43
	16,872	7,809

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

	2019	2018
	$'000	$'000
Related unlisted managed investment scheme	**101,727**	66,463
Related listed property trust	**7,737**	6,579
Non-related managed investment scheme	**13,930**	-
Total financial assets held at fair value through profit or loss	**123,394**	73,042

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

13 Investment properties

(a) Property details

	Type	Ownership	Acquisition date	Independent valuation date	Independent valuation amount	Independent valuer	Carrying value 2019	Carrying value 2018
		(%)			$'000		$'000	$'000
40 Allara Street, Canberra, ACT	Office	100	01/03/2006	31/12/2018	18,500	Savills	**18,752**	18,001
2-10 Bliss Court, Derrimut, VIC	Industrial	100	31/10/2018	02/10/2018	11,350	Savills	**12,240**	-
296 St. Vincent Street, Port Adelaide, SA	Office	100	28/06/2016	15/12/2018	9,000	Savills	**11,046**	7,241
Lot 6, 133 South Pine Road, Brendale, QLD	Industrial	100	12/06/2019	15/05/2019	7,025	JLL	**7,592**	-
23 Fiveways Boulevard, Keysborough, VIC	Industrial	100	26/05/2015	15/02/2019	6,900	Knight Frank	**6,942**	6,900
65 Beverage Drive, Tullamarine, VIC	Industrial	100	06/04/2001	31/07/2018	6,500	Knight Frank	**6,515**	6,300
10 International Square, Tullamarine, VIC	Industrial	100	28/04/2017	31/03/2019	4,850	Knight Frank	**4,850**	4,700
Lot 11 133 South Pine Road, Brendale, QLD	Industrial	100	12/06/2019	15/05/2019	1,120	JLL	**1,215**	-
1651-1657 Centre Road, Springvale, VIC	NA		31/10/2016	NA	NA	NA	**-**	13,250
Total					**65,245**		**69,152**	**56,392**
Less: Properties held for sale*							**(18,752)**	**-**
Total investment properties							**50,400**	**56,392**

* On 17 July 2019, the Scheme exchanged a contract of sale for 40 Allara Street, Canberra, ACT for a sale price of $23,000,000. The contract of sale was subject to conditions precedent that were met on 24 July 2019. Settlement is expected to occur on or about 30 June 2020.

13 Investment properties (continued)

(a) Property details (continued)

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

The investment properties valuation policy is included in note 16.

(b) Movements in carrying amount

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

	2019 $'000	2018 $'000
Opening balance	**56,392**	59,183
Acquisitions	**20,933**	-
Additions	**2,760**	801
Disposal	**(15,650)**	-
Realised gain on disposal	**2,135**	-
Reclassified as properties held for sale	**(18,752)**	-
Revaluation movements	**2,751**	(3,351)
Straight-lining of rental income	**141**	55
Lease commissions and incentives amortisation	**(310)**	(296)
Closing balance	**50,400**	56,392

On 17 August 2018, the Scheme sold 1651-1657 Centre Road, Springvale, VIC for a consideration of $15,650,000, excluding selling costs of $265,000. The Scheme recognised a gain of $2,135,000 from the sale of the property.

On 31 October 2018, the Scheme completed the purchase of 2-10 Bliss Court, Derrimut, VIC at a purchase price of $11,350,000 and acquisition costs of $775,000.

On 12 June 2019, the Scheme completed the purchase of Lots 6 and 11, 133 South Pine Road, Brendale, QLD for purchase prices of $7,025,000 and $1,119,000, respectively, and acquisition costs of $567,000 and $96,000, respectively.

(c) Contractual obligations

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

	2019 $'000	2018 $'000
Within one year	**-**	488
	-	488

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

14 Payables

	2019 $'000	2018 $'000
Trade payables	**108**	116
Rent received in advance	**222**	-
Accrued expenses	**667**	68
GST payables	**142**	145
	1,139	329

15 Financial risk management

(a) Objectives, strategies, policies and processes

The Scheme's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's disclosure documents and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed. Financial risk management is carried out by the Investment Manager ("the Investment Manager") under policies approved by the Board of Directors of the Responsible Entity ("the Board").

The Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, other price risks, and ratings analysis for credit risk.

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

(b) Market risk

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

The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme.

(i) Price risk

Price risk is the risk that the fair value or future cash flows of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk exposure arises from the Scheme's investment in listed and unlisted property securities. The investments are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

The Investment Manager mitigates this price risk through diversification and a careful selection of financial instruments within specified limits set by the Board.

The Scheme has exposures to price risk as shown in the table below. The table also demonstrates the sensitivity to reasonably possible changes in prices, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit and net assets attributable to unitholders, while a positive amount reflects a net potential increase. There is no impact on distributable earnings as they are net fair value movements only.

15 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk (continued)

	2019 $'000	2018 $'000
Assets		
Related unlisted managed investment scheme	**101,727**	66,463
Related listed property trusts	**7,737**	6,579
Non-related unlisted managed investment scheme	**13,930**	-
Total exposure	**123,394**	73,042

Sensitivity	**Impact on profit and net assets attributable to unitholders**	
	2019 $'000	2018 $'000
Securities prices + 10% (2018: +10%)	**12,339**	7,304
Securities prices - 10% (2018: -10%)	**(12,339)**	(7,304)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is not considered to be significant to the Scheme, as the Scheme does not have any borrowings.

(c) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Scheme to make a financial loss. The Scheme has exposure to credit risk on all of its financial assets included in the Scheme's statement of financial position.

The Scheme manages this risk by performing credit reviews of prospective tenants, obtaining tenant collateral where appropriate and performing detailed reviews on tenant arrears. The Scheme reviews the aggregate exposures of tenant debtors and tenancies across its portfolio.

The Scheme applies the simplified expected credit loss (ECL) approach to estimate the amount of impairment loss. Under the simplified ECL approach, the Scheme estimates the expected lifetime losses to be recognised from initial recognition of the receivables. In estimating the lifetime ECL, the Scheme conducts an internal credit review that takes into account the historical loss experience, current observable data and reasonable forward-looking information as available, which include the significant changes in the performance and payment status of the debtors and anticipated significant adverse changes in business, financial or economic conditions that may impact the debtors' ability to meet its obligations. The additional provision during the current financial year was immaterial.

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

15 Financial risk management (continued)

(d) Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme is exposed to the applicable withdrawal offer put in place by the Responsible Entity.

The Scheme's investments may include listed securities that are considered readily realisable, as they are listed on recognised stock exchanges.

The Scheme may invest in investments in unlisted unit trusts that expose the Scheme to the risk that the Investment Manager of those trusts may be unwilling or unable to fulfil the redemption requests within the timeframe requested by the Scheme.

Under the terms of its Constitution, the Scheme has the ability to manage liquidity risk by delaying withdrawals to unitholders, if necessary, until the funds are available to pay them.

Units are redeemed on demand at the unitholders option via withdrawal facility offers by the Responsible Entity. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term and withdrawal offers are subject to limits set by the Responsible Entity.

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

Maturities analysis of financial liabilities
The table below analyses the Scheme's financial liabilities into relevant maturity groupings based on the remaining period at the end of the year to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Financial liabilities such as trade payables, where there are no specific contractual settlement dates, have been grouped into the 'less than 1 year' maturity grouping as such liabilities are typically settled within 30 days.

2019	**Less than 1 year $'000**	**1-2 years $'000**	**2-3 years $'000**	**3+ years $'000**
Distributions payable	**18,231**	**-**	**-**	**-**
Payables	**1,139**	**-**	**-**	**-**
Total financial liabilities	**19,370**	**-**	**-**	**-**

2018	Less than 1 year $'000	1-6 years $'000	2-3 years $'000	3+ years $'000
Distributions payable	8,203	-	-	-
Payables	329	-	-	-
Net assets attributable to unitholders	132,756	-	-	-
Total financial liabilities	141,288	-	-	-

15 Financial risk management (continued)

(d) Liquidity risk (continued)

As disclosed above, the Scheme manages its liquidity risk by investing in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents, listed property trusts and unlisted managed schemes that invest primarily into listed property trusts. As at 30 June 2019, these assets amounted to $105,760,000 (2018: $46,790,000).

(e) Estimation of fair values of financial assets and financial liabilities

The carrying amounts of the Scheme's assets and liabilities at the end of each year approximate their fair values.

The Scheme values its investments in accordance with the accounting policies set out in note 16.

16 Fair value hierarchy

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

(a) Fair value hierarchy

The Scheme is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Financial assets held at fair value through profit or loss				
Related listed property trust	**7,737**	**-**	**-**	**7,737**
Related unlisted managed investment scheme	**-**	**101,727**	**-**	**101,727**
Non-related listed property trust	**-**	**13,930**	**-**	**13,930**
Total financial assets	**7,737**	**115,657**	**-**	**123,394**
Non-financial assets				
Properties held for sale	**-**	**-**	**18,752**	**18,752**
Investment properties	**-**	**-**	**50,400**	**50,400**
Total non-financial assets	**-**	**-**	**69,152**	**69,152**

16 Fair value hierarchy (continued)

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

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year. There are no transfers between levels 1, 2 and 3 for fair value measurements during the year (2018: $nil).

(b) Valuation techniques

(i) Financial instruments
The pricing for the majority of the Scheme's investments is generally sourced from independent pricing sources, the relevant Investment Managers or reliable brokers' quotes.

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed property trusts and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted property trusts and over-the-counter derivatives.

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

Specific valuation techniques used daily to value financial instruments include:

- for listed trust, disclosed in level 1, the use of quoted market prices or dealer for similar instruments;
- for unlisted trust, the use of the relevant Investment Managers’ quoted unit prices using the net asset value; and
- for derivatives, the fair value of interest rate swaps is calculated using a discounted cash flow model as the present value of the estimated future cash flows based on observable yield curves.

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

- Discounted cash flow method - this methodology involves formulating a projection of net income over a specified time horizon, normally 10 years, and discounting this cash flow including the projected terminal value at the end of the projection period at an appropriate market-derived discount rate. The present value of this discounted cash flow provides a guide to the fair value of the property;
- Income capitalisation method - this methodology involves the assessment of a net market income for the various components of the subject property. The net market income is capitalised at a rate derived from the analysis of comparable sales evidence to derive a capital value. Appropriate capital adjustments are then made where necessary to reflect the adopted cash flow profile and the general risk characteristic of the property; and

16 Fair value hierarchy (continued)

- Direct comparison method - this methodology identifies comparable sales on a dollar per square metre of lettable area and compares the equivalent rates to the subject property to establish the property's market value. This approach is somewhat subjective given the fact that specific items of income and expenditure are difficult to directly reflect and compare when adopting a rate per metre.

At each reporting date the appropriateness of those valuations is assessed by the Responsible Entity.

The stated fair value of each investment property at the end of the year represents the Responsible Entity's best estimate as at the end of the year. However, if an investment property is sold in the future the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the financial statements if that differs from the valuation.

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

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

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

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

(i) Valuation inputs and relationship to fair value
The table below illustrates the key valuation assumptions used in the determination of the investment properties fair value:

Valuation inputs	**2019**	2018	**Relationship of inputs to fair value**
Weighted average capitalisation rate (%)	**7.06%**	7.83%	The higher the capitalisation rate, the lower the fair value.
Occupancy rate by by income (%)	**89.54%**	88.73%	The higher the occupancy rate, the higher the fair value.
Weighted average lease expiry (years)	**2.98 years**	1.70 years	The higher the lease expiry, the higher the fair value.

(ii) Valuation processes
Independent valuations of investment properties are obtained from suitably qualified valuers generally at least once in every 18 months if the property is in a construction phase; otherwise once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. Such valuations are reflected in note 13. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

(d) Fair value of other financial instruments
Due to their short-term nature, the carrying amounts of the receivables and payables are assumed to approximate their fair values.

17 Related party transactions

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

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

Rohan Mead, Chairman and Group Managing Director
David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer
Esther Kerr-Smith, Group Executive Finance & Strategy
Amanda Hagan, Group Executive Customer, Digital & Technology (appointed 12 October 2018)

(b) Other key management personnel
There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the year.

Other transactions within the Scheme
From time to time directors of Australian Unity Property Limited, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme unitholders and are trivial in nature.

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

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

The transactions during the year and amount payable at 30 June 2019 between the Scheme and the Responsible Entity were as follows:

	2019 **$**	2018 $
Management fees for the year paid and payable by the Scheme to the Responsible Entity	**1,720,604**	1,265,673
Administration expenses incurred by the Responsible Entity which are reimbursed in accordance with the Scheme's Constitution	**91,935**	66,326
Fees rebated by the Responsible Entity in respect of investments by the Scheme in other schemes managed by the Responsible Entity and its related parties	**817,485**	537,143
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	**98,529**	63,340

17 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

(a) Other related party transactions
Australian Unity Property Management Pty Ltd (a related party of the Responsible Entity) has been appointed to provide a number of property related services to the Scheme. These services include:

- Leasing and agency services;
- Market rent reviews;
- Property management services;
- Project management services;
- Development management services; and
- Debt arrangement services

The total fees paid/payable to Australian Unity Property Management Pty Ltd for the year ended 30 June 2019 was $525,291 (2018: $nil). Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2019 was $497,577 (2018: $nil).

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

Related party unitholdings
Parties related to the Scheme (including Australian Unity Property Limited, its related parties and other schemes managed by Australian Unity Property Limited), held units in the Scheme as follows:

2019

Unitholder	No. of units held opening '000	No. of units held closing '000	Fair value of investment* $'000	Interest held (%)	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme $'000
Lifeplan Australia Friendly Society	15,247	13,924	14,491	6.11	2,985	(4,308)	1,708
AUFM No. 2	3,070	3,493	3,635	1.53	552	(129)	431
AUFM No. 3	2,800	2,455	2,555	1.08	468	(813)	310
Australian Unity Balanced Growth Portfolio	2,797	2,285	2,378	1.00	276	(789)	286
AUFM No. 1	822	878	914	0.39	170	(113)	108
Australian Unity Health Limited	-	1	1	0.00	1	-	-
Total	24,736	23,036	23,974	10.11	4,452	(6,152)	2,843

17 Related party transactions (continued)

Related party unitholdings (continued)

2018

Unitholder	No. of units held opening '000	No. of units held closing '000	Fair value of investment* $'000	Interest held (%)	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme $'000
Lifeplan Australia Friendly Society	22,262	15,247	15,512	11.03	4,943	(11,958)	1,724
Australian Unity Property Securities Fund	1,869	-	-	0.00	113	(1,982)	54
AUFM No. 2	2,590	3,070	3,124	2.22	480	-	296
AUFM No. 3	2,042	2,800	2,849	2.02	758	-	268
Australian Unity Balanced Growth Portfolio	2,959	2,797	2,846	2.02	218	(380)	290
Federation Managed Accounts**	1,377	1,310	1,332	0.95	246	(313)	143
AUFM No. 1	490	822	836	0.59	332	-	76
Federation Managed Fund**	646	168	171	0.12	265	(743)	44
Australian Unity Health Limited	1,154	-	-	0.00	602	(1,756)	-
Total	35,389	26,214	26,670	18.95	7,957	(17,132)	2,895

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

**Ceased to be a related party unitholder from 22 March 2019.

17 Related party transactions (continued)

Investments
The Scheme held investments in the following schemes which are also managed by Australian Unity Property Limited or its related parties:

2019	No. of units held opening '000	No. of units held closing '000	Fair value of investment $'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions received/ receivable $'000
Australian Unity A-REIT Fund	**32,008**	**68,854**	**69,467**	**91.80**	**40,411**	**(3,565)**	**17,023**
Australian Unity Wholesale Cash Fund	**3,668**	**27,819**	**27,819**	**5.20**	**106,319**	**(82,168)**	**632**
Australian Unity Diversified Property Fund	**7,456**	**11,075**	**11,465**	**5.50**	**3,619**	**-**	**585**
Australian Unity Retail Property Fund - Wholesale units	**8,558**	**8,330**	**10,940**	**5.79**	**-**	**(228)**	**600**
Australian Unity Healthcare Property Trust - Wholesale units	**4,217**	**5,526**	**9,855**	**0.75**	**1,309**	**-**	**413**
Australian Unity Office Fund	**2,632**	**2,632**	**7,737**	**1.62**	**-**	**-**	**416**
Australian Unity Rockdale Property Trust	**2,725**	**-**	**-**	**0.00**	**-**	**(2,725)**	**1,496**
Australian Unity Healthcare Property Trust - Funding Units	**1,980**	**-**	**-**	**0.00**	**-**	**(1,980)**	**59**
	63,245	**124,236**	**137,282**		**151,658**	**(90,666)**	**21,223**

17 Related party transactions (continued)

Investments (continued)

2018	No. of units held opening '000	No. of units held closing '000	Fair value of investment $'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions received/ receivable $'000
Australian Unity A-REIT Fund	24,605	32,008	36,278	71.34	15,336	(7,933)	7,953
Australian Unity Wholesale Cash Fund	3,652	3,668	3,668	0.49	42,987	(42,971)	47
Australian Unity Diversified Property Fund	2,309	7,456	7,417	3.82	6,129	(982)	228
Australian Unity Retail Property Fund - Wholesale units	9,744	8,559	10,765	5.70	-	(1,185)	643
Australian Unity Healthcare Property Trust - Wholesale units	3,888	4,217	7,226	0.55	329	-	406
Australian Unity Office Fund	2,269	2,632	6,579	1.62	363	-	396
Australian Unity Rockdale Property Trust	2,725	2,725	2,792	27.53	-	-	263
Australian Unity Healthcare Property Trust - Funding Units	-	1,980	1,985	0.15	1,980	-	34
Australian Unity Diversified Property Fund - Class A units	6,129	-	-	0.00	-	(6,129)	313
	55,320	63,245	76,710		67,124	(59,200)	10,283

Distributions received/receivable includes an amount of $16,210,067 (2018: $7,641,176) which remains unpaid at the end of the year.

18 Reconciliation of profit to net cash inflow from operating activities

	2019 $'000	2018 $'000
Profit/(loss) for the year attributable to unitholders	**22,237**	-
Decrease in net assets attributable to unitholders	**-**	(4,736)
Change in fair value of the investment properties - revaluation (decrement)/increment	**(2,751)**	3,351
Realised gain on sale of investment property	**(2,135)**	-
Net gains on financial instruments held at fair value through profit or loss	**6,504**	1,148
Reinvestments of financial instruments held at fair value through profit or loss	**(8,890)**	(5,135)
Increase in receivables	**(9,063)**	(3,227)
Increase in accounts payables/liabilities	**461**	-
Increase in other assets	**(711)**	(15)
Adjustments to net lease incentives and straight line rental	**556**	202
Distribution to unitholders	**-**	13,795
Net cash inflow from operating activities	**6,208**	5,383

19 Events occurring after end of the financial year

On 17 July 2019, the Scheme exchanged a contract of sale for 40 Allara Street, Canberra, ACT for a sale price of $23,000,000. The contract of sale was subject to conditions precedent that were met on 24 July 2019. Settlement is expected to occur on or about 30 June 2020.

On 8 August 2019, the Scheme completed the purchase of 40 Scanlon Drive, Epping, VIC for a consideration of $13,300,000, excluding acquisition costs of $872,000.

On 29 August 2019, the Scheme completed the purchase of 17 Byres Street, Newstead, QLD for a consideration of $11,000,000, excluding acquisition costs of $661,000.

The directors of the Responsible Entity are not aware of any other matter or circumstance arising since 30 June 2019 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2019 or on the results and cash flows of the Scheme for the year ended on that date.

20 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2019 and 30 June 2018.

Commitments arising form contracts principally relating to capital expenditure on investment properties which are contracted for at reporting date but not recognised on the consolidated statement of financial position are $nil (2018: $218,000).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 6 to 35 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2019 and of its performance, as represented by the results of its operations and cash flows for the year ended on that date.

(b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable,

(c) the financial statements are in accordance with the Scheme's Constitution, and

(d) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

Director

Director

20 September 2019

Independent auditor's report

To the unitholders of Australian Unity Property Income Fund

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Scheme's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2019
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the director's declaration.

Basis for opinion

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

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

Independence

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

Other information

The directors of Australian Unity Property Limited (the "Responsible Entity") are responsible for the other information. The other information comprises the information included in the directors' report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Australian Unity Property Income Fund for the year ended 30 June 2019 included on Australian Unity's web site. The directors of the Responsible Entity of the Scheme are responsible for the integrity of Australian Unity's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

George Sagonas
Partner

Melbourne
20 September 2019