Australian Unity Diversified Property Fund

ARSN 106 724 038

Annual financial report
for the year ended 30 June 2016

Australian Unity Diversified Property Fund (formerly known as AUDPF No.1 Trust)

ARSN 106 724 038

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Directors' report

The directors of Australian Unity Property Limited (ABN 58 079 538 499), the Responsible Entity of Australian Unity Diversified Property Fund (formerly known as AUDPF No.1 Trust) ("the Scheme"), present their report together with the consolidated financial statements of the Scheme for the year ended 30 June 2016.

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 (appointed Chairman 30 June 2016)
David Bryant, Chief Executive Officer, Investments and Chief Investment Officer
Kevin McCoy, Chief Financial Officer
Glenn Barnes, Chairman (resigned 30 March 2016)
Melinda Cilento, Non-Executive Director (resigned 30 June 2016)
Stephen Maitland, Non-Executive Director (resigned 30 June 2016)
Su McCluskey, Non-Executive Director (appointed 28 October 2015, resigned 30 June 2016)
Peter Promnitz, Non-Executive Director and appointed Chairman from 30 March 2016 (resigned 30 June 2016)
Greg Willcock, Non-Executive Director (resigned 30 June 2016)

Principal activities
The Scheme aims to provide unitholders with regular income and the opportunity for long term capital growth. The Scheme primarily invests in direct property assets, unlisted property investments and listed Australian REITs.

With effect from 29 July 2015, the Scheme was destapled with AUDPF No.2 Trust (ARSN 119 620 790) which commenced winding up on 31 July 2015. This had the effect of collapsing the Stapled Scheme Australian Unity Diversified Property Trust (formerly Australian Unity Diversified Property Fund) (ARSN 119 620 674) leaving the Scheme to continue to hold the assets. Unitholders retain units in the Scheme and there is no impact to unitholders.

Review and results of operations
Capital raising period
On 31 August 2015, the unitholders of the Scheme voted in favour of a proposal to amend the Scheme's Constitution to enable a capital raising period of up to twelve months. From 3 September 2015, new Class A units in the Scheme were offered at a 5% discount to the net asset value per unit. All money raised by issuing new Class A units was used to fund redemptions sought under a Special Withdrawal facility for unitholders. The Class A unit offer was closed effective 2 June 2016 once sufficient equity had been raised to cover the Special Withdrawal facility.

Class A units cannot be redeemed during the period of two years commencing from 3 June 2016. After this period, Class A units will automatically convert to "Ordinary" units and will be able to participate in subsequent withdrawal offers. Class A units rank equally with Ordinary units in all other respects, including fees, distributions and voting.

Property valuations
The current year revaluations were in total above the revalued properties carrying values resulting in recording a net revaluation fair value increment of $13,917,959 (2015: $2,731,676).

Property acquisitions
On 30 September 2015, the Scheme completed the purchase of 19 Corporate Drive, Rowville, VIC for a purchase price of $15,100,000 and acquisition costs of $1,085,847.

Derivatives
In the current year, the Scheme recognised a net loss on derivative instruments held at fair value through profit or loss of $1,207,296 (2015: loss of $1,249,956).

Review and results of operations (continued)

Results
For the year ended 30 June 2016, the Scheme's unit posted a total return of 19.50% (split between a distribution return of 9.14% and growth return of 10.36%)*.

Unit price (ex distribution) as at 30 June 2016 (2015) are as follows:
Ordinary units $0.8505 ($0.7707)
Class A units $0.8505

*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 consolidated financial statements. Return calculations assume reinvestment of distributions.

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

	2016 **$'000**	2015 $'000
Profit before finance costs attributable to unitholders	**26,490**	12,373
Distributions - Ordinary units		
Distribution paid and payable	**10,296**	11,335
Distributions - Class A units		
Distribution paid and payable	**1,565**	-

Significant changes in state of affairs
In the opinion of the directors, there were no 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 financial year
No matter or circumstance has arisen since 30 June 2016 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 19 to the consolidated financial statements.

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

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

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 19 to the consolidated 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 consolidated financial statements.

The value of the Scheme's assets and liabilities is disclosed in the consolidated statement of financial position and derived using the basis set out in note 2 to the consolidated 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 Class Order 2016/191 (as amended) issued by Australian Securities and Investments Commissions relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, where indicated.

Presentation of consolidated financial statements by stapled entities
The Scheme presents consolidated financial statements following the application of Class Order 13/1050 issued by the Australian Securities and Investments Commissions which allows issuers of stapled securities (stapled entities) to present consolidated financial statements.

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

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

Director

Director

8 September 2016

Building a better
working world

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Auditor's Independence Declaration to the Directors of Australian Unity Property Limited as responsible entity for Australian Unity Diversified Property Fund

As lead auditor for the audit of Australian Unity Diversified Property Fund for the financial year ended 30 June 2016, I declare 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.

This declaration is in respect of Australian Unity Diversified Property Fund and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Luke Slater

Luke Slater
Partner
Melbourne

8 September 2016

Consolidated statement of comprehensive income

	Notes	2016 $'000	2015 $'000
Income			
Rental income	3	**27,743**	26,077
Property expenses	4	**(10,094)**	(9,520)
Net property income/loss		**17,649**	16,557
Interest income		**64**	38
Distribution income	5	**1,768**	2,003
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	**510**	(1,305)
Other operating income		**414**	978
Net fair value increment of investment properties	13(b)	**13,918**	2,732
Realised gain on disposal of investment property	13(b)	**-**	(1,540)
Total income net of property expenses		**34,323**	19,463
Expenses			
Responsible Entity's fees	19	**900**	783
Borrowing costs		**6,312**	5,561
Other expenses		**621**	746
Total expenses		**7,833**	7,090
Profit before finance costs attributable to unitholders		**26,490**	12,373
Finance costs attributable to unitholders			
Distributions to unitholders	9	**(11,861)**	(11,335)
Increase in net assets attributable to unitholders	8	**(14,629)**	(1,038)
Total comprehensive income for the year attributable to unitholders		**-**	-

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

Consolidated statement of financial position

	Notes	**2016 $'000**	2015 $'000
Assets			
Cash and cash equivalents	10	**1,717**	2,137
Receivables	11	**1,324**	1,623
Prepaid expenses		**117**	125
Financial assets held at fair value through profit or loss	12	**21,988**	20,320
Investment properties	13	**266,522**	231,883
Total assets		**291,668**	256,088
Liabilities			
Distributions payable	9	**3,021**	2,804
Payables	14	**2,187**	2,193
Financial liabilities held at fair value through profit or loss	12	**3,276**	2,069
Borrowings	15	**127,484**	109,597
Total liabilities (excluding net assets attributable to unitholders)		**135,968**	116,663
Net assets attributable to unitholders	8	**155,700**	139,425

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

Consolidated statement of changes in net assets attributable to unitholders

	2016 $'000	2015 $'000
Balance at the beginning of the year	**139,425**	140,108
Profit before finance costs attributable to unitholders	**26,490**	12,373
Distributions to unitholders	**(11,861)**	(11,335)
Applications of units	**39,291**	4,652
Redemptions of units	**(38,738)**	(7,105)
Units issued upon re-investment of distributions	**1,093**	732
Balance at the end of the year	**155,700**	139,425

The above consolidated statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

	Notes	**2016 $'000**	2015 $'000
Cash flows from operating activities			
Interest received		**64**	38
Distributions received		**2,098**	2,591
Rental income received		**27,616**	27,119
Payment to suppliers		**(11,927)**	(10,571)
Net cash inflow from operating activities	20(a)	**17,851**	19,177
Cash flows from investing activities			
Capital expenditure on owned investment properties		**(3,707)**	(3,257)
Lease commissions and incentives paid		**(851)**	(302)
Purchase of investment property		**(15,100)**	(45,550)
Acquisition costs on purchase		**(1,086)**	(3,106)
Proceeds from sale of investment property		**-**	9,400
Disposal costs paid		**-**	(185)
Proceeds from partial sale of investment in a controlled entity		**-**	10,489
Proceeds from sale of financial instruments held at fair value through profit or loss		**49**	-
Net cash outflow from investing activities		**(20,695)**	(32,511)
Cash flows from financing activities			
Borrowing costs paid		**(6,012)**	(5,371)
Proceeds of borrowings		**18,434**	33,269
Distributions paid		**(10,551)**	(11,224)
Proceeds from applications by unitholders		**39,291**	4,652
Payments for redemptions by unitholders		**(38,738)**	(7,105)
Net cash inflow from financing activities		**2,424**	14,221
Net (decrease)/increase in cash and cash equivalents		**(420)**	887
Cash and cash equivalents at the beginning of the year		**2,137**	1,250
Cash and cash equivalents at the end of the year	10	**1,717**	2,137

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

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1 General information

These consolidated financial statements cover Australian Unity Diversified Property Fund (formerly known as AUDPF No.1 Trust) ("the Scheme") and its controlled entities. The Scheme was constituted on 14 October 2003. The Scheme will terminate on the 80th anniversary or earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Property Limited (ABN 58 079 538 499) ('the Responsible Entity'), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

With effect from 29 July 2015, the Scheme was destapled with AUDPF No.2 Trust (ARSN 119 620 790) which commenced winding up on 31 July 2015. This had the effect of collapsing the Stapled Scheme Australian Unity Diversified Property Trust (formerly Australian Unity Diversified Property Fund) (ARSN 119 620 674) leaving the Scheme to continue to hold the assets. Unitholders retain units in the Scheme and there is no impact to unitholders.

The controlled entities of the Scheme comprise:
• AUDPF No. 1 Sub-Trust No. 1 (AUDPF-ST1) which was established by Trust Deed dated 21 August 2006;
• AUDPF No. 1 Sub-Trust No. 2 (AUDPF-ST2) which was established by Trust Deed dated 21 August 2006;
• AUDPF No. 1 Sub-Trust No. 3 (AUDPF-ST3) which was established by Trust Deed dated 21 August 2006;
• AUDPF No. 1 Sub-Trust No. 6 (AUDPF-ST6) which was established by Trust Deed dated 11 October 2006;
• AUDPF No. 1 Sub-Trust No. 7 (AUDPF-ST7) which was established by Trust Deed dated 30 August 2007;
• AUDPF No. 1 Sub-Trust No. 8 (AUDPF-ST8) which was established by Trust Deed dated 3 October 2007;
• AUDPF No. 1 Sub-Trust No. 9 (AUDPF-ST9) which was established by Trust Deed dated 3 October 2007;
• AUDPF No. 1 Sub-Trust No. 10 (AUDPF-ST10) which was established by Trust Deed dated 17 December 2007;
• AUDPF No. 1 Sub-Trust No. 11 (AUDPF-ST11) which was established by Trust Deed dated 23 October 2007; and
• AUDPF No. 1 Sub-Trust No. 12 (AUDPF-ST12) which was established by Trust Deed dated 17 December 2007.

The consolidated financial statements are for the period from 1 July 2015 to 30 June 2016.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 8 September 2016. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated 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 consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

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

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

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The consolidated 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 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 consolidated financial statements of the Scheme comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board ("AASB") and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated financial statements of the Scheme have been prepared on a consolidated basis to provide the end users of the financial information with the most appropriate information in making financial decisions.

The consolidated financial statements are presented in the local reporting currency being Australian dollars.

(ii) Amended standards adopted by the Scheme
There are no new standards or amendments to standards that became mandatory for the first time during the year.

(b) Principles of consolidation
The Scheme presents consolidated financial statements following the application of Class Order 13/1050 issued by the Australian Securities and Investments Commission which allows issuers of stapled securities (stapled entities) to present consolidated financial statements.

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by the Scheme as at 30 June 2016 and their results for the year then ended. The Scheme and its subsidiaries together are referred to in this financial report as the consolidated entity.

Subsidiaries are all entities over which the Scheme is exposed, or has rights, to variable returns from its involvement with the subsidiary and the ability to affect those returns through its powers over the subsidiaries.

Consolidation of subsidiaries begins from the date the Scheme obtains control of the subsidiary and ceases when the Scheme loses control of the subsidiary.

The acquisition method of accounting is used to account for business combinations by the Scheme.

All transactions (including gains and losses) and balances between entities in the consolidated group 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 Scheme.

Investments in subsidiaries are accounted for at fair value through profit or loss in the individual financial statements of the parent entity.

(c) 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 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.

2 Summary of significant accounting policies (continued)

(c) Investment properties (continued)
Independent valuations of investment properties are obtained at intervals of generally one year from suitably qualified valuers. Less frequent valuations are permissible, however the intervals between such valuations are not to exceed three years. Such valuations are reflected in the consolidated financial statements of the Scheme. 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.

(d) Financial instruments

(i) Classification
- *Financial instruments designated at fair value through profit or loss*

The Scheme's investments are classified as held at fair value through profit or loss. They comprise:

- *Financial instruments designated at fair value through profit or loss upon initial recognition*
  These include financial assets and liabilities that are not held for trading purposes and which may be sold. These may include investments in listed property trusts, unlisted property trusts and other unlisted trusts.

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

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

- *Loans and receivables/payables*

Loans and receivables/payables are non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. This category includes short term receivables/payables.

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

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

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised as realised gains or losses on financial instruments.

2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Measurement

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

- *Fair value in an active market*
  The fair value of financial assets and financial liabilities traded in active markets is based on their quoted market prices at the end of the year without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

  A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

- *Borrowings and receivables/payables*
  Borrowings and receivables/payables are measured initially at fair value plus transaction costs.

  Subsequently, borrowings are carried at amortised cost using the effective interest method. Short term receivables/payables are carried at their initial fair values.

(iv) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

(e) Derivatives
In order to minimise exposure to fluctuations in interest rates, the Scheme may use a combination of interest rate swaps and options to ensure that the rate of interest on debt is predominantly fixed. Derivative financial instruments are not held for speculative purposes and are carried on the consolidated statement of financial position at fair value. Changes in fair value are recognised in the consolidated statement of comprehensive income.

Interest payments and receipts under interest rate swap contracts are recognised on an accrual basis in the consolidated statement of comprehensive income, as an adjustment to interest expense when the hedge transaction occurs.

(f) Net assets attributable to unitholders
Units are redeemable at the unitholders' option via withdrawal facility offers by the Responsible Entity and are therefore classified as financial liabilities. The units can be put back to the Scheme for cash equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the year if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the consolidated statement of comprehensive income as they arise.

2 Summary of significant accounting policies (continued)

(g) Cash and cash equivalents

For the purpose of presentation in the consolidated 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 consolidated statement of financial position.

Payments and receipts relating to the purchase and sale of financial assets are classified as cash flows from operating activities, as movements in the fair value of these financial assets represent the Scheme's main income generating activity.

(h) Investment income

Interest income is recognised in the consolidated 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(d).

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 consolidated financial statements.

(i) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in consolidated statement of comprehensive income on an accruals basis.

(j) Income tax

Under current legislation, the Scheme is not subject to income tax as unitholders are presently entitled to the income of the Scheme.

Properties and financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefit of imputation credits and foreign tax paid, if any, are passed on to unitholders.

(k) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the consolidated statement of comprehensive income as finance costs attributable to unitholders.

(l) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in consolidated statement of comprehensive income as finance costs.

(m) 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 year from the time of last payment in accordance with the policy set out in note 2h 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.

2 Summary of significant accounting policies (continued)

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

The amount of the impairment loss is recognised in the consolidated statement of comprehensive income 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 property expenses in the consolidated statement of comprehensive income.

(n) Payables
Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the year.

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 year are included in payables.

The distribution amount payable to unitholders as at the end of each year is recognised separately in the consolidated 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.

(o) 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.

(p) Borrowings and borrowing costs
All loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with borrowings.

After initial recognition, loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the consolidated statement of comprehensive income when liabilities are derecognised or impaired.

There were no gains or losses in relation to loans taken to profit for the current year.

2 Summary of significant accounting policies (continued)

(q) Goods and Services Tax (GST)

The income statement 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 income statement.

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 consolidated statement of financial position.

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

(r) Revenue

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

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

Contingent rentals, such as turnover rent and market rent adjustments, are recognised as income in the financial year 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 consolidated 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 consolidated statement of financial position as a receivable or if paid in advance, as a liability.

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

(s) 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 a reduction of rental income or an increase in property outgoings. The carrying amount of the leasing cost is reflected in the fair 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 an increase in property outgoings. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

2 Summary of significant accounting policies (continued)

(t) Use of judgements and estimates
The preparation of the Scheme's consolidated 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 18.

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.

(u) New accounting standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting period and have not been early adopted by the Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has now also introduced revised rules for hedge accounting and impairment. The Standard is not applicable until 1 January 2018 but is available for early adoption. The Scheme does not expect this to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Scheme does not apply hedge accounting. AASB 9 introduces a new impairment model. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the reporting period commencing from 1 July 2018. The Scheme does not expect a material impact from the application of this standard.

2 Summary of significant accounting policies (continued)

(u) New accounting standards and interpretations not yet adopted (continued)

(ii) AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

AASB 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. AASB 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised only when the control of a good or service transfers to a customer. The standard requires enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively. AASB 15 applies to an annual reporting period beginning on or after 1 January 2018 with early adoption permitted. At this stage, the Scheme is determining the effect on the financial statements and will finalise its assessments of the effect over the next twelve months.

(iii) AASB 16 *Leases* (effective from 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 require enhanced disclosures to be provided by the lessor that will improve information disclosed about the lessor's risk exposure, particularly to residual value risk. The standard will be effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided AASB 15 has been applied, or is applied at the same date as AASB 16. The Scheme intends to apply this standard on its operative date. 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.

(v) Rounding of amounts

The Scheme is an entity of the kind referred to in Class Order 2016/191 (as amended), issued by Australian Securities and Investment Commission, relating to the 'rounding off' of amounts in the consolidated financial statements. Amounts in the consolidated financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, where indicated.

3 Rental income

	2016 $'000	2015 $'000
Rental Income	**21,535**	20,404
Outgoings income	**6,208**	5,673
	27,743	26,077

Rental income includes an adjustment for the straight lining of rental income of $510,270 (2015: $630,262).

4 Property expenses

	2016 $'000	2015 $'000
Recoverable outgoings	**7,603**	7,205
Non recoverable outgoings	**1,957**	1,816
Amortisation of lease commissions & lease incentives	**534**	499
	10,094	9,520

5 Distribution income

	2016 $'000	2015 $'000
Related listed property trust	**31**	-
Related unlisted property trust	**1,737**	1,674
Non-related unlisted property trust	**-**	329
	1,768	2,003

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

	2016 $'000	2015 $'000
Fair value of derivatives	**(1,207)**	(1,250)
Related listed property trust	**882**	-
Related unlisted property trust	**833**	623
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	**508**	(627)
Non-related unlisted property trust	**-**	(269)
Related unlisted property trust	**2**	(409)
Net realised gain/(loss) on financial assets held at fair value through profit or loss	**2**	(678)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	**510**	(1,305)

7 Auditors' remuneration

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

	2016 $	2015 $
Audit services		
Audit and review of financial statements	**30,000**	50,000
Total remuneration for audit services	**30,000**	50,000
Taxation services		
Tax compliance services	**11,856**	14,484
Total remuneration for taxation services	**11,856**	14,484

8 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme. There are two classes of unitholders in the Scheme being Ordinary and Class A.

On 31 August 2015, the unitholders of the Scheme voted in favour of a proposal to amend the Scheme's Constitution to enable a capital raising period of up to twelve months. From 3 September 2015, new Class A units in the Scheme were offered at a 5% discount to the net asset value per unit. All money raised by issuing new Class A units was used to fund redemptions sought under a Special Withdrawal facility for unitholders. The Class A unit offer was closed effective 2 June 2016 once sufficient equity had been raised to cover the Special Withdrawal facility.

Class A units cannot be redeemed during the period of two years commencing from 3 June 2016. After this period, Class A units will automatically convert to "Ordinary" units and will be able to participate in subsequent withdrawal offers. Class A units rank equally with Ordinary units in all other respects, including fees, distributions and voting.

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

	2016	2015	2016	2015
Contributed equity	**No. '000**	No. '000	**$'000**	$'000
Opening balance	**180,917**	183,134	**188,049**	189,770
Ordinary units				
Applications	**709**	6,017	**553**	4,652
Redemptions	**(50,419)**	(9,217)	**(38,738)**	(7,105)
Units issued upon reinvestment of distributions	**1,285**	983	**967**	732
	(48,425)	(2,217)	**(37,218)**	(1,721)
Class A units				
Applications	**50,419**	-	**38,738**	-
Units issued upon reinvestment of distributions	**161**	-	**126**	-
	50,580	-	**38,864**	-
Closing balance	**183,072**	180,917	**189,695**	188,049

	2016	2015
Undistributed income		
Opening balance	**(48,624)**	(49,662)
Increase in net assets attributable to unitholders	**14,629**	1,038
Closing balance	**(33,995)**	(48,624)
Total net assets attributable to unitholders	**155,700**	139,425

8 Net assets attributable to unitholders (continued)

Capital risk management

The Scheme considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability.

Applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets 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

Timing of distributions

The distributions for the year were as follows:

	2016	**2016**	2015	2015
Ordinary units	**$'000**	**CPU**	$'000	CPU
30 September	**2,820**	**1.550**	2,857	1.550
31 December	**2,860**	**1.650**	2,830	1.550
31 March	**2,430**	**1.650**	2,844	1.550
30 June (payable)	**2,186**	**1.650**	2,804	1.550
	10,296		11,335	
Class A units				
30 September	**-**	**-**	-	-
31 December	**147**	**1.650**	-	-
31 March	**583**	**1.650**	-	-
30 June (payable)	**835**	**1.650**	-	-
	1,565		-	
Total distributions	**11,861**		11,335	

As unitholders are presently entitled to the distributable income of the Scheme, no income tax is payable by the Responsible Entity.

10 Cash and cash equivalents

	2016	2015
	$'000	$'000
Cash at bank	**1,717**	2,075
Cash management trusts	**-**	62
	1,717	2,137

11 Receivables

	2016 $'000	2015 $'000
Trade receivables	**1,053**	856
Distributions receivables	**113**	445
Other receivables	**158**	322
	1,324	1,623

12 Financial assets/(liabilities) held at fair value through profit or loss

	2016 $'000	2015 $'000
Related listed property trust	**18,398**	-
Related unlisted property trust	**3,590**	20,320
Total financial assets held at fair value through profit or loss	**21,988**	20,320
Derivatives	**(3,276)**	(2,069)
Total financial liabilities held at fair value through profit or loss	**(3,276)**	(2,069)

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in note 17 and note 18 to the consolidated financial statements.

The details of the derivative financial instruments are shown in note 16.

13 Investment properties

(a) Property details

	Type	Ownership	Acquisition date	Independent valuation date	Independent valuation amount	Independent valuer	Book value 2016	Book value 2015
		(%)			$'000		$'000	$'000
278 Orchard Rd, Richlands, QLD	Industrial	100%	19/12/2003	31/12/2015	54,500	Colliers	**54,723**	52,714
200 Victoria Street, Carlton, VIC	Office	100%	27/10/2014	30/04/2016	47,250	Jones Lang LaSalle	**47,250**	44,000
20 Smith St,Parramatta, NSW	Office	100%	31/08/2006	31/03/2016	43,500	Colliers	**43,667**	37,295
6 Wanneroo Rd,Yokine, WA	Retail	100%	19/12/2003	31/03/2016	31,250	Colliers	**31,814**	29,024
20-30 Kent St, Busselton, WA	Retail	100%	19/12/2003	30/04/2016	26,250	Jones Lang LaSalle	**26,300**	24,391
Woodvale BoulevardShopping Centre, Woodvale, WA	Retail	100%	07/12/2007	31/12/2015	26,200	Jones Lang LaSalle	**26,265**	24,949
19 Corporate Drive, Rowville, VIC	Industrial	100%	30/09/2015	30/04/2016	16,300	Jones Lang LaSalle	**16,300**	-
Lots 34 & 36, Geddes St, Balcatta, WA	Industrial	100%	19/12/2003	30/09/2015	10,800	Jones Lang LaSalle	**10,959**	10,504
Target Country Busselton, 21 Prince St, Busselton, WA	Retail	100%	17/12/2007	30/09/2015	4,050	Colliers	**4,233**	4,050
5 Kenhelm St, Balcatta, WA	Industrial	100%	19/12/2003	30/09/2015	2,100	Jones Lang LaSalle	**2,100**	2,052
Rivers Busselton, 19 Prince St, Busselton, WA	Retail	100%	05/12/2008	30/09/2015	1,450	Colliers	**1,450**	1,450
39 Kent St, Busselton, WA	Office	100%	20/03/2015	30/09/2015	800	Colliers	**801**	796
37 Kent St, Busselton, WA	Office	100%	20/03/2015	30/09/2015	660	Colliers	**660**	658
Total					265,110		266,522	231,883

The book 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 18.

13 Investment properties (continued)

(b) Movements in carrying amount

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

	2016 $'000	2015 $'000
Opening balance	**231,883**	202,059
Additions including capital expenditure	**19,893**	51,914
Disposal	**-**	(23,714)
Loss on disposal	**-**	(1,540)
Lease commissions and incentives	**851**	301
Lease commissions and incentives amortisation	**(533)**	(499)
Straight-lining of rental income	**510**	630
Revaluation movements	**13,918**	2,732
Closing balance	**266,522**	231,883

On 30 September 2015, the Scheme completed the purchase of 19 Corporate Avenue, Rowville, VIC for a purchase price of $15,100,000 and acquisition costs of $1,085,847.

(c) Contractual obligations

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

	2016 $'000	2015 $'000
Within one year	**411**	771
	411	771

The Scheme share of capital commitments will be funded using the Scheme's cash and cash equivalents and debt facility. Refer to notes 10 and 15.

14 Payables

	2016 $'000	2015 $'000
Trade payables	**720**	831
Accrued expenses	**1,234**	1,153
GST payables	**233**	209
	2,187	2,193

15 Borrowings

	2016 $'000	2015 $'000
Bank loan	**128,330**	109,896
Unamortised borrowing costs	**(846)**	(299)
	127,484	109,597

On 30 June 2016, the Responsible Entity, on behalf of the Scheme, entered into a new debt facility with its existing financiers. Under the new debt facility, there are two tranches as follows:

- Tranche A is a $90,000,000 facility expiring on 30 June 2019; and
- Tranche B is a $50,000,000 facility expiring on 30 June 2020.

The facility is secured by a first registered mortgage over the Scheme's properties, and is non-recourse to unitholders.

The Scheme had access to:

	2016 $'000	2015 $'000
Credit facilities		
Cash advance facilities	**140,000**	135,000
Drawn balance	**(128,330)**	(109,896)
Undrawn balance	**11,670**	25,104

16 Derivative financial instruments

2016	**Contract/notional**	**Fair values**	
		Assets	**Liabilities**
	$'000	**$'000**	**$'000**
Interest rate swaps			
Maturing on 26 July 2016 at a fixed rate of 3.33%	**25,000**	**-**	**25**
Maturing on 26 July 2016 at a fixed rate of 3.32%	**25,000**	**-**	**25**
Maturing on 08 September at a fixed rate of 3.09%	**10,000**	**-**	**25**
Maturing on 07 December 2016 at a fixed rate of 3.06%	**10,000**	**-**	**58**
Maturing on 26 October 2019 at a fixed rate of 3.03%	**10,000**	**-**	**461**
Maturing on 28 October 2019 at a fixed rate of 3.04%	**10,000**	**-**	**465**
	90,000	**-**	**1,059**
Forward dated interest swap contracts			
Maturing on 26 July 2018 at a fixed rate of 3.07%	**15,000**	**-**	**442**
Maturing on 26 July 2018 at a fixed rate of 3.06%	**15,000**	**-**	**439**
Maturing on 09 September 2019 at a fixed rate of 2.74%	**20,000**	**-**	**674**
Maturing on 09 September 2019 at a fixed rate of 2.72%	**20,000**	**-**	**662**
	70,000	**-**	**2,217**
Total derivative liabilities	**160,000**	**-**	**3,276**

2015	Contract/notional	Fair values	
		Assets	Liabilities
	$'000	$'000	$'000
Interest rate swaps			
Maturing on 26 July 2016 at a fixed rate of 3.33%	25,000	-	359
Maturing on 26 July 2016 at a fixed rate of 3.32%	25,000	-	357
Maturing on 08 September at a fixed rate of 3.09%	10,000	-	130
Maturing on 07 December 2016 at a fixed rate of 3.06%	10,000	-	149
Maturing on 26 October 2019 at a fixed rate of 3.03%	10,000	-	248
Maturing on 28 October 2019 at a fixed rate of 3.04%	10,000	-	252
	90,000	-	1,495
Forward dated interest swap contracts			
Maturing on 26 July 2018 at a fixed rate of 3.07%	15,000	-	204
Maturing on 26 July 2018 at a fixed rate of 3.06%	15,000	-	202
Maturing on 09 September 2019 at a fixed rate of 2.74%	20,000	-	78
Maturing on 09 September 2019 at a fixed rate of 2.72%	20,000	-	90
	70,000	-	574
Total derivative liabilities	160,000	-	2,069

16 Derivative financial instruments (continued)

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The valuation policy is included in note 18.

The Scheme has entered into interest rate swap contracts to hedge future interest payments on the Scheme's borrowings.

An unrealised loss of $1,207,296 (2015: $1,249,956) relating to the change in the fair value of the Scheme's interest rate swap contracts was recognised in the consolidated statement of comprehensive income during the year ended 30 June 2016.

17 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 consolidated 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 or 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.

17 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk (continued)

	2016 $'000	2015 $'000
Assets		
Related unlisted property trust	**3,590**	20,320
Related listed property trust	**18,398**	-
Net exposure	**21,988**	20,320
Sensitivity		
Impact on profit		
Securities prices + 10%	**2,199**	2,032
Securities prices - 10%	**(2,199)**	(2,032)
Impact on equity		
Securities prices + 10%	**2,199**	2,032
Securities prices - 10%	**(2,199)**	(2,032)

(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.

The Scheme is exposed to interest rate risk predominantly through borrowings. The Scheme applies hedging across its differing interest rate exposures and utilises interest rate swaps, to exchange floating interest rates to fixed interest rates, to manage its exposure. Compliance with policy is reviewed regularly by management and is reported to the Board each meeting.

The Scheme has exposure to interest rate risk on its monetary assets and liabilities, mitigated by the use of interest rate swaps, as shown in the table below:

	2016 $'000	2015 $'000
Floating rate		
Cash and cash equivalents	**1,717**	2,137
Borrowings*	**(128,330)**	(109,896)
	(126,613)	(107,759)
Derivative financial instruments		
Interest rate swaps contracts*	**90,000**	90,000
	90,000	90,000
Net exposure	**(36,613)**	(17,759)

* Represents the notional principal amounts.

17 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)
The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or net assets attributable to unitholders, while a positive amount reflects a potential net increase.

Sensitivity	**2016 $'000**	2015 $'000
Impact on profit		
Interest rate + 0.50% (2015: +0.25%)	(183)	(44)
Interest rate - 0.50% (2015: -0.25%)	183	44
Impact on equity		
Interest rate + 0.50% (2015: +0.25%)	(183)	(44)
Interest rate - 0.50% (2015: -0.25%)	183	44

(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 consolidated statement of financial position.

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

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

(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.

17 Financial risk management (continued)

(d) Liquidity risk (continued)

Maturity 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.

2016	**Less than 1 year $'000**	**1-2 years $'000**	**2-3 years $'000**	**3+ years $'000**
Distributions payables	**3,021**	**-**	**-**	**-**
Payables	**2,187**	**-**	**-**	**-**
Financial liabilities held at fair value through profit or loss	**993**	**957**	**618**	**145**
Borrowings	**-**	**-**	**90,000**	**38,330**
Net assets attributable to unitholders	**155,700**	**-**	**-**	**-**
Total financial liabilities	**161,901**	**957**	**90,618**	**38,475**

2015	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3+ years $'000
Distributions payables	2,804	-	-	-
Payables	2,193	-	-	-
Financial liabilities held at fair value through profit or loss	1,047	817	781	617
Borrowings	109,597	-	-	-
Net assets attributable to unitholders	139,425	-	-	-
Total financial liabilities	255,066	817	781	617

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 and listed property trusts. As at 30 June 2016, these assets amounted to $20,115,084 (2015: $2,136,805).

(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 18.

(f) Instruments used by the Scheme

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

The details of the Scheme's interest rate management activities are detailed in note 16.

18 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.

2016	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	18,398	-	-	18,398
Related unlisted property trust	-	3,590	-	3,590
Total financial assets	18,398	3,590	-	21,988
Non-financial assets				
Investment properties	-	-	266,522	266,522
Total non-financial assets	-	-	266,522	266,522
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Derivatives	-	3,276	-	3,276
Total financial liabilities	-	3,276	-	3,276

18 Fair value hierarchy (continued)

2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets held at fair value through profit or loss				
Related unlisted property trust	-	20,320	-	20,320
Total financial assets	-	20,320	-	20,320
Non-financial assets				
Investment properties	-	-	231,883	231,883
Total non-financial assets	-	-	231,883	231,883
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Derivatives	-	2,069	-	2,069
Total financial liabilities	-	2,069	-	2,069

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.

(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 assets are priced at bid prices, while financial liabilities are priced at asking prices.

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 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. The model incorporate various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, and interest rate curves.

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.

18 Fair value hierarchy (continued)

(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
- 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 consolidated 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.

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

(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	**2016**	2015	**Relationship of inputs to fair value**
Weighted average capitalisation rate (%)	**7.56%**	7.98%	The higher the capitalisation rate, the lower the fair value.
Occupancy rate by area (%)	**95.78%**	97.65%	The higher the occupation rate, the higher the fair value.
Weighted average lease expiry (years)	**3.82 years**	4.40 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 at least once in any 12-month period from the date of the last valuation. In exceptional circumstances, valuations once in a financial year are permissible. 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.

18 Fair value hierarchy (continued)

(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.

Borrowings are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. The fair value of borrowings approximates the carrying amount.

19 Related party transactions

Responsible entity
The Responsible Entity of Australian Unity Diversified Property 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 (appointed Chairman 30 June 2016)
David Bryant, Chief Executive Officer, Investments and Chief Investment Officer
Kevin McCoy, Chief Financial Officer
Glenn Barnes, Chairman (resigned 30 March 2016)
Melinda Cilento, Non-Executive Director (resigned 30 June 2016)
Stephen Maitland, Non-Executive Director (resigned 30 June 2016)
Su McCluskey, Non-Executive Director (appointed 28 October 2015, resigned 30 June 2016)
Peter Promnitz, Non-Executive Director and appointed Chairman from 30 March 2016 (resigned 30 June 2016)
Greg Willcock, Non-Executive Director (resigned 30 June 2016)

(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 fees monthly calculated by reference to the gross asset value of the Scheme as follows:

(i) 0.25% per annum of the gross asset value of the initial properties;
(ii) 0.40% per annum of the gross asset value of other properties;
(iii) 0.30% per annum of the gross asset value of property securities; and
(iv) 0.40% per annum of the gross asset value of other assets.

The Responsible Entity is also entitled to charge an annual performance fee in the form of cash or by issue of the Scheme's units. Where the Scheme performs better than Mercer/IPD Australia Unlisted Wholesale Property Fund Index, a performance fee of 20.00% of the outperformance will be payable on the amount of return above the benchmark index for that period, subject to recovering any under performance against the benchmark index for prior periods and is capped at 1.00% per annum of the gross assets of the Scheme.

Any performance fee that is payable is required to be levied annually in arrears. The performance fee payable for the year ended 30 June 2016 is $nil (2015: $nil).

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

19 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

	2016 $	2015 $
Responsible Entity's fees for the year paid and payable by the Scheme to the Responsible Entity	**899,956**	782,864

(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 2016 was $1,587,139 (2015: $1,132,950). Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2016 was $401,629 (2015: $81,028).

Australian Unity Funds Management Limited (a related party of the Responsible Entity) has been appointed to provide registry and accounting services to the Scheme which is subject to annual review. Total fees paid/payable to Australian Unity Funds Management Limited for the year ended 30 June 2016 was $246,000 (2015: $240,000). Total accrued fees payable to Australian Unity Funds Management Limited as at 30 June 2016 was $41,000 (2015: $nil).

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

19 Related party transactions (continued)

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:

2016

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
Australian Unity Health Limited	6,607	8,745	7,543	4.75	2,138	-	500
Australian Unity Property Income Fund	-	8,429	7,271	4.58	8,429	-	176
Lifeplan Funeral Benefit No 2 Taxed	5,116	8,056	6,950	4.38	2,940	-	430
Capital Guaranteed Funeral Bond (Taxed)	-	2,406	2,075	1.31	2,406	-	79
GU Corporate Health Limited	1,854	2,389	2,061	1.30	535	-	138
Capital Guaranteed Funeral Bond (Untaxed)	-	1,604	1,383	0.87	1,604	-	53
Capital Secure Funeral Bond	-	1,069	922	0.58	1,069	-	35
Total	13,577	32,698	28,205	17.77	19,121	-	1,411

19 Related party transactions (continued)

Related party unitholdings (continued)

2015

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
Australian Unity Health Limited	2,928	6,607	5,168	3.63	4,675	(996)	440
Lifeplan Funeral Benefit No 2 Taxed	5,888	5,116	4,002	2.81	-	(772)	341
GU Corporate Health Limited	732	1,854	1,450	1.02	1,402	(280)	123
Lifeplan Management Limited	6,077	-	-	.00	-	(6,077)	-
Total	15,625	13,577	10,620	7.46	6,077	(8,125)	904

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

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

	Fair value of investment		**Interest held**		**Distributions received/ receivable**	
	2016	2015	**2016**	2015	**2016**	2015
	$'000	$'000	**%**	%	**$'000**	$'000
Australian Unity Office Fund	**18,398**	16,829	**6.15**	9.06	**1,446**	1,452
Australian Unity Rockdale Property Trust	**3,590**	3,491	**35.88**	36.38	**321**	179
Australian Unity Wholesale Cash Fund	**-**	62	**.00**	.00	**-**	43
Total	**21,988**	20,382			**1,767**	1,674

Distributions received/receivable includes an amount of $112,803 (2015: $441,861) which remains unpaid at the end of the year.

20 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	2016 $'000	2015 $'000
Profit/(loss) for the reporting period attributable to unitholders	-	-
Increase in net assets attributable to unitholders	14,629	1,038
Unrealised (gain)/loss on financial instruments	(510)	1,305
Realised loss on disposal of investment properties	-	1,540
Decrease in receivables	299	1,285
Decrease in accounts payable/liabilities	(853)	(82)
Change in fair value of the investment properties - revaluation increment	(13,918)	(2,732)
Add back interest expenses and debt establishment costs	6,312	5,561
Decrease in other assets/prepayments	8	58
Adjustments to net lease incentives and straight line rental	23	(131)
Distribution to unitholders	11,861	11,335
Net cash inflow from operating activities	**17,851**	19,177

(b) Components of cash and cash equivalents

	2016 $'000	2015 $'000
Cash as at the end of the year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash and cash equivalents	1,717	2,137

21 Parent entity financial information

Statement of financial position	2016 $'000	2015 $'000
Cash and cash equivalents	**1,635**	1,972
Receivables	**8,417**	6,712
Prepaid expenses	**47**	51
Investment in subsidiaries	**62,543**	56,404
Financial assets held at fair value through profit or loss	**21,988**	20,320
Investment properties	**196,590**	169,638
Total assets	**291,220**	255,097
Distributions payable	**3,021**	2,804
Financial liabilities held at fair value through profit or loss	**3,276**	2,069
Payables	**1,739**	1,202
Borrowings	**127,484**	109,597
Total liabilities (excluding net assets attributable to unitholders)	**135,520**	115,672
Net assets attributable to unitholders	**155,700**	139,425

Statement of comprehensive income	2016 $'000	2015 $'000
Profit before finance costs attributable to unitholders	**26,490**	12,373
Finance costs attributable to unitholders		
Distributions to unitholders	**11,861**	11,335
Increase in net assets attributable to unitholders	**14,629**	1,038
Total comprehensive income for the year	**-**	-

22 Events occurring after end of the financial year

No significant events have occurred since the end of the year which would impact on the financial position of the Scheme disclosed in the consolidated statement of financial position as at 30 June 2016 or on the results and cash flows of the Scheme for the year ended on that date.

23 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2016 and 30 June 2015.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) The consolidated financial statements and notes set out on pages 6 to 40 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 2016 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 consolidated financial statements are in accordance with the Scheme's Constitution, and

(d) Note 2(a) confirms that the consolidated 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

8 September 2016

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Independent auditor's report to the unitholders of Australian Unity Diversified Property Fund

We have audited the accompanying financial report of Australian Unity Diversified Property Fund, which comprises the consolidated statement of financial position as at 30 June 2016 the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Australian Unity Diversified Property Fund 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 Australian Unity Property Limited (the Responsible Entity) 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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 complied with 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.

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Opinion

In our opinion:

a. the financial report of Australian Unity Diversified Property Fund is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

Ernst & Young

Ernst & Young

Luke Slater

Luke Slater
Partner
Melbourne
8 September 2016