Australian Unity Diversified Property Fund

ARSN 106 724 038

Annual financial report for the year ended 30 June 2018

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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 ("the Scheme"), present their report together with the consolidated financial statements of the Scheme for the year ended 30 June 2018.

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

Rohan Mead, Chairman and Group Managing Director
David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer
Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)
Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

Principal activities
The Scheme aims to deliver a stable income stream that is at least 1% p.a. above the average Commonwealth Government 10-year bond yield, calculated on a rolling basis over the previous five-year period (Fund Cash Yield Benchmark) and a total return (income and capital growth) above the Mercer/IPD Australia Unlisted Wholesale Property Fund Index (Total Return Benchmark Index), while providing a consistent level of income. The Scheme will also seek to deliver a tax deferred component within the Fund’s income.

The Scheme predominantly comprises Australian commercial assets including direct owned properties (such as offices, shopping centres and industrial properties), unlisted property trusts and listed Australian REITs, with diversity in geographic location, tenants, lease term and sectors.

Review and results of operations
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 $14,606,224 (2017: $12,213,621).

Derivatives
In the current year, the Scheme recognised a net loss on derivative instruments held at fair value through profit or loss of $91,384 (2017: gain of $1,301,147).

Capped Withdrawal Offer and conversion of Class A units
Effective 22 February 2018, the Responsible Entity commenced offering a Capped Withdrawal Facility limited to 2.50% of the Scheme's net assets attributable to unitholders at the end of each Capped Withdrawal Facility closing date. In normal operating conditions, the Capped Withdrawal Facility will be available quarterly (or more or less frequently at the Responsible Entity's discretion). The first Capped Withdrawal Facility closed on 21 May 2018.

Effective 4 June 2018, all Class A units were converted to Ordinary units and are able to participate in the Capped Withdrawal Facility. Prior to automatic conversion, Class A units could not be redeemed but ranked equally with Ordinary units in all other respects, including fees, distributions and voting.

Results
For the year ended 30 June 2018, the Scheme's Ordinary units posted a total return of 14.97%, (split between a distribution return of 7.74% and a growth return of 7.23%)*.

Unit price (ex distribution) as at 30 June 2018 (2017) is $0.9948 ($0.9277)*

*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.

Review and results of operations (continued)
Results (continued)
The performance of the Scheme, as represented by the results of its operations, was as follows:

	2018 **$'000**	2017 $'000
Profit before finance costs attributable to unitholders	**25,982**	26,982
Distributions - Ordinary units		
Distributions paid and payable	**10,476**	9,171
Distributions - Class A units		
Distributions paid and payable	**2,653**	3,428

Significant changes in the state of affairs
The Scheme has amended its constitution as part of a process to become eligible to elect into the new Attribution Managed Investment Trust (“AMIT”) tax regime.

The Scheme has satisfied the eligibility for AMIT and has been operated as an AMIT effective 1 July 2017. The AMIT regime enacted under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 (Cth)* has changed the way to which the net taxable income of a trust is allocated to its unitholders. Where a trust is an AMIT, responsible entities and trustees are required to attribute the trust’s net taxable income to unitholders on a fair and reasonable basis in accordance with the tax law, taking into account the unitholders entitlement to distributable income.

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

Events occurring after end of the year
No matter or circumstance has arisen since 30 June 2018 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.

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 ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars, 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

20 September 2018

Auditor's Independence Declaration

As lead auditor for the audit of Australian Unity Diversified Property Fund for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

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

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
20 September 2018

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Consolidated statement of comprehensive income

	Notes	2018 $'000	2017 $'000
Income			
Rental income	3	**29,209**	28,639
Property expenses	4	**(10,751)**	(10,340)
Net property income		**18,458**	18,299
Interest income		**51**	52
Distribution income	5	**1,795**	1,626
Net gains on financial instruments held at fair value through profit or loss	6	**2,427**	2,271
Net fair value increment of investment properties	13(b)	**14,606**	12,214
Other operating income		**226**	178
Total income net of property expenses		**37,563**	34,640
Expenses			
Responsible Entity's fees	19	**4,328**	1,082
Borrowing costs		**6,694**	6,019
Other expenses		**559**	557
Total expenses, excluding property expenses		**11,581**	7,658
Profit before finance costs attributable to unitholders		**25,982**	26,982
Finance costs attributable to unitholders			
Distributions to unitholders	9	**-**	(12,599)
Increase in net assets attributable to unitholders		**-**	(14,383)
Profit/(loss) for the year		**25,982**	-
Other comprehensive income		**-**	-
Total comprehensive income attributable to unitholders		**25,982**	-

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

Consolidated statement of financial position

	Notes	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	10	**5,558**	3,632
Receivables	11	**1,869**	1,651
Prepaid expenses		**117**	113
Financial assets held at fair value through profit or loss	12	**27,476**	22,957
Investment properties	13	**314,242**	285,514
Total assets		**349,262**	313,867
Liabilities			
Distributions payable	9	**3,317**	3,190
Payables	14	**7,312**	3,872
Financial liabilities held at fair value through profit or loss	12	**2,067**	1,975
Borrowings	15	**142,473**	130,734
Total liabilities (30 June 2017: excluding net assets attributable to unitholders)		**155,169**	139,771
Net assets attributable to unitholders - liability*		**-**	174,096
Net assets attributable to unitholders - equity*		**194,093**	-

**Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to note 1 for further details.*

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

Consolidated statement of changes in equity*

	2018	2017
	$'000	$'000
Balance at the beginning of the year*	**-**	-
Reclassification due to AMIT tax regime implementation and conversion of Class A units*	**174,096**	-
Comprehensive income for the year		
Profit for the year	**25,982**	-
Other comprehensive income	**-**	-
Total comprehensive income attributable to unitholders	**25,982**	-
Transactions with unitholders		
Applications	**15,410**	-
Redemptions	**(10,012)**	-
Units issued upon reinvestment of distributions	**1,746**	-
Distributions paid and payable	**(13,129)**	-
Total transactions with unitholders	**(5,985)**	-
Balance at the end of the year*	**194,093**	**-**

**Effective 4 June 2018, the Scheme's units have been reclassified from financial liability to equity. Refer to note 1 and note 8 for further details. As a result, statement of changes in equity has been disclosed for the year ended 30 June 2018 (2017: statement of changes in net assets attributable to unitholders - liability). The prior year comparative in note 8 shows units as financial liability.*

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

Consolidated statement of cash flows

	Notes	**2018 $'000**	2017 $'000
Cash flows from operating activities			
Interest received		**51**	52
Distributions received		**1,749**	1,326
Rental income received		**29,628**	28,679
Payments to suppliers		**(11,763)**	(12,447)
Net cash inflow from operating activities	20	**19,665**	17,610
Cash flows from investing activities			
Payments for additions to owned investment properties		**(14,921)**	(4,555)
Purchase of financial instruments held at fair value through profit or loss		**(2,000)**	-
Net cash outflow from investing activities		**(16,921)**	(4,555)
Cash flows from financing activities			
Proceeds from borrowings		**11,500**	3,000
Borrowing costs paid		**(6,460)**	(5,723)
Distributions paid		**(11,256)**	(10,581)
Proceeds from applications by unitholders		**15,410**	12,535
Payments for redemptions by unitholders		**(10,012)**	(10,371)
Net cash outflow from financing activities		**(818)**	(11,140)
Net increase in cash and cash equivalents		**1,926**	1,915
Cash and cash equivalents at the beginning of the year		**3,632**	1,717
Cash and cash equivalents at the end of the year	10	**5,558**	3,632

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

Notes to the consolidated financial statements

1 General information

These consolidated financial statements cover Australian Unity Diversified Property Fund ("the Scheme") and its controlled entities. The Scheme was constituted on 13 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.

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 and terminated on 20 August 2018;
• 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 29 June 2007 and terminated on 20 August 2018;
• AUDPF No. 1 Sub-Trust No. 7 (AUDPF-ST7) which was established by Trust Deed dated 30 August 2007 and terminated on 20 August 2018;
• 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 and terminated on 20 August 2018;
• AUDPF No. 1 Sub-Trust No. 10 (AUDPF-ST10) which was established by Trust Deed dated 17 December 2007 and terminated on 20 August 2018; and
• AUDPF No. 1 Sub-Trust No. 11 (AUDPF-ST11) which was established by Trust Deed dated 23 October 2007 and terminated on 20 August 2018.

The consolidated financial statements are for the year 1 July 2017 to 30 June 2018.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 20 September 2018. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

On 5 May 2016, a new tax regime applying to Managed Investment Trust ("MIT") was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Scheme to elect into the AMIT Tax regime, the Scheme's constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions.

Additionally, on 4 June 2018, all Class A units were converted to Ordinary units, leaving only Ordinary units remaining in the Scheme. No other financial instruments are on issue that have total cash flows based substantially on the profit and loss, the changes in the recognised net assets or the changes in the fair value of the recognised and unrecognised net assets of the Scheme. Consequently, the units in the Scheme have been reclassified from financial liability to equity on 4 June 2018, see note 8 for further information.

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 (AASB) 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.

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/(liabilities) held at fair value through profit or loss, borrowings 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 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.

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

AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107
AASB 2016-2 amends AASB 107 *Statements of Cash Flows* to require entities to provide disclosure that enable users of financial statements to evaluate cash and non-cash changes in their financing activities. The adoption of the new disclosure requirement did not have a material impact on the Scheme's financial statements.

(b) Principles of consolidation
(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by the Scheme as at 30 June 2018 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.

2 Summary of significant accounting policies (continued)

(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 consolidated statement of comprehensive income in the year in which they arise.

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

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

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

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

(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.

2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Recognition/derecognition (continued)
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 consolidated statement of comprehensive income in the year the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement
- *Financial assets and financial liabilities held at fair value through profit or loss*

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.

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.

The Scheme's financial instruments that are valued based on active markets generally include listed property trusts.

- *Fair value in an inactive or unquoted market*

The fair value of financial assets and liabilities not traded in an active market is determined using valuation techniques. These include the use of recent arm’s length market transactions, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate used is the market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting period.

There may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Scheme recognises the difference in the consolidated statement of comprehensive income to reflect a change in factors, including time, that market participants would consider in setting a price.

2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Measurement (continued)

The fair value of derivatives that are not exchange traded is estimated at the amount that the Scheme would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as the net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the most appropriate option valuation model.

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

The Scheme's financial instruments that are valued based on inactive or unquoted markets generally include investments in unlisted unit trusts and over the counter derivatives, where applicable.

- *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. 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.

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

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

2 Summary of significant accounting policies (continued)

(f) Net assets attributable to unitholders (continued)
As at 30 June 2017, net assets attributable to unitholders were classified as a financial liability. Effective 4 June 2018, the Scheme's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

(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 property expenses, 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 provided it attributes the entirety of its taxable income to its 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. Where the Scheme’s units are classified as liabilities, the distributions are recognised in the consolidated statement of comprehensive income as finance costs attributable to unitholders. Where the Scheme’s units are classified as equity, distributions are recognised in the statement of changes in equity as transactions with unitholders.

(l) Increase/decrease in net assets attributable to unitholders
Income not distributed is included in net assets attributable to unitholders. Where the Scheme’s units are classified as liabilities, movements in net assets attributable to unitholders are recognised in 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 or property expenses, if related to rental income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against property expenses in the consolidated statement of comprehensive income.

(n) Payables
Payables include liabilities and accrued expenses owed 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.

2 Summary of significant accounting policies (continued)

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

Accounts payable and receivable are stated inclusive of the GST receivable and payable, respectively. The net amount of GST recoverable, or payable, is included in receivables or payables in the 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 consolidated statement of comprehensive income 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 property expenses. The carrying amount of the leasing cost is reflected in the carrying value of investment properties.

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

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 the 30 June 2018 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 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 applicable for reporting period on and after 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. However, as the Scheme’s investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Scheme. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the year commencing 1 July 2018.

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 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. This notion of control replaces the existing notion of risks and rewards. The Scheme's main source of income includes rental income, distributions, interest and gains on financial instruments held at fair value through profit or loss. All of these are outside the scope of the Revenue standard. Consequently, the Scheme does not expect AASB 15 to have a significant impact on the Scheme's financial statements. The Scheme does not intend to early adopt AASB 15. The Scheme will apply AASB 15 in its financial statements for the year commencing 1 July 2018.

(iii) AASB 2016-3 *Amendments to Australian Accounting Standards - Clarifications to AASB 15* (effective 1 January 2018)

AASB 2016-3 amends AASB 15 *Revenue from Contracts with Customers* to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. It also provides further practical expedients on transition to AASB 15. No significant impact is expected upon adoption of the amendments. The Scheme does not intend to early adopt AASB 2016-3. The Scheme will apply AASB 2016-3 in its financial statements for the year commencing 1 July 2018.

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

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. AASB16 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 AASB16. Based on the existing recognition of leases, the Scheme does not expect a material impact from the application of this standard. The Scheme is currently assessing the effects of applying AASB 16 on the financial statement disclosures. The Scheme does not intend to early adopt AASB 16. The Scheme will apply AASB 16 in its financial statements for the year commencing 1 July 2019.

(v) Rounding of amounts

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

(w) Functional and presentation currency

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

3 Rental income

	2018 **$'000**	2017 $'000
Rental income	**21,656**	22,276
Outgoings income	**7,553**	6,363
	29,209	28,639

Rental income includes an adjustment for the straight lining of rental income of -$364,714 (2017: $112,103).

4 Property expenses

	2018 $'000	2017 $'000
Recoverable outgoings	**7,973**	7,762
Non recoverable outgoings	**2,106**	2,015
Bad debt expense	**39**	17
Amortisation of lease commissions & lease incentives	**633**	546
	10,751	10,340

5 Distribution income

	2018 $'000	2017 $'000
Related listed property trust	**1,452**	1,296
Related unlisted property trust	**343**	330
	1,795	1,626

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

	2018 $'000	2017 $'000
Derivatives	**(91)**	1,301
Related listed property trust	**2,574**	864
Related unlisted property trust	**(56)**	106
Net unrealised gains on financial assets held at fair value through profit or loss	**2,427**	2,271

7 Auditors' remuneration

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

	2018 $	2017 $
Audit services - PricewaterhouseCoopers		
Audit and review of financial statements	**27,913**	25,600
Taxation services - Ernst & Young		
Tax compliance services	**14,640**	15,300

8 Net assets attributable to unitholders

Effective 22 February 2018, the Responsible Entity commenced offering a Capped Withdrawal Facility limited to 2.50% of the Scheme's net assets attributable to unitholders at the end of each Capped Withdrawal Facility closing date. In normal operating conditions, the Capped Withdrawal Facility will be available quarterly (or more or less frequently at the Responsible Entity's discretion). The first Capped Withdrawal Facility closed on 21 May 2018.

Effective 4 June 2018, all Class A units were converted to Ordinary units and are able to participate in the Capped Withdrawal Facility. Prior to automatic conversion, Class A units could not be redeemed but ranked equally with Ordinary units in all other respects, including fees, distributions and voting.

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Scheme shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 4 June 2018 the Scheme classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. The Scheme has amended its constitution as part of a process to become eligible to elect into the AMIT tax regime. The Scheme has satisfied the eligibility for AMIT and has been operated as an AMIT effective 1 July 2017. The AMIT regime enacted under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 (Cth)* has changed the way to which the net taxable income of a trust is allocated to its unitholders. The Scheme no longer has a contractual obligation to pay distributions to unitholders. Additionally, on 4 June 2018 all Class A units were converted to Ordinary units, leaving only Ordinary units remaining in the Scheme. Therefore the net assets attributable to unitholders of the Scheme meet the criteria set out under AASB 132 and are classified as equity from 4 June 2018 onwards.

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

8 Net assets attributable to unitholders (continued)

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

Contributed equity	**2018 No. '000**	2017 No. '000	**2018 $'000**	2017 $'000
Opening balance	**187,673**	183,072	**193,708**	189,695
Ordinary units				
Conversion of units from Class A units	**52,302**	-	**53,896**	-
Applications	**15,922**	14,251	**15,410**	12,535
Redemptions	**(10,381)**	(11,834)	**(10,012)**	(10,371)
Units issued upon reinvestment of distributions	**1,129**	1,228	**1,043**	1,040
	58,972	3,645	**60,337**	3,204
Class A units				
Conversion of units to Ordinary units	**(52,302)**	-	**(53,896)**	-
Units issued upon reinvestment of distributions	**766**	956	**703**	809
	(51,536)	956	**(53,193)**	809
Closing balance	**195,109**	187,673	**200,852**	193,708

Undistributed income	**2018 $'000**	2017 $'000
Opening balance	**(19,612)**	(33,995)
Increase in net assets attributable to unitholders	**12,853**	14,383
Closing balance	**(6,759)**	(19,612)
Total net assets attributable to unitholders*	**194,093**	174,096

*Net assets attributable to unitholders are classified as equity at 30 June 2018 and as financial liability at 30 June 2017.

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

Capital risk management

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

The distributions for the year were as follows:

Ordinary units	**2018 $'000**	**2018 CPU**	2017 $'000	2017 CPU
30 September	**2,370**	**1.700**	2,280	1.650
31 December	**2,349**	**1.700**	2,236	1.650
31 March	**2,440**	**1.700**	2,341	1.700
30 June (payable)	**3,317**	**1.700**	2,314	1.700
	10,476		9,171	

Class A units	**2018 $'000**	**2018 CPU**	2017 $'000	2017 CPU
30 September	**880**	**1.700**	838	1.650
31 December	**884**	**1.700**	842	1.650
31 March	**889**	**1.700**	872	1.700
30 June (payable)	**-**	**-**	876	1.700
	2,653		3,428	
Total distributions	**13,129**		12,599	

10 Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank	**5,558**	3,632
	5,558	3,632

11 Receivables

	2018 $'000	2017 $'000
Trade receivables	**1,145**	1,058
Distributions receivable	**459**	413
Other receivables	**265**	180
	1,869	1,651

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

	2018 $'000	2017 $'000
Related listed property trust	**23,836**	19,261
Related unlisted property trust	**3,640**	3,696
Total financial assets held at fair value through profit or loss	**27,476**	22,957
Derivatives	**(2,067)**	(1,975)
Total financial liabilities held at fair value through profit or loss	**(2,067)**	(1,975)

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 $'000	Independent valuer	Carrying value 2018 $'000	Carrying value 2017 $'000
20 Smith St,Parramatta, NSW	Office	100%	31/08/2006	31/03/2018	63,000	CBRE	**63,007**	53,281
278 Orchard Rd, Richlands, QLD	Industrial	100%	19/12/2003	31/12/2017	56,500	Savills	**56,694**	56,026
200 Victoria Street, Carlton, VIC	Office	100%	27/10/2014	30/06/2018	52,700	Colliers	**52,700**	50,000
Dog Swamp Shopping Centre, WA	Retail	100%	19/12/2003	31/12/2017	45,000	Colliers	**45,302**	35,016
Busselton Central Shopping Centre, WA	Retail	100%	19/12/2003	28/02/2018	29,500	Colliers	**31,695**	28,210
Woodvale BoulevardShopping Centre, Woodvale, WA	Retail	100%	07/12/2007	31/12/2017	29,000	Colliers	**29,224**	27,569
19 Corporate Drive, Rowville, VIC	Industrial	100%	30/09/2015	30/06/2018	17,000	Colliers	**17,000**	16,500
Lot 34 & 36, Geddes St Balcatta, WA	Industrial	100%	19/12/2003	30/09/2017	11,000	CBRE	**11,000**	11,044
Target Country Busselton, 21 Prince St, Busselton, WA	Retail	100%	17/12/2007	30/09/2017	4,310	Jones Lang LaSalle	**4,310**	4,308
5 Kenhelm St, Balcatta, WA	Retail	100%	19/12/2003	30/09/2017	1,830	CBRE	**1,830**	2,100
Rivers Busselton, 19 Prince St, Busselton, WA	Retail	100%	05/12/2008	30/09/2017	1,480	Jones Lang LaSalle	**1,480**	1,460
Total					**311,320**		**314,242**	**285,514**

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

The investment properties valuation policy is included in note 18.

13 Investment properties (continued)

(b) Movements in carrying amount

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

	2018 **$'000**	2017 $'000
Opening balance	**285,514**	266,522
Additions	**15,120**	7,212
Lease commissions and incentives amortisation	**(633)**	(546)
Straight-lining of rental income	**(365)**	112
Revaluation movements	**14,606**	12,214
Closing balance	**314,242**	285,514

(c) Contractual obligations

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

	2018 **$'000**	2017 $'000
Within one year	**1,250**	4,827
	1,250	4,827

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

14 Payables

	2018 **$'000**	2017 $'000
Trade payables	**592**	644
Accrued expenses	**6,493**	2,991
GST payable	**227**	237
	7,312	3,872

15 Borrowings

	2018	2017
	$'000	$'000
Bank loan	**142,830**	131,330
Unamortised borrowing costs	**(357)**	(596)
	142,473	130,734

The bank loan facility comprises of two tranches:

- Tranche A is a $105,000,000 facility expiring on 30 June 2019 (2017: $90,000,000); and
- Tranche B is a $50,000,000 facility expiring on 30 June 2020 (2017: $50,000,000).

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:

	2018	2017
	$'000	$'000
Credit facilities		
Cash advance facilities	**155,000**	140,000
Drawn balance	**(142,830)**	(131,330)
Undrawn balance	**12,170**	8,670

Reconciliations of the net debt are set out below:

	2018	2017
	$'000	$'000
Analysis of changes in consolidated net debt		
Opening balance	**127,698**	126,613
Proceeds from borrowings	**11,500**	3,000
Other cash movements	**(1,926)**	(1,915)
Closing balance	**137,272**	127,698
Bank Loan	**142,830**	131,330
Cash and cash equivalents	**(5,558)**	(3,632)
Consolidated net debt	**137,272**	127,698

16 Derivative financial instruments

2018	**Contract/notional $'000**	**Fair values Assets $'000**	**Fair values Liabilities $'000**
Interest rate swaps			
Maturing on 26 April 2023 at fixed rate of 2.08% (fixed rate 2.785% from 26 July 2019 onwards)	**45,000**	-	**840**
Maturing on 26 April 2023 at fixed rate of 2.08% (fixed rate 2.785% from 26 July 2019 onwards)	**45,000**	-	**840**
	90,000	-	**1,680**
Forward dated interest swap contracts			
Maturing on 26 April 2023 at fixed rate of 2.595%	**25,000**	-	**191**
Maturing on 26 April 2023 at fixed rate of 2.60%	**25,000**	-	**196**
	50,000	-	**387**
Total derivative liabilities	**140,000**	-	**2,067**

2017	Contract/notional $'000	Fair values Assets $'000	Fair values Liabilities $'000
Interest rate swaps			
Maturing on 9 September 2019 at fixed rate of 2.74%	20,000	-	370
Maturing on 9 September 2019 at fixed rate of 2.72%	20,000	-	362
Maturing on 26 October 2019 at a fixed rate of 3.03%	10,000	-	257
Maturing on 28 October 2019 at a fixed rate of 3.04%	10,000	-	260
Maturing on 27 January 2022 at fixed rate of 2.76%	15,000	-	360
Maturing on 27 January 2022 at fixed rate of 2.77%	15,000	-	366
Total derivative liabilities	90,000	-	1,975

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 $91,384 (2017: gain of $1,301,147) 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 2018.

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 and net assets attributable to unitholders, while a positive amount reflects a net potential increase. There is no impact on distributable earnings as they are net fair value movements only.

17 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk (continued)

	2018 $'000	2017 $'000
Assets		
Related listed property trusts	**23,836**	19,261
Related unlisted property trust	**3,640**	3,696
Total exposure	**27,476**	22,957

Sensitivity	**Impact on profit and net assets attributable to unitholders**	
	2018 $'000	2017 $'000
Securities prices + 10% (2017: +10%)	**2,748**	2,296
Securities prices - 10% (2017: -10%)	**(2,748)**	(2,296)

(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:

	2018 $'000	2017 $'000
Floating rate		
Cash and cash equivalents	**5,558**	3,632
Borrowings*	**(142,830)**	(131,330)
	(137,272)	(127,698)
Derivative financial instruments		
Interest rate swaps contracts*	**90,000**	90,000
	90,000	90,000
Net exposure	**(47,272)**	(37,698)

* 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 and net assets attributable to unitholders, while a positive amount reflects a potential net increase.

	Impact on profit and net assets attributable to unitholders	
	2018	2017
Sensitivity	**$'000**	$'000
Interest rate + 0.50% (2017: +0.50%)	**(236)**	(188)
Interest rate - 0.50% (2017: -0.50%)	**236**	188

The above calculation ignores the impact of any changes to the valuation of interest rate swaps.

(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.

2018	**Less than 1 year $'000**	**1-2 years $'000**	**2-3 years $'000**	**3+ years $'000**
Distributions payable	**3,317**	**-**	**-**	**-**
Payables	**7,312**	**-**	**-**	**-**
Financial liabilities held at fair value through profit or loss	**58**	**255**	**349**	**1,794**
Borrowings	**94,000**	**48,830**	**-**	**-**
Total financial liabilities	**104,687**	**49,085**	**349**	**1,794**

2017	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3+ years $'000
Distributions payable	3,190	-	-	-
Payables	3,872	-	-	-
Financial liabilities held at fair value through profit or loss	1,075	1,075	522	545
Borrowings	-	90,000	41,330	-
Net assets attributable to unitholders	174,096	-	-	-
Total financial liabilities	182,233	91,075	41,852	545

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 2018, these assets amounted to $29,393,922 (2017: $22,893,698).

(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.

2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Financial assets held at fair value through profit or loss				
Related listed property trust	**23,836**	**-**	**-**	**23,836**
Related unlisted property trust	**-**	**3,640**	**-**	**3,640**
Total financial assets	**23,836**	**3,640**	**-**	**27,476**
Non-financial assets				
Investment properties	**-**	**-**	**314,242**	**314,242**
Total non-financial assets	**-**	**-**	**314,242**	**314,242**
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Derivatives	**-**	**2,067**	**-**	**2,067**
Total financial liabilities	**-**	**2,067**	**-**	**2,067**

18 Fair value hierarchy (continued)

2017	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	19,261	-	-	19,261
Related unlisted property trust	-	3,696	-	3,696
Total financial assets	19,261	3,696	-	22,957
Non-financial assets				
Investment properties	-	-	285,514	285,514
Total non-financial assets	-	-	285,514	285,514
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Derivatives	-	1,975	-	1,975
Total financial liabilities	-	1,975	-	1,975

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 (2017: $nil).

(b) Valuation techniques

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

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

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

The 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)

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

(i) Valuation inputs and relationship to fair value

The table below illustrates the key valuation assumptions used in the determination of the investment properties fair value:

Valuation inputs	**2018**	2017	**Relationship of inputs to fair value**
Weighted average capitalisation rate (%)	**6.81%**	7.22%	The higher the capitalisation rate, the lower the fair value.
Occupancy rate by income (%)	**97.40%**	98.34%	The higher the occupancy rate, the higher the fair value.
Weighted average lease expiry (years)	**3.99 years**	3.03 years	The higher the lease expiry, the higher the fair value.

(ii) Valuation processes

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

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
David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer
Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)
Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

(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.

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)

The transactions during the year and amount payable at 30 June 2018 between the Scheme and the Responsible Entity were as follows:

	2018 **$**	2017 $
Management fees for the year paid and payable by the Scheme to the Responsible Entity	**1,049,940**	980,482
Performance fees for the year paid and payable by the Scheme to the Responsible Entity	**3,278,002**	101,440
Fees rebated by the Responsible Entity for the Scheme's investment in other schemes managed by the Responsible Entity's related parties	**223,385**	177,887
Aggregate amounts payable to the Responsible Entity at the end of the year	**3,342,858**	171,440

(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 2018 was $1,636,380 (2017: $1,437,799). Total accrued fees payable to Australian Unity Property Management Pty Ltd as at 30 June 2018 was $192,280 (2017: $150,000).

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 2018 was $263,019 (2017: $249,936). Total accrued fees payable to Australian Unity Funds Management Limited as at 30 June 2018 was $25,043 (2017: $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:

2018

Unitholder	**No. of units held opening '000**	**No. of units held closing '000**	**Fair value of investment* $'000**	**Interest held (%)**	**No. of units acquired '000**	**No. of units disposed '000**	**Distributions paid/payable by the Scheme $'000**
Lifeplan Australia Friendly Society Limited	**15,436**	**13,259**	**13,348**	**6.79**	**-**	**(2,177)**	**978**
Australian Unity Property Income Fund	**8,438**	**7,455**	**7,505**	**3.82**	**-**	**(983)**	**541**
Australian Unity Health Limited	**8,079**	**5,552**	**5,590**	**2.85**	**-**	**(2,527)**	**465**
Total	**31,953**	**26,266**	**26,443**	**13.46**	**-**	**(5,687)**	**1,984**

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

2017

Unitholder	No. of units held opening '000	No. of units held closing '000	Fair value of investment* $'000	Interest held (%)	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme $'000
Lifeplan Australia Friendly Society Limited	13,135	15,436	14,582	8.22	2,301	-	958
Australian Unity Property Income Fund	8,429	8,438	7,971	4.50	2,309	(2,300)	641
Australian Unity Health Limited	8,745	8,079	7,633	4.31	-	(666)	552
Grand United Corporate Health Limited**	2,389	2,147	2,028	1.14	-	(242)	148
Total	32,698	34,100	32,214	18.17	4,610	(3,208)	2,299

*Fair value of investment includes accrued distribution at the end of the year.
**Ceased to be a related party unitholder from 31 October 2017.

19 Related party transactions (continued)

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

2018	**No. of units held opening '000**	**No. of units held closing '000**	**Fair value of investment $'000**	**Interest held %**	**No. of units acquired '000**	**No. of units disposed '000**	**Distributions received/ receivable $'000**
Australian Unity Office Fund	**8,637**	**9,534**	**23,835**	**5.86**	**897**	**-**	**1,452**
Australian Unity Rockdale Property Trust	**3,552**	**3,552**	**3,640**	**35.88**	**-**	**-**	**343**
	12,189	**13,086**	**27,475**		**897**	**-**	**1,795**

2017	No. of units held opening '000	No. of units held closing '000	Fair value of investment $'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions received/ receivable $'000
Australian Unity Office Fund	8,637	8,637	19,261	6.15	-	-	1,296
Australian Unity Rockdale Property Trust	3,552	3,552	3,696	35.88	-	-	330
	12,189	12,189	22,957		-	-	1,626

Distributions received/receivable includes an amount of $458,873 (2017: $413,482) which remains unpaid at the end of the year.

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

	2018 $'000	2017 $'000
Profit/(loss) for the year attributable to unitholders	**25,982**	-
Increase in net assets attributable to unitholders	**-**	14,383
Unrealised gain on financial instruments	**(2,427)**	(2,271)
Decrease in receivables	**(218)**	(327)
Increase/(decrease) in accounts payable/liabilities	**3,246**	(1,017)
Change in fair value of the investment properties - revaluation increment	**(14,606)**	(12,214)
Add back interest expenses and debt establishment costs	**6,694**	6,019
(Increase)/decrease in other assets/prepayments	**(4)**	4
Adjustments to net lease incentives and straight line rental	**998**	434
Distribution to unitholders	**-**	12,599
Net cash inflow from operating activities	**19,665**	17,610

21 Parent entity financial information

Statement of financial position	**2018 $'000**	2017 $'000
Cash and cash equivalents	**4,893**	3,093
Receivables	**11,737**	10,240
Prepaid expenses	**36**	40
Investment in subsidiaries	**82,335**	72,030
Financial assets held at fair value through profit or loss	**27,476**	22,957
Investment properties	**222,011**	204,663
Total assets	**348,488**	313,023
Distributions payable	**3,317**	3,190
Payables	**6,538**	3,028
Financial liabilities held at fair value through profit or loss	**2,067**	1,975
Borrowings	**142,473**	130,734
Total liabilities (excluding net assets attributable to unitholders)	**154,395**	138,927
Net assets attributable to unitholders - liability*	**-**	174,096
Net assets attributable to unitholders - equity*	**194,093**	-

*Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to note 1 for further details.

Statement of comprehensive income	**2018 $'000**	2017 $'000
Profit before finance costs attributable to unitholders	**25,982**	26,982
Finance costs attributable to unitholders		
Distributions to unitholders	**-**	(12,599)
Increase in net assets attributable to unitholders	**-**	(14,383)
Profit/(loss) for the year	**25,982**	-
Other comprehensive income	**-**	-
Total comprehensive income attributable to unitholders	**25,982**	-

22 Events occurring after end of the financial year

The directors of the Responsible Entity are not aware of any matter or circumstance arising since 30 June 2018 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the consolidated statement of financial position as at 30 June 2018 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 2018 and 30 June 2017.

Commitments arising from contracts principally relating to capital expenditure on investment properties which are contracted for at reporting date but not recognised on the consolidated statement of financial position are $1,250,000 (30 June 2017: $4,826,840).

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 41 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 2018 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

20 September 2018

Independent auditor's report

To the unitholders of Australian Unity Diversified Property Fund

Our opinion

In our opinion:

The accompanying financial report of Australian Unity Diversified Property Fund (the "Scheme") and its controlled entities (together the "Group") is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors of the Responsible Entity's declaration.

Basis for opinion

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

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

Independence

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

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Other information

The Directors of Australian Unity Property Limited (the "Responsible Entity") are responsible for the other information. The other information comprises the information included in the annual financial report for the year ended 30 June 2018, including the directors' report, but does not include the financial report and our auditor's report thereon.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Australian Unity Diversified Property Fund for the year ending 30 June 2018 included on Australian Unity's web site. The directors of the Responsible Entity of the Scheme are responsible for the integrity of Australian Unity's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

George Sagonas
Partner

Melbourne
20 September 2018