

# **CCIIM Income Trust**

ABN 36 484 293 501

## **Annual financial statements for the reporting period ended 30 June 2011**

# CCIIM Income Trust

ABN 36 484 293 501

## Annual financial statements for the reporting period ended 30 June 2011

### Contents

|                                   | Page |
|-----------------------------------|------|
| Directors' report                 | 2    |
| Statement of comprehensive income | 4    |
| Statement of financial position   | 5    |
| Statement of changes in equity    | 6    |
| Statement of cash flows           | 7    |
| Notes to the financial statements | 8    |
| Directors' declaration            | 32   |

These financial statements cover CCIIM Income Trust as an individual entity.

The Responsible Entity of CCIIM Income Trust is CCI Investment Management Limited (ABN 65 006 685 856).  
The Responsible Entity's registered office is Level 8, 485 La Trobe Street, Melbourne, VIC 3000.

## Directors' report

The directors of CCI Investment Management Limited, the Responsible Entity of CCIIM Income Trust, present their report together with the financial statements of CCIIM Income Trust ("the Scheme") for the year ended 30 June 2011 ("the reporting period").

### Responsible Entity

The Responsible Entity of the Scheme is CCI Investment Management Limited ("the Responsible Entity"). The Responsible Entity's registered office is Level 8, 485 La Trobe Street, Melbourne, VIC 3000.

### Principal activities

The Scheme invests in income producing investments in accordance with the provisions of the Scheme's Constitution.

The Scheme did not have any employees during the reporting period.

There were no significant changes in the nature of the Scheme's activities during the reporting period.

### Directors

The following persons held office as directors of the Responsible Entity during the reporting period or since the end of the reporting period and up to the date of this report:

P E Bokeyar (Appointed 8 August 2000, Resigned 21 March 2011)  
W R d'Apice (Appointed 8 August 2000, Resigned 9 October 2010)  
P J Dwyer (Appointed 8 August 2000, Resigned 21 March 2011)  
T Killen (Appointed 5 December 2007 )  
J Dawson (Appointed 2 March 2010)  
R Haddock (Appointed 4 July 2011)  
B Lucas (Appointed 4 July 2011)  
J Tongs (Appointed 4 July 2011)  
P A Rush (Alternate Director for Peter E Bokeyar until 21 March 2011)

### Review and results of operations

There have been no significant changes to the operations of the Scheme during the reporting period. The Scheme continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

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

|  | <b>For the reporting period ended</b> |                  |
|--|---------------------------------------|------------------|
|  | <b>30 June</b>                        | <b>30 June</b>   |
|  | <b>2011</b>                           | <b>2010</b>      |
|  | <b>\$</b>                             | <b>\$</b>        |
| Profit/(loss) before finance costs attributable to unitholders | <u>4,679,792</u>                      | <u>4,173,874</u> |
| Distribution paid and payable                                  | <u>4,410,118</u>                      | <u>3,506,186</u> |
| Distribution (cents per unit - CPU)                            | <u>5.55</u>                           | <u>4.51</u>      |

### Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the reporting period.

### Events occurring after the reporting period

Except as disclosed in note 16 in the financial statements, no other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- (i) the operations of the Scheme in future reporting periods, or
- (ii) the results of those operations in future reporting periods, or
- (iii) the state of affairs of the Scheme in future reporting periods.

## **Directors' report (continued)**

### **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 CCI Investment Management Limited or the auditors of the Scheme. So long as the officers of CCI Investment Management Limited act in accordance with the Scheme's Constitution and the Law, 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 reporting period are disclosed in note 14 of the financial statements.

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

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the reporting period are disclosed in note 14 of the financial statements.

### **Interests in the Scheme**

The movement in units on issue in the Scheme during the reporting period is disclosed in note 7 of the financial statements.

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

### **Environmental regulation**

The operations of the Scheme are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

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

T Killen  
Director

## Statement of comprehensive income

|  | Notes | For the reporting period ended |                         |
|--|-------|--------------------------------|-------------------------|
|  |       | 30 June<br>2011<br>\$          | 30 June<br>2010<br>\$   |
| <b>Investment income</b>   |       |                                |                         |
| Interest income  | 3     | 2,375,494                      | 2,541,607               |
| Dividend income  |       | 993,648                        | 575,836                 |
| Trust distribution income  | 4     | 576,828                        | 64,448                  |
| Net gains/(losses) on financial instruments held at fair value through profit or loss  | 5     | 659,018                        | 816,874                 |
| Other income   |       | <u>425,849</u>                 | <u>547,171</u>          |
| <b>Total investment income</b>   |       | <u><b>5,030,837</b></u>        | <u><b>4,545,936</b></u> |
| <b>Expenses</b>  |       |                                |                         |
| Management fees  | 14    | 339,779                        | 335,244                 |
| Transaction costs  |       | <u>11,266</u>                  | <u>36,818</u>           |
| <b>Total expenses</b>  |       | <u><b>351,045</b></u>          | <u><b>372,062</b></u>   |
| <b>Profit/(loss) before finance costs attributable to unitholders</b>                  |       | <u><b>4,679,792</b></u>        | <u><b>4,173,874</b></u> |
| <b>Finance costs attributable to unitholders</b>                                       |       |                                |                         |
| Distributions to unitholders   | 8     | 4,410,118                      | 3,506,186               |
| Increase/(decrease) in net assets attributable to unitholders                          | 7     | <u>269,674</u>                 | <u>667,688</u>          |
| <b>Profit/(loss) for the reporting period attributable to unitholders</b>              |       | <u><b>-</b></u>                | <u><b>-</b></u>         |
| Other comprehensive income for the reporting period attributable to unitholders        |       | <u>-</u>                       | <u>-</u>                |
| <b>Total comprehensive income for the reporting period attributable to unitholders</b> |       | <u><b>-</b></u>                | <u><b>-</b></u>         |

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

## Statement of financial position

|   |       | As at                    |                          |
|---|-------|--------------------------|--------------------------|
|   | Notes | 30 June<br>2011<br>\$    | 30 June<br>2010<br>\$    |
| <b>Assets</b>   |       |                          |                          |
| Cash and cash equivalents   |       | 9,580,794                | 2,092,080                |
| Receivables   | 11    | 863,734                  | 545,548                  |
| Financial assets held at fair value through profit or loss                  | 10    | 34,348,133               | 39,053,164               |
| Loan assets - Mortgages   | 9     | <u>9,144,000</u>         | <u>9,821,000</u>         |
| <b>Total assets</b>   |       | <u><b>53,936,661</b></u> | <u><b>51,511,792</b></u> |
| <b>Liabilities</b>  |       |                          |                          |
| Distributions payable   | 8     | 1,574,105                | 1,259,754                |
| Payables  | 12    | <u>691,921</u>           | <u>82,945</u>            |
| <b>Total liabilities (excluding net assets attributable to unitholders)</b> |       | <u><b>2,266,026</b></u>  | <u><b>1,342,699</b></u>  |
| <b>Net assets attributable to unitholders - liability</b>                   | 7     | <u><b>51,670,635</b></u> | <u><b>50,169,093</b></u> |

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

**Statement of changes in equity**

|   | For the reporting period<br>ended |                 |
|---|-----------------------------------|-----------------|
|   | 30 June<br>2011                   | 30 June<br>2010 |
|   | \$                                | \$              |
| <b>Total equity at the beginning of the reporting period</b>                    | -                                 | -               |
| Profit/(loss) for the reporting period attributable to unitholders              | -                                 | -               |
| Other comprehensive income for the reporting period attributable to unitholders | -                                 | -               |
| Total comprehensive income for the reporting period attributable to unitholders | <u>-</u>                          | <u>-</u>        |
| Transactions with owners in their capacity as owners                            | -                                 | -               |
| <b>Total equity at the end of the reporting period</b>                          | <u>-</u>                          | <u>-</u>        |

In accordance with AASB 132 *Financial Instruments: Presentation*, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the beginning and the end of the reporting period.

Changes in net assets attributable to unitholders are disclosed in note 7.

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

## Statement of cash flows

|   |   | For the reporting period<br>ended |                    |
|---|---|-----------------------------------|--------------------|
|   |   | 30 June<br>2011                   | 30 June<br>2010    |
| Notes   |   | \$                                | \$                 |
| <b>Cash flows from operating activities</b>                 |   |                                   |                    |
|   | Proceeds from sale of financial instruments held at fair value through profit or loss | 18,534,299                        | 15,815,247         |
|   | Purchase of financial instruments held at fair value through profit or loss           | (12,130,490)                      | (26,369,088)       |
|   | Management fees paid  | (337,460)                         | (332,226)          |
|   | Interest received   | 2,491,926                         | 2,759,882          |
|   | Trust distributions received  | 573,008                           | 316,052            |
|   | Dividends received  | 993,648                           | 575,836            |
|   | Other income received   | 237,909                           | 312,516            |
|   | Transaction costs on financial instruments held at fair value through profit or loss  | (10,227)                          | (39,514)           |
|   | <b>Net cash inflow/(outflow) from operating activities</b>                            | <u>10,352,613</u>                 | <u>(6,961,295)</u> |
| 15(a)   |   |                                   |                    |
| <b>Cash flows from financing activities</b>                 |   |                                   |                    |
|   | Proceeds from applications by unitholders   | 64,404                            | 14,056             |
|   | Payments for redemptions by unitholders   | (30,000)                          | (38,110)           |
|   | Distributions paid  | (2,898,303)                       | (1,570,342)        |
|   | <b>Net cash inflow/(outflow) from financing activities</b>                            | <u>(2,863,899)</u>                | <u>(1,594,396)</u> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |   | <b>7,488,714</b>                  | <b>(8,555,691)</b> |
|   | Cash and cash equivalents at the beginning of the reporting period                    | <u>2,092,080</u>                  | <u>10,647,771</u>  |
|   | <b>Cash and cash equivalents at the end of the reporting period</b>                   | <u>9,580,794</u>                  | <u>2,092,080</u>   |
| 15(b)   |   |                                   |                    |

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

## Contents

|    | <b>Page</b>  |    |
|----|--|----|
| 1  | General information  | 9  |
| 2  | Summary of significant accounting policies   | 9  |
| 3  | Interest income  | 16 |
| 4  | Trust distribution income  | 16 |
| 5  | Net gains/(losses) on financial instruments held at fair value through profit or loss  | 17 |
| 6  | Auditor's remuneration   | 17 |
| 7  | Net assets attributable to unitholders   | 17 |
| 8  | Distributions to unitholders   | 18 |
| 9  | Loan assets - Mortgages  | 18 |
| 10 | Financial assets held at fair value through profit or loss                             | 19 |
| 11 | Receivables  | 19 |
| 12 | Payables   | 19 |
| 13 | Financial risk management  | 20 |
| 14 | Related party transactions   | 29 |
| 15 | Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities | 30 |
| 16 | Events occurring after the reporting period  | 31 |
| 17 | Contingent assets and liabilities and commitments                                      | 31 |

## 1 General information

These financial statements cover CCIIM Income Trust ("the Scheme") as an individual entity. The Scheme was constituted on 16 June 2004.

The Responsible Entity of the Scheme is CCI Investment Management Limited ("the Responsible Entity"). The Responsible Entity's registered office is Level 8, 485 La Trobe Street, Melbourne, VIC 3000.

The Responsible Entity is incorporated and domiciled in Australia.

The financial statements are presented in the Australian currency.

The financial statements are for the period from 1 July 2010 to 30 June 2011 ("the reporting period").

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

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all reporting periods presented, unless otherwise stated in the following text.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Scheme's Constitution in Australia.

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

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders where the amount expected to be recovered or settled within twelve months after the end of the reporting period cannot be reliably determined.

#### *Compliance with International Financial Reporting Standards*

The financial statements of the Scheme also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### (b) Financial instruments

#### (i) Classification

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

The Scheme's investments are categorised 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 financial liabilities that are not held for trading purposes and which may be sold. These may include investments in exchange traded debt and equity instruments, unlisted trusts, unlisted equity instruments and commercial paper.

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.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

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 held at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Loans and receivables/payables*

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

#### (ii) *Recognition/derecognition*

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

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

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

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

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

#### (iii) *Measurement*

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

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

- *Fair value in an active market*

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

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

- *Fair value in an inactive or unquoted market*

**Valuation Methodology: Marked to Model  
Assumptions:**

At 30 June 2011 CCIIM Income Trust held 9 collateralised debt obligation (CDO) investments. No quoted price was available for these investments and therefore a valuation model was adopted. The valuation process involved computing the loss distribution of a credit portfolio taking into account asset correlation, recovery rates and risk neutral probability of default of individual reference entities.

Asset default correlation was calibrated using historical default data of investment grade companies from 2002 to 2008. For more recent estimates, the asset default correlation is calibrated by using the historical equity prices of the underlying entities of the most recent iTraxx Europe CDO index from 2008 to 2011. The correlations centre about the 13% mark. In the pricing model, the average correlation of 13.30% is used.

Floating loss given default is modelled via historical recovery rates for senior unsecured bonds assumed to follow a beta distribution with the mean at 45.49% and standard deviation at 34.5% as published by Moody's research papers.

Probabilities of default were derived from the individual observed credit default swap (CDS) spreads as published by Reuters. Where CDS spreads were not observed for a particular reference name, the spread was approximated by referring to the average spread for the rating category to which the reference name belongs.

The valuation was performed based on the market information available at the time of valuation.

In addition, four CDO's held have Lehman Brothers as the swap counterparty. On 14 September 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for bankruptcy in the US. As a result, the Scheme has experienced an event of default by the swap counterparty. The Responsible Entity has ceased making any interest payments and quarantined all available funds and collateral.

Whilst the CDO's themselves are not in default, legal arguments are ensuing regarding the return of collateral.

We have based our determination of the probability of Lehman Brothers being successful in its appeal for preference in the distribution of collateral on discussions with lawyers and the recent UK decision on the Mahogany CDO. Mahogany is a listed CDO (ASX Code MHYHA) which is similar to the Lehman Brothers CDOs.

On 12 November 2009, Mahogany provided an update stating "Further to previous ASX announcements, Mahogany Capital Limited wishes to advise Noteholders that the UK Court of Appeal has ruled that Mahogany Noteholders have priority over Lehman Brothers Special Financing Inc (LBSF) in relation to the Collaterals under English Law.

The court rejected arguments put by LBSF that they should have priority over the Collaterals. It was a unanimous decision by the three judges.

Earlier in July 2009, the High Court of England and Wales had rejected LBSF's arguments leading to LBSF's appeal. However, it is unclear whether BNY Corporate Trustee Services will now release the Collaterals for distribution. Mahogany understands that LBSF has decided to seek permission to pursue a final appeal in the UK. In addition LBSF is also seeking to obtain a judgment in the US Courts".

The Trustee of the collateral, BNY Corporate Trustee Services Ltd, a UK subsidiary of the Bank of New York, is governed by UK law, so the above ruling indicates that the Trustee should distribute the collateral in the manner set out for the order of subordination in the notes. However, Lehman is attempting to hear the case in the US Bankruptcy Court and therefore the Trustee is withholding collateral and may wish to indemnify them from future Lehman claims. It is a conflict of law between UK and US laws.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

At 30 June 2011, both the US and UK courts have recognised the potential for conflicting judgments from the start of the litigation. All parties to the litigation have been left with conflicting declaratory decisions, but with an indication from the courts from both countries (US and UK) that there should be further coordination to resolve differences. An appeal by Lehman in the English Supreme Court was held in March 2011, with the verdict pending as at 30 June 2011.

To derive a fair value for the CDO collateral we have obtained market quotes for the bonds/swaps used in each series. We have then factored in Responsible Entity costs and withheld indemnity to derive a potential market value that factors in future legal costs for the Responsible Entity. A 50% chance of winning the lengthy appeals process have been adopted to compensate for the uncertainties created due to the conflict between the US and UK courts ruling.

As stated above, fair value is determined by computing the loss distribution of a credit portfolio taking into account asset correlation, recovery rates and risk neutral probability of default of individual reference entities. The potential effect of using reasonable alternative assumptions based on a relevant input by 10% would have the effect of reducing the fair value by up to \$212,119 (2010: \$291,421) or increase the fair value by \$212,119 (2010: \$291,421).

- *Loans and receivables/payables*

Loans and receivables/payables are measured initially at fair value plus transaction costs.

Subsequently, loans are carried at amortised cost using the effective interest method, less impairment losses, if any. Short-term receivables/payables are carried at their initial fair values.

Loan assets are reviewed at the end of the reporting period to determine whether there is objective evidence of impairment. If any such indication of impairment exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. If in a subsequent period the amount of an impairment loss recognised on the asset decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

### (iv) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is 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.

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities due to mandatory distributions. The units can be put back to the Scheme at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the statement of comprehensive income as they arise.

## 2 Summary of significant accounting policies (continued)

### (d) Cash and cash equivalents

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

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

### (e) Investment income

Interest income and interest expenses are recognised in the statement of comprehensive income for all financial instruments on an accrual basis. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

Dividend income is recognised on the ex-dividend date.

Trust distributions are recognised on an entitlements basis.

Net gains/(losses) on financial assets and financial 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 reporting period and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

### (f) Expenses

All expenses, including Management fees and reimbursable expenses, are recognised in the statement of comprehensive income on an accruals basis.

### (g) Income tax

Under the current tax legislation, the Scheme is not subject to income tax as it is an exempt entity.

### (h) Distributions

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

### (i) Increase/(decrease) in net assets attributable to unitholders

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

### (j) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the Scheme's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Scheme competes for funds and is regulated. The Australian dollar is also the Scheme's presentation currency.

## 2 Summary of significant accounting policies (continued)

### (j) Foreign currency translation (continued)

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

The Scheme does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments held at fair value through profit or loss.

### (k) Receivables

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

### (l) Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the reporting period.

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

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

### (m) Applications and redemptions

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

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

### (n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Scheme by third parties such as custodial services and investment management fees have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC) at a rate of 75%; hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### (o) Use of estimates

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next reporting period. 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.

## 2 Summary of significant accounting policies (continued)

### (o) Use of estimates (continued)

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. 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.

### (p) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period and have not yet been applied in the financial statements. 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 AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. The Standard is not applicable until 1 January 2013. AASB 9 only permits the recognition of fair value gains/(losses) in other comprehensive income if they relate to equity investments that are not traded. Fair value gains/(losses) on debt investments are recognised directly in profit or loss. The Scheme does not expect any significant impact on the Scheme's financial statements arising from an adoption of the Standard.

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009, the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective from 1 January 2011. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The amendment will not have any effect on the Scheme's financial statements.

(iii) AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective from 1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Scheme does not expect that any adjustments will be necessary as the result of applying the revised rules.

(iv) AASB 2010-5 *Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]* (effective from 1 January 2011)

In October 2010, the AASB issued the above Standard. The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. These amendments have no major impact on the requirements of the amended pronouncements. The Scheme does not expect that any adjustments will be necessary as the result of applying the amendments.

(v) AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* (effective from 1 July 2011)

In November 2010, the AASB issued the above Standard amending the disclosure requirements in AASB 7 *Financial Instruments: Disclosures*. The Standard introduces additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The Scheme will apply the amendment from 1 July 2011 with no comparative information being required for the reporting period ending on 30 June 2012. It does not expect any significant impact as the result of applying the amendments.

## 2 Summary of significant accounting policies (continued)

### (p) New accounting standards and interpretations (continued)

(vi) IFRS 13 *Fair Value Measurement* (effective from 1 January 2013)

IFRS 13 was released in May 2011. The AASB is expected to issue an equivalent Australian standard shortly. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Scheme has yet to determine the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Scheme does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(vii) AASB 1054 *Australian Additional Disclosures* and AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* (effective from 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the Scheme's current disclosures. The Scheme intends to adopt the standards from 1 July 2011.

(viii) Revised IAS 1 *Presentation of Financial Statements* (effective from 1 July 2012)

In June 2011, the IASB made an amendment to IAS 1 *Presentation of Financial Statements*. The AASB is expected to make the equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to the statement of comprehensive income in the future. It will not affect the measurement of any of the items recognised in the statement of financial position or the statement of comprehensive income. The Scheme intends to adopt the new standard from 1 July 2012.

## 3 Interest income

|                           | For the reporting period ended |                       |
|---------------------------|--------------------------------|-----------------------|
|                           | 30 June<br>2011<br>\$          | 30 June<br>2010<br>\$ |
| Cash and cash equivalents | 154,915                        | 351,673               |
| Mortgage loans            | 1,156,408                      | 1,035,526             |
| Convertible notes         | 165,696                        | 387,868               |
| Floating rate notes       | 898,475                        | 766,540               |
|                           | <b>2,375,494</b>               | <b>2,541,607</b>      |

## 4 Trust distribution income

|                                     | For the reporting period ended |                       |
|-------------------------------------|--------------------------------|-----------------------|
|                                     | 30 June<br>2011<br>\$          | 30 June<br>2010<br>\$ |
| Unlisted managed investment schemes | 14,339                         | 19,140                |
| Listed trust distributions          | 562,489                        | 45,308                |
|                                     | <b>576,828</b>                 | <b>64,448</b>         |

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

|  | For the reporting period ended |                       |
|--|--------------------------------|-----------------------|
|  | 30 June<br>2011<br>\$          | 30 June<br>2010<br>\$ |
| Net unrealised gains/(losses) on financial instruments designated at fair value through profit or loss | 524,398                        | 432,906               |
| Net realised gains/(losses) on financial instruments designated at fair value through profit or loss   | <u>134,620</u>                 | <u>383,968</u>        |
| <b>Total net gains/(losses) on financial instruments held at fair value through profit or loss</b>     | <b><u>659,018</u></b>          | <b><u>816,874</u></b> |

## 6 Auditor's remuneration

All fees payable by the Scheme are incorporated within the total management fee.

## 7 Net assets attributable to unitholders

As stipulated within the Scheme Trust Deed, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Scheme.

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

|   | For the reporting period ended |                          |                          |                          |
|---|--------------------------------|--------------------------|--------------------------|--------------------------|
|   | 30 June<br>2011<br>No.         | 30 June<br>2010<br>No.   | 30 June<br>2011<br>\$    | 30 June<br>2010<br>\$    |
| Opening balance   | 78,054,063                     | 77,058,834               | 50,169,093               | 48,849,369               |
| Applications  | 97,997                         | 21,563                   | 64,404                   | 14,056                   |
| Redemptions   | (45,795)                       | (56,183)                 | (30,000)                 | (38,110)                 |
| Units issued upon reinvestment of distributions               | 1,850,494                      | 1,029,849                | 1,197,464                | 676,090                  |
| Increase/(decrease) in net assets attributable to unitholders | -                              | -                        | 269,674                  | 667,688                  |
| <b>Closing balance</b>  | <b><u>79,956,759</u></b>       | <b><u>78,054,063</u></b> | <b><u>51,670,635</u></b> | <b><u>50,169,093</u></b> |

## 8 Distributions to unitholders

The distributions for the reporting period were as follows:

|                   | For the reporting period ended |                        |                       |                        |
|-------------------|--------------------------------|------------------------|-----------------------|------------------------|
|                   | 30 June<br>2011<br>\$          | 30 June<br>2011<br>CPU | 30 June<br>2010<br>\$ | 30 June<br>2010<br>CPU |
| 30 September      | 937,441                        | 1.19                   | 1,027,801             | 1.33                   |
| 31 December       | 1,146,563                      | 1.45                   | 562,414               | 0.73                   |
| 31 March          | 752,009                        | 0.94                   | 656,217               | 0.84                   |
| 30 June - payable | <u>1,574,105</u>               | <u>1.97</u>            | <u>1,259,754</u>      | <u>1.61</u>            |
|                   | <u>4,410,118</u>               |                        | <u>3,506,186</u>      |                        |

## 9 Loan assets - Mortgages

|                | As at                 |                       |
|----------------|-----------------------|-----------------------|
|                | 30 June<br>2011<br>\$ | 30 June<br>2010<br>\$ |
| Mortgage loans | <u>9,144,000</u>      | <u>9,821,000</u>      |
|                | <u>9,144,000</u>      | <u>9,821,000</u>      |

Gross impaired assets represent those assets that are contractually past due with security insufficient to cover the principal and arrears. The Scheme did not hold any gross impaired assets as at 30 June 2011 or as at 30 June 2010.

The Scheme's non-impaired assets past due but with adequate security is shown below:

| As at 30 June 2011 |           |         |         |           |           |
|--------------------|-----------|---------|---------|-----------|-----------|
| Days past due      |           |         |         |           |           |
|                    | <30       | 30-60   | 60-90   | >90       | Total     |
| Loans principal    | \$275,000 | 0       | 0       | 0         | \$275,000 |
| Loans interest     | \$7,246   | \$4,725 | \$4,725 | \$4,725   | \$21,421  |
| As at 30 June 2010 |           |         |         |           |           |
| Days past due      |           |         |         |           |           |
|                    | <30       | 30-60   | 60-90   | >90       | Total     |
| Loans principal    | 0         | 0       | 0       | \$588,000 | \$588,000 |
| Loans interest     | \$11,788  | \$7,730 | \$7,481 | \$89,762  | \$116,761 |

The Scheme's exposure to credit risk is disclosed in note 13(c).

## 10 Financial assets held at fair value through profit or loss

|   | As at             |                   |
|---|-------------------|-------------------|
|   | 30 June<br>2011   | 30 June<br>2010   |
|   | \$                | \$                |
| <b>Designated at fair value through profit or loss</b>                  |                   |                   |
| Listed property trusts  | 2,654,299         | 2,525,383         |
| Unlisted managed investment schemes                                     | 10,982            | 264,000           |
| Preference shares - redeemable  | 21,491,278        | 18,697,313        |
| Convertible notes   | 2,152,494         | 2,025,270         |
| Floating rate notes   | 7,639,980         | 15,142,098        |
| Fixed interest bond   | 399,100           | 399,100           |
| Total designated at fair value through profit or loss                   | <u>34,348,133</u> | <u>39,053,164</u> |
| <b>Total financial assets held at fair value through profit or loss</b> | <u>34,348,133</u> | <u>39,053,164</u> |

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in note 13.

## 11 Receivables

|                  | As at           |                 |
|------------------|-----------------|-----------------|
|                  | 30 June<br>2011 | 30 June<br>2010 |
|                  | \$              | \$              |
| Accrued income   | 621,326         | 545,548         |
| Due from brokers | 242,035         | -               |
| GST claimable    | 373             | -               |
|                  | <u>863,734</u>  | <u>545,548</u>  |

## 12 Payables

|                  | As at           |                 |
|------------------|-----------------|-----------------|
|                  | 30 June<br>2011 | 30 June<br>2010 |
|                  | \$              | \$              |
| Accrued expenses | 87,126          | 82,945          |
| Due to brokers   | 604,795         | -               |
|                  | <u>691,921</u>  | <u>82,945</u>   |

## 13 Financial risk management

### (a) Objectives, strategies, policies and processes

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

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's Product Disclosure Statement 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 an 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 rate, foreign exchange and other price risks, ratings analysis for credit risk and maturity analysis for liquidity risk.

As part of its risk management strategy, the Scheme may use derivatives and other investments, including share price and bond futures, interest rate swaps and forward currency contracts, to manage exposures resulting from changes in interest rates, foreign currencies, equity price risks, and exposures arising from forecast transactions.

### (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 three types of risk: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

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.

The sensitivity of the Scheme's net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) to price risk, foreign exchange risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

At 30 June 2011, the overall market exposures were as follows:

|   | As at             |                 |
|---|-------------------|-----------------|
|   | 30 June<br>2011   | 30 June<br>2010 |
|   | \$                | \$              |
| Equity securities designated at fair value through profit or loss | <b>24,156,559</b> | 21,486,696      |
|   | <b>24,156,559</b> | 21,486,696      |

#### (i) Price risk

Price risk is the risk that the fair value of equities will fluctuate because of changes in market prices, 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 portfolio. The investments are classified on the statement of financial position as held at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

### 13 Financial risk management (continued)

The Scheme's overall market positions are monitored on a regular basis by the Scheme's Investment Manager. This information and the compliance with the Scheme's Product Disclosure Statement are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

At 30 June 2011, if the equity prices had increased/(decreased) by the percentage indicated below, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

|   | As at 30 June 2011 |                    | As at 30 June 2010 |                  |
|---|--------------------|--------------------|--------------------|------------------|
|   | Increased by 15%   | Decreased by 15%   | Increased by 10%   | Decreased by 10% |
| <b>Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)</b> | <b>3,623,484</b>   | <b>(3,623,484)</b> | 2,148,669          | (2,148,669)      |

The analysis is performed on the same basis for 2011 and 2010.

*(ii) Foreign exchange risk*

There was no significant direct foreign exchange risk in this Scheme as at 30 June 2011 (2010: Nil).

*(iii) 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's interest-bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Scheme has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The Scheme may use derivatives to hedge against unexpected increases in interest rates and/or multiple rollover dates for debt instruments to manage repricing risk. The interest rate risk is measured using sensitivity analysis.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's overall interest sensitivity on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

The Scheme has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain entities in which the Scheme invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model. Therefore, the sensitivity analysis may not fully indicate the total effect on the Scheme's net assets attributable to unitholders of future movements in interest rates.

### 13 Financial risk management (continued)

The table below summarises the Scheme's exposure to interest rate risks. It includes the Scheme's assets and liabilities at fair values, categorised by the maturity dates:

| 30 June 2011   | Floating<br>interest<br>rate<br>\$ | 3 months or<br>less<br>\$ | Fixed interest rate<br>4 to 12<br>months<br>\$ | 1 to 5 years<br>\$ | Over 5<br>years<br>\$ | Non-interest<br>bearing<br>\$ | Total<br>\$       |
|--|------------------------------------|---------------------------|--|--------------------|-----------------------|-------------------------------|-------------------|
| <b>Assets</b>  |                                    |                           |  |                    |                       |                               |                   |
| Cash and cash equivalents  | 9,580,794                          | -                         | -  | -                  | -                     | -                             | 9,580,794         |
| Receivables  | -                                  | -                         | -  | -                  | -                     | 863,734                       | 863,734           |
| Financial assets held at fair value<br>through profit or loss                  |                                    |                           |  |                    |                       |                               |                   |
| Designated at fair value through<br>profit or loss                             |                                    |                           |  |                    |                       |                               |                   |
| Listed property trusts   | -                                  | -                         | -  | -                  | -                     | 2,654,299                     | 2,654,299         |
| Convertible notes  | -                                  | -                         | -  | -                  | 2,152,494             | -                             | 2,152,494         |
| Floating rate notes  | 7,639,980                          | -                         | -  | -                  | -                     | -                             | 7,639,980         |
| Unlisted managed investment<br>schemes   | -                                  | -                         | -  | -                  | -                     | 10,982                        | 10,982            |
| Preference<br>shares- redeemable   | -                                  | -                         | -  | -                  | -                     | 21,491,278                    | 21,491,278        |
| Fixed interest bonds   | -                                  | -                         | -  | 399,100            | -                     | -                             | 399,100           |
| Loan assets - Mortgages  | -                                  | 275,000                   | 7,945,000                                      | 924,000            | -                     | -                             | 9,144,000         |
| <b>Total assets</b>  | <b>17,220,774</b>                  | <b>275,000</b>            | <b>7,945,000</b>                               | <b>1,323,100</b>   | <b>2,152,494</b>      | <b>25,020,293</b>             | <b>53,936,661</b> |
| <b>Liabilities</b>   |                                    |                           |  |                    |                       |                               |                   |
| Distributions payable  | -                                  | -                         | -  | -                  | -                     | 1,574,105                     | 1,574,105         |
| Payables   | -                                  | -                         | -  | -                  | -                     | 691,921                       | 691,921           |
| <b>Total liabilities</b> (excluding net<br>assets attributable to unitholders) | -                                  | -                         | -  | -                  | -                     | <b>2,266,026</b>              | <b>2,266,026</b>  |
| <b>Net assets attributable to<br/>unitholders</b>                              | <b>17,220,774</b>                  | <b>275,000</b>            | <b>7,945,000</b>                               | <b>1,323,100</b>   | <b>2,152,494</b>      | <b>22,754,267</b>             | <b>51,670,635</b> |

### 13 Financial risk management (continued)

| 30 June 2010  | Floating<br>interest<br>rate<br>\$ | 3 months or<br>less<br>\$ | Fixed interest rate<br>4 to 12<br>months<br>\$ | 1 to 5 years<br>\$ | Over 5<br>years<br>\$ | Non-interest<br>bearing<br>\$ | Total<br>\$       |
|---|------------------------------------|---------------------------|--|--------------------|-----------------------|-------------------------------|-------------------|
| <b>Assets</b>   |                                    |                           |  |                    |                       |                               |                   |
| Cash and cash equivalents   | 2,092,080                          | -                         | -  | -                  | -                     | -                             | 2,092,080         |
| Receivables   | -                                  | -                         | -  | -                  | -                     | 545,548                       | 545,548           |
| Financial assets held at fair value<br>through profit or loss           |                                    |                           |  |                    |                       |                               |                   |
| Designated at fair value through<br>profit and loss                     |                                    |                           |  |                    |                       |                               |                   |
| Listed property trusts  | -                                  | -                         | -  | -                  | -                     | 2,525,383                     | 2,525,383         |
| Convertible notes   | -                                  | -                         | -  | -                  | 2,025,270             | -                             | 2,025,270         |
| Floating rate notes   | 15,142,098                         | -                         | -  | -                  | -                     | -                             | 15,142,098        |
| Unlisted managed investment<br>schemes                                  | -                                  | -                         | -  | -                  | -                     | 264,000                       | 264,000           |
| Preference<br>shares - redeemable                                       | -                                  | -                         | -  | -                  | -                     | 18,697,313                    | 18,697,313        |
| Fixed interest bonds  | -                                  | -                         | -  | 399,100            | -                     | -                             | 399,100           |
| Loan assets - Mortgages   | -                                  | 1,918,000                 | 6,273,000                                      | 1,630,000          | -                     | -                             | 9,821,000         |
| <b>Total assets</b>   | <u>17,234,178</u>                  | <u>1,918,000</u>          | <u>6,273,000</u>                               | <u>2,029,100</u>   | <u>2,025,270</u>      | <u>22,032,244</u>             | <u>51,511,792</u> |
| <b>Liabilities</b>  |                                    |                           |  |                    |                       |                               |                   |
| Distributions payable   | -                                  | -                         | -  | -                  | -                     | 1,259,754                     | 1,259,754         |
| Payables  | -                                  | -                         | -  | -                  | -                     | 82,945                        | 82,945            |
| Total liabilities (excluding net<br>assets attributable to unitholders) | -                                  | -                         | -  | -                  | -                     | 1,342,699                     | 1,342,699         |
| Net assets attributable to<br>unitholders                               | <u>17,234,178</u>                  | <u>1,918,000</u>          | <u>6,273,000</u>                               | <u>2,029,100</u>   | <u>2,025,270</u>      | <u>20,689,545</u>             | <u>50,169,093</u> |

At 30 June 2011, should the interest rates have (decreased)/increased by the basis points indicated below, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

|   | As at 30 June 2011              |                                 | As at 30 June 2010              |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | Increased by 50<br>basis points | Decreased by 50<br>basis points | Increased by 75<br>basis points | Decreased by 75<br>basis points |
| <b>Increase/(decrease) in net assets<br/>attributable to unitholders (and<br/>profit/(loss) before finance costs<br/>attributable to unitholders)</b> | <b>(51,586)</b>                 | <b>51,588</b>                   | <b>(95,441)</b>                 | <b>95,449</b>                   |

These changes are calculated on an undiscounted basis. The analysis is performed on the same basis for 2011 and 2010.

## 13 Financial risk management (continued)

### (c) Credit risk

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

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, and deposits with banks and other financial institutions.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these investments as disclosed in the statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the end of the reporting period.

The carrying amount of mortgage loans (as disclosed in note 9) best represents the maximum credit exposure as at the reporting date. At 30 June 2011 (2010: nil), there was no impairment loss related to mortgage loans. The Scheme believes that the unimpaired amounts that are past due by more than 30 days (as disclosed in note 9) are still collectible, based on historic payment behaviour of borrowers and internal aging analysis of the Investment Manager. Based on historic default rates, the Scheme believes that no impairment allowance is necessary in respect of amounts past due by more than 30 days.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase of the securities has been received by the broker. The trade will fail if either party fails to meet its obligations.

Apart from any security that might be held in relation to mortgage loans, the Scheme holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired.

Counterparty credit limits and the list of authorised brokers are reviewed by the relevant parties within the Responsible Entity on a regular basis as deemed appropriate.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's credit position on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board. All contracts are with counterparties included in the Board's Approved Counterparties list.

#### ***Credit quality per class of instrument***

The credit quality of financial assets is managed by the Scheme using Standard & Poor's rating categories, in accordance with the investment mandate of the Scheme. The Scheme's exposure in each grade is monitored on a daily basis. This review process allows the Responsible Entity to assess the potential loss as a result of risks and take corrective action. The table below shows the credit quality by class of assets:

|                        | AA        | A         | BB to BBB | Other     |
|------------------------|-----------|-----------|-----------|-----------|
|                        | \$        | \$        | \$        | \$        |
| <b>At 30 June 2011</b> |           |           |           |           |
| Floating rate notes    | 1,563,210 | 2,443,650 | 709,200   | 2,923,920 |
| Fixed interest bonds   | -         | -         | -         | 399,100   |
|                        | AA        | A         | BB to BBB | Other     |
|                        | \$        | \$        | \$        | \$        |
| <b>At 30 June 2010</b> |           |           |           |           |
| Floating rate notes    | 4,518,915 | 4,257,260 | 2,661,940 | 3,703,984 |
| Fixed interest bonds   | -         | -         | -         | 399,100   |

## 13 Financial risk management (continued)

### (d) Concentrations of risk

Concentrations of risk arise when a number of financial instruments are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic conditions. These similarities would cause the counterparties' liabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

The concentrations of risk are monitored by the Investment Manager to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Concentrations of risk are managed by industry sector for equity instruments and by counterparty for debt instruments and selected derivatives.

Based on the concentrations of risk that are managed by industry sector and/or counterparty, the following investments can be analysed by the industry sector and/or counterparty as at 30 June 2011 and 30 June 2010:

|                                 | %             |
|---------------------------------|---------------|
| <b>At 30 June 2011</b>          |               |
| Financials                      | 44.18         |
| Mortgages                       | 21.02         |
| Suncorp Group Limited           | 8.47          |
| National Australia Bank Limited | 8.34          |
| Macquarie Bank Limited          | 5.62          |
| Others                          | 12.37         |
| <b>Total</b>                    | <b>100.00</b> |
| %                               |               |
| At 30 June 2010                 |               |
| Financials                      | 38.65         |
| Mortgages                       | 20.09         |
| National Australia Bank Limited | 7.10          |
| Westpac Banking Corporation     | 6.11          |
| Others                          | 28.05         |
| <b>Total</b>                    | <b>100.00</b> |

### (e) 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 may be exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. It therefore primarily holds investments that are traded in active markets and can be readily disposed of.

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 Scheme or Investment Manager of those trusts may be unwilling or unable to fulfil the redemption requests within the timeframe requested by the Scheme.

The Scheme may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Scheme may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer. No such investments were held at the end of the reporting period.

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

### 13 Financial risk management (continued)

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

Units are redeemed on demand at the unitholder's option. However, the Board 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.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's liquidity position on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

The table below analyses the Scheme's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

|  | Less than 1<br>month<br>\$ | 1-3 months<br>\$ | 3-12 months<br>\$ | More than 12<br>months<br>\$ |
|--|----------------------------|------------------|-------------------|------------------------------|
| <b>At 30 June 2011</b>                 |                            |                  |                   |                              |
| Distribution payable                   | 1,574,105                  | -                | -                 | -                            |
| Accrued expenses                       | 691,921                    | -                | -                 | -                            |
| Net assets attributable to unitholders | <u>51,670,635</u>          | <u>-</u>         | <u>-</u>          | <u>-</u>                     |
| <b>Total financial liabilities</b>     | <u>53,936,661</u>          | <u>-</u>         | <u>-</u>          | <u>-</u>                     |
|  | Less than 1<br>month<br>\$ | 1-3 months<br>\$ | 3-12 months<br>\$ | More than 12<br>months<br>\$ |
| <b>At 30 June 2010</b>                 |                            |                  |                   |                              |
| Distribution payable                   | 1,259,754                  | -                | -                 | -                            |
| Accrued expenses                       | 82,945                     | -                | -                 | -                            |
| Net assets attributable to unitholders | <u>50,169,093</u>          | <u>-</u>         | <u>-</u>          | <u>-</u>                     |
| <b>Total financial liabilities</b>     | <u>51,511,792</u>          | <u>-</u>         | <u>-</u>          | <u>-</u>                     |

#### (f) Estimation of fair values of financial assets and financial liabilities

The carrying amounts of all the Scheme's financial assets and financial liabilities at the end of the reporting period approximated their fair values.

The Scheme values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Scheme relies on information provided by independent pricing services for the valuation of its investments.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

As a result of events in global markets in the past reporting period and the comparative period, liquidity in some investment markets decreased significantly. As a result, the volume of trading in some of the investments held by the Scheme decreased significantly, and accordingly the valuation of those investments is subject to a greater uncertainty and requires greater judgement than would be the case in normal investment market conditions.

#### (g) 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:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- 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 2).

## 13 Financial risk management (continued)

### (g) Fair value hierarchy (continued)

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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 Scheme. The Scheme 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.

| As at 30 June 2011   | Level 1<br>\$     | Level 2<br>\$    | Level 3<br>\$    | Total<br>\$       |
|--|-------------------|------------------|------------------|-------------------|
| <b>Financial assets</b>  |                   |                  |                  |                   |
| Financial assets designated at fair value through profit or loss at inception: |                   |                  |                  |                   |
| Listed property trusts   | 2,654,299         | -                | -                | 2,654,299         |
| Unlisted managed investment schemes  | -                 | 10,982           | -                | 10,982            |
| Preference shares - redeemable   | 21,491,278        | -                | -                | 21,491,278        |
| Convertible notes  | 2,152,494         | -                | -                | 2,152,494         |
| Floating rate notes  | -                 | 5,917,890        | 1,722,090        | 7,639,980         |
| Fixed interest bonds   | -                 | -                | 399,100          | 399,100           |
| <b>Total</b>   | <b>26,298,071</b> | <b>5,928,872</b> | <b>2,121,190</b> | <b>34,348,133</b> |

| As at 30 June 2010   | Level 1<br>\$     | Level 2<br>\$     | Level 3<br>\$    | Total<br>\$       |
|--|-------------------|-------------------|------------------|-------------------|
| <b>Financial assets</b>  |                   |                   |                  |                   |
| Financial assets designated at fair value through profit or loss at inception: |                   |                   |                  |                   |
| Listed property trusts   | 2,525,383         | -                 | -                | 2,525,383         |
| Unlisted managed investment schemes  | -                 | 264,000           | -                | 264,000           |
| Preference shares - redeemable   | 18,697,313        | -                 | -                | 18,697,313        |
| Convertible notes  | 2,025,270         | -                 | -                | 2,025,270         |
| Floating rate notes  | -                 | 12,626,984        | 2,515,114        | 15,142,098        |
| Fixed interest bonds   | -                 | -                 | 399,100          | 399,100           |
| <b>Total</b>   | <b>23,247,966</b> | <b>12,890,984</b> | <b>2,914,214</b> | <b>39,053,164</b> |

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, eg recognised stock exchanges, and therefore classified within level 1, include active listed property trust, preference shares - redeemable and convertible notes.

### 13 Financial risk management (continued)

#### (g) Fair value hierarchy (continued)

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. The observable inputs include prices and/or those derived from prices. The level 2 instruments include unlisted managed investment schemes and floating rate notes. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include certain floating rate notes and fixed interest bonds. As observable prices are not available for these securities, the Scheme has used valuation techniques to derive fair value.

Where a valuation model technique is used, the Scheme considers other liquidity, credit and market risk factors, and adjusts the model as deemed necessary.

The following table presents the movement in level 3 instruments as at the reporting date by class of financial instrument.

|                           | Opening balance  | Purchases | Return of Capital  | Transfers into level 3 | Transfers out of level 3 | Gains/(losses) recognised in profit or loss | Closing balance  | Gains/(losses) included in the statement of comprehensive income for financial assets/liabilities held at the reporting period-end |
|---------------------------|------------------|-----------|--------------------|------------------------|--------------------------|---|------------------|--|
| <b>As at 30 June 2011</b> | \$               | \$        | \$                 | \$                     | \$                       | \$  | \$               | \$   |
| Floating rate notes       | 2,515,114        | -         | (1,784,592)        | -                      | -                        | 991,568                                     | 1,722,090        | 991,568  |
| Fixed interest bonds      | 399,100          | -         | -                  | -                      | -                        | -   | 399,100          | -  |
| <b>Total</b>              | <b>2,914,214</b> | <b>-</b>  | <b>(1,784,592)</b> | <b>-</b>               | <b>-</b>                 | <b>991,568</b>                              | <b>2,121,190</b> | <b>991,568</b>   |

  

|                           | Opening balance  | Purchases | Sales    | Transfers into level 3 | Transfers out of level 3 | Gains/(losses) recognised in profit or loss | Closing balance  | Gains/(losses) included in the statement of comprehensive income for financial assets/liabilities held at the reporting period-end |
|---------------------------|------------------|-----------|----------|------------------------|--------------------------|---|------------------|--|
| <b>As at 30 June 2010</b> | \$               | \$        | \$       | \$                     | \$                       | \$  | \$               | \$   |
| Floating rate notes       | 4,662,283        | -         | -        | -                      | -                        | (2,147,169)                                 | 2,515,114        | (2,147,169)  |
| Fixed interest bonds      | 688,500          | -         | -        | -                      | -                        | (289,400)                                   | 399,100          | (289,400)  |
| <b>Total</b>              | <b>5,350,783</b> | <b>-</b>  | <b>-</b> | <b>-</b>               | <b>-</b>                 | <b>(2,436,569)</b>                          | <b>2,914,214</b> | <b>(2,436,569)</b>   |

## 14 Related party transactions

### Responsible Entity

The Responsible Entity of CCIIM Income Trust is CCI Investment Management Limited.

### Key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of CCI Investment Management Limited at any time during the reporting period as follows:

P E Bokeyar (Appointed 8 August 2000, Resigned 21 March 2011)  
W R d'Apice (Appointed 8 August 2000, Resigned 9 October 2010)  
P J Dwyer (Appointed 8 August 2000, Resigned 21 March 2011)  
T Killen (Appointed 5 December 2007 )  
J Dawson (Appointed 2 March 2010)  
R Haddock (Appointed 4 July 2011)  
B Lucas (Appointed 4 July 2011)  
J Tongs (Appointed 4 July 2011)  
P A Rush (Alternate Director for Peter E Bokeyar until 21 March 2011)

No fees were paid out of the Scheme property to the key management personnel of the Scheme during the reporting period.

#### (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 reporting period.

### Key management personnel unitholdings

At 30 June 2011 no key management personnel held units in the Scheme (2010: Nil).

### Key management personnel compensation

Key management personnel are paid by CCI Investment Management Limited. Payments made from the Scheme to CCI Investment Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

### Key management personnel loan disclosures

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

### Responsible Entity's/Manager's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive management fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Scheme as follows:

|  | <b>For the reporting period</b> |                         |
|--|---------------------------------|-------------------------|
|  | <b>30 June<br/>2011</b>         | <b>30 June<br/>2010</b> |
|  | <b>\$</b>                       | <b>\$</b>               |
| Management fees for the reporting period paid by the Scheme to the Responsible Entity  | <b>339,779</b>                  | 335,244                 |
| Aggregate amounts payable to the Responsible Entity at the end of the reporting period | <b>85,268</b>                   | 82,945                  |

## 14 Related party transactions (continued)

Where the Scheme invests into other schemes managed by the Responsible Entity, the Responsible Entity's fee is calculated after rebating fees charged in the underlying schemes. All the outstanding balances are at arm's length and are on commercial terms and conditions.

### Related party schemes' unitholdings

Parties related to the Scheme (including CCI Investment Management Limited, its related parties and other schemes managed by CCI Investment Management Limited), held no units in the Scheme.

### Investments

The Scheme did not hold any investment in CCI Investment Management Limited or its affiliates during the reporting period.

### Other transactions within the Scheme

From time to time directors of CCIIM Income Trust, 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 investors and are trivial in nature.

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Scheme during the reporting period and there were no material contracts involving key management personnel's interests existing at reporting period end.

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

|   | For the reporting period<br>ended |                    |
|---|-----------------------------------|--------------------|
|   | 30 June<br>2011                   | 30 June<br>2010    |
|   | \$                                | \$                 |
| <b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>   |                                   |                    |
| Profit/(loss) for the reporting period attributable to unitholders  | -                                 | -                  |
| Increase/(decrease) in net assets attributable to unitholders   | 269,674                           | 667,688            |
| Proceeds from sale of financial instruments held at fair value through profit or loss (including net realised gains/(losses))                       | 18,534,299                        | 15,815,247         |
| Purchase of financial instruments held at fair value through profit or loss   | (12,130,490)                      | (26,369,088)       |
| Net change in accrued income and prepaid expenses   | (76,151)                          | 232,532            |
| Net change in accounts payable and accrued liabilities  | 4,181                             | 3,014              |
| Net (gains)/losses on financial instruments held at fair value through profit or loss   | (659,018)                         | (816,874)          |
| Distribution to unitholders   | 4,410,118                         | 3,506,186          |
| <b>Net cash inflow/(outflow) from operating activities</b>  | <b>10,352,613</b>                 | <b>(6,961,295)</b> |
| <b>(b) Components of cash and cash equivalents</b>  |                                   |                    |
| Cash as at the end of the reporting period as shown in the statement of cash flows is reconciled to the statement of financial position as follows: |                                   |                    |
| Cash and cash equivalents   | <u>9,580,794</u>                  | <u>2,092,080</u>   |
|   | <b>9,580,794</b>                  | <b>2,092,080</b>   |
| <b>(c) Non-cash financing activities</b>  |                                   |                    |
| During the reporting period, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan      | <u>1,197,464</u>                  | <u>676,090</u>     |

## **16 Events occurring after the reporting period**

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2011 or on the results and cash flows of the Scheme for the reporting period ended on that date.

## **17 Contingent assets and liabilities and commitments**

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2011 and 30 June 2010.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 4 to 31 are in accordance with the Scheme's Constitution, including:
  - (i) complying with Australian Accounting Standards, and other mandatory professional reporting requirements; and
  - (ii) present fairly the Scheme's financial position as at 30 June 2011 and its performance, as represented by the results of its operations and cash flows, for the reporting period ended on that date; and
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.
- (c) the financial statements are in accordance with the Scheme's Constitution.

Note 2(a) confirms that the financial statements also 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.

T Killen  
Director