

Aurora Property Buy-Write Income Trust

ARSN 125 153 648

ANNUAL REPORT

For the year ended 30 June 2012

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Corporate Directory

Directors of Responsible Entity	John Corr B Comm Alastair Davidson B.Sc Economics (Hons) CA Richard Matthews B.Sc B.A. B.Ec MPA, Grad Dip App Fin Simon Lindsay B. BUS Steuart Roe BSc MAppFin
Company Secretary	Richard Matthews B.Sc B.A. B.Ec MPA, Grad Dip App Fin
Principal Registered Office in Australia	Level 2, 350 George Street Sydney, NSW 2000 (02) 9080 2377
Share register	Boardroom Limited Level 7, 207 Kent Street, Sydney, NSW, Australia 2000
Auditor	PwC Darling Park Tower 2 201 Sussex Street Sydney NSW 1171
Solicitors	Baker & McKenzie Level 27, AMP Centre 50 Bridge Street Sydney NSW 2000
Stock exchange listings	Aurora Property Buy-Write Income Trust units are listed on the Australian Securities Exchange (ASX)
Website address	www.aurorafunds.com.au

Directors' report

The directors of Aurora Funds Management Limited (ABN 69 092 626 885), (the "Responsible Entity"), present their report together with the financial statements of Aurora Property Buy-Write Income Trust ("the Trust") for the financial year ended 30 June 2012.

Principal activities

The principal activities of the Trust during the financial year were continuing its investment strategy in equities and index derivatives in accordance with the provision of the Trust Constitution and the current Product Disclosure Statement.

The Trust did not have any employees during the year.

Directors

The following persons held office as directors of Aurora Funds Management Limited during the year or since the end of the year and up to the date of this report:

John Corr
 Alastair Davidson
 Richard Matthews
 Simon Lindsay
 Steuart Roe

Review and results of operations

During the year, the Trust continued to invest in accordance with target asset allocations as set out in the governing documents of the Trust and in accordance with the provisions of the Trust Constitution.

The investment policy of the Trust continues to be that detailed in the current Product Disclosure Statement and in accordance with the provisions of the governing documents of the Trust.

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

	30 June 2012 \$'000	30 June 2011 \$'000
Operating profit/(loss) before finance costs attributable to unitholders	511	1,285
Distributions paid and payable	1,095	1,385
Distribution (cents per unit) 30 September	10.60	11.00
Distribution (cents per unit) 31 December	10.00	11.00
Distribution (cents per unit) 31 March	10.00	11.00
Final Distribution (cents per unit) 30 June	10.00	11.00

Directors' report (continued)

Financial Position

Net Tangible Assets per unit as disclosed to the ASX

Net Tangible Assets per unit as disclosed to the ASX (excluding distribution, but not accumulated imputation credits) are shown as follows:

	30 June 2012 \$	30 June 2011 \$
At 30 June	5.098	5.280
High during period	5.203	5.450
Low during period	4.870	5.280

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Trust that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- (i) the operations of the Trust in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Trust in future financial years.

Likely developments and expected results of operations

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

The results of the Trust's operations will be affected by a number of factors, including the performance of investment markets in which the Trust invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Trust 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 Trust.

Indemnity and insurance of Aurora Funds Management Limited

Aurora Funds Management Limited is entitled to recover the cost of insurance from the assets of the Trust, as capped by the cost recovery. No insurance premiums are paid for out of the assets of the Trust in relation to insurance cover provided to the auditors of the Trust. So long as the officers of Aurora Funds Management Limited act in accordance with the Scheme Constitution and the *Corporations Act*, the officers remain indemnified out of the assets of the Trust against any losses incurred while acting on behalf of the Trust.

Indemnity of auditors

The auditors of the Trust are in no way indemnified out of the assets of the Trust.

Directors' report (continued)

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

Fees paid to the Responsible Entity and its associates out of Trust property during the year are disclosed in Note 16 to the financial statements.

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

The number of interests in the Trust held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 16 to the financial statements.

Interests in the Trust

The movement in units on issue in the Trust during the period is disclosed in Note 8 of the financial statements.

The values of the Trust assets and liabilities are disclosed on the balance sheet and derived using the basis set out in Note 2 of the financial statements.

The units on issue in the Trust during the year is set out below:

	30 June 2012 No.	30 June 2011 No.
Units on issue	2,450,217	3,020,896
Value of assets		
Net value of Trust assets	\$ 12,491,964	\$ 15,915,361

The net value of the Trust assets and liabilities is disclosed on the Balance Sheet and derived using the accounting basis set out in Note 2 of the financial statements. The Trust issues and redeems units at the prevailing net tangible asset per unit at the end of each calendar month. The total number of units issued and redeemed during the year is disclosed in Note 8.

Environmental regulation

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

Fees paid to the Responsible Entity and Investment Manager

	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
Management Fee	281,928	351,721
Expense Recovery	19,987	26,444

Directors' report (continued)

Interests held by the Responsible Entity and Directors

There were no units (2011: nil) of the Trust held by the Responsible Entity or its associates or by Directors at the date of this report.

Remuneration report

The Responsible Entity of Aurora Property Buy-Write Income Trust is Aurora Funds Management Limited. Key management personnel are the executive directors of Aurora Funds Management Limited. The key management remuneration disclosures required under AASB 124 are provided in the financial statements of the Responsible Entity.

Proceedings on behalf of Trust

No person has applied for leave of Court to bring proceedings on behalf of the Trust or intervene in any proceedings to which the Trust is a party for the purpose of taking responsibility on behalf of the Trust for all or any part of those proceedings. The Trust was not a party to any such proceedings during the year.

Rounding of amounts to the nearest thousand dollars

The Trust is an entity of the kind referred to in Class Order 98/100 (as amended) issued by ASIC relating to the "rounding" of amounts in the directors' report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* will be provided on page 6 after the audit is completed.

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



Stewart Roe

Director

20 September 2012

Statement of Comprehensive Income

	Note	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Investment income			
Interest income from financial assets not held at fair value through profit or loss		234	386
Dividend and distribution income	5	947	1,107
Net gains/(losses) on financial instruments held at fair value through profit or loss	7	<u>(323)</u>	<u>204</u>
Total net investment income/(loss)		<u>858</u>	<u>1,697</u>
Expenses			
Management fees	16(d)	302	352
Administration costs		36	48
Transaction costs		<u>9</u>	<u>12</u>
Total operating expenses		<u>347</u>	<u>412</u>
Operating profit/(loss)		<u>511</u>	<u>1,285</u>
Finance costs attributable to unitholders			
Distributions to unitholders	9	(1,095)	(1,385)
(Increase)/decrease in net assets attributable to unitholders	8	<u>584</u>	<u>100</u>
Profit/(loss) for the year		<u>-</u>	<u>-</u>
Other Comprehensive Income		<u>-</u>	<u>-</u>
Total Comprehensive Income		<u>-</u>	<u>-</u>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Balance Sheet

	Notes	As at 30 June 2012 \$'000	As at 30 June 2011 \$'000
Assets			
Cash and cash equivalents	10	4,830	7,959
Receivables	11	313	439
Due from brokers - receivable for securities sold		568	123
Financial assets held at fair value through profit or loss	12	<u>8,329</u>	<u>8,704</u>
Total assets		<u>14,040</u>	<u>17,225</u>
Liabilities			
Distributions payable	9	280	361
Due to brokers - payable for securities purchased		380	651
Financial liabilities held at fair value through profit or loss	13	262	234
Other payables	14	469	64
Payable to brokers for margin		<u>157</u>	-
Total liabilities (excluding net assets attributable to unitholders)		<u>1,548</u>	<u>1,310</u>
Net assets attributable to unitholders - Liabilities	8	<u>12,492</u>	<u>15,915</u>

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

	As at 30 June 2012 \$'000	As at 30 June 2011 \$'000
Total equity at the beginning of the financial year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	<u>-</u>	<u>-</u>
Transactions with equity holders in their capacity as equity holders	-	-
Total equity at the end of the financial year	<u>-</u>	<u>-</u>

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

	Notes	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		5,670	7,347
Purchase of financial instruments held at fair value through profit or loss		(8,061)	(7,861)
Transaction costs on purchase of financial instruments		(9)	(12)
Dividends and distributions received		1,060	790
Interest received		244	718
Other income received		-	6
GST recovered/(paid)		3	6
Management fees paid		(314)	(390)
Payment of other expenses		(36)	(48)
Net cash inflow/(outflow) from operating activities	17	<u>(1,443)</u>	<u>556</u>
Cash flows from financing activities			
Payments for redemptions by unitholders		(633)	(1,826)
Distributions paid		(1,053)	(1,270)
Net cash inflow/(outflow) from financing activities		<u>(1,686)</u>	<u>(3,096)</u>
Net increase/(decrease) in cash		(3,129)	(2,540)
Cash and cash equivalents at beginning of the year		<u>7,959</u>	<u>10,499</u>
Cash and cash equivalents at the end of the year	17(a)	<u>4,830</u>	<u>7,959</u>
Non-cash financing activities	17(c)		

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

Notes to the Financial Statements

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1 General information

These financial statements cover Aurora Property Buy-Write Income Trust ("the Trust") as an individual entity. The Trust commenced operations on 19 July 2007 and was admitted to the Australian Securities Exchange ("ASX") on 26 July 2007, and is domiciled in Australia.

The Responsible Entity of the Trust is Aurora Funds Management Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 2, 350 George Street, Sydney, NSW 2000. The financial statements are presented in the Australian currency.

It is recommended that these financial statements are considered together with the current product disclosure document and in accordance with the provisions of the governing documents of the Trust, and any public announcements made by the Trust during the year ended 30 June 2012 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and ASX listing rules.

The principal activities of the Trust during the financial year were establishing its investment strategy in equities and index derivatives in accordance with the provision of the Trust Constitution and the Product Disclosure Statement.

The financial statements were authorised for issue by the directors 20 September 2012. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated 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, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

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

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

Compliance with International Financial Reporting Standards

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

(b) Financial instruments

(i) Classification

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

- Financial instruments held for trading

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification. The Trust does not designate any derivatives as hedges in a hedging relationship.

The Trust makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

- Financial instruments held at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded equity instruments and equity derivative instruments.

The Trust may sell securities short in anticipation of a decline in fair value of that security. When the Trust sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale. At the reporting date, the liability for the obligation to replace the borrowed security is valued at the net fair value.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Recognition / derecognition

The Trust 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.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Trust has transferred substantially all risks and rewards of ownership.

(iii) Measurement

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

At initial recognition, the Trust measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Trust is the current bid price and the quoted market price for financial liabilities is the current asking price.

Further details on how the fair values of financial instruments are determined are disclosed in note 3(e).

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities as the Trust is required to distribute its taxable income. The units can be put back to the Trust 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 redeem units in the Trust.

(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 are shown within borrowings in the Balance Sheet.

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 Trust's main income generating activity.

(e) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions and short sales. The cash is held by broker and is only available to meet margin calls.

(f) Investment income

Interest income on deposits held at call with banks is recognised as the interest accrues daily during each interest period and accrued at the reporting date from the time of last payment using effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Trust estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Dividend income is recognised on the ex-dividend date, inclusive of any related foreign withholding tax. Such income is recorded at the net of withholding tax in profit or loss.

Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Trust distributions are recognised on an entitlements basis.

(g) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in the Statement of Comprehensive Income on an accruals basis.

2 Summary of significant accounting policies (continued)

(h) Income tax

Under current legislation, the Trust is not subject to income tax as unitholders are presently entitled to the income of the Trust. The benefit of imputation credits paid is passed on to unitholders.

(i) Distributions

In accordance with the Trust Constitution, the Trust fully distributes its distributable income to unitholders by cash or reinvestment. The distributions are recognised in the Statement of Comprehensive Income as finance costs attributable to unitholders.

(j) Increase/decrease in net asset attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in Statement of Comprehensive Income as finance costs.

(k) Foreign currency translation

(i) Functional and presentation currency

Items included in the Trust'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 Trust competes for funds and is regulated. The Australian dollar is also the Trust's presentation currency.

(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 translation at year end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the Statement of Comprehensive Income on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

(l) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Trust will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(m) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

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

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

2 Summary of significant accounting policies (continued)

(n) Trade and other payables

Trades are recorded on trade date, and normally settled within three business days. Purchase of securities and investments that are unsettled at reporting date are included in payables. Payables include liabilities and accrued expenses owing by the Trust which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the Balance Sheet when unitholders are presently entitled to the distributable income under the Trust Constitution.

(o) Applications and redemptions

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

Unit redemption prices are determined by reference to the net assets for of the Trust, divided by the number of units on issue.

(p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Trust by third parties such as custodial services and investment management fees have been passed onto the Trust. The Trust 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 Balance Sheet. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Trust) 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 Amendment to Australia Accounting Standards arising from AASB 9* (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Trust has not yet decided when to adopt *AASB 9*. Management does not expect this will have a significant impact on the Trust's financial statements as the Trust does not hold any available-for-sale investments.

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to *AASB 9* in due course.

- (ii) *AASB 13 Fair Value Measurement* and *AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Fund 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.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (continued)

(r) Use of estimates

The Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Trust's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

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 and payables, the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

(s) Rounding of amounts

The Trust is an entity of the kind referred to in Class Order 98/0100 issued by ASIC relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded, off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

3 Financial risk management

The Trust's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, and interest rate risk), credit risk and liquidity risk arising from the financial instruments it holds.

The principal financial instruments comprise equity securities, cash and equity derivatives, the purpose of which is to generate a return on the amounts owed to unitholders. The Responsible Entity reviews and agrees the risk management policies employed by the investment manager to manage these risks. There have been no changes to the exposure risks and the objectives, policies and processes for managing risks during the year. Each of the risks are discussed in more detail below:

(a) Market risk

(i) Price risk

The Trust is exposed to equity securities and derivative securities price risk. This arises from investments held by the Trust for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Paragraph (ii) below sets out how this component of price risk is managed and measured. Investments are classified in the Balance Sheet at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The risk is managed by the Responsible Entity through ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly by the investment manager on a total portfolio basis, which includes the effect of derivatives.

A sensitivity analysis of 10.5 per cent has been selected as this is considered reasonable given the current level of market price fluctuation. A 10.5 per cent increase in market price would increase the market value of the total portfolio at 30 June 2012 by \$847,176 (2011: \$894,484). A 10.5 per cent decrease in market price would decrease the market value of the total portfolio by \$847,176 (2011: \$1,269,876).

(ii) Foreign exchange risk

The Trust has no direct exposure to foreign exchange risk.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. There is no significant direct interest rate risk in the Trust as the Trust does not hold interest rate sensitive financial instruments. The interest rates on deposits at bank and on bank overdrafts are both floating rates referenced to the RBA cash rate.

There are no financial instruments held whose value at the reporting date are sensitive to interest rates, no sensitivity analysis on valuations has been performed. Based on year end balance, if interest rates increase/(decrease) 100bps interest income would increase/(decrease) by \$48,300 (2011 - \$79,590) higher or lower.

The table below summarised the Trust's exposure to interest rate risks. It includes the Trust's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

30 June 2012	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	4,830	-	-	4,830
Receivables	-	-	313	313
Due from brokers - receivable for securities sold	-	-	568	568
Financial assets held at fair value through profit or loss	-	-	8,329	8,329
Financial liabilities				
Distributions payable	-	-	(280)	(280)
Due to brokers - payable for securities purchased	-	-	(380)	(380)
Financial liabilities held at fair value through profit or loss	-	-	(262)	(262)
Other payables	-	-	(469)	(469)
Payable to brokers for margin	(157)	-	-	(157)
Net exposure	4,673	-	7,819	12,492
30 June 2011	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	7,959	-	-	7,959
Receivables	-	-	439	439
Due from brokers - receivable for securities sold	-	-	123	123
Financial assets held at fair value through profit or loss	-	-	8,704	8,704
Financial liabilities				
Payables	-	-	(425)	(425)
Due to brokers - payable for securities purchased	-	-	(651)	(651)
Financial liabilities held at fair value through profit or loss	-	-	(234)	(234)
Net exposure	7,959	-	7,956	15,915

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Trust's operating profit and net assets attributable to unitholders to interest rate risk, foreign exchange risk and other price risk. The reasonably possible movements in the risk variables have been 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 Trust's investments with the relevant benchmark 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 and/or correlation between the performance of the economies, markets and securities in which the Trust invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Price risk		Interest rate risk	
	Impact on operating profit/Net assets attributable to unitholders			
	-10.5%	+10.5%	-100 bps	+100 bps
	\$'000	\$'000	\$'000	\$'000
30 June 2012	(847)	847	(48)	48
30 June 2011	(1,270)	894	(80)	80

(c) Credit risk

The Trust is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due.

The Trust has entered into a borrowing agreement with Macquarie Bank (Credit rating of A/Stable) and some of the Trust's assets are pledged as collateral for amounts drawn under the overdraft facility. The collateral value is \$ 4,982,110

There is significant concentration of credit risk to Macquarie Bank Ltd at 30 June 2012 through the OTC option contracts. No individual investment, other than cash, exceeded ten percent of the net assets attributable to unitholders at 30 June 2012. The Trust only has a material risk exposure to the bank that holds the Trust's cash assets at 30 June 2012.

	2012 \$'000	2011 \$'000
Cash at bank and short term bank deposits		
A+	27	824
A/Stable	4,874	7,135
Total	4,901	7,959

(i) Derivative financial instruments

The Trust uses derivatives to reduce risk or for income potential. Risks associated with using these tools might include the values of the derivative failing to move in line with the underlying asset, potential illiquidity of, or inability to get set in, the derivative, the Trust not being able to meet payment obligations as they arise, and counterparty risk (this is where the counterparty to the derivative contract cannot meet its obligations under the contract). The Fund Manager aims to keep derivative risk to a minimum by constantly monitoring the Trust's use of derivatives, and by only entering into derivative contracts with reputable counterparties.

When using gearing or derivative instruments, the Trust expects to pledge its assets as collateral to any lender or counterparty to the Trust. Should the Trust default on its interest, or repayment or other obligations, the lender/ counterparty may take possession of the Trust's assets. This risk is managed by ensuring that the Trust manages its borrowing/derivative positions within pre-determined limits, and by only dealing with credible lenders/counterparties and by limiting the lenders/counterparties recourse to only Trust assets.

(ii) Settlement of securities transactions

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 on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

3 Financial risk management (continued)

(c) Credit risk (continued)

(iii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A/Stable or higher.

In accordance with the Trust's policy, the investment manager monitors the Trust's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

(iv) Other

The Trust is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

(d) Liquidity risk

Liquidity risk is the risk that the Trust may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. The Investment Manager has the responsibility to manage the financial liabilities of the Trust which includes settling trade liabilities, upcoming distributions and monthly redemptions.

The majority of the Trust's listed securities are considered readily realisable, as they are listed on the Australian Stock Exchange.

The Trust 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 Trust may not be able to quickly liquidate 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 deterioration in the creditworthiness of any particular issuer or counterparty.

The risk management guidelines adopted by the investment manager are designed to minimise liquidity risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market

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

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

	Less than 1 month	1 to 6 months	Total
	\$'000	\$'000	\$'000
30 June 2012			
Liabilities			
Distributions payable	-	280	280
Due to brokers - payable for securities purchased	380	-	380
Financial liabilities held at fair value through profit or loss	-	262	262
Other payables	469	-	469
Payable to brokers for margin	157	-	157
Net assets attributable to unitholders	<u>12,492</u>	-	<u>12,492</u>
Contractual cash flows (excluding gross settled derivatives)	<u>13,498</u>	<u>542</u>	<u>14,040</u>
30 June 2011			
Liabilities			
Distributions payable	-	361	361
Due to brokers - payable for securities purchased	651	-	651
Financial liabilities held at fair value through profit or loss	-	234	234
Other payables	64	-	64
Net assets attributable to unitholders	<u>15,915</u>	-	<u>15,915</u>
Contractual cash flows (excluding gross settled derivatives)	<u>16,630</u>	<u>595</u>	<u>17,225</u>

3 Financial risk management (continued)

(e) Fair value estimation

The carrying amounts of the Trust assets and liabilities at the end of each reporting period approximate their fair values.

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 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 profit or loss.

(i) 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.

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

The quoted market price used for financial assets held by the Trust is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Trust holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

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

(f) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

The Trust classifies 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). 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 Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables on page 21 sets out the Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2012 and 30 June 2011.

3 Financial risk management (continued)

(f) Fair value hierarchy (continued)

As at 30 June 2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held for trading:				
Derivatives	59	3	-	62
Financial assets designated at fair value through profit and loss:				
Equity securities	<u>8,267</u>	<u>-</u>	<u>-</u>	<u>8,267</u>
Total	<u>8,326</u>	<u>3</u>	<u>-</u>	<u>8,329</u>
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	<u>66</u>	<u>196</u>	<u>-</u>	<u>262</u>
Total	<u>66</u>	<u>196</u>	<u>-</u>	<u>262</u>
As at 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held for trading:				
Derivatives	55	254	-	309
Financial assets designated at fair value through profit and loss:				
Equity securities	<u>8,395</u>	<u>-</u>	<u>-</u>	<u>8,395</u>
Total	<u>8,450</u>	<u>254</u>	<u>-</u>	<u>8,704</u>
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	<u>122</u>	<u>112</u>	<u>-</u>	<u>234</u>
Total	<u>122</u>	<u>112</u>	<u>-</u>	<u>234</u>

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

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

There have been no transfers between levels 1, 2 and 3 during the year.

4 Segment information

The Trust is organised into one main business segment which operates solely in the business of investment management within Australia. While the Trust operates from Australia only (the geographical segment), the Trust may have asset exposures in different countries and across different industries. The Trust also invests in certain securities which are listed both on the Australian and international securities exchange.

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

5 Dividend and distribution income

	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Dividend Income	363	551
Distribution Income	<u>584</u>	<u>556</u>
	<u>947</u>	<u>1,107</u>

6 Remuneration of auditors

The audit fee was born by the Responsible Entity of the Trust. The Responsible Entity received a total fee of a certain percentage to receive the expenses paid on behalf of the Trust. There were no fees paid directly to the auditors by the Trust.

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

	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
PwC Australian firm		
Audit and review of financial statements	13,100	12,904
Audit of compliance plan	1,430	1,399
Tax compliance services	<u>3,400</u>	<u>3,400</u>
	<u>17,930</u>	<u>17,703</u>

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

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Financial assets		
Net gain/(loss) on financial assets held for trading	(583)	372
Net gain/(loss) on financial assets designated at fair value through profit or loss	<u>(178)</u>	<u>(157)</u>
Net gain/(loss) on financial assets held at fair value through profit or loss	<u>(761)</u>	<u>215</u>
Net realised gain/(loss) on financial assets at fair value through profit or loss	(365)	(539)
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	<u>(396)</u>	<u>754</u>
Net gain/(loss) on financial assets held at fair value through profit or loss	<u>(761)</u>	<u>215</u>
Financial liabilities		
Net gain/(loss) on financial liabilities held for trading	438	1
Net gain/(loss) on financial liabilities designated as at fair value through profit or loss	<u>-</u>	<u>(12)</u>
Net gain/(loss) on financial liabilities held at fair value through profit or loss	<u>438</u>	<u>(11)</u>
Net realised gain/(loss) on financial liabilities held for trading through profit or loss	494	-
Net unrealised gain/(loss) on financial liabilities at fair value through profit or loss	<u>(56)</u>	<u>(11)</u>
Net gain/(loss) on financial liabilities held at fair value through profit or loss	<u>438</u>	<u>(11)</u>
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>(323)</u>	<u>204</u>

8 Net assets attributable to unitholders

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

	30 June 2012 No. '000	30 June 2011 No. '000	30 June 2012 \$ '000	30 June 2011 \$ '000
Opening balance - including treasury units	3,094	3,627		
Treasury units	<u>(73)</u>	<u>(314)</u>		
Opening balance - excluding treasury units	3,021	3,313	15,915	17,537
Applications	-	-	-	-
Redemptions	(80)	(564)	(408)	(3,023)
Units issued upon reinvestment of distributions	24	31	123	167
Units (purchased) and sold by the Fund	(515)	241	(2,554)	1,334
Increase/(decrease) in net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>(584)</u>	<u>(100)</u>
Closing balance - excluding treasury units	2,450	3,021	12,492	15,915
Treasury units	<u>128</u>	<u>73</u>		
Closing balance - including treasury units	2,578	3,094		

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

8 Net assets attributable to unitholders (continued)

The following rights and benefits are attached to the units on issue:

Voting

Voting is by a show of hands, unless a poll is demanded. The *Corporations Act* governs who can demand a poll and the value of each vote required to pass a resolution. The chair of the meeting has no casting vote.

Transfer

The unitholders may transfer units using any form acceptable to the manager.

Distributions

The Trust will distribute all its distributable income each year to unitholders.

Distributions Re-investment Plan

The Trust has established a Distribution Re-investment Plan (DRIP) for all distributions. The DRIP enables unitholders to re-invest all or part of the distributions payable on their units in additional units.

Eligible members may elect to participate in the DRIP in respect of all or part of their units in the Trust that will comprise that members DRIP units. The issuer may in its absolute discretion accept or refuse any application to participate. The net cost of investing at that time will be the Net Asset Value per Unit for the units on the record date or such other amounts as the Responsible Entity may determine being not less than the Net Asset Value per Unit. All units allotted and issued under DRIP will rank equally in all respects with existing units.

Redemptions

An investor may ask to exit the Trust at any time. When an investor exits the Trust, the investment manager redeems the investor's relevant units. Units can only be redeemed at the exit price. Subject to the *Corporations Act* and the listing rules if the listing rules apply, while the manager is not obliged to give effect to a redemption request, it may redeem some or all of the units which are the subject of the request.

Winding up

After paying or making allowances for all the anticipated liabilities, subject to the rights and obligations attaching to any class, the net proceeds must be distributed pro rata to investors according to the number of units they hold at termination.

Capital risk management

The Trust considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable can change significantly on a daily basis as the Trust is subject to daily applications and redemptions at the discretion of unitholders.

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

9 Distribution to unitholders

The distributions for the year were as follows:

	30 June 2012 \$'000	30 June 2012 CPU	30 June 2011 \$'000	30 June 2011 CPU
Distributions paid	815	30.60	1,024	33.00
Distributions payable	<u>280</u>	<u>10.00</u>	<u>361</u>	<u>11.00</u>
	<u>1,095</u>	<u>40.60</u>	<u>1,385</u>	<u>44</u>

Distributions payable in the balance sheet includes distributions payable from prior periods.

10 Cash and cash equivalents

	As at 30 June 2012 \$'000	As at 30 June 2011 \$'000
Cash at bank	4,901	7,959
Bank overdraft	(71)	-
Total	4,830	7,959

11 Receivables

	As at 30 June 2012 \$'000	As at 30 June 2011 \$'000
Dividends & distributions receivable	293	406
Interest receivable	14	24
GST recoverable	6	9
Total	313	439

12 Financial assets held at fair value through profit or loss

	As at 30 June 2012 Fair value \$'000	As at 30 June 2011 Fair value \$'000
Held for trading		
Derivatives	62	309
Total held for trading	62	309
Designated at fair value through profit or loss		
Equity securities	8,267	8,395
Total designated at fair value through profit or loss	8,267	8,395
Total financial assets held at fair value through profit or loss	8,329	8,704
Comprising:		
Derivatives		
Equity options	59	55
Equity swaps	3	254
Total derivatives	62	309
Equity securities		
Australian listed equity securities	8,267	8,395
Total equity securities	8,267	8,395
Total financial assets held at fair value through profit or loss	8,329	8,704

13 Financial liabilities held at fair value through profit or loss

	As at 30 June 2012 Fair value \$'000	As at 30 June 2011 Fair value \$'000
Held for trading		
Derivatives - Equity options	262	122
Total held for trading	262	122
Designated at fair value through profit or loss		
Derivatives - over the counter options	-	112
Total designated at fair value through profit or loss	-	112
Total financial liabilities held at fair value through profit or loss	262	234

14 Other payables

	As at 30 June 2012 \$'000	As at 30 June 2011 \$'000
Management fee payable	52	64
Redemptions payable	417	-
Total	469	64

15 Derivative financial instruments

In the normal course of business, the Trust enters into transactions in various derivative financial instruments with certain risks. A derivative is a financial instrument or other contract which is settled at a future date whose value changes in response to a change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include a wide assortment of instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Trust portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Trust against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Trust.

15 Derivative financial instruments (continued)

(a) Equity Swaps

An equity swap is a financial derivative contract (a swap) where a set of future cash flows are agreed to be exchanged between two counterparties at set dates in the future. The two cash flows are usually referred to as "legs" of the swap; one of these "legs" is usually pegged to a floating rate. The other leg of the swap is based on the performance of either a share of stock or a stock market index. Most equity swaps involve a floating leg vs. an equity leg, although some exist with two equity legs.

An equity swap involves a notional principal, a specified tenor and predetermined payment intervals. Equity swaps are typically traded by Delta One trading desks.

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. Options held by the Trust are exchange-traded and over-the-counter. The Trust is exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis. Exchange traded options comply with the conditions of the Options Clearing House.

The Trust's derivative financial instruments at year end are detailed as follows:

30 June 2012

	Fair values		
	Contract/Notional No.'000	Assets \$'000	Liabilities \$'000
Options	(4,356)	59	262
Swaps	3,169	3	-

30 June 2011

	Fair Values		
	Contract/Notional No.'000	Assets \$'000	Liabilities \$'000
Options	(7,388)	55	234
Swaps	6,496	254	-

Risk exposures and fair value measurements

Information about the Trust's exposure to credit risk, interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

16 Related party transactions

Responsible Entity

The Responsible Entity of Aurora Property Buy-Write Income Trust is Aurora Funds Management Limited.

Key management personnel

(a) Directors

The names of persons who were executives or directors of Aurora Funds Management Limited at any time during the financial year were as follows:

John Corr
Alastair Davidson
Richard Matthews
Simon Lindsay
Steuart Roe

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly during the financial year.

Key management personnel compensation

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

Key management personnel loan disclosures

The Trust 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.

(c) Other transactions within the Trust

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

(d) Responsible Entity's/manager's fees and other transactions

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

- (i) expense recovery fee of 0.15375% (inclusive of GST, net of RITC) per annum
- (ii) investment fee payable to the investment manager is 2.05% (GST inclusive, net of RITC) per annum. This amount is calculated monthly and paid by the Trust at the end of each month
- (iii) performance fee of 10.25% (GST inclusive, net of RITC) per annum is applied to the total excess between the Total Unit Holder Return (TUR) and the UBS Australia Bank index. No performance fee was paid in the current or previous year.

16 Related party transactions (continued)

Responsible Entity's/manager's fees and other transactions (continued)

All expenses in connection with the preparation of accounting records and the maintenance of the unit register are reimbursed in accordance with the Trust's Constitution.

The transactions during the year and amounts payable at year end between the Trust and the Responsible Entity were as follows:

	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
Management fees for the year paid by the Trust to the Responsible Entity/Investment Manager	<u>281,928</u>	<u>351,721</u>
Administration expenses incurred by the responsible entity which are reimbursed in accordance with the Trust's Constitution	<u>19,987</u>	<u>26,444</u>
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	<u>52,183</u>	<u>64,396</u>

(e) Related party unit holdings

There were no direct or indirect interest of the Trust held by the Responsible Entity or its associates or by Directors during the year or prior year.

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

	As at 30 June 2012 \$'000	As at 30 June 2011 \$'000
(a) The cash balances are reconciled to cash as shown in the Statement of Cashflows at the end of the year as follows:		
Cash and cash equivalents	<u>4,830</u>	<u>7,959</u>
	<u>4,830</u>	<u>7,959</u>

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

	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Profit/(loss) for the year	-	-
Distributions to unitholders	1,095	1,385
Increase/(decrease) in net assets attributable to unitholders	(584)	(100)
Proceeds from sale of financial instruments held at fair value through profit or loss	5,670	7,347
Purchases of financial instruments held at fair value through profit or loss	(8,061)	(7,852)
Net gains/(losses) on financial instruments held at fair value through profit or loss	323	(204)
Net change in receivables and other assets	126	21
Net change in payables and other liabilities	(12)	(41)
Net cash inflow from operating activities	<u>(1,443)</u>	<u>556</u>

(c) Non-cash financing activities

During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan

	<u>123</u>	<u>167</u>
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As described in note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (b) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

18 Events occurring after reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Trust disclosed in the Balance Sheet as at 30 June 2012 or on the results and cash flows of the Trust for the year ended on that date.

19 Commitments

There were no commitments for expenditure at 30 June 2012 (2011 - nil).

20 Contingent assets and liabilities

There were no contingent assets and liabilities at 30 June 2012 (2011 - nil).

Directors' declaration

In the opinion of the directors of the Responsible Entity :

- (a) the audited financial statements and notes set out on pages 6 to 29 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Trust's financial position as at 30 June 2012 and of its performance for the financial year ended on that date,
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable, and.
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Steuart Roe

Director

Sydney, NSW
20 September 2012

Corporate Governance Statement

Corporate Structure

The Aurora Property Buy-Write Income Trust (the "Trust") is a registered Managed investment scheme under the *Corporations Act 2001*, and Aurora Funds Management Limited ("Aurora") is the Responsible Entity of the Trust.

A Responsible Entity (the "RE") of a scheme must perform the duties detailed in the Constitution of the Trust and those regulated by the *Corporations Act*. The duties of the RE include, amongst other things:

- Acting honestly
- Exercising a duty of care and diligence
- Act in the best interest of unitholders
- Treat unit holders equally where they hold the same class
- Treat unit holders fairly where they hold different classes
- Make sure the Trust property is valued at regular intervals
- Ensure that all payments from the Trust are in accordance with the Constitution
- Report any breaches that may have a material adverse impact on the interests of unitholders
- Make sure that information acquired through being the RE is not used to gain advantage for the RE or used to harm the interests of unit holders.

The Board

The Board of Aurora Funds Management Limited is responsible for ensuring that the best corporate governance standards are applied. The names of the directors are set out in the Directors' Report above. None of the directors are independent as all have an equity interest, either directly or indirectly, in the shares of Aurora. These directors each have a number of years of experience in the funds management industry, the duties of the RE and in the Trust. The independence obligations of the Board are fulfilled by the Compliance Committee, which is detailed below.

The RE has an established code of conduct which covers Directors and staff, and is available at Aurora's website at www.aurorafunds.com.au. This code of conduct, together with the Compliance Committee Charter, also covers Aurora's compliance with legal obligations and the interest of other stakeholders.

In addition, the RE operates the Trust as a scheme under the *Corporations Act* and therefore the RE must comply with the Compliance Plan lodged with ASIC prior to units in the Trust being issued. The Corporate Governance of the Trust is regulated by the Compliance Committee, which must have a majority of independent members. The Compliance Committee operate under a Compliance Committee charter, and is responsible for monitoring the RE's compliance with the Compliance Plan and reporting any breaches to the Board of the RE and ASIC. It is also responsible for reviewing the operations on the RE.

The Compliance Committee

The Compliance Committee for the RE comprises:

- Mr Richard Matthews (internal member)
- Mr David Lewis (external)
- Mr Mark Hancock (external)

Mr David Lewis is a qualified actuary and has over 40 years experience in financial services, predominantly in administration and consulting to fund management companies. David serves on the compliance committees of a number of Responsible Entities.

Mr Mark Hancock is a qualified actuary and has over 28 years experience in the securities and funds management industry. Mark has significant applied research experience in Australian Equity markets accumulated from a variety of roles over a period of some 19 years. He was previously an equity portfolio manager with NRMA and MMI Insurance.

The external members of the Compliance Committee are nominated and remunerated by the RE. The committee is convened and serviced by Aurora's COO, Richard Matthews. The Compliance Committee Charter is available at Aurora's website www.aurorafunds.com.au.

The Chair of the Compliance Committee rotates amongst the three members. Meetings are held at least quarterly and all members have access:

- to the books and records and any other relevant information on the Trust and the RE, including all the staff of the RE
- the auditors of the RE
- the auditors of the Trusts issued by the RE; and
- the auditor of the Compliance Plan

Financial Reporting

The auditor of the Compliance Plan must be different from the auditor of the RE and the Trust and both report independently to the Compliance Committee. The CEO and COO provide written sign off to the board and the compliance committee on the veracity of the financial reporting systems and the risk management procedures outlined below.

The RE Board reviews the results of the of the external audit process of the Trust and the Compliance Plan to ensure:

- That the Compliance Plan and Trust auditor are appropriately qualified, and legally eligible to act at all times
- That the terms of their appointment are appropriate and accord with the *Corporations Act*

- That the auditors have access to all relevant information as required
- That the auditors conduct all enquiries and provide all reports as required by the *Corporations Act*

The external auditors are invited to attend board and compliance meetings where financial reports and compliance plan audits are discussed.

Public Disclosure

The Board believes that market sensitive information should be released as quickly as possible and has policies in place to ensure that the Trust meets its disclosure obligations under the ASX Listing Rules.

Rights of Unitholders

The Constitution of the Trust and the *Corporations Act* governs the rights of unitholders, including their rights to the income and assets of the Trust. The RE is not required to hold an annual general meeting of unitholders, however a meeting may be called by unit holders with at least 5% of the votes that may be cast on a resolution or by 100 unitholders who are entitled to vote.

The RE runs an extensive website that provides all publicly available information to unitholders that ensures compliance with the general principles of "good reporting" and compliance with our statutory obligations, under *Corporations Act*, ASIC, and ASX regulations.

Risk Management and Oversight

The RE manages risks in the Trust through the following methods:

- Appointment of an appropriately qualified external asset manager, reviewed quarterly
- Appointment of appropriately qualified service providers, such as registry, administration and custody
- Compliance with all of ASIC's and ASX's policies and guidelines
- Recording and reporting complaints by unitholders

The Compliance Committee meets and reviews all external service providers on a quarterly basis. The board of the RE reviews the management contracts of external managers and investment advisers, which are publicly available contracts. Key terms are disclosed in the current Product Disclosure Statement which is available at www.aurorafunds.com.au, as well as summarised in this Annual Report.

Corporate Governance Practices of Aurora and the Trust

The Trust and Aurora have complied with all the Corporate Governance Principles as at 30 June 2012, except where stated below.

Recommendation 8.1: Process for the performance evaluation of the board and compliance committee members

Aurora does not have a formal process to evaluate the performance of board or compliance committee members. All executive directors and staff are required to complete a minimum amount of continuing professional development each year, which is reviewed by the board each year.

Unitholder information

The unitholders' information set out below was applicable as at 30 June 2012.

Distribution of holdings	Number of unitholders
1 -1000	210
1001 - 5000	254
5001 - 10,000	64
10,001 - 100,000	39
100,001 and over	<u>2</u>
Total	569

Top 20 Unitholders

The names of the largest twenty unitholders in the Trust as at 30 June 2012 are listed below:

Name	Number held	Percentage of total
FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C>	315,480	11.860 %
J P MORGAN NOMINEES AUSTRALIA LIMITED	126,339	4.749 %
UBS NOMINEES PTY LTD <TP00014 15 A/C>	64,336	2.419 %
FULLFIELD PTY LTD <DL RODD FAMILY A/C>	61,393	2.308 %
HEAT SUPER PTY LTD <THE HEATLEY SUPER FUND A/C>	50,000	1.880 %
MESK PTY LTD <K & S PITTS SUPER FUND A/C>	50,000	1.880 %
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	40,305	1.515 %
VENUS BAY PTY LTD <HAGAN SUPER FUND A/C>	32,819	1.234 %
MS MARIA PAOLINA STEFANELLI <EST ANTONIO STEFANELLI A/C>	32,174	1.210 %
CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	30,900	1.162 %
MRS PATRICIA DOROTHY JOHNSON	29,642	1.114 %
MR RICHARD FRANCIS BOYLE & MS BEVERLEY LOIS BOYLE & MR DERMOT JAMES BOYLE <BOCAL CONSTRUCTIONS S/F A/C>	25,000	0.940 %
BRAEBURN PROPERTIES PTY LTD <BRAE PROPERTIES S/FUND A/C>	20,100	0.756 %
BT PORTFOLIO SERVICES LIMITED <SEANDKAY PTY LTD A/C>	20,000	0.752 %
MR EUGENE CHIN	20,000	0.752 %
MR SHAMS AHMAD DEAN & MRS SHANTI KUMARI DEAN <THE DEAN SUPER FUND A/C>	20,000	0.752 %
DERBY AMBER PTY LTD <FRANCK SUPER FUND A/C>	20,000	0.752 %
GALE SUPER PTY LTD <GALE FAMILY SUPER FUND A/C>	20,000	0.752 %
IDP INVESTMENTS PTY LTD <IAN PITTS SUPER FUND A/C>	20,000	0.752 %
MR BRETT DAVID SELLARS & MRS JANELLE MARIE SELLARS <B & J SELLARS FAMILY A/C>	20,000	0.752 %
MISS ANN SOUSA & MRS MARIA SOUSA <THE SOUSA SUPER FUND A/C>	20,000	0.752 %
W A TRUCK & MACHINERY REPAIRS PTY LTD <THE WA TRUCK NO 2 S/F A/C>	20,000	0.752 %
Total	1,058,488	39.795 %

The information is summarised from registry information received by the Responsible Entity.



Auditor's Independence Declaration

As lead auditor for the audit of Aurora Property Buy-Write Income Trust for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Aurora Property Buy-Write Income Trust during the year.

A handwritten signature in black ink, appearing to read 'Joe Sheeran', is written over a light blue horizontal line.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
20 September 2012

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Independent auditor's report to the members of Aurora Property Buy-Write Income Trust

Report on the financial report

We have audited the accompanying financial report of Aurora Property Buy-Write Income Trust (the Trust), which comprises the balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of Aurora Funds Management Limited, the responsible entity, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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Auditor's opinion

In our opinion:

- (a) the financial report of Aurora Property Buy-Write Income Trust is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the fund's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Joe Sheeran', written over a faint, larger version of the PwC logo.

Joe Sheeran
Partner

Sydney
20 September 2012