GARDA
CAPITAL GROUP

GARDA DIVERSIFIED PROPERTY FUND (GDF)

ARSN 104 391 273

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 2017

CONTENTS

01

DIRECTORS' REPORT

The Directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund (**Fund**), provide this report together with the financial statements of the Fund, for the year ended 30 June 2017 and the auditor's report thereon.

INFORMATION ON DIRECTORS OF THE RESPONSIBLE ENTITY

The Directors of GARDA Capital Limited at any time during or since the end of the financial year and up to the date of this report are:

Mr Matthew Madsen	Executive Chairman and Managing Director
Mr Mark Hallett	Non-Executive Director
Mr Philip Lee	Non-Executive Director
Mr Leylan Neep	Executive Director
Mr David Usasz	Independent Chairman (Resigned 31 January 2017)

Mr Madsen, the Managing Director of GARDA Capital Limited, was appointed as Executive Chairman following the resignation of Mr Usasz on 31 January 2017.

Remuneration disclosures for the directors of the responsible entity are disclosed in GARDA Capital Limited's financial statements.

INTERESTS IN THE UNITS AND OPTIONS OF THE FUND AND RELATED BODIES CORPORATE

At 30 June 2017 and at the date of this report, the interest of the directors in the units of GARDA Diversified Property Fund are:

DIRECTORS OF GARDA CAPITAL LIMITED	UNITS AT 30 JUNE 2017	UNITS AT DATE OF REPORT
Mr Matthew Madsen	143,794	143,794
Mr Mark Hallett	3,000	3,000
Mr Philip Lee	50,000	50,000
Mr Leylan Neep	-	-
Mr David Usasz[1]	205,000	205,000

[1] The 205,000 units disclosed for David Usasz were those units owned at the date of his resignation, being 31 January 2017.

The directors of the responsible entity hold no options or rights over interests in the Fund.

PRINCIPAL ACTIVITY

The Fund invests in commercial and industrial properties and other assets in accordance with the provisions of the Fund's constitution. There were no significant changes in the nature of the Fund's activities during the year.

REVIEW AND RESULTS OF OPERATIONS

A net profit of $20.1 million was generated during the year, an increase of $2.2 million compared to prior year profit of $17.9 million. The net profit increase is primarily as a result of an increase in lease revenue of $2.8 million, largely due to the additional revenue from the acquisition of an industrial property in Mackay in August 2016.

During the year, the Fund's total assets increased to $200.6 million from $156.4 million, an increase of $44.2 million. The increase was largely due to the Mackay acquisition for $29.5 million, and an increase in the portfolio valuations.

Net tangible assets for the year ended 30 June 2017 are $1.21 per unit, an increase of $0.08 per unit on prior year NTA per unit of $1.13.

Total liabilities increased to $64.7 million from $50.4 million, an increase of $14.3 million due to net drawdowns on the senior debt facility to fund the balance of capital activity during the period.

Total unitholders' equity at 30 June 2017 was $135.9 million, an increase of $29.9 million on the prior year's balance of $106.0 million, which was reflective of the $20.0 million in proceeds from a private placement in December 2016, and the Fund's net profit of $20.1 million less amounts distributed to unitholders of $10.1 million.

DIRECTORS' REPORT CONTINUED.

REVIEW AND RESULTS OF OPERATIONS CONTINUED.

The key financial highlights for the year ended 30 June 2017 include:

- FFO of $10.7 million, representing a 18.2% increase on the prior year FFO of $9.1 million;
- Profit attributable to unitholders of $20.1 million, an increase of $2.2 million from the prior period;
- Distributions of $10.1 million, representing 9.4 cents per unit, in line with full year guidance;
- Net tangible assets (NTA) per unit of $1.21 (30 June 2016: $1.13 per unit), representing a 7.1% increase and uplift of $0.08 per unit; and
- An ASX closing price at 30 June 2017 of $1.12 per unit, an uplift of 9.3% from $1.025 per unit at 30 June 2016.

The key operational highlights for the year ended 30 June 2017 include:

- An acquisition of a modern industrial distribution facility for $29.5 million in Mackay;
- A $19.0 million uplift in independent valuations of the portfolio;
- Successful completion of a $20.0 million private placement at an 8% premium to 5 day VWAP;
- Continued execution of the capital improvements program, largely focused on the Cairns, Box Hill and Richmond assets with $6.3 million in value accretive spend completed across the assets;
- A divestment of modern commercial office building in Eagle Farm, Brisbane for $23.0 million;
- The acquisition of two industrial facilities located in Pinkenba, Brisbane (Trade Coast) for $19 million and Wacol Brisbane for $35.25 million, both on a fund through basis with construction expected to be completed in April 2018 and June 2018 respectively; and
- Increased sector diversification which will be 60% office 40% industrial (by property value) upon completion of construction of the two industrial facilities.

In accordance with Australian Accounting Standards, net profit includes a number of non-cash adjustments including fair value movements in asset and liability values. Funds from operations (**FFO**)[1] is a global financial measure of real estate operating performance after finance costs and taxes, and is adjusted for certain non-cash items.

The responsible entity considers FFO to be a measure that reflects the underlying performance of the Fund. The following table reconciles between profit attributable to unitholders and FFO:

	2017 $000'S	2016 $000'S
Net profit for the year attributable to unitholders	20,121	17,864
Net (gain)/loss on financial liabilities held at fair value through profit and loss	(499)	1,127
Fair value movement in investment properties	(9,517)	(10,093)
Loss on sale of investment properties	154	-
Incentive amortisation and rent straight-line	469	178
Funds From Operations (FFO)	**10,728**	**9,076**
Distribution paid and payable	**10,124**	**8,497**
FFO per unit[2] (represented in cents per unit)	**10.3**	**9.6**
Distribution payout ratio	**94.4%**	**93.6%**

FFO is a measure which is not calculated in accordance with International financial reporting standards and has not been audited or reviewed by the auditor of GARDA Diversified Property Fund.

FFO of $10.7 million was generated during the period representing an increase of $1.6 million from the prior year (2016: $9.1 million). The increase in FFO is mainly as a result of additional lease revenue during the year following the acquisition of the Mackay industrial property in August 2016 and the lower rent free incentive levels in the current year in comparison to prior year.

[1] FFO comprises net profit/loss after tax attributable to unitholders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight-line rent adjustments, and one-off items.

[2] Numbers of units is based on the weighted average units on issue for the respective period.

REVIEW AND RESULTS OF OPERATIONS CONTINUED.

The Fund generated positive operational cash flows of $9.6 million for the year (2016: positive $8.9 million).

Net gain on fair value of derivative financial instruments of $0.5 million (2016: loss $1.1 million) is as a result of mark to market valuation of interest rate swap contracts on the loan facility totalling $45.6 million.

Investment Property Valuations

At 30 June 2017, the Fund held nine investment properties totalling $188.1 million in value. Full independent valuations were conducted on investment properties (excluding investment properties under construction) during June 2017 and adopted as at 30 June 2017 for the properties. (See note 7 for further detail).

On a like for like property basis, independent valuations have increased by 12.4% for the properties held at 30 June 2017.

On 26 August 2016, the Fund settled an acquisition on a modern industrial distribution facility for $29.5 million. The property, located in Mackay's primary industrial suburb of Paget, is leased to Wesfarmers subsidiary, Blackwoods, until 2029, providing GDF with the benefit of a Weighted Average Lease Expiry (WALE) in excess of 12 years.

On 5 June 2017, the Fund exchanged contracts for the sale of 12-14 The Circuit, Eagle Farm for $23.0 million, representing a 2.7% premium to the previous independent valuation of $22.4 million. Settlement subsequently occurred on 9 June 2017.

On 6 June 2017, the Fund exchanged contracts for $35.25 million to acquire, from partners The GPT Group and Metroplex, a new industrial and office facility located in the Metroplex Westgate Wacol industrial park in Brisbane. Volvo Group Australia have pre-committed to a 10 year lease for what will be their new Australian head office and service centre. Costs of $0.9 million have been incurred and construction is anticipated to complete in June 2018.

On 14 June 2017, the Fund exchanged contracts for $19.0 million to acquire an industrial facility in Brisbane's popular Australia Trade Coast Precinct. The freehold property is located at 70-82 Main Beach Road, Pinkenba, adjoining the Brisbane Airport. Land has been settled for $8.0 million and construction is anticipated to complete in April 2018.

INVESTMENT PROPERTIES	2017 $000'S	2016 $000'S
7-19 Lake Street, Cairns	45,000	41,000
Land at 26-30 Grafton Street, Cairns	3,000	1,200
69-79 Diesel Drive, Mackay	29,500	-
142-150 Benjamin Place, Lytton	8,800	8,600
B2, 747 Lytton Road, Murarrie	14,100	14,100
154 Varsity Parade, Varsity Lakes	12,800	12,900
436 Elgar Rd, Box Hill	25,000	19,400
572-576 Swan Street, Richmond	41,000	33,500
12-14 The Circuit, Brisbane Airport	-	22,400
Total Investment Properties at independent valuation	**179,200**	**153,100**
Value accretive additions post independent valuation	-	427
Investment Properties Under Construction		
Lot 2001 Metroplex Westgate, Wacol	900	-
70-82 Main Beach Road, Pinkenba	8,000	-
Total Investment Properties	**188,100**	**153,527**

Leasing

During the year, the responsible entity was able to execute new leases and existing renewals across 9,200m², representing approximately 17% of the portfolio's total net lettable area of 54,399m² and including three of the Fund's key tenants. Portfolio occupancy remained stable at 94% (2016: 92%) whilst leases executed and capital transactions contributed towards the significant increase to the portfolio weighted average lease expiry (WALE) to 5.6 years (2016: 2.9 years).

DIRECTORS' REPORT CONTINUED.

REVIEW AND RESULTS OF OPERATIONS CONTINUED.

Capital Expenditure

During the 2017 financial year approximately $6.3 million in capital expenditure was completed. The Responsible Entity will continue its capital improvements program during 2018.

Legal proceedings

The responsible entity is continuing its claim against the valuer of a building in Canberra previously owned by the Fund. It relates to the difference between the historic acquisition and sale prices of a warehouse in Canberra, and a loss of opportunity. The valuer is defending the claim. The matter is on the court-managed list, and did not settle during a compulsory mediation process, and the matter will be listed for trial. A trial would likely not be held until early 2018 at the earliest. Any loss which arose on the disposal has been dealt with in prior financial years, and any successful outcome will be of positive benefit to the financial position of GDF.

The directors do not have a view on the quantum of any possible recovery, and consequently no provision has been made in the accounts.

DISTRIBUTIONS PAID OR RECOMMENDED

Distributions payable throughout the 2017 financial year totalled $10.1 million (2016: $8.5 million), representing a distribution of 9.4 cents per unit. This represents a distribution payout ratio of 94.4% of FFO, in line with the Fund's target payout ratio range. As at 30 June 2017, a distribution declared of $2.6 million in relation to the June 2017 quarter remained payable, and is expected to be paid on 23 August 2017.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the responsible entity there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

In July 2017, the responsible entity entered into an agreement to extend two tranches totalling $63.3 million worth of the Fund's debt facilities (Facilities) with St. George Bank for a further two years.

The Facilities were originally due to expire in June 2018, however as a result of the extension will now expire on 30 June 2020. The Fund's other tranches of debt of approximately $20.3 million are due to expire on 30 June 2019, resulting in a weighted average expiry of 2.8 years.

Further to the Facilities extension and as part of the Fund's continued conservative capital management strategy, in August 2017 the responsible entity has extended the term and quantum of the Fund's interest rate hedges with St. George Bank. Under the new terms, the current fixed interest rate swaps totalling $45.6 million at a rate of 2.69% due to expire in July 2019 have been increased to a new 5 year swap contract totalling $60.0 million at a rate of 2.68% expiring in July 2022.

There are no other significant matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund, in future financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Strategy

The Fund's objective remains unchanged, to provide sustainable and secure distributable income derived from investments in commercial offices in city and suburban markets as well as industrial facilities along the eastern seaboard of Australia. Through a combination of asset acquisitions and divestments, the Fund will continue to grow, balance and diversify the portfolio resulting in a combination of industrial and commercial property assets that include both longer WALE passive assets and also assets requiring active management where the responsible entity will seek to achieve higher income and increase valuations.

DIRECTORS' REPORT CONTINUED.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES CONTINUED.

The Fund's key objectives for financial year 2018 (**FY18**) include:

1. Address remaining lease expiry's due in FY18 and also the 2019 financial year expiries;
2. Reduce vacancy in the portfolio with a specific focus on Cairns;
3. Ensure the delivery of the Pinkenba and Wacol industrial facility fund through acquisitions;
4. Continue to review capital transactions to diversify the current portfolio and reduce reliance upon individual tenants (concentration risk);
5. Deliver the capital improvements program; and
6. Assess appropriate capital management options to facilitate possible future acquisitions and manage gearing levels.

Leasing

9,200m² of space has been renewed or newly leased during the financial year, representing 17% of the approximate 54,200m² current portfolio net lettable area. At risk income from impending lease expiries for FY18 is now 11% of Fund income. This relates to two tenancies including 1,595m² that will become available at Richmond in February 2018 and 1,988m² that will become available in April 2018 at Murarrie when Spotless will vacate. The timing of these expiries substantially lessens the impact of these expiries on FY18 Fund income.

Vacancy and lost income across the portfolio is predominantly in Cairns (81% occupied) with minor impact from both the Varsity Lakes and Murarrie assets. The execution of the capital improvements program in Cairns continues to reposition and increase the building "offer" to tenants which it is expected will assist in leasing.

Capital Transactions and LVR

The Wacol and Pinkenba acquisitions will result in loan to value ratio (LVR) increasing to a modest level of 42% by 30 June 2018 (expected interest cover ratio: 4 times). The responsible entity will consider various capital management options to facilitate possible further acquisitions and to manage gearing levels.

ENVIRONMENTAL ISSUES

The Fund's operations were not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the directors believe that the Fund has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Fund.

OPTIONS

No options over interests in the Fund were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

FEES PAID TO AND INTERESTS HELD IN THE FUND BY THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

Fees paid to the responsible entity and its associates or directors out of Fund property during the year are disclosed in note 15 of the financial statements.

The number of interests in the Fund held by the responsible entity or its associates as at the end of the financial year are disclosed in note 15 of the financial statements.

INTERESTS IN THE FUND

The movement in units on issue in the Fund during the year is disclosed in note 12 of the financial statements.

The value of the Fund'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.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR

Since commencement the Fund has not indemnified or made a relevant agreement for indemnifying against a liability, any person who is or has been an officer of the responsible entity or an auditor of the Fund.

DIRECTORS' REPORT CONTINUED.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR CONTINUED.

The responsible entity has paid insurance premiums in respect of their officers for liability and legal expenses for the year ended 30 June 2017. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been directors or executive officers of the responsible entity.

Details of the nature of the liabilities covered or the amount of the premium paid has not been included, as such disclosure is prohibited under the terms of the contract.

The Fund has not indemnified its auditor.

PROCEEDINGS ON BEHALF OF THE FUND

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purposes of taking responsibility on behalf of the Fund for all or any part of those proceedings.

ROUNDING

The Fund is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000, or in certain cases, to the nearest dollar.

NON-AUDIT SERVICES

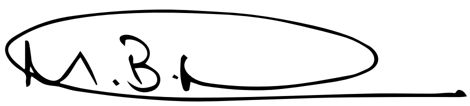
Non-audit services in the form of regulatory services were provided by the Fund's auditor (BDO Audit Pty Ltd) during the year, refer to note 16 for details.

The board of directors of GARDA Capital Limited as the responsible entity are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.*

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Directors Report and can be found on page 10.

This report is signed in accordance with a resolution of the board of directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund.



Mr Matthew Madsen

Executive Chairman

23 August 2017

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AUDITOR'S INDEPENDENCE DECLARATION

Under section 307C of the *Corporations Act 2001*

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DECLARATION OF INDEPENDENCE BY T R MANN TO THE DIRECTORS OF GARDA CAPITAL LIMITED AS RESPONSIBLE ENTITY OF GARDA DIVERSIFIED PROPERTY FUND

As lead auditor of GARDA Diversified Property Fund for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

T R Mann
Director

BDO Audit Pty Ltd

Brisbane, 23 August 2017

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	NOTE	2017 $000'S	2016 $000'S
Revenue	4	19,935	17,106
Property expenses	5	(5,219)	(4,823)
Trust level expenses	5	(2,004)	(1,558)
Finance costs	5	(2,453)	(1,745)
Net gain/(loss) on financial instrument held at fair value through profit and loss	5	499	(1,127)
Fair value movement in investment properties	7	9,517	10,093
Net loss on sale of investment properties		(154)	-
Impairment of receivables		-	(82)
Profit for the year		**20,121**	**17,864**
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to:			
Owners of GARDA Diversified Property Fund		**20,121**	**17,864**
Basic and diluted profit per unit attributable to the unitholders of GARDA Diversified Property Fund			
Basic and diluted profit per unit (cents per unit)	19	**19.3**	**18.8**

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2017

	NOTE	2017 $000'S	2016 $000'S
ASSETS			
Current assets			
Cash and cash equivalents	18	11,389	2,526
Trade and other receivables	6	1,155	318
Total current assets		**12,544**	**2,844**
Non-current assets			
Investment properties	7	188,100	153,527
Total non-current assets		**188,100**	**153,527**
Total assets		**200,644**	**156,371**
LIABILITIES			
Current liabilities			
Trade and other payables	8	1,475	1,481
Distribution payable	11	2,640	2,121
Borrowings	9	42,600	-
Total current liabilities		**46,715**	**3,602**
Non-current liabilities			
Tenant security deposits		295	274
Borrowings	9	17,103	45,380
Derivative financial instrument	10	628	1,127
Total non-current liabilities		**18,026**	**46,781**
Total liabilities		**64,741**	**50,383**
Net assets		**135,903**	**105,988**
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Issued units	12	227,766	207,848
Accumulated losses		(91,863)	(101,860)
Total equity		**135,903**	**105,988**

The Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.

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STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	ISSUED UNITS $000'S	ACCUMULATED LOSSES $000'S	TOTAL $000'S
Balance at 1 July 2015	**211,152**	**(111,227)**	**99,925**
Comprehensive income			
Profit for the year	-	17,864	17,864
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**17,864**	**17,864**
Transactions with owners			
Distributions paid or provided for	-	(8,497)	(8,497)
Unit buy-back	(3,304)	-	(3,304)
Total transactions with owners	(3,304)	(8,497)	(11,801)
Balance at 30 June 2016	**207,848**	**(101,860)**	**105,988**
Balance at 1 July 2016	**207,848**	**(101,860)**	**105,988**
Comprehensive income			
Profit for the year	-	20,121	20,121
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**20,121**	**20,121**
Transactions with owners			
Unit Issue	20,000	-	20,000
Equity transaction costs	(82)	-	(82)
Distributions paid or provided for	-	(10,124)	(10,124)
Total transactions with owners	19,918	(10,124)	9,794
Balance at 30 June 2017	**227,766**	**(91,863)**	**135,903**

The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

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STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	NOTE	2017 $000'S	2016 $000'S
Cash flows from operating activities			
Rent and outgoings received		20,938	18,897
Cash payments in the course of operations		(8,215)	(7,495)
Interest received		61	24
Finance costs		(2,375)	(1,695)
GST paid		(762)	(842)
Net cash provided by operating activities	**18**	**9,647**	**8,889**
Cash flows from investing activities			
Payments for investment property improvements		(6,059)	(2,637)
Payments for leasing fees and lease incentives		(547)	(269)
Payments for acquisition of properties under construction		(9,534)	-
Payments for acquisition of investment properties		(31,540)	-
Proceeds from the sale of investment properties		22,333	-
Net cash used in investing activities		**(25,347)**	**(2,906)**
Cash flows from financing activities			
Proceeds of borrowings		39,000	3,000
Repayment of borrowings		(24,750)	-
Distributions paid		(9,605)	(6,386)
Units bought back including brokerage costs		-	(3,304)
Capital raised		20,000	-
Equity transaction costs		(82)	-
Net cash provided by/(used in) financing activities		**24,563**	**(6,690)**
Net increase/(decrease) in cash held		8,863	(707)
Cash at the beginning of the financial year		2,526	3,233
Cash at the end of the financial year	18	**11,389**	**2,526**

The Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Introduction

GARDA Diversified Property Fund (Fund) for the year ended 30 June 2017 is a listed property trust settled and domiciled in Australia. The Fund is a for-profit entity for the purpose of preparation of these financial statements. GARDA Capital Limited is the responsible entity of GARDA Diversified Property Fund.

Operations and principal activities

The Fund invests in commercial and industrial properties and other associated assets in accordance with the provisions of the Fund's constitution.

Currency

The financial report is presented in Australian dollars. The Fund is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000, or in certain cases, to the nearest dollar.

Registered office

The registered office of GARDA Diversified Property Fund is situated at Level 21, 12 Creek Street, Brisbane Qld 4000.

Authorisation of financial report

The financial report was authorised for issue on 23 August 2017 by the directors.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, Australian Accounting Interpretations and the *Corporations Act 2001*.

<u>Compliance with IFRS</u>

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

<u>Historical cost convention</u>

These financial statements have been prepared under the historical cost convention, except for financial assets and liabilities (including derivative instruments) and investment properties.

<u>Key judgement – Going Concern</u>

The Fund was in a net current asset deficiency position as at 30 June 2017 by $34.2 million. The deficiency was primarily as a result of borrowings of $42.6 million being classified as current liabilities due to certain tranches of the original three year St. George loan expiring on 23 June 2018. On 26 July 2017, the Fund received approval by St. George for these tranches of the overall facility to be extended to 30 June 2020, with the other tranches due to expire in June 2019.

The directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund, are of the reasonable opinion that the Fund will be able to meet its liabilities as and when they fall due.

Accounting policies

a. Income Tax

Under current income tax legislation, the Fund is not liable to taxation provided the taxable income is distributed in full to unitholders.

b. Revenue & Other Income

Revenue is measured at the fair value of the consideration received or receivable.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. Rental revenue not received at reporting date is reflected in the statement of financial position as a receivable or if paid in advance, as rent in advance (unearned income). Lease incentives granted are considered an integral part of the total revenue and are recognised as a reduction in rental income over the term of the lease, on a straight-line basis. Contingent rents based on the future amount of a factor that changes other than with the passage of time, including turnover rents and CPI linked rental increases, are only recognised when contractually due.

Outgoings recovered are recognised on an accrual basis and represent the portion of property expenses that are recoverable from the tenants.

Interest revenue is recognised using the effective interest rate method which, for floating rate financial assets, is the rate inherent in the instrument.

c. Expenses

<u>Property expenses</u>

Property expenses consist of rates, taxes and other property outgoings in relation to the investment properties.

<u>Responsible entity's remuneration</u>

Refer to note 15 for details of the responsible entity's remuneration.

<u>Custodian's remuneration</u>

The Custodian received remuneration of $72,200 (2016: $70,815) for its services during the year.

d. Investment Properties

Investment properties consists of properties held for long-term rental yields and/ or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs.

Subsequent to initial recognition, investment properties are carried at fair value, which is measured using a capitalisation approach and the discounted cash approach as the primary valuation methods. Gains and losses arising from changes in fair values of investment properties are included in profit or loss as part of other income in the year in which they arise.

Subsequent development and refurbishment costs (other than repairs and maintenance) are capitalised to the investment property when they result in an enhancement in the future economic benefits of the property.

In relation to development properties under construction for future use as investment property, where reliably measureable, fair value is determined based on the fair value of the property on the assumption it had already been completed at the valuation date (using the methodology outlined above) less costs still required to complete the project.

e. Financial Instruments

<u>Initial Recognition & Measurement</u>

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Fund commits itself to either the purchase or the sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified at fair value through profit or loss, in which case transaction costs are expensed to profit or loss immediately.

<u>Classification and Subsequent Measurement</u>

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Trade receivables are recognised at original invoice amounts less any provision for impairment and are generally due for settlement within 30 days. Collectability of loans and receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Fund 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 90 days overdue) are considered indicators that the receivable may be impaired.

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derivative Financial instruments

The Fund used a derivative financial instrument (interest rate swap) during the year to hedge its risks associated with interest rate fluctuations on the bank loans. The following accounting policy has been adopted by the directors to determine the accounting for the derivative financial instruments:

- Derivatives are initially measured at fair value on the date of a derivative contract is entered into and are subsequently measured at fair value at each reporting date. The net fair value of derivative financial instruments outstanding at the balance date is recognised in the statement of financial position as either financial asset or liability.
- Accounting option as per AASB 139: *Financial Instruments: Recognition and Measurement* to classify the interest rate swap as a cash flow hedge has not been used and accordingly these are classified as at fair value through profit or loss, and the change in the fair value of the derivative financial instruments recognised in the statement of profit and loss.

f. Fair Values

Fair values may be used for financial and non-financial asset and liability measurement as well as sundry disclosures.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The principal or most advantageous market must be accessible to, or by, the Fund.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant’s ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

In measuring fair value, the Fund uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

g. Impairment of Non-Financial Assets

At each reporting date, the Fund reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Fund estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

i. Finance costs

Finance costs include interest, amortisation of discounts, or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangements of borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in finance costs.

Loan establishment costs are offset against financial liabilities under the effective interest method and amortised over the term of the facility to which they relate.

j. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

k. Lease Incentives

Lease incentives are capitalised and are recognised as a reduction of rental income on a straight-line basis over the lease term. Rent abatements are recognised over the life of the rent abatement period.

Initial direct leasing costs incurred in negotiating and arranging operating leases are recognised as an asset in the statement of financial position and are amortised as an expense on a straight-line basis over the lease term.

l. Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED.

m. Leases

The Fund leases its investment properties under agreements where the trust retains substantially all the risks and benefits associated with the investment properties. Accordingly, such arrangements are classified as operating leases and amounts received under such agreements are accounted for in accordance with the fund's accounting policy for revenue.

n. Distributions to Unitholders

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the responsible entity, on or before the end of the financial year but not distributed as at balance date.

o. Unitholders Funds

Ordinary units are classified as unitholders funds. Incremental costs directly attributable to the issue of new units are shown in equity as a deduction from the proceeds received.

p. Earnings per Unit ("EPU")

Basic earnings per unit is calculated by dividing:

- the profit attributable to owners of the Fund, excluding any costs of servicing equity other than ordinary units
- by the weighted average number of ordinary units outstanding during the financial year, adjusted for bonus elements in ordinary units issued during the year.

Diluted earnings per unit adjusts the figures used in the determination of basic earnings per unit to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary units, and
- the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary units.

q. Rounding of amounts

The Fund has applied the relief available to it under ASIC Corporations (Founding in Financial/Directors Reports) Instrument 2016/191 and accordingly, amounts in the financial statements have been rounded off to the nearest $1,000, or in certain cases, the nearest dollar.

r. Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method. Fees paid for establishing loan facilities are recognised as transaction costs if it is probable that some or all of the facility will be drawn down, and deferred until the draw down occurs. If it is not probable that the facility will be drawn down, fees are capitalised as prepayments for liquidity services and amortised over the period to which the facility relates.

Borrowings are derecognised from the statement of financial position when the obligation specified in the contract has been discharged, cancelled or expires. The difference between the carrying amount of the borrowing derecognised and the consideration paid is recognised in profit or loss as other income or finance costs.

Where the terms of a borrowing are renegotiated and the group issues equity instruments to a creditor to extinguish all or part of a borrowing, the equity instruments issued as part of the debt for equity swap are measured at the fair value of the equity instruments issued, unless the fair value cannot be measured reliably, in which case, they are measured at the fair value of the debt extinguished. The difference between the carrying amount of the debt extinguished and the fair value of the equity instruments issued is recognised as a gain or loss in profit or loss.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED.

s. Financial liabilities designated at fair value through profit or loss

Recognition/derecognition

The Fund recognises financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial liabilities from this date. Financial liabilities are derecognised when the Fund has transferred substantially all of the risks and rewards of ownership.

Measurement

At initial recognition, the Fund measures a financial liability at its fair value. Transaction costs of financial liability carried at fair value through profit or loss are expensed in the profit or loss. Subsequent to initial recognition, all financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial liabilities at fair value through profit or loss' category are presented in profit or loss within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

The best evidence of the fair value of the financial liability at fair value through profit or loss at initial recognitions is the transaction price, i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of the fair value of the financial liability at fair value through profit or loss on initial recognition may be different from its transaction. If the estimated fair value is evidenced by comparison with other observable current markets transactions in the same financial instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable. Gains and losses arising from changes in the fair value of the financial liabilities at fair value through profit or loss' category are presented in profit or loss within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

t. Significant Accounting Estimates, Judgements and Assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies.

The directors of the responsible entity evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the Fund. These estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period or in the period and future periods if the revision affects both current and future periods.

There were no key assumptions during the year which required estimates and/or judgements with the exception of the following:

Key assumptions – investment property valuation

The Fund makes key assumptions in determining the fair value of its investment property portfolio as at balance date. The assumptions thought to bear the most significant impact on the adopted fair value of each of the Fund's investment properties are disclosed in note 7, together with the carrying amount of each investment property asset measured at fair value.

u. Adoption of New and Revised Accounting Standards and Interpretations

The Fund applied, for the first time, certain standards and amendments which are effective for annual periods beginning on or after 1 July 2016. The nature and the impact of each new standard and/or amendment was not significant.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED.

v. New and Amended Accounting Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Fund. The Fund's assessment of the impact of these new standards and interpretations is set out below.

NEW/REVISED PRONOUNCEMENTS	NATURE OF CHANGE	APPLICATION DATE TO THE FUND	IMPACT TO THE FUND
AASB 9 *Financial Instruments* (December 2014)	The AASB has issued the complete AASB 9. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. This supersedes AASB 9 (issued in December 2009-as amended) and AASB 9 (issued in December 2010).	30 June 2019	The Fund does not foresee any significant impact to the net profit and net assets as a result of applying this new accounting standard.
AASB 15 *Revenue from Contracts with Customers*	The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.	30 June 2019	The Fund has not performed its assessment of the potential impacts of this accounting standard.
AASB 16 (issued February 2016)	AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117.	30 June 2020	The Fund is yet to fully assess the impact of the new accounting standard.

NOTE 3 DISTRIBUTIONS

	2017 $000'S	2016 $000'S
Distributions paid or provided for by the Fund from unit capital		
September quarter distribution 2.35 cents per unit (2016: 2.25 cents per unit)	(2,204)	(2,162)
December quarter distribution 2.35 cents per unit (2016: 2.25 cents per unit)	(2,640)	(2,114)
March quarter distribution 2.35 cents per unit (2016: 2.25 cents per unit)	(2,640)	(2,110)
June quarter distribution 2.35 cents per unit (2016: 2.25 cents per unit)	(2,640)	(2,111)
	(10,124)	**(8,497)**

Distributions declared for the quarter ended 30 June 2017 of $2.64 million but not paid until after year end has been provided for.

NOTE 4 REVENUE

	2017 $000'S	2016 $000'S
Rental income and other revenue	21,263	18,604
Interest revenue	61	24
Leasing fees amortised	(322)	(304)
Leasing incentives amortised	(1,067)	(1,218)
	19,935	**17,106**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 5 EXPENSES

	2017 $000'S	2016 $000'S
Property expenses		
Recoverable expenses	4,416	4,026
Direct expenses	729	684
Non-recoverable expenses	74	113
	5,219	**4,823**
Trust level expenses		
Responsible entity management fee	1,238	921
Trust administration expenses	766	637
	2,004	**1,558**
Finance costs		
Interest expense	2,380	1,669
Borrowing costs	73	73
Other finance fees and expenses	-	3
	2,453	**1,745**
Net gain/(loss) on financial liability held at fair value through profit and loss		
Derivative financial instrument		
Mark-to-market of interest rate swap	499	(1,127)
	499	**(1,127)**

NOTE 6 TRADE AND OTHER RECEIVABLES

	2017 $000'S	2016 $000'S
Current		
Rent and outgoings receivable	518	482
Prepayments	144	218
GST receivable	875	-
Provision for impairment	(382)	(382)
	1,155	**318**
Analysis of provision for impairment		
Opening balance	382	344
Provisions for doubtful receivables	-	38
	382	**382**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 7 INVESTMENT PROPERTIES

	2017 $000'S	2016 $000'S
Investment properties at independent valuation	179,200	153,100
Investment properties under construction at directors valuation[1]	8,900	-
Investment properties at directors valuation[2]	-	427
	188,100	**153,527**

Movements during the year		
Balance at beginning of year	153,527	140,650
Movements in fair value	9,517	10,093
Purchase of investment property	31,540	-
Purchase of properties under construction	9,597	-
Capital additions	6,284	2,693
Disposal of investment property	(22,487)	-
Straight-lining of rental income	388	160
Net movement in leasing fees and incentives	(266)	(69)
Balance at end of year	**188,100**	**153,527**

[1]Directors valuation is based on independent valuation of the properties (as if complete) at $54.25 million less costs required to complete the project at 30 June 2017.
[2]Relates to value accretive additions post independent valuation as at 1 June 2016.

The basis of the valuation of investment properties is fair value being the amounts for which the properties could have been exchanged between willing parties in an arm's length transaction, based on current prices in an active market. The 30 June 2017 valuations were based on independent assessments made by qualified and suitably experienced certified practicing external valuers as set out above in accordance with the methodology as set out in note 2(d), using a capitalisation approach and the discounted cash approach as the primary valuation methods. These approaches have in turn been checked by the direct comparison approach and analysed on a rate per square metre of total lettable area. These valuations were undertaken by independent assessment during June 2017 and adopted at 30 June 2017.

The specific key assumptions and variables adopted in the valuations are set out below.

Investment property valuations details

30 June 2017

PROPERTIES	VALUATION BASIS	CAPITALISATION RATE	NET MARKET INCOME $000'S	ADJUSTMENTS $000'S	VALUATION $000'S
7-19 Lake Street, Cairns	Independent	8.50%	4,657	(11,719)	45,000
Land at 26-30 Grafton Street, Cairns	Independent	n/a	n/a	n/a	3,000
69-79 Diesel Drive, Mackay	Independent	7.75%	2,301	(186)	29,500
142-150 Benjamin Place, Lytton	Independent	8.50%	698	(154)	8,800
B2, 747 Lytton Road, Murarrie	Independent	8.12%	1,375	(2,796)	14,100
154 Varsity Parade, Varsity Lakes	Independent	8.25%	1,202	(1,799)	12,800
436 Elgar Rd, Box Hill	Independent	7.75%	2,027	(920)	25,000
572-576 Swan Street, Richmond	Independent	6.50%	2,877	(3,304)	41,000
					179,200
Properties under construction					
Lot 2001, Metroplex Westgate, Wacol[1]	Directors				900
70-82 Main Beach Rd, Pinkenba[2]	Directors				8,000
					8,900
Total properties					**188,100**

[1]Metroplex Westgate, Wacol has been independently valued at $35.25 million on an 'as if' completed basis on 10 July 2017.Directors valuation is based on the independent valuation less cost to complete the project at 30 June 2017.
[2]70-82 Main Beach Road, Pinkenba has been independently valued at $19.0 million on an 'as if' completed basis on 31 May 2017. Director's valuation is based on the independent valuation less cost to complete the project at 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 7 INVESTMENT PROPERTIES CONTINUED.

30 June 2016

PROPERTIES	VALUATION BASIS	CAPITALISATION RATE	NET MARKET INCOME $000'S	ADJUSTMENTS $000'S	VALUATION $000'S
7-19 Lake Street, Cairns	Independent	8.50%	4,245	(9,545)	41,000
Land at 26-30 Grafton Street, Cairns	Independent	n/a	n/a	n/a	1,200
142-150 Benjamin Place, Lytton	Independent	8.25%	726	(192)	8,600
B2, 747 Lytton Road, Murarrie	Independent	8.39%	1,275	(1,180)	14,100
154 Varsity Parade, Varsity Lakes	Independent	8.50%	1,221	(1,336)	12,900
436 Elgar Rd, Box Hill	Independent	8.50%	1,761	(1,251)	19,400
572-576 Swan Street, Richmond	Independent	7.50%	2,707	(2,213)	33,500
12-14 The Circuit, Brisbane Airport	Independent	8.60%	1,890	671	22,400
					153,100
Value accretive additions post independent valuation					427
Total properties					**153,527**

Contractual Obligations

Contractual obligations to develop or construct investment properties at 30 June 2017 are as follows:

PROPERTIES	COST TO COMPLETE $000'S
Lot 2001, Metroplex Westgate, Wacol[1]	34,350
70-82 Main Beach Rd, Pinkenba[2]	11,000
Total	**45,350**

[1]Completion of construction is anticipated for July 2018.
[2]Completion of construction is anticipated for April 2018.

There are no other contractual obligations to purchase, construct or develop investment properties as at 30 June 2017.

Leasing arrangements

Investment properties listed above (excluding Land at 26-30 Grafton Street, Cairns, Metroplex Westgate and Main Beach) are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are disclosed in note 17.

Amounts recognised in profit and loss for investment properties

Revenue and direct expenses relating to investment property are disclosed in note 4 and 5.

NOTE 8 TRADE AND OTHER PAYABLES

	2017 $000'S	2016 $000'S
Current		
Trade and other payables	1,219	705
Revenue in advance	256	776
	1,475	**1,481**

NOTE 9 BORROWINGS

	2017 $000'S	2016 $000'S
Current		
Bank loans (secured)	42,600	-
	42,600	**-**
Non-Current		
Bank loans (secured)	17,103	45,380
	17,103	**45,380**
Total borrowings (Current and Non-Current)	**59,703**	**45,380**

Borrowings of $42.6 million were classified as current liabilities due to certain tranches of the three year St. George loan expiring on 23 June 2018. On 26 July 2017, the Fund received approval by St. George for these tranches to be extended to 30 June 2020 and the other tranches due to expire on 30 June 2019. This has resulted in all borrowings being non-current as at the date of signing the financial statements.

Movements in borrowings

	2017 $000'S	2016 $000'S
Balance at beginning of year	45,380	42,307
Proceeds from borrowings	39,000	3,000
Repayment of borrowings	(24,750)	-
Amortisation of borrowing costs	73	73
Balance at the end of the year	**59,703**	**45,380**

Bank Loan

The St. George Bank loan is secured by: (a) a first registered mortgage over the applicable properties; (b) a first registered fixed and floating charge over the assets of the Fund in favour of the bank; (c) guarantee and indemnity provided by the responsible entity GARDA Capital Limited, limited to the value of the security properties; and (d) cash deposit security under a flawed asset arrangement.

Under the facility agreement with St. George Bank that was operable at 30 June 2017, the following covenants exist:

a. Interest cover ratio is to remain above 2.50 times; and

b. Loan to value ratio has to remain under 50%.

The St. George Bank loan has a facility limit of $83.6 million (2016: $63.3 million). Following the purchase of the Mackay property in August 2016, conditions precedent were satisfied for an increase in limit. The proceeds from borrowings were used to fund the purchase of this property. At 30 June 2017, the debt was drawn to $59.85 million (2016: $45.6 million) which is within the facility limit.

At balance date, the Fund had fixed interest rate swap agreements over the total loan facility of $45.6 million which expire in July 2019. In August 2017, the interest rate hedges were increased to $60.0 million and extended to a 5 year maturity, which now expire in August 2022.

The carrying amount of the bank loans approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 10 DERIVATIVE FINANCIAL INSTRUMENTS

	2017 $000'S	2016 $000'S
Non-Current		
Interest rate swap contracts	628	1,127

During the prior year, the Fund entered into interest rate swap contracts totalling $45.6 million expiring in July 2019, under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. In August 2017, the interest rate hedges were increased to $60.0 million and extended to a 5 year maturity, which now expire in August 2022.

The contracts require settlement of net receivable or payable each quarter. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

As explained in note 2, the interest rate swaps have not been designated as hedges for accounting purposes and hence all changes in fair value are recognised immediately in the statement of profit and loss and other comprehensive income.

During the year ended 30 June 2017, a net gain on fair value of interest rate swap for $0.5 million has been recognised in the statement of profit and loss and other comprehensive income.

NOTE 11 DISTRIBUTIONS PAYABLE

	2017 $000'S	2016 $000'S
Provision for distribution	2,640	2,121
Movements in provisions		
Opening balance at beginning of year	2,121	-
Distributions provided for	10,124	8,507
Distributions paid	(9,605)	(6,386)
Balance at end of year	**2,640**	**2,121**

NOTE 12 ISSUED UNITS

	2017 $000'S	2016 $000'S
112,322,972 units (2016: 93,804,456)	227,766	207,848

	2017 NUMBER	2016 NUMBER	2017 $000'S	2016 $000'S
Movements during the year				
Balance at beginning of year	93,804,456	97,202,170	207,848	211,152
Units bought back	-	(3,397,714)	-	(3,304)
Private unit placement	18,518,516	-	20,000	-
Capital raising costs	-	-	(82)	-
Balance at end of year	**112,322,972**	**93,804,456**	**227,766**	**207,848**

NOTE 12 ISSUED UNITS CONTINUED.

Units

Each unitholder has one vote for each unit that they have in the Fund. Unitholders have the right to receive distributions as declared and in the event of the Fund winding up to participate in the net proceeds from the sale of the assets in proportion to the number of units held.

Capital Risk Management

The Fund's objective when managing capital (taken to be unitholders' funds and retained earnings) is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for unitholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, issue new units or sell assets to reduce debt. Consistent with others in the industry, the Fund monitors capital on the basis of a loan to valuation ratio (LVR).

The LVR at 30 June 2017 and 30 June 2016 was as follows:

	2017 $000'S	2016 $000'S
Total borrowings	59,703	45,380
Cash and cash equivalents	11,389	2,526
Gross value of investment properties	188,100	153,527
Loan to valuation ratio[1]	31.7%	29.7%
Gearing ratio[2]	25.7%	27.9%

[1] Loan to valuation ratio is calculated as gross borrowings (before amortisation of borrowing costs) divided by gross property values.
[2] Gearing ratio is calculated as net debt (borrowings less cash and cash equivalents) divided by the gross property values.

NOTE 13 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Fund. The Fund 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 risk and maturity analysis for liquidity risk.

The directors of the responsible entity have overall responsibility for the determination of the Fund's risk management objectives and policies. The overall objective of the directors of the responsible entity is to set policies that seek to reduce risk as far as possible without unduly affecting the Fund's competitiveness and flexibility. Further details regarding these policies are set out below:

a. Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Fund incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Fund. Credit risk from receivables is measured using days and ageing. The objective of managing credit risk is to limit the exposure of the Fund to such risk.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Fund also holds security deposits of $0.3 million recognised as a liability in the statement of financial position, and also has bank guarantees in the Fund's favour of $3.7 million not recorded in the statement of financial position, which may be drawn upon in the event of default.

Credit risk is reviewed regularly by the directors of the responsible entity.

NOTE 13 FINANCIAL RISK MANAGEMENT CONTINUED.

	2017 $000'S	2016 $000'S
Cash and cash equivalents	11,389	2,526
Trade and other receivables (net of impairment)	1,011	100
	12,400	**2,626**

Ageing of receivables

Not past due	1,011	100
Past due 0-60 days	-	-
Past due >90 days	382	382
Impaired	(382)	(382)
	1,011	**100**

b. Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulties raising funds to meet financial obligations as they fall due. Liquidity risk is reviewed regularly by the directors of the responsible entity. The objective of the responsible entity in managing liquidity risk is to ensure the Fund will be able to meet its commitments as and when they fall due.

The Fund manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources are maintained.

The table below reflects the contractual maturity of fixed and floating rate financial liabilities. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2017. The amounts disclosed represent undiscounted cash flows.

The remaining contractual maturities of the financial liabilities are:

	2017 $000'S	2016 $000'S
Less than one year		
Trade and other payables	1,219	1,481
Distribution payable	2,640	2,121
Bank loans	42,600	-
Interest on bank loans	1,629	1,745
	48,088	**5,347**

Bank loans of $42.6 million and the related interest of $1.629 million is classified as contractual maturities of less than one year at 30 June 2017 due to the three year St. George borrowing facility expiring on 23 June 2018. As a result of the extension on 26 July 2017, this facility will now expire on 30 June 2020. The Fund's other tranches of debt of approximately $20.3 million are due to expire on 30 June 2019.

Between one and five years		
Bank loans	17,103	45,380
Interest on bank loans	614	1,710
	17,717	**47,090**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 13 FINANCIAL RISK MANAGEMENT CONTINUED.

c. Market Risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk), or other market factors (other price risk).

Interest rate risk

Interest rate risk is managed by constant monitoring of interest rates. Exposure to interest rate risk is measured via sensitivity analysis. The Fund's objective in managing interest rate risk is to mitigate the impact of significant fluctuations in variable interest charges on the Fund's balance sheet and cash flows.

During the prior year, the Fund had entered into interest rate swap contracts totalling $45.6 million under which it is obliged to receive interest at variable rates and to pay interest at fixed rates thereby eliminating any sensitivity to its results by the changing interest rates.

NOTE 14 FAIR VALUE MEASUREMENT

The following assets and liabilities are recognised and measured at fair value on a recurring basis:

- Derivative financial instruments; and
- Investment properties.

There are various methods used in estimating the fair value of a financial instrument. The methods comprise:

Level 1 The fair value is calculated using quoted prices in active markets.

Level 2 The fair value is estimated using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The following table sets out the Fund's assets and liabilities that are measured and recognised at fair value in the financial statements.

NOTE	LEVEL 1 $000'S	LEVEL 2 $000'S	LEVEL 3 $000'S	TOTAL $000'S
30 June 2017				
Assets				
Investment properties	-	-	188,100	188,100
	-	-	188,100	188,100
Liabilities				
Derivative financial instruments	-	628	-	628
	-	628	-	628
30 June 2016				
Assets				
Investment properties	-	-	153,527	153,527
	-	-	153,527	153,527
Liabilities				
Derivative financial instruments	-	1,127	-	1,127
	-	1,127	-	1,127

There were no transfers during the year between Level 1 and Level 2 for recurring fair value measurements.

The Fund's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 14 FAIR VALUE MEASUREMENT CONTINUED.

Disclosed fair values

The carrying amounts of financial assets and liabilities approximates their net fair value unless otherwise stated. The carrying amounts of financial assets and liabilities are disclosed in the statement of financial position and in the notes to the financial statements

The following table sets out the valuation techniques used to measure fair value within Level 3, including details of the significant unobservable inputs used and the relationship between unobservable inputs and fair value.

DESCRIPTION	VALUATION APPROACH	UNOBSERVABLE INPUTS	RANGE OF INPUTS	RELATIONSHIP BETWEEN UNOBSERVABLE INPUTS AND FAIR VALUE
Investment properties	Income approach based on estimated rental value of the property. Discount rates, terminal yields, expected vacancy rates and rental growth rates are estimated by an external valuer or management based on comparable transactions and industry data.	Discount rate	7.00% to 9.25%	The higher the discount rate, terminal yield and expected vacancy rate, the lower the fair value.
		Capitalisation rate	7.75% to 8.50%	
		Terminal yield	7.25% to 9.00%	
		Expected vacancy rate	(weighted average 0%)	The higher the rental growth, the higher the fair value. Based on Gross Face Rental growth 10 year CAGR.
		Rental growth rate	2.35% to 3.45%	

The Fund engages external, independent and qualified valuers to determine the fair value of the Fund's investment properties at least once every financial year.

For derivative financial instruments (interest rate swap), fair value was determined by St. George Bank. The valuation models used by banks are industry standard and mostly employ a Black-Scholes framework to calculate the expected future value of payments by derivative which is discounted back to present value. The models' interest rate inputs are benchmark interest rates and as such input parameters into the models are deemed observable, thus these derivatives are categorised Level 2 instruments. There were no significant inter-relationships between unobservable inputs that materially affect fair values.

Reconciliation of Level 3 fair value movements

Refer to note 7 for the reconciliation of movements in investment properties. There have been no transfers to or from Levels 1 or 2. There were no unrecognised gains/(losses) recognised in profit or loss for investment properties.

NOTE 15 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Responsible entity

The responsible entity of the Fund is GARDA Capital Limited.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 15 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL CONTINUED.

Key management personnel

The directors and key management personnel of GARDA Capital Limited at any time during or since the end of the financial year are:

Directors

Mr Matthew Madsen	Executive Chairman	Appointed 31 January 2017
	Managing Director	Appointed 22 September 2011
Mr Mark Hallett	Non-Executive Director	Appointed 31 January 2011
Mr Philip Lee	Non-Executive Director	Appointed 21 May 2015
Mr Leylan Neep	Executive Director	Appointed 31 July 2014
	Company Secretary	Appointed 30 July 2012, Resigned 28 July 2016

Senior Executive

Mr Lachlan Davidson	General Counsel	Appointed 13 January 2014
	Company Secretary	Appointed 28 July 2016

Former Director

Mr David Usasz	Independent Chairman	Appointed 21 May 2015, Resigned 31 January 2017

Key management personnel compensation

No compensation is paid directly by the Fund to directors or any employees of the responsible entity.

Unitholdings (number of units)

2017	OPENING BALANCE	DISPOSALS	ADDITIONS	CLOSING BALANCE
Directors of GARDA Capital Limited				
Mr Matthew Madsen	97,893	-	45,901	143,794
Mr Mark Hallett	-	-	3,000	3,000
Mr Philip Lee	50,000	-	-	50,000
Mr Leylan Neep	-	-	-	-
Senior Executive of GARDA Capital Limited				
Mr Lachlan Davidson	-	-	-	-
Former Director				
Mr David Usasz[1]	205,000	-	-	205,000
Responsible entity				
GARDA Capital Limited	-	-	-	-
Other related entities				
GARDA Capital Trust	-	-	10,004,710	10,004,710
GARDA REIT Holdings Unit Trust	10,004,710	(10,004,710)	-	-

[1] The 205,000 units disclosed for David Usasz were those units owned at the date of his resignation, being 31 January 2017.

NOTE 15 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL CONTINUED.

Unitholdings (number of units)

2016	OPENING BALANCE	DISPOSALS	ADDITIONS	CLOSING BALANCE
Directors of GARDA Capital Limited				
Mr David Usasz	100,000	-	105,000	205,000
Mr Matthew Madsen	-	-	97,893	97,893
Mr Mark Hallett	6	(6)	-	-
Mr Philip Lee	50,000	-	-	50,000
Mr Leylan Neep	-	-	-	-
Senior Executive of GARDA Capital Limited				
Mr Lachlan Davidson	-	-	-	-
Responsible entity				
GARDA Capital Limited	4,704	(4,704)	-	-
Other related entities				
GARDA REIT Holdings Unit Trust	10,000,000	-	4,710	10,004,710

Transactions with Related Parties

a. Responsible entity's fees and other transactions

Under the Fund's constitution, the responsible entity is entitled to receive the following fees:

- A management fee of 0.65% per annum of gross asset value (GAV) (reducing to 0.60% per annum of GAV in excess of $750 million GAV); and
- Capital works fee amounting to 5% of the total capital costs incurred in relation to the investment properties.

The transactions during the year and amounts payable at year end between the Fund and the responsible entity were as follows:

	2017 $	2016 $
Responsible entity's fees		
Management fee	1,237,595	920,805
Capital works fees	282,304	122,797
	1,519,899	**1,043,602**
Other transactions with the responsible entity		
Recovery of professional expenses	193,258	76,745
Distributions paid or payable on units held in the Fund by a subsidiary of the responsible entity	-	900,424
Distributions paid or payable on units held in the Fund by GARDA Capital Trust, the stapled entity of the responsible entity	940,443	-
Administration costs reimbursed in accordance with the Fund's Constitution	893	9,008
	1,134,594	**986,177**

b. Transactions with related parties

During the year, GARDA Real Estate Services Pty Ltd, GARDA Facilities Management Pty Ltd and GARDA Services Pty Ltd were engaged to undertake property/facilities management for the properties owned by the Fund and other services on behalf of the responsible entity. These entities are subsidiaries of the responsible entity. All transactions were of a commercial nature on an arm's length basis. The fees paid for those services and administration costs reimbursed during the year were as follows:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 15 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL CONTINUED.

	2017 $	2016 $
GARDA Real Estate Services Pty Ltd	1,404,456	854,922
GARDA Facilities Management Pty Ltd	157,308	148,434
GARDA Services Pty Ltd	111,275	77,307
	1,673,039	**1,080,663**

During the year ended 30 June 2017, the Fund paid a total of $304,670 (2016: $126,999) in legal fees to Hallett Legal Pty Ltd, a related entity of Mark Hallett, who is a director of the responsible entity. A total of $14,276 (2016: $19,863) was outstanding at year end. These expenses were incurred on normal commercial terms.

c. Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2017 $	2016 $
Current payables		
GARDA Capital Limited	213,067	121,645
GARDA Real Estate Services Pty Ltd	51,459	18,982
GARDA Services Pty Ltd	5,528	4,302
	270,054	**144,929**

Amounts receivable from or payable to related entities as detailed above are all on standard 30 day credit terms. All amounts are unsecured and are expected to be cash settled.

NOTE 16 AUDITORS' REMUNERATION

	2017 $	2016 $
Remuneration of the auditor for:		
Audit and review of the financial report	50,000	48,500
	50,000	**48,500**

During the year the following fees were paid or payable for non-audit services provided by the auditor of the fund, its related practices and non-related audit firms:

	2017 $	2016 $
Review and audit of compliance plan	13,000	11,900
Tax services	-	6,000
Total remuneration for non-audit services	**13,000**	**17,900**

NOTE 17 COMMITMENTS

	2017 $000'S	2016 $000'S
Future minimum lease payments receivable:		
Within one year	14,633	13,619
One year to five years	24,777	24,113
Later than five years	19,769	2,756
	59,179	**40,488**

Lease receivables have not been included in the statement of financial position as under AASB 117 'Leases', lease income from operating leases is only recognised on a straight-line basis over the lease term. The lease receivables above include only current signed leases with active tenants and do not include options which exist over current leases as these may not be exercised.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 17 COMMITMENTS CONTINUED.

	2017 $000'S	2016 $000'S
Future minimum lease payments payable:		
Within one year	-	181
One year to five years	-	790
Later than five years	-	8,839
	-	**9,810**

Prior year balances relate to lease payments on land at the 12-14 The Circuit, Brisbane Airport property which has been sold during the year.

NOTE 18 CASH FLOW INFORMATION

	2017 $000'S	2016 $000'S
Reconciliation of cash flow from operations with profit		
Profit	20,121	17,864
Adjustments for items in profit or loss		
Change in fair value of investment properties	(9,517)	(10,093)
Change in fair value of derivative	(499)	1,127
Amortisation of borrowing costs	73	73
Loss on sale of investment properties	154	-
Impairment of receivables	-	82
Movements in assets and liabilities		
Trade and other receivables	73	(84)
Revenue in advance	(521)	25
Trade and other payables	205	(255)
Lease incentives	(442)	150
Cash flow from operations	**9,647**	**8,889**

Reconciliation to cash at the end of the year

Cash at bank[1]	**11,389**	**2,526**

[1]Cash at bank includes $300,142 provided as security for a bank guarantee (2016: $277,673).

Non-cash investing and financing activities

There have been no non-cash investing and financing activities during the year.

NOTE 19 EARNINGS PER UNIT

	2017 $000'S	2016 $000'S
Profit attributable to the unitholders of GARDA Diversified Property Fund:		
Profit from continuing operations	20,121	17,864
Basic and diluted profit per unit (cents per unit) for continuing operations	19.3	18.8
Weighted average number of ordinary shares used in the calculation of basic and diluted profit per unit	104,284,715	95,142,799

NOTE 20 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

In July 2017, the responsible entity entered into an agreement to extend two tranches totalling $63.3 million worth of the Fund's debt facilities (Facilities) with St. George Bank for a further two years.

The Facilities were originally due to expire in June 2018, however as a result of the extension will now expire on 30 June 2020. The Fund's other tranches of debt of approximately $20.3 million are due to expire on 30 June 2019, resulting in a weighted average expiry of 2.8 years.

Further to the Facilities extension and as part of the Fund's continued conservative capital management strategy, in August 2017 the responsible entity has extended the term and quantum of the Fund's interest rate hedges with St. George Bank. Under the new terms, the current fixed interest rate swaps totalling $45.6 million at a rate of 2.69% due to expire in July 2019 have been increased to a new 5 year swap contract totalling $60.0 million at a rate of 2.68% expiring in July 2022.

There are no other significant matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in future financial years.

NOTE 21 CONTINGENT ASSETS/LIABILITIES

a. Contingent asset

The responsible entity is continuing claims against two former tenants for arrears of rent.

The responsible entity is continuing its claim against the valuer of a building in Canberra. It relates to the difference between the historic acquisition and sale prices of a warehouse in Canberra, and a loss of opportunity.

As at 30 June 2017, it is not practicable to estimate the financial effect of the matter therefore no amount has been disclosed.

b. Contingent liabilities

GARDA Capital Limited as responsible entity has initiated claims under warranties and indemnities given by various parties involved in the construction of the building Botanicca 7, at 572-576 Swan St, Richmond with respect to defects in the building. Notification has been given, and the responsible entity is in the process of quantifying the claim and steps towards recovery.

As at 30 June 2017, it is not practicable to estimate the cost of rectification or amounts that would be covered by warranty therefore no amounts have been disclosed.

NOTE 22 SEGMENT INFORMATION

The Fund operates in one segment, being investment in Australian commercial and industrial property. The Fund has determined its one operating segment based on the internal information that is provided to the chief operating decision maker and which is used in making strategic decisions. The Managing Director of the Responsible Entity has been identified as the Fund's chief operating decision maker.

The financial results from the segment are equivalent to the financial statements of the Fund as a whole.

08

CORPORATE GOVERNANCE STATEMENT

Year Ended 30 June 2017

The Board and Management of the GARDA Capital Group considers that it is crucial to the Fund's long term performance and sustainability and to protect and enhance the interests of the Fund's unitholders and other stakeholders, that it adopts an appropriate corporate governance framework pursuant to which the Fund will conduct its operations in Australia with integrity, accountability and in a transparent and open manner.

The Fund regularly reviews its governance arrangements as well as developments in market practice, expectations and regulation. The governance arrangements were reviewed and updated in August 2017.

The Fund's Corporate Governance Statement has been approved by the Board of GARDA Capital Limited and explains how the Fund addresses the requirements of the *Corporations Act 2001*, the ASX Listing Rules and the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations - 3rd Edition' (the 'ASX Principles and Recommendations') and is current as at 30 June 2017.

The Fund's ASX Appendix 4G, which is a checklist cross-referencing the ASX Principles and Recommendations to the relevant disclosures in this statement, the Fund's 2017 Annual Report and other relevance governance documents and materials on the Company's website (together the 'ASX Appendix 4G'), is provided in the corporate governance section of the Company's website at;

http://investors.gardacapital.com.au/Home/?page=Corporate-Governance

The Fund's Corporate Governance Statement together with the ASX Appendix 4G and this Annual Report, were also lodged with the ASX on the same date as this Annual Report.

The Board of the Responsible Entity of the Fund strives to meet the highest standards of Corporate Governance, but recognises that it is also crucial that the Fund's governance framework reflects the current size, operations and industry in which the Responsible Entity operates.

The Fund has complied with the majority of recommendations of the ASX Principles and Recommendations with the exception of a few. The Board believes the areas of non-conformance, which are explained in the Corporate Governance Statement and the ASX Appendix 4G, do not materially impact on the Fund's ability to achieve the highest standards of Corporate Governance, whilst at the same time ensuring the Fund is able to achieve the expectations of its unitholders and other stakeholders.

09

UNITHOLDER INFORMATION

The shareholder information set out below was applicable as at 18 August 2017.

a. Distribution of Equity Securities

Analysis of number of equity security holders by size of holding:

NAME	UNITS	NO. OF HOLDERS	% TOTAL UNITS
1 – 1,000	139,446	181	0.12
1,001 – 5,000	3,838,683	1,324	3.42
5,001 – 10,000	5,506,919	727	4.90
10,001 – 100,000	44,684,633	1,334	39.78
100,001 – and over	58,153,291	89	51.77
	112,322,972	3,646	100

The number of unit holdings held in less than marketable parcels of 500 shares is 18.

b. Equity Security Holders

The names of the twenty largest holders of quoted equity securities are listed below:

NAME	NUMBER HELD	PERCENTAGE OF ISSUED (%) SHARES
THE TRUST COMPANY (AUSTRALIA) LIMITED	10,004,710	8.91
HGT INVESTMENTS PTY LTD	10,000,000	8.90
LONGHURST MANAGEMENT SERVICES PTY LTD	6,629,629	5.90
J P MORGAN NOMINEES AUSTRALIA LIMITED	4,567,453	4.07
W W B INVESTMENTS PTY LTD	2,777,777	2.47
BOND STREET CUSTODIANS LTD	1,910,677	1.70
MR PETER ZINN	1,851,851	1.65
ASIA UNION INVESTMENTS PTY LTD	1,800,000	1.60
NATIONAL NOMINEES LIMITED	1,316,979	1.17
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	932,788	0.83
CITICORP NOMINEES PTY LIMITED	732,290	0.65
J B HOLDINGS (VICTORIA) PTY LTD	670,000	0.60
CITICORP NOMINEES PTY LIMITED	541,449	0.48
MR ARTHUR ROSS PERRINS	500,000	0.45
GLENELG-PARK NOMINEES PTY LTD	400,000	0.36
THEME (NO 3) PTY LTD	400,000	0.36
FIESTA INVESTMENTS PTY LTD	350,000	0.31
BOND STREET CUSTODIANS LTD	333,913	0.30
BNP PARIBAS NOMS (NZ) LTD	330,860	0.29
MR KEVIN HENRY BROADBENT & MRS PAMELA JILL BROADBENT	330,000	0.29
	46,380,376	41.29

UNITHOLDER INFORMATION CONTINUED.

c. Substantial Holders

The names of the substantial shareholders listed in the holding register are:

ESTIMATED BENEFICIAL HOLDINGS AS AT 31 JULY 2017	NUMBER HELD	PERCENTAGE (%)
THE TRUST COMPANY (AUSTRALIA) LIMITED	10,004,710	8.91
HGT INVESTMENTS PTY LTD	10,000,000	8.90
LONGHURST MANAGEMENT SERVICES PTY LTD	6,629,629	5.90
	26,634,339	23.71

d. Voting Rights

Refer to note 12 for voting rights attached to ordinary shares.

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DIRECTORS' DECLARATION

1. In the opinion of the directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund:
   a. the attached financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and accompanying notes, are in accordance with the *Corporations Act 2001*, and:
      (i) comply with Accounting Standards and the *Corporations Regulations 2001;* and
      (ii) give a true and fair view of the Fund's financial position as at 30 June 2017 and of its performance for the financial year ended on that date.
   b. there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the year ended 30 June 2017.
4. The directors draw attention to note 2 to the financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund made pursuant to section 295(5) of the *Corporations Act 2001*.

Mr Matthew Madsen

Executive Chairman

23 August 2017

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the members of GARDA Diversified Property Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of GARDA Diversified Property Fund (the Registered Scheme), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration of GARDA Capital Limited as Responsible Entity of GARDA Diversified Property Fund.

In our opinion the accompanying financial report of GARDA Diversified Property Fund, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Registered Scheme's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Registered Scheme in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of GARDA Capital Limited as Responsible Entity of GARDA Diversified Property Fund, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value of Investment Properties

Key audit matter	*How the matter was addressed in our audit*
The Registered Scheme's disclosures about the fair value of investment property are included in Note 7, which details the key assumptions used in determining the fair value. The fair value of investment properties is a significant part of the financial statements and is important in the users' understanding of the financial statements. The balance of investment properties is material and determining the fair value involves significant judgements resulting in this being a key audit matter for our audit.	Our procedures included, amongst others: • Obtaining external valuations for all investment properties held at year end • Assessing the professional competence and objectivity of the valuer • Evaluating the appropriateness of the methods and assumptions used • Challenging management in relation to the inputs and assumptions used by the valuer • Assessing the Group's disclosures in relation to the determination of the fair value of the investment properties by comparing these disclosures to our understanding of the matter and the external valuations obtained.

Revenue recognition

Key audit matter	*How the matter was addressed in our audit*
The Registered Scheme's disclosures in relation to revenue recognition are included in Note 2, which details accounting policies applied for each revenue stream and Note 4 which discloses the amount of each revenue stream. Revenue from leases of investment properties is a significant part of the financial statements and is important in the users' understanding of the Registered Scheme's performance for the year. Lease revenue is recognised on a straight line basis over the lease term including adjustments for lease incentives granted and consideration of contingent rents and future rental increases. The number of leases in place that include these adjustments across differing periods creates complexity in the determination of revenue for the period in accordance with the stated accounting policies.	Our procedures included, amongst others: • Obtaining an understanding of the systems and controls in place surrounding the recognition of revenue including evaluation of the implementation and effectiveness of these controls • Checking a sample of revenue recorded through to source documents • Evaluating the adjustments made to revenue to recognise it on a straight line basis including the impact of lease incentives • Assessing the nature of the services provided by the Registered Scheme's property management provider and the significance of those services to the entity, including the effect thereof on the system of internal control

	• Assessing the Group's disclosures in relation to revenue recognition by comparing these disclosures to our understanding of the matter and the requirements of Australian Accounting standards.

Other information

The directors of GARDA Capital Limited as Responsible Entity of GARDA Diversified Property Fund are responsible for the other information. The other information comprises the information in the Registered Scheme's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

The directors of GARDA Capital Limited as Responsible Entity of GARDA Diversified Property Fund 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of GARDA Capital Limited as Responsible Entity of GARDA Diversified Property Fund are responsible for assessing the Registered Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Registered Scheme or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO

T R Mann
Director

Brisbane, 23 August 2017

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CORPORATE DIRECTORY

DIRECTORS

Matthew Madsen
Executive Chairman and Managing Director

Mark Hallett
Non-executive Director

Philip Lee
Non-executive Director

Leylan Neep
Executive Director and Chief Financial Officer

COMPANY SECRETARY

Lachlan Davidson

General Counsel and Company Secretary

REGISTERED OFFICE

Level 21, 12 Creek Street

Brisbane QLD 4000

Ph: +61 7 3002 5300

Fax: +61 7 3002 5311

Web: www.gardacapital.com.au

AUDITORS

BDO Audit Pty Ltd

Level 10, 12 Creek St

Brisbane QLD 4000

SHARE REGISTRY

Link Market Services

Level 12, 680 George Street

Sydney NSW 2000

STOCK EXCHANGE LISTING

The Fund is listed on the Australian Securities Exchange Limited (ASX: GDF)

ARSN 104 391 273

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GARDA
CAPITAL GROUP