



INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

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These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by GARDA Diversified Property Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These financial statements of GARDA Diversified Property Fund are as an individual entity. The financial statements are presented in the Australian currency.

GARDA Diversified Property Fund is a property fund, incorporated and domiciled in Australia. Its registered office and principal place of business is:

GARDA Diversified Property Fund
Level 21
12 Creek Street
BRISBANE QLD 4000

The financial statements were authorised for issue by the directors of the responsible entity on 23 February 2018. The directors have the power to amend and reissue the financial statements.

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 half year ended 31 December 2017.

INFORMATION ON DIRECTORS OF THE RESPONSIBLE ENTITY

The directors of GARDA Capital Limited during the half year and up to the date of this report:

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

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 half year.

REVIEW AND RESULTS OF OPERATIONS

The Fund generated a net profit of \$4.7 million during the half year, an increase of \$1.1 million compared to prior half year profit of \$3.6 million.

The Fund's total assets at 31 December 2017 were \$243.2 million, an increase of \$42.6 million during the half year largely due to the cash proceeds from a \$30 million entitlement offer in December 2017, which was raised to fund acquisitions, and used to partially repay the Fund's debt facility in early January 2018.

Total unitholders' equity at 31 December 2017 was \$164.7 million, an increase of \$28.8 million on the 2017 financial year balance of \$135.9 million, which was largely reflective of the net proceeds of \$29.1 million from the capital raising in December 2017.

Net tangible assets (**NTA**) for the half year ended 31 December 2017 were \$1.19 per unit, a decrease of \$0.02 per unit on the 30 June 2017 NTA per unit of \$1.21 per unit, largely due to the impact of capital raising in December 2017.

Funds from operations¹ (**FFO**) is a global financial measure of real estate operating performance that reflects the underlying and recurring earnings from operations. This is determined by adjusting the statutory profit (under Australian Accounting Standards) for certain non-cash and other items.

FFO is a measure which is not calculated in accordance with Australian Accounting Standards and has not been audited or reviewed by the auditor of GARDA Diversified Property Fund.

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.

	31 DECEMBER 2017 \$000'S	31 DECEMBER 2016 \$000'S
Net profit for the half year attributable to unitholders	4,740	3,589
Fair value movement in investment properties	274	1,685
Net loss/(gain) on fair value of derivative financial instrument	177	(540)
Incentives amortisation and rent straight-line	6	442
Non-underlying and non-recurring legal expenses	323	-
Funds From Operations (FFO)	5,520	5,176
Distribution paid and payable	5,054	4,844
FFO per unit² (represented in cents per unit)	4.63	5.03
Distribution payout ratio	91.6%	93.6%

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, non-underlying litigation expenses, and one-off items.

² Number of units is based on the weighted average units on issue for the respective period.

DIRECTORS' REPORT (CONTINUED)

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

The key financial highlights for the half year ended 31 December 2017 include:

- Profit attributable to unitholders of \$4.7 million, an increase of \$1.1 million from the prior period;
- FFO of \$5.5 million, representing a 7% increase on the prior half year FFO of \$5.2 million;
- Distributions of \$5.05 million, representing 4.5 cents per unit (cpu), in line with full year guidance of 9.0 cpu;
- Net tangible assets (NTA) per unit of \$1.19 (30 June 2017: \$1.21 per unit) following the acquisition of the Richmond property and December 2017 capital raising; and
- An ASX closing price at 31 December 2017 of \$1.18 per unit, up from \$1.12 per unit at 30 June 2017.

The key operational highlights for the half year ended 31 December 2017 include:

- An acquisition of land (3,621m²) at Botanicca Corporate Park in Richmond, Melbourne;
- Continued execution of the capital improvements program, largely focused on the Cairns and Richmond assets, and the capital deployment into the Pinkenba property; and
- Successful completion of a \$30.0 million entitlement offer through the issue of 26,121,622 new units at a price of \$1.15 per unit.

FINANCIAL RESULTS

FFO of \$5.5 million was generated during the period representing an increase of \$0.3 million from the prior half year (2016: \$5.2 million). Distributions for the period totalled \$5.05 million, which equated to a payout ratio of 92%.

Trust level expenses increased during the period as a result of non-underlying litigation expenses, while finance costs were less than the prior half year due to reduced average borrowings for the period.

Net loss on fair value of derivative financial instruments of \$0.2 million is a result of mark to market valuation of interest rate swap contracts on the loan facility totalling \$60 million.

The Fund generated operational cash flows of \$4.9 million for the half year (2016: \$5.2 million).

ACQUISITIONS AND CAPITAL MANAGEMENT

On 14 November 2017, the Fund settled an acquisition on a 3,621m² land parcel located within Botanicca Corporate Park in Richmond, Melbourne. The acquisition was fully debt funded from senior debt facilities with St. George Bank. Botanicca 9 will be approximately a 7,254m² A-Grade commercial office building designed to a NABERS 5 Star energy rating, and is expected to be completed in the first quarter of 2019.

GDF settled the Pinkenba property in June 2017 and construction of the pre-leased facility at Pinkenba is expected to be completed by June 2018. GDF expects to settle the Wacol property (construction partially completed) in April 2018 with final completion of the Volvo Group Australia pre-leased facility expected in July 2018.

The directors have continued to adopt the most recent independent valuations as at 31 December 2017 with the addition of capital expenditure during the period deemed accretive. The weighted average capitalisation rate (WACR) is now 7.17% following the acquisition of Botanicca 9.

On 13 December 2017, an entitlement offer of 26,121,622 new units at an issue price \$1.15 was completed raising funds of \$30.0 million before costs. The net proceeds of \$29.1 million temporarily increased cash in December 2017 prior to it being applied to partially repay the Fund's debt facility in early January 2018, coinciding with the facility's quarterly roll date. The debt repayment reduced the Fund's loan to value ratio (LVR) to 27.12%, consistent with the Fund's long term gearing target.

The number of units on issue in the Fund as at 31 December 2017 is 138,444,594 (30 June 2017: 112,322,972).

DIRECTORS' REPORT (CONTINUED)

AFTER BALANCE DATE EVENTS

On 2 January 2018, debt of \$15.05 million was repaid from proceeds raised from the Fund's entitlement offer completed on 15 December 2017.

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 periods.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

ROUNDING OF AMOUNTS

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.

AUDITOR

BDO continues in office in accordance with section 331 of the *Corporations Act 2001*.

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.

A handwritten signature in black ink, appearing to read 'M. B.', enclosed within a hand-drawn oval.

Mr Matthew Madsen

Executive Chairman

23 February 2018

AUDITOR'S INDEPENDENCE DECLARATION



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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 for the review of GARDA Diversified Property Fund for the half-year ended 31 December 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in dark ink, appearing to read 'T R Mann', is written over a light blue horizontal line.

T R Mann
Director

BDO Audit Pty Ltd

Brisbane, 23 February 2018

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	NOTES	HALF YEAR	
		31 DECEMBER 2017 \$'000'S	31 DECEMBER 2016 \$'000'S
Revenue		9,797	9,441
Property expenses		(2,426)	(2,557)
Trust level expenses		(1,284)	(874)
Finance costs		(896)	(1,276)
Net (loss)/gain on financial instrument held at fair value through profit and loss	8	(177)	540
Fair value movement in investment properties	6	(274)	(1,685)
Profit for the half year		4,740	3,589
Other comprehensive income for the half year		-	-
Total comprehensive income for the half year attributable to:			
Owners of GARDA Diversified Property Fund		4,740	3,589
Basic and diluted profit per unit attributable to the unitholders of GARDA Diversified Property Fund			
Basic and diluted profit per unit (cents per unit)	4	4.0	3.7

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTES	31 DECEMBER 2017 \$'000'S	30 JUNE 2017 \$'000'S
ASSETS			
Current assets			
Cash and cash equivalents	5	30,551	11,389
Trade and other receivables		1,156	1,155
Total current assets		31,707	12,544
Non-current assets			
Investment properties	6	211,500	188,100
Total non-current assets		211,500	188,100
Total assets		243,207	200,644
LIABILITIES			
Current liabilities			
Trade and other payables		2,799	1,475
Distribution payable	3	2,527	2,640
Borrowings	7	-	42,600
Total current liabilities		5,326	46,715
Non-current liabilities			
Tenant security deposits		295	295
Borrowings	7	72,069	17,103
Derivative financial instrument	8	805	628
Total non-current liabilities		73,169	18,026
Total liabilities		78,495	64,741
Net assets		164,712	135,903
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Contributed equity	9	256,889	227,766
Retained losses		(92,177)	(91,863)
Total equity		164,712	135,903

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

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	CONTRIBUTED EQUITY \$'000'S	RETAINED LOSSES \$'000'S	TOTAL \$'000'S
Balance at 1 July 2016	207,848	(101,860)	105,988
Comprehensive Income			
Profit for the half year	-	3,589	3,589
Other comprehensive income	-	-	-
Total comprehensive income for the half year	-	3,589	3,589
Transactions with owners in their capacity as owners			
Issue of additional equity	20,000	-	20,000
Equity transaction costs	(82)	-	(82)
Distributions provided for or paid	-	(4,844)	(4,844)
	19,918	(4,844)	15,074
Balance at 31 December 2016	227,766	(103,115)	124,651
Balance at 1 July 2017	227,766	(91,863)	135,903
Comprehensive Income			
Profit for the half year	-	4,740	4,740
Other comprehensive income	-	-	-
Total comprehensive income for the half year	-	4,740	4,740
Transactions with owners in their capacity as owners			
Issue of additional equity	30,040	-	30,040
Equity transaction costs	(917)	-	(917)
Distributions provided for or paid	-	(5,054)	(5,054)
	29,123	(5,054)	24,069
Balance at 31 December 2017	256,889	(92,177)	164,712

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

STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	NOTES	HALF YEAR	
		31 DECEMBER 2017 \$'000'S	31 DECEMBER 2016 \$'000'S
Cash flows from operating activities			
Rental and outgoings received (inclusive of GST)		10,700	10,802
Cash payments in the course of operations (inclusive of GST)		(7,203)	(4,087)
Interest received		268	30
Finance costs		(1,229)	(1,243)
GST refund/(paid)		2,399	(332)
Net cash provided by operating activities		4,935	5,170
Cash flows from investing activities			
Payments for capital expenditure on tenanted investment properties		(2,182)	(3,530)
Payments for acquisition and capital expenditure on investment properties under construction		(19,646)	-
Payments for leasing fees		(212)	(87)
Payments for acquisition of tenanted investment properties		-	(31,540)
Net cash used in investing activities		(22,040)	(35,157)
Cash flows from financing activities			
Proceeds of borrowings		22,800	34,000
Repayments of borrowings		(10,250)	-
Payments for borrowing costs		(260)	-
Proceeds from issue of additional equity		30,040	20,000
Equity transaction costs		(896)	(82)
Distributions paid to unitholders	3	(5,167)	(4,301)
Net cash provided by financing activities		36,267	49,617
Net increase in cash and cash equivalents		19,162	19,630
Cash and cash equivalents at the beginning of the half year		11,389	2,526
Cash and cash equivalents at end of the half year		30,551	22,156

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These general purpose financial statements for the half year reporting period ended 31 December 2017 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These half year financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Fund as the full financial statements. Accordingly, these half year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2017 and any public announcements made by GARDA Capital Limited during the half year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The same accounting policies and methods of computation have generally been followed in these half year financial statements as compared with the most recent annual financial statements.

The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material impact on the amounts recognised in the financial statements of the Fund for the current or prior periods.

The directors believe that the going concern basis of preparation is appropriate, and accordingly have prepared the financial report on this basis.

(a) Rounding of amounts

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.

NOTE 2 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 (CODM) and which is used in making strategic decisions. The Executive Director and Managing Director of the responsible entity has been identified as the Fund's CODM.

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

NOTE 3 DISTRIBUTIONS

	HALF YEAR	
	31 DECEMBER 2017 \$'000'S	31 DECEMBER 2016 \$'000'S
Distributions provided for and/or paid by the Fund during the period were:		
September quarter distribution 2.25 cents per unit (2016: 2.35 cents per unit)	(2,527)	(2,204)
December quarter distribution 2.25 cents per unit (2016: 2.35 cents per unit)	(2,527)	(2,640)
	(5,054)	(4,844)

Distributions declared for the quarter ended 31 December 2017 of \$2.53 million, but not paid until after half year end, have been provided for.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 EARNINGS PER UNIT

	HALF YEAR	
	31 DECEMBER 2017 \$'000'S	31 DECEMBER 2016 \$'000'S
Profit attributable to the unitholders of GARDA Diversified Property Fund:		
Profit from continuing operations	4,740	3,589
Basic and diluted profit per unit (cents per unit) for continuing operations	4.0	3.7
Weighted average number of ordinary units used in the calculation of basic and diluted profit per unit	119,317,286	96,334,308

NOTE 5 CASH AND CASH EQUIVALENTS

At 31 December 2017, included in the cash and cash equivalents balance of \$30.56 million (30 June 2017: \$11.39 million) is the net proceeds of \$29.1 million from the Fund's entitlement offer completed in December 2017. On 2 January 2018, \$15.05 million was applied to partially repay the Fund's debt facility, reducing drawn debt from \$72.40 million, as at 31 December 2017, to \$57.35 million.

NOTE 6 INVESTMENT PROPERTIES

	31 DECEMBER 2017 \$'000'S	30 JUNE 2017 \$'000'S
Investment properties at independent valuation	179,200	179,200
Capital expenditure post independent valuation at directors' valuation	2,306	-
Investment properties under construction at directors valuation	29,994	8,900
	211,500	188,100
Movements during the period		
Balance at beginning of the period	188,100	153,527
Movements in fair value	(274)	9,517
Acquisition of tenanted investment properties	-	31,540
Acquisition and capital expenditure of properties under construction	21,164	9,597
Capital expenditure on tenanted investment properties	2,306	6,284
Disposal of investment property	-	(22,487)
Straight-lining of rental income	196	388
Net movement in leasing fees and incentives	8	(266)
Balance at end of the period	211,500	188,100

Investment property independent valuation details

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, 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 directors at 31 December 2017 have adopted the most recent independent valuations from June 2017 plus all capital expenditure incurred during the half year which has been deemed by directors as capital accretive.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 INVESTMENT PROPERTIES (CONTINUED)

Investment properties under construction

On 14 November 2017, the Fund settled an acquisition of freehold land located at 588 Swan Street, Richmond for \$9.67 million. Following settlement, construction has commenced for a 5 level office building expected for completion in February 2019. The new acquisition and construction expenditure to 31 December 2017 has been carried at cost being the basis for director's valuation as at 31 December 2017.

Other properties under construction as reported in the 30 June 2017 Fund annual report are carried at independent valuation on completion less cost to complete the project as at 31 December 2017 being the director's valuation as at 31 December 2017.

Independent property valuations details

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

INVESTMENT PROPERTIES AT INDEPENDENT VALUATION	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	7.75%	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 Road, 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
Capital expenditure post independent valuation					2,306
Properties under construction					
Lot 2001, Metroplex Westgate, Wacol ¹	Directors				900
70-82 Main Beach Road, Pinkenba ²	Directors				13,454
588 Swan Street, Richmond	Directors				15,640
					29,994
Total properties					211,500

¹Metroplex 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 31 December 2017.

²70-82 Main Beach Road, Pinkenba has been independently valued at \$19.0 million on an 'as if' completed basis on 31 May 2017. Directors' valuation is based on the independent valuation less cost to complete the project at 31 December 2017.

Contractual Obligations

Contractual obligations to develop or construct investment properties at 31 December 2017 are as follows:

PROPERTIES	\$000'S
Lot 2001, Metroplex Westgate, Wacol ¹	34,350
70-82 Main Beach Road, Pinkenba ²	5,546
588 Swan Street, Richmond ³	36,360
Total	76,526

¹Completion of construction is anticipated for April 2018.

²Completion of construction is anticipated for June 2018.

³Completion of construction is anticipated for February 2019.

There are no other contractual obligations to purchase, construct or develop investment properties as at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 BORROWINGS

	31 DECEMBER 2017 \$'000'S	30 JUNE 2017 \$'000'S
Current		
Bank loans (secured)	-	42,600
	-	42,600
Non-current		
Bank loans (secured)	72,069	17,103
	72,069	17,103
Total borrowings (Current and Non-Current)	72,069	59,703

Borrowings of \$42.6 million were classified as current liabilities at 30 June 2017 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 current tranches due for expiry, to be extended to 30 June 2020, with the remaining tranches expiring on 30 June 2019. This has resulted in all borrowings being non-current as at 31 December 2017.

	31 DECEMBER 2017 \$'000'S	30 JUNE 2017 \$'000'S
Movements in borrowings		
Balance at beginning of the half year	59,703	45,380
Proceeds from borrowings	22,800	39,000
Repayment of borrowings	(10,250)	(24,750)
Capitalisation of borrowing costs	(260)	-
Amortisation of borrowing costs	76	73
Balance at the end of the half year	72,069	59,703

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 31 December 2017, the following covenants exist:

- Interest cover ratio is to remain above 2.50 times; and
- Loan to value ratio must remain under 50%.

The St. George Bank loan has a facility limit of \$83.6 million (30 June 2017: \$83.6 million). As at 31 December 2017, the debt was drawn to \$72.40 million (30 June 2017: \$58.85 million) which is within the facility limit. The proceeds from borrowings were primarily used to fund the acquisition of a freehold land for construction at Botanicca 9 and for construction payments for properties under construction.

On 13 December 2017, the Fund's entitlement offer of 26,121,622 new units at an issue price of \$1.15 was completed raising \$30.04 million before costs. The net proceeds of \$29.1 million temporarily increased cash in December 2017 prior to \$15.05 million being applied to partially repay the Fund's debt facility in early January 2018 coinciding with the facility roll date. Total drawn debt reduced from \$72.40 million as at 31 December 2017 to \$57.35 million on 2 January 2018. The debt repayment reduced the Fund's loan to value (LVR) ratio to 27.12 %, consistent with the Fund's long term gearing target of 30% to 35%.

At balance date, the Fund had fixed interest rate swap agreements over the total loan facility of \$60.0 million which expire in July 2022.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

	31 DECEMBER 2017 \$'000'S	30 JUNE 2017 \$'000'S
Non-current liabilities		
Interest rate swap contracts	805	628

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 or loss and other comprehensive income.

The Fund has entered into interest rate swap contracts totalling \$60.0 million under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

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.

During the half year ended 31 December 2017, a net loss on fair value of interest rate swap for \$0.18 million (2016: gain \$0.54 million) has been recognised in the statement of profit or loss and other comprehensive income.

NOTE 9 CONTRIBUTED EQUITY

	31 DECEMBER 2017 NUMBER	30 JUNE 2017 NUMBER	31 DECEMBER 2017 \$'000'S	30 JUNE 2017 \$'000'S
Issued units	138,444,594	112,322,972	256,889	227,766
Movements during the year				
Balance at beginning of year	112,322,972	93,804,456	227,766	207,848
Entitlement offer	26,121,622	-	30,040	-
Private unit placement	-	18,518,516	-	20,000
Capital raising costs	-	-	(917)	(82)
Balance at end of year	138,444,594	112,322,972	256,889	227,766

NOTE 10 CONTINGENT ASSETS AND LIABILITIES

As at 31 December 2017, no new matters were noted compared to matters already disclosed in the 30 June 2017 Annual Financial Report.

NOTE 11 RELATED PARTY TRANSACTIONS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 RELATED PARTY TRANSACTIONS (CONTINUED)

RESPONSIBLE ENTITY

The responsible entity of the Fund is GARDA Capital Limited.

UNITHOLDINGS (NUMBER OF UNITS)

31 DECEMBER 2017	OPENING BALANCE	DISPOSALS	ADDITIONS	CLOSING BALANCE
Directors of GARDA Capital Limited				
Mr Matthew Madsen	143,794	-	2,607	146,401
Mr Mark Hallett	3,000	-	698	3,698
Mr Philip Lee	50,000	-	11,628	61,628
Mr Leylan Neep	-	-	-	-
Senior Executive of GARDA Capital Limited				
Mr Lachlan Davidson	-	-	-	-
Responsible entity				
GARDA Capital Limited	-	-	-	-
Other related entities				
GARDA Capital Trust	10,004,710	-	8,695,653	18,700,363

TRANSACTIONS WITH RELATED PARTIES

(a) Responsible entity's fees and other transactions

Under the Fund 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); and
- Capital works fee amounting to 5% of the total capital costs incurred in relation to the investment properties.

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

	HALF YEAR	
	31 DECEMBER 2017 \$	31 DECEMBER 2016 \$
Responsible entity's fees		
Management fee	679,841	583,077
Capital works fee	215,760	163,615
	895,601	746,692
Other transactions with the responsible entity		
Recovery of professional expenses	356,052	34,550
Distributions paid or payable on units held in the Fund by GARDA Capital Trust, the stapled entity of the responsible entity	450,212	470,222
Administration costs reimbursed in accordance with the Fund Constitution	10,144	893
	816,408	505,665

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties

During the period 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 half year were as follows:

	HALF YEAR	
	31 DECEMBER 2017 \$	31 DECEMBER 2016 \$
GARDA Real Estate Services Pty Ltd	504,397	427,504
GARDA Facilities Management Pty Ltd	81,014	78,654
GARDA Services Pty Ltd	60,803	45,625
	646,214	551,783

During the half year ended 31 December 2017, the Fund paid a total of \$136,351 (2016: \$45,739) 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 \$8,316 (30 June 2017: \$14,276) was outstanding at half year end. These expenses were incurred on normal commercial terms.

During the half year distributions provided for and/or paid to GARDA Capital Trust (a related entity of the responsible entity) were \$450,212 (2016: \$470,222).

(c) Outstanding balances arising from purchases of goods and services

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

	31 DECEMBER 2017 \$	30 JUNE 2017 \$
Current payables		
GARDA Capital Limited	517,564	213,067
GARDA Real Estate Services Pty Ltd	119	51,459
GARDA Services Pty Ltd	3,629	5,528
	521,312	270,054

Amounts payable to related entities as detailed above are all on standard 30 day credit terms.

NOTE 12 FAIR VALUE MEASUREMENT

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

- Derivative financial instruments
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 FAIR VALUE MEASUREMENT (CONTINUED)

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$000'S	\$000'S	\$000'S	\$000'S
31 December 2017				
Assets				
Investment properties	-	-	211,500	211,500
	-	-	211,500	211,500
Liabilities				
Derivative financial instruments	-	805	-	805
	-	805	-	805
30 June 2017				
Assets				
Investment properties	-	-	188,100	188,100
	-	-	188,100	188,100
Liabilities				
Derivative financial instruments	-	628	-	628
	-	628	-	628

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.

Disclosed fair values

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

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 6 for the reconciliation of movements in investment properties. There have been no transfers to or from Levels 1 or 2.

NOTE 13 EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

On 2 January 2018, debt of \$15.05 million was repaid from proceeds raised from the Fund's entitlement offer completed on 15 December 2017.

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 periods.

DIRECTORS' DECLARATION

In the opinion of the directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Accounting Standard AASB 134 *'Interim Financial Reporting'*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the Fund's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and
- there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund made pursuant to section 303(5) of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read 'A.B.', enclosed within an oval shape.

Executive Chairman

23 February 2018

INDEPENDENT AUDITOR'S REVIEW REPORT



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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of GARDA Diversified Property Fund

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of GARDA Diversified Property Fund (the Registered Scheme), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of GARDA Capital Limited as Responsible Entity of GARDA Diversified Property Fund.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Registered Scheme is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Registered Scheme's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the Responsible Entity are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Registered Scheme's financial position as at 31 December 2017 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Registered Scheme, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

BDO Audit Pty Ltd

A handwritten signature in dark ink, appearing to read 'T R Mann', is written over a faint, stylized 'BDO' logo.

T R Mann
Director

Brisbane, 23 February 2018

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