



ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018





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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 2018 and the auditor's report thereon.

INFORMATION ON THE 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

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 2018 and at the date of this report, the interest of the directors in units of GARDA Diversified Property Fund are:

	UNITS AT 30 JUNE 2018	UNITS AT DATE OF REPORT
Directors of GARDA Capital Limited		
Mr Matthew Madsen	146,401	146,401
Mr Mark Hallett	33,698	33,698
Mr Philip Lee	61,628	61,628
Mr Leylan Neep	-	-

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

The Fund generated a net profit of \$24.2 million during the year, an increase of \$4.1 million compared to prior year profit of \$20.1 million. The net profit increase includes an uplift in property valuations of \$14.3 million for 2018 compared to the \$9.5 million uplift in the prior period.

The Fund's total assets increased to \$290.6 million from \$200.6 million, an increase of \$90.0 million. The increase in total assets is attributable to:

- \$34.35 million to finalise settlement of 41 Bivouac Place, Wacol;
- \$20.2 million deployed on 588A Swan Street, Richmond (Botanicca 9);
- \$9.9 million deployment to the construction of 70-82 Main Beach Road, Pinkenba;
- \$9.8 million acquisition of 67 Noosa Street, Heathwood; and
- \$14.3 million uplift in the valuation of the properties.

Borrowings increased by \$45.7 million during the year due to the net effect of capital transaction activity, construction funding and the on-going capital improvements program.

Total unitholders' equity at 30 June 2018 was \$177.9 million, an increase of \$42.0 million on the prior year's balance of \$135.9 million, which was reflective of the \$29.1 million net proceeds from the entitlement offer in December 2017, uplift in property valuations of \$14.3 million, offset slightly by costs of acquisitions during the year.

Net tangible assets (**NTA**) for the year ended 30 June 2018 are \$1.29 per unit, an increase of \$0.08 per unit on prior year NTA per unit of \$1.21.

REVIEW AND RESULTS OF OPERATIONS CONTINUED.

The key financial highlights for the year ended 30 June 2018 include:

- » profit attributable to unitholders of \$24.2 million, an increase of \$4.1 million from the prior period;
- » a \$14.3 million uplift in independent valuations of the portfolio;
- » distributions of \$11.3 million, representing 9.0 cents per unit, in line with full year guidance;
- » NTA per unit of \$1.29 (30 June 2017: \$1.21 per unit), an uplift of 8 cents per unit for the year; and
- » an ASX closing price at 30 June 2018 of \$1.165 per unit, an uplift of 2.9% from \$1.12 per unit at 30 June 2017.

The key operational highlights for the year ended 30 June 2018 include:

- » an acquisition of land (3,621m²) at 588A Swan Street, in Richmond, Melbourne, with construction commenced and expected to be completed in May 2019;
- » an acquisition of an industrial property located in Heathwood, QLD for \$9.8 million in April 2018;
- » the completion of the acquisition of the industrial facility located in Wacol, Brisbane for \$35.25 million;
- » continued execution of the capital improvements program, largely focused on the Cairns and Richmond assets, and the capital deployment for completion of the Pinkenba property in August 2018; 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.

In accordance with Australian Accounting Standards, net profit includes a number of non-cash adjustments including fair value movements in asset and liability values. Property Council funds from operations¹ (**FFO**) are global financial measures 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.

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:

	2018 \$000'S	2017 \$000'S
Net profit for the year attributable to unitholders	24,161	20,121
Net (gain)/loss on financial liabilities held at fair value through profit and loss	246	(499)
Fair value movement in investment properties	(14,330)	(9,517)
Loss on sale of investment properties	-	154
Incentive amortisation and rent straight-line	448	469
Non-underlying legal expenses ²	685	-
Funds From Operations (FFO)	11,210	10,728
Distribution paid and payable	11,284	10,124
FFO per unit ³ (represented in cents per unit)	8.7	10.3
Distribution payout ratio - FFO	101%	94%

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.

FFO of \$11.2 million was achieved, compared to \$10.7 million in prior year.

Distributions for 2018 increased compared to the prior period as a result of the allotment of 26.1 million units following the \$30.0 million entitlement offer completed in December 2017.

The Fund generated positive operational cash flows of \$11.2 million for the year (2017: positive \$9.6 million).

¹ Property Council FFO is the organisation's underlying and recurring earnings from its operations. This is determined by adjusting statutory net profit (under AIFRS) for certain non-cash and other items. FFO has been determined based on guidelines established by the Property Council of Australia and is intended as a supplementary measure of operating performance.

² Litigation expenses not viewed by management as part of underlying and recurring expenses.

³ Number of units is based on the weighted average units on issue for the respective period.

REVIEW AND RESULTS OF OPERATIONS CONTINUED.

INVESTMENT PROPERTY VALUATIONS

At 30 June 2018, the Fund held eleven investment properties totalling \$283.9 million in value. Independent valuations were conducted on investment properties (excluding investment properties constructed or under construction) during June 2018 and adopted as at 30 June 2018 for the properties. (see note 7 for further detail).

On 14 November 2017, the Fund settled an acquisition on a 3,621m² land parcel located within Botanicca Corporate Park in Richmond, Melbourne. 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 May 2019.

On the 30 April 2018, GDF settled the acquisition of the industrial property located at Heathwood, QLD for \$9.8 million.

The Wacol property achieved practical completion on 6 June 2018 and the directors' valuation at 30 June 2018 is reflective of the independent valuation of the property obtained on an as-if complete basis on 10 July 2017. The lease with the Volvo Group Australia commenced on 2 July 2018.

GDF settled the acquisition of the Pinkenba property in June 2017, and construction of the pre-leased facility at Pinkenba completed during August 2018.

INVESTMENT PROPERTIES	2018 \$000'S	2017 \$000'S
7-19 Lake Street, Cairns (including land at 26-30 Grafton Street)	51,000	48,000
69-79 Diesel Drive, Mackay	30,200	29,500
142-150 Benjamin Place, Lytton	9,700	8,800
B2, 747 Lytton Road, Murarrie	14,250	14,100
154 Varsity Parade, Varsity Lakes	14,000	12,800
436 Elgar Rd, Box Hill	29,000	25,000
572-576 Swan Street, Richmond	52,500	41,000
41 Bivouac Place, Wacol	35,250	-
67 Noosa Street, Heathwood	9,800	-
Total Investment Properties	245,700	179,200
Investment Properties Under Construction		
41 Bivouac Place, Wacol	-	900
70-82 Main Beach Road, Pinkenba	17,987	8,000
588A Swan Street, Richmond (Botanicca 9)	20,245	-
Total Investment Properties	283,932	188,100

LEASING

The Fund continued to address material year-on-year lease expiry with a total of 10,320m² leased across six transactions, and a further 4,270m² of vacant space across seven transaction was leased to new tenants. Leasing represented 13% of the approximate 110,000m² net lettable area of the current portfolio.

CAPITAL IMPROVEMENTS PROGRAM

During the 2018 financial year approximately \$5.1 million (2017: \$6.3 million) in capital expenditure was completed. The responsible entity will continue its capital improvements program during financial year 2019 (FY19).

REVIEW AND RESULTS OF OPERATIONS CONTINUED.

CAPITAL MANAGEMENT

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 number of units on issue in the Fund at 30 June 2018 is 138,444,594 (2017: 112,322,972).

LEGAL PROCEEDINGS

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 arising from the valuation. The matter is listed for trial in December 2018.

GARDA Capital Limited as responsible entity has filed a claim 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. The builder is defending and has indicated joining additional third parties as defendants. The matter has a mediation scheduled for November 2018 and has been listed for trial in April 2019.

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

DISTRIBUTIONS PAID OR RECOMMENDED

Distributions payable throughout the 2018 financial year totalled \$11.3 million (2017: \$10.1 million), representing a distribution of 9.0 cents per unit. This represents a distribution payout ratio of 100.7% of FFO, in line with the Fund's forecast payout ratio range. As at 30 June 2018, a distribution declared of \$3.1 million in relation to the June 2018 quarter remained payable, and is expected to be paid on 24 August 2018.

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

There are no 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.

The Fund's key objectives for FY19 include:

1. oversee the construction and leasing of Botanicca 9 which is due for completion in the second quarter of 2019;
2. consider capital transactions including divestments;
3. continue the capital improvements program with \$6.0 million anticipated to be deployed into Cairns;
4. assess capital management options; and
5. manage at risk income and focus on increasing the portfolio occupancy rate, which presently stands at 95%.

Leasing

Approximately 14,600m² of space has been renewed or newly leased during the financial year, representing 13% of the approximate 110,000m² net lettable area of the current portfolio. At risk income from impending lease expiries for FY19 is now only 2% of Fund income. The yet to be leased and under construction Botanicca 9 project accounts for 17% of Fund income.

Vacancy and lost income across the portfolio is predominantly in Cairns (1,302m² available to lease) and Murarrie (880m² available to lease) with minor impact from the Varsity Lakes asset. The execution of the capital improvements program in Cairns continues to reposition and increase the building "offer" to tenants, which has resulted in occupancy increasing from 81% to 91% during the financial year.

REVIEW AND RESULTS OF OPERATIONS CONTINUED.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES CONTINUED.

Capital Transactions and Gearing

During the year, the Fund completed the acquisitions of a \$9.8 million industrial facility located at Heathwood, QLD and a parcel of land within the Botanicca Corporate Park in Richmond, Victoria. The Fund has also deployed funding to the settlement of 41 Bivouac Place, Wacol QLD and the construction of 70-82 Main Beach Road, Pinkenba, QLD.

As a result of these transactions, loan to value ratio (LVR) at 30 June 2018 was 37%. 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.

The responsible entity has paid insurance premiums in respect of its officers for liability and legal expenses for the year ended 30 June 2018. 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.

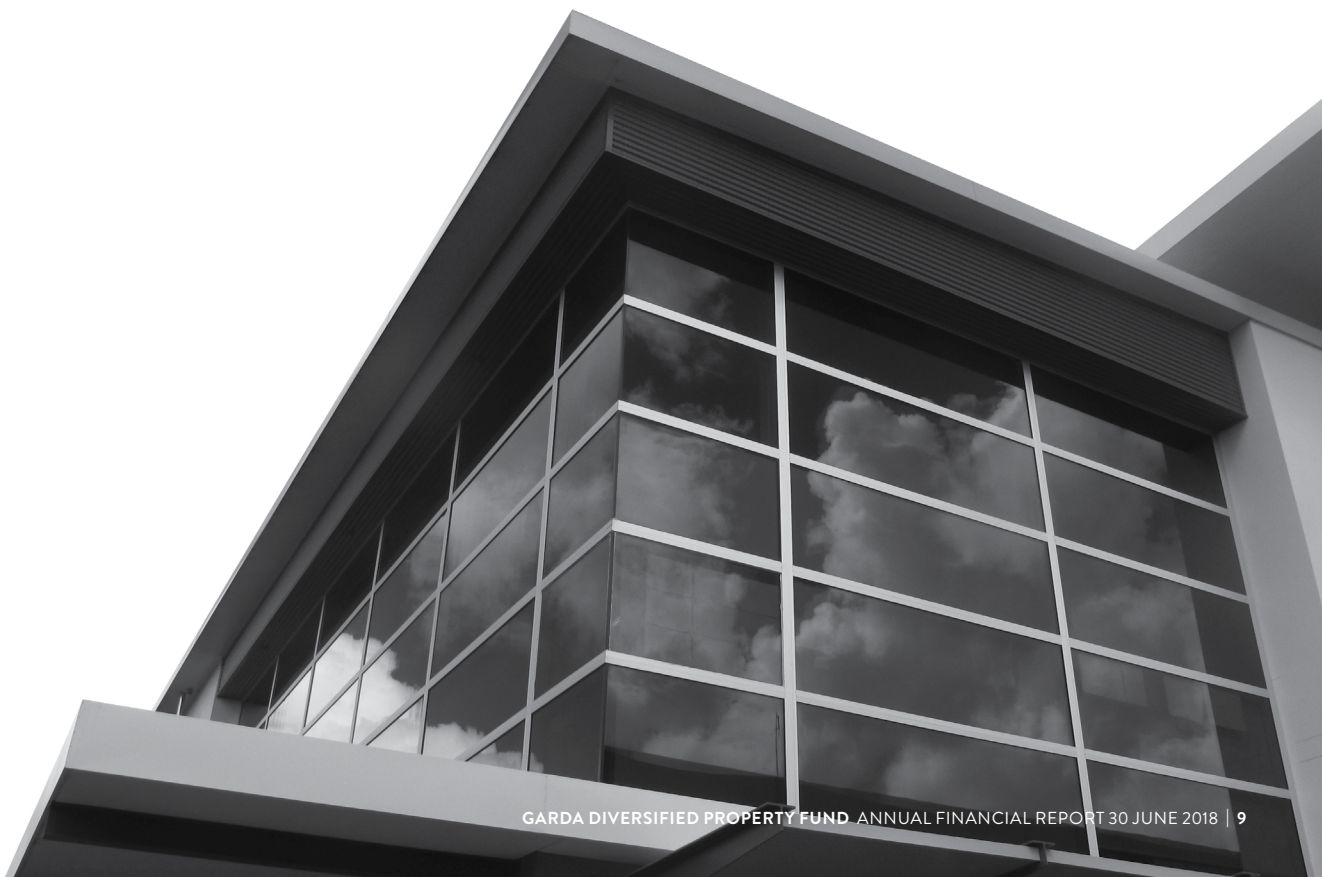
This report is signed in accordance with a resolution of the board of directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund.

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

Mr Matthew Madsen

Executive Chairman

23 August 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 of GARDA Diversified Property Fund for the year ended 30 June 2018, 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.

A handwritten signature in black ink, appearing to read 'T R Mann', with a long horizontal flourish extending to the right.

T R Mann
Director

BDO Audit Pty Ltd

Brisbane, 23 August 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 YEAR ENDED 30 JUNE 2018

	NOTE	2018 \$000'S	2017 \$000'S
Revenue	4	19,267	19,935
Property expenses	5	(4,898)	(5,219)
Trust level expenses	5	(2,737)	(2,004)
Finance costs	5	(1,555)	(2,453)
Net (loss)/gain on financial instrument held at fair value through profit and loss	5	(246)	499
Fair value movement in investment properties	7	14,330	9,517
Net loss on sale of investment properties		-	(154)
Profit for the year		24,161	20,121
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to:			
Owners of GARDA Diversified Property Fund		24,161	20,121
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	18.8	19.3

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

AS AT 30 JUNE 2018

	NOTE	2018 \$000'S	2017 \$000'S
ASSETS			
Current assets			
Cash and cash equivalents	18	4,523	11,389
Trade and other receivables	6	2,154	1,155
Total current assets		6,677	12,544
Non-current assets			
Investment properties	7	283,932	188,100
Total non-current assets		283,932	188,100
Total assets		290,609	200,644
LIABILITIES			
Current liabilities			
Trade and other payables	8	2,767	1,475
Distribution payable	11	3,115	2,640
Borrowings	9	18,307	42,600
Total current liabilities		24,189	46,715
Non-current liabilities			
Tenant security deposits		520	295
Borrowings	9	87,142	17,103
Derivative financial instrument	10	874	628
Total non-current liabilities		88,536	18,026
Total liabilities		112,725	64,741
Net assets		177,884	135,903
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Issued units	12	256,870	227,766
Accumulated losses		(78,986)	(91,863)
Total equity		177,884	135,903

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	ISSUED UNITS \$000'S	ACCUMULATED LOSSES \$000'S	TOTAL \$000'S
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
Balance at 1 July 2017	227,766	(91,863)	135,903
Comprehensive income			
Profit for the year	-	24,161	24,161
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	24,161	24,161
Transactions with owners			
Unit Issue	30,040	-	30,040
Equity transaction costs	(936)	-	(936)
Distributions paid or provided for	-	(11,284)	(11,284)
Total transactions with owners	29,104	(11,284)	17,820
Balance at 30 June 2018	256,870	(78,986)	177,884

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	2018 \$000'S	2017 \$000'S
Cash flows from operating activities			
Rent and outgoings received (includes GST)		21,502	20,938
Cash payments in the course of operations (includes GST)		(14,449)	(8,215)
Interest received		95	61
Finance costs		(1,272)	(2,375)
GST refund/(paid)		5,324	(762)
Net cash provided by operating activities	18	11,200	9,647
Cash flows from investing activities			
Payments for investment property improvements		(5,115)	(6,059)
Payments for leasing fees and lease incentives		(757)	(547)
Payments for acquisition of properties under construction		(65,512)	(9,534)
Payments for acquisition of investment properties		(10,475)	(31,540)
Proceeds from the sale of investment properties		-	22,333
Net cash used in investing activities		(81,859)	(25,347)
Cash flows from financing activities			
Proceeds of borrowings		71,059	39,000
Repayment of borrowings		(25,300)	(24,750)
Distributions paid		(10,809)	(9,605)
Payments for borrowing establishment costs		(261)	-
Capital raised		30,040	20,000
Equity transaction costs		(936)	(82)
Net cash provided by financing activities		63,793	24,563
Net (decrease)/increase in cash held		(6,866)	8,863
Cash at the beginning of the financial year		11,389	2,526
Cash at the end of the financial year	18	4,523	11,389

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Introduction

GARDA Diversified Property Fund (**Fund**) for the year ended 30 June 2018 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 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 2018 by the directors of the responsible entity.

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*.

Compliance with IFRS

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

Historical cost convention

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

Key judgement – Going Concern

The Fund was in a net current asset deficiency position as at 30 June 2018 by \$17.5 million (2017: \$34.2 million). The deficiency was primarily as a result of borrowings of \$18.3 million (2017: \$42.6 million) being classified as current liabilities due to certain tranches of the St. George loan expiring on 30 June 2019. The directors expect to renew the relevant tranches of the St. George loan in advance of expiry.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED.

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

Property expenses

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

Responsible entity's remuneration

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

Custodian's remuneration

The Custodian received remuneration of \$85,291 (2017: \$72,200) 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 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, including risk allowances, at measurement date.

e. Financial Instruments

Initial Recognition & Measurement

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.

Classification and Subsequent Measurement

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED.

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. Finance costs are expensed as incurred unless they relate to qualifying assets.

A qualifying asset is an asset under development or construction which takes a substantial period of time. Finance costs incurred for the acquisition and construction of a qualifying asset are capitalised to the cost of the asset for the period of time that is required to complete the asset. To the extent that funds are borrowed generally to fund development, the amount of borrowing costs to be capitalised to qualifying assets must be determined by using an appropriate capitalisation rate.

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.

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 weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary units.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED.

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 the 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 2017. The nature and the impact of each new standard and/or amendment was not significant.

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 2018 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 Group does not foresee any significant impact to the net profit and net assets as a result of applying this new accounting standard.
AASB 16 Leases (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 does not foresee any significant impact to the net profit and net assets as a result of applying this new accounting standard.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 3 DISTRIBUTIONS

	2018 \$000'S	2017 \$000'S
Distributions paid or provided for by the Fund from unit capital		
September quarter distribution 2.25 cents per unit (2017: 2.35 cents per unit)	2,527	2,204
December quarter distribution 2.25 cents per unit (2017: 2.35 cents per unit)	2,527	2,640
March quarter distribution 2.25 cents per unit (2017: 2.35 cents per unit)	3,115	2,640
June quarter distribution 2.25 cents per unit (2017: 2.35 cents per unit)	3,115	2,640
	11,284	10,124

Distributions declared for the quarter ended 30 June 2018 of \$3.12 million but not paid until after year end have been provided for.

NOTE 4 REVENUE

	2018 \$000'S	2017 \$000'S
Rental income and other revenue	20,149	21,263
Interest revenue	95	61
Leasing fees amortised	(386)	(322)
Leasing incentives amortised	(591)	(1,067)
	19,267	19,935

NOTE 5 EXPENSES

	2018 \$000'S	2017 \$000'S
Property expenses		
Recoverable expenses	4,121	4,416
Direct expenses	665	729
Non-recoverable expenses	112	74
	4,898	5,219
Trust level expenses		
Responsible entity management fee ¹	1,487	1,238
Trust administration expenses	1,250	766
	2,737	2,004
Finance costs		
Interest expense paid/ payable	2,719	2,380
Interest capitalised to properties under construction	(1,319)	-
Borrowing costs	155	73
	1,555	2,453

¹ Refer to note 15 for details on related party transactions.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Fund's general borrowings during the year, in this case 4.00%.

Net (loss)/ gain on financial liability held at fair value through profit and loss

Derivative financial instrument		
Mark-to-market of interest rate swap	(246)	499
	(246)	499

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 6 TRADE AND OTHER RECEIVABLES

	2018 \$000'S	2017 \$000'S
Current		
Rent and outgoings receivable	408	518
Other receivables	1,355	-
Prepayments	258	144
GST receivable	515	875
Provision for doubtful receivables	(382)	(382)
	2,154	1,155
Analysis of provision for doubtful receivables		
Opening balance	382	382
Provision for doubtful receivables	-	-
Closing balance	382	382

NOTE 7 INVESTMENT PROPERTIES

	2018 \$000'S	2017 \$000'S
Investment properties at independent valuation	210,450	179,200
Investment properties at directors' valuation	35,250	-
Investment properties under construction at directors' valuation	38,232	8,900
	283,932	188,100
Movements during the year		
Balance at beginning of year	188,100	153,527
Movements in fair value	14,330	9,517
Acquisition of tenanted investment properties	10,475	31,540
Acquisition and capital expenditure of properties under construction	65,630	9,597
Capital expenditure on tenanted investment properties	5,115	6,284
Disposal of investment property	-	(22,487)
Straight-lining of rental income	110	388
Net movement in leasing fees and incentives	172	(266)
Balance at end of year	283,932	188,100

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 2018 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 2018 (with the exception of Heathwood conducted at the end of March 2018) and adopted at 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 7 INVESTMENT PROPERTIES CONTINUED.

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

Investment property valuations details

30 June 2018

PROPERTIES	VALUATION BASIS	CAPITALISATION RATE	NET MARKET INCOME \$000'S	ADJUSTMENTS \$000'S	VALUATION \$000'S
7-19 Lake Street, Cairns	Independent	8.25%	5,166	(8,501)	49,000
Land at 26-30 Grafton Street, Cairns	Independent	n/a	n/a	n/a	2,000
69-79 Diesel Drive, Mackay	Independent	7.50%	2,084	2,533	30,200
142-150 Benjamin Place, Lytton	Independent	7.00%	722	(730)	9,700
B2, 747 Lytton Road, Murarrie	Independent	8.00%	1,351	(2,474)	14,250
154 Varsity Parade, Varsity Lakes	Independent	8.25%	1,325	(1,565)	14,000
436 Elgar Rd, Box Hill	Independent	6.25%	2,095	(4,393)	29,000
572-576 Swan Street, Richmond	Independent	5.75%	3,102	(1,099)	52,500
41 Bivouac Place, Wacol ¹	Directors				35,250
67 Noosa Street, Heathwood	Independent	7.37%	724	(29)	9,800
					245,700
Properties under construction					
70-82 Main Beach Rd, Pinkenba ²	Directors				17,987
588A Swan Street, Richmond (Botanicca 9) ³	Directors				20,245
					38,232
Total properties					283,932

1 41 Bivouac Place, Wacol has been independently valued at \$35.25 million on an 'as if' completed basis on 10 July 2017. Practical completion occurred on 6 June 2018 and the lease commenced on the building on the 2 July 2018. Directors' valuation at 30 June 2018 is based on the independent value at \$35.25 million completed on 10 July 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. Directors' valuation is based on the independent valuation less cost to complete the project at 30 June 2018. Completion of the project occurred in August 2018.

3 Directors' valuation for 588A Swan Street, Richmond is based on internal valuation on an 'as if' complete basis less cost to complete the project, including risk allowances, at 30 June 2018. The directors have determined that the internal valuation presents a more reliable estimate of the fair value. Completion of the project is anticipated for May 2019.

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					
41 Bivouac Place, Wacol ¹	Directors				900
70-82 Main Beach Rd, Pinkenba ²	Directors				8,000
					8,900
Total properties					188,100

1 41 Bivouac Place, 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. Directors' 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.

Contractual Obligations

Contractual obligations to develop or construct investment properties at 30 June 2018 are as follows:

PROPERTIES	COST TO COMPLETE \$000'S
70-82 Main Beach Rd, Pinkenba ¹	1,013
588A Swan Street, Richmond (Botanicca 9) ²	36,055
Total	37,068

1 Completion of construction occurred in August 2018.

2 Completion of construction is anticipated for May 2019.

Leasing arrangements

Investment properties listed above (excluding Land at 26-30 Grafton Street, Cairns, Main Beach Road, Pinkenba, Botanicca 9 and 41 Bivouac Place, Wacol) 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

	2018 \$000'S	2017 \$000'S
Current		
Trade and other payables	2,557	1,219
Revenue in advance	210	256
	2,767	1,475

NOTE 9 BORROWINGS

	2018 \$000'S	2017 \$000'S
Current		
Bank loans (secured)	18,307	42,600
	18,307	42,600
Non-Current		
Bank loans (secured)	87,142	17,103
	87,142	17,103
Total borrowings (Current and Non-Current)	105,449	59,703

On 26 July 2017, the Fund received approval from St. George Bank to extend \$63.3 million of facilities to 23 June 2020. This included \$42.6 million of drawn funding classified as current at 30 June 2017. On 18 May 2018, the Fund secured a new facility with St. George Bank for the amount of \$4.41 million following the acquisition of 67 Noosa Street, Heathwood. This three year facility will expire on 30 April 2021. The remaining facilities with St. George Bank totalling \$20.3 million, drawn to \$18.3 million and classified as current at 30 June 2018, are due to expire on 30 June 2019.

Following the acquisitions of Pinkenba and Wacol, the Fund established two new facilities with ANZ Banking Group for a total amount of \$30.65, drawn to \$19.7 million as at 30 June 2018 and classified as non-current, to assist with the financing of construction. Upon completion of construction, the facilities will transition into an investment facility for a term of 2 years. The ANZ investment facilities are expect to expire in August 2020.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 9 BORROWINGS CONTINUED.

Movements in borrowings

	2018 \$000'S	2017 \$000'S
Balance at beginning of year	59,703	45,380
Proceeds from borrowings	71,059	39,000
Repayment of borrowings	(25,300)	(24,750)
Capitalised borrowing costs	(260)	-
Capitalised interest	92	-
Amortisation of borrowing costs	155	73
Balance at the end of the year	105,449	59,703

Bank Loans

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 relating to the security properties; and (c) guarantee and indemnity provided by the responsible entity GARDA Capital Limited, limited to the value of the security properties.

Under the facility agreement with St. George Bank that was operable at 30 June 2018, the following covenants exist:

- Interest cover ratio is to remain above 2.50 times; and
- Loan to value ratio does not exceed 50%.

During the year a further loan facility was established with ANZ Banking Group. The ANZ Bank loan is secured by: (a) a first registered mortgage over the applicable properties; (b) a second ranking general security interest over the assets of the Fund in favour of the bank relating to the security properties; and (c) guarantee and indemnity provided by the responsible entity GARDA Capital Limited, limited to the value of the security properties.

Under the facility agreement with ANZ Banking Group that was operable at 30 June 2018, the following covenants exist:

- Wacol LVR to be no greater than 60%;
- Pinkenba LVR to be no greater than 50%; and
- Interest cover ratio is to remain above 2.50 times.

There is a deed of priority between St George and ANZ Banking Group, in relation to their respective securities.

There were no breaches of covenants during the year.

At the 30 June 2018 the following facility limits exist:

FACILITY	FACILITY LIMIT \$000'S	AMOUNT DRAWN \$000'S	AMOUNT AVAILABLE \$000'S
St. George Bank	88,010	86,010	2,000
ANZ Banking Group	30,650	19,692	10,958
Total facilities	118,660	105,702	12,958

At balance date, the Fund had fixed interest rate swap agreements over the total loan facility of \$60.0 million (2017: \$45.6 million) which expire in July 2022.

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



NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 10 DERIVATIVE FINANCIAL INSTRUMENTS

	2018 \$000'S	2017 \$000'S
Non-Current		
Interest rate swap contracts	874	628

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.

The Fund 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. These hedges expire in July 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.

NOTE 11 DISTRIBUTIONS PAYABLE

	2018 \$000'S	2017 \$000'S
Provision for distribution	3,115	2,640
Movements in provisions		
Opening balance at beginning of year	2,640	2,121
Distributions provided for	11,284	10,124
Distributions paid	(10,809)	(9,605)
Balance at end of year	3,115	2,640

NOTE 12 ISSUED UNITS

	2018 \$000'S	2017 \$000'S
138,444,594 units (2017: 112,322,972)	256,870	227,766

	2018 NUMBER	2017 NUMBER	2018 \$000'S	2017 \$000'S
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	-	-	(936)	(82)
Balance at end of year	138,444,594	112,322,972	256,870	227,766

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. During the year 26,121,622 units were issued at an issue price of \$1.15 per unit.

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).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 12 ISSUED UNITS CONTINUED.

The LVR at 30 June 2018 and 30 June 2017 was as follows:

	2018 \$000'S	2017 \$000'S
Total borrowings	105,449	59,703
Cash and cash equivalents	4,523	11,389
Gross value of investment properties	283,932	188,100
Loan to valuation ratio ¹	37.2%	31.7%
Gearing ratio ²	35.5%	25.7%

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 \$0.5 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.

	2018 \$000'S	2017 \$000'S
Cash and cash equivalents	4,523	11,389
Trade and other receivables (net of provision for doubtful debts)	1,896	1,011
	6,419	12,400

Ageing of receivables

Not past due	1,896	1,011
Past due 0-60 days	-	-
Past due >90 days	382	382
Impaired	(382)	(382)
	1,896	1,011

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 13 FINANCIAL RISK MANAGEMENT CONTINUED.

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 2018. The amounts disclosed represent undiscounted cash flows.

The remaining contractual maturities of the financial liabilities are:

	2018 \$000'S	2017 \$000'S
Less than one year		
Trade and other payables	2,557	1,219
Distribution payable	3,115	2,640
Bank loans	18,307	42,600
Interest on bank loans	4,319	1,629
	28,298	48,088
Between one and five years		
Bank loans	87,142	17,103
Interest on bank loans	3,730	614
	90,872	17,717

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. An expense of \$0.25 million was recognised in the statement of profit or loss and other comprehensive income during the year (2017: \$0.5 million income).

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 14 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.

NOTE	LEVEL 1 \$000'S	LEVEL 2 \$000'S	LEVEL 3 \$000'S	LEVEL 4 \$000'S
30 June 2018				
Assets				
Investment properties	-	-	283,932	283,932
	-	-	283,932	283,932
Liabilities				
Derivative financial instruments	-	874	-	874
	-	874	-	874
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 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	6.50% to 9.00%	The higher the discount rate, terminal yield and expected vacancy rate, the lower the fair value.
		Capitalisation rate	5.75% to 8.25%	
		Terminal yield	6.00% to 8.50%	
		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	2.17% to 2.55%	

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 Level 1 or 2. There were no unrecognised gains/(losses) recognised in profit or loss for investment properties.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

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.

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
	Chief Financial Officer	Appointed 23 July 2012

Senior Executive

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

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)

2018	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	-	30,698	33,698
Mr Philip Lee	50,000	-	11,628	61,628
Mr Leylan Neep	-	-	-	-
Senior Executive of GARDA Capital Limited				
Lachlan Davidson	-	-	-	-
Responsible entity				
GARDA Capital Limited	-	-	-	-
Other related entities				
GARDA Capital Trust	10,004,710	-	8,695,653	18,700,363

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 15 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL CONTINUED.

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				
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.

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:

	2018 \$	2017 \$
Responsible entity's fees		
Management fee	1,487,397	1,237,595
Capital works fees	540,152	282,304
	2,153,512	1,519,899
Other transactions with the responsible entity		
Recovery of professional expenses	601,252	193,258
Distributions paid or payable on units held in the Fund by GARDA Capital Trust, the stapled entity of the responsible entity	1,291,728	940,443
Administration costs reimbursed in accordance with the Fund's Constitution	10,144	893
	1,903,124	1,134,594

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 15 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL CONTINUED.

b. Transactions with related parties

During the year, GARDA Real Estate Services Pty Ltd, GARDA Facilities Management Pty Ltd, GARDA Services Pty Ltd and GARDA Finance 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:

	2018 \$	2017 \$
GARDA Real Estate Services Pty Ltd	1,101,036	1,404,456
GARDA Facilities Management Pty Ltd	163,187	157,308
GARDA Services Pty Ltd	122,580	111,275
GARDA Finance Pty Ltd	125,963	-
	1,512,766	1,673,039

During the year ended 30 June 2018, the Fund paid a total of \$234,975 (2017: \$304,670) in legal fees to Hallett Legal Pty Ltd, a related entity of Mark Hallett, who is a director of the responsible entity. Nil (2017: \$14,276) 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:

	2018 \$	2017 \$
Current payables		
GARDA Capital Limited	392,554	213,067
GARDA Real Estate Services Pty Ltd	3,696	51,459
GARDA Services Pty Ltd	11,318	5,528
	407,568	270,054

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 AUDITOR'S REMUNERATION

	2018 \$	2017 \$
Remuneration of the auditor for:		
Audit and review of the financial report	53,000	50,000
	53,000	50,000

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:

	2018 \$	2017 \$
Review and audit of compliance plan	13,400	13,000
Total remuneration for non-audit services	13,400	13,000

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 17 COMMITMENTS

	2018 \$000's	2017 \$000's
Future minimum lease payments receivable:		
Within one year	13,714	14,633
One year to five years	39,127	24,777
Later than five years	24,489	19,769
	77,330	59,179

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.

NOTE 18 CASH FLOW INFORMATION

	2018 \$000's	2017 \$000's
Reconciliation of cash flow from operations with profit		
Profit	24,161	20,121
Adjustments for items in profit or loss		
Change in fair value of investment properties	(14,330)	(9,517)
Change in fair value of derivative	246	(499)
Amortisation of borrowing costs	156	72
Loss on sale of investment properties	-	154
Movements in assets and liabilities		
Trade and other receivables	(333)	74
Revenue in advance	(46)	(521)
Trade and other payables	405	205
Lease incentives	941	(442)
Cash flow from operations	11,200	9,647

Reconciliation to cash at the end of the year

Cash at bank ¹	4,523	11,389
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¹Cash at bank includes \$529,140 provided as security for a bank guarantee (2017: \$300,142).

Non-cash investing and financing activities

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

Cash and Non-Cash Movements in Liabilities arising from Financing Activities

The following table reconciles the cash and non-cash movements in liabilities arising from financing activities.

	2017 \$000's	CASH FLOWS \$000's	NON-CASH CHANGES CAPITALISATION OF INTEREST AND AMORTISATION \$000's	2018 \$000's
Borrowings (Current and Non-current)	59,703	45,498	248	105,449
	59,703	45,498	248	105,449

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

NOTE 19 EARNINGS PER UNIT

	2018 \$000's	2017 \$000's
Profit attributable to the unitholders of GARDA Diversified Property Fund:		
Profit from continuing operations	24,161	20,121
Basic and diluted profit per unit (cents per unit) for continuing operations	18.8	19.3
Weighted average number of ordinary units used in the calculation of basic and diluted profit per unit	128,783,172	104,284,715

NOTE 20 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

There are no 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 arising from the valuation. The matter has been listed for trial in December 2018.

GARDA Capital Limited as responsible entity has filed a claim 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. The builder is defending and has indicated joining additional third parties as defendants. The matter has a mediation scheduled for November 2018 and has been listed for trial in April 2019.

As at 30 June 2018, it is not practicable to estimate the financial effect of the matters therefore no amount has been disclosed.

b. Contingent liabilities

There were no contingent liabilities as at 30 June 2018.

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.

CORPORATE GOVERNANCE STATEMENT

YEAR ENDED 30 JUNE 2018

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 2018.

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 2018.

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 2018 Annual Report and other relevant 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.



UNITHOLDER INFORMATION

The unitholder information set out below was applicable as at 21 August 2018.

a. Distribution of Equity Units

Analysis of number of equity unitholders by size of holding:

	Units	No. Of holders	Total Units
1 to 1,000	126,986	173	0.09%
1,001 to 5,000	3,531,496	1231	2.55%
5,001 to 10,000	4,756,527	643	3.44%
10,001 to 100,000	48,002,629	1483	34.67%
100,001 and Over	82,026,956	112	59.25%
	138,444,594	3,642	100

The number of unit holdings held in less than marketable parcels of 500 units is 20.

b. Equity Unitholders

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

Name	Number held	Percentage of issued units
THE TRUST COMPANY (AUSTRALIA) LIMITED	18,700,363	13.51%
HGT INVESTMENTS PTY LTD	16,585,122	11.98%
LONGHURST MANAGEMENT SERVICES PTY LTD	8,171,404	5.90%
J P MORGAN NOMINEES AUSTRALIA LIMITED	4,837,952	3.49%
NATIONAL NOMINEES LIMITED	2,782,485	2.01%
MR PETER ZINN	2,718,245	1.96%
ASIA UNION INVESTMENTS PTY LTD	2,218,605	1.60%
BOND STREET CUSTODIANS LTD	1,474,838	1.07%
CITICORP NOMINEES PTY LIMITED	1,380,419	1.00%
W W B INVESTMENTS PTY LTD	1,000,000	0.72%
GEAT INCORPORATED	926,993	0.67%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	920,370	0.66%
UBS NOMINEES PTY LTD	630,846	0.46%
J B HOLDINGS (VICTORIA) PTY LTD	535,000	0.39%
BOND STREET CUSTODIANS LTD	514,589	0.37%
GLENELG-PARK NOMINEES PTY LTD	514,570	0.37%
FIESTA INVESTMENTS PTY LTD	500,000	0.36%
MR ARTHUR ROSS PERRINS	500,000	0.36%
NETWEALTH INVESTMENTS LIMITED	494,860	0.36%
METRO STORAGE PTY LIMITED	440,907	0.32%
CITICORP NOMINEES PTY LIMITED	413,901	0.30%
	66,261,469	47.86%

c. Substantial Holders

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

Beneficial holdings as at 21 August 2018	Number held	Percentage
THE TRUST COMPANY (AUSTRALIA) LIMITED	18,700,363	13.51%
HGT INVESTMENTS PTY LTD	16,585,122	11.98%
LONGHURST MANAGEMENT SERVICES PTY LTD	8,171,404	5.90%
	43,456,889	31.39%

d. Voting Rights

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

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 2018 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.
2. 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 2018.
3. 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 2018



INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the unitholders 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 2018, 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 2018 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.

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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.

Valuation of Investment Properties

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Registered Scheme's disclosures about the valuation of investment property are included in Note 7, which details the key assumptions used in determining the fair value.</p> <p>The valuation 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.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none">• Obtaining either external or director valuations for all investment properties held at year end• Assessing the professional competence and objectivity of the external valuers• Evaluating the appropriateness of the methods and assumptions used• Challenging management in relation to the inputs and assumptions used by the valuer• Critically assessing the Registered Scheme's disclosures in relation to the determination of the fair value of the investment properties by comparing these disclosures to the external valuations obtained and our understanding of the applicable accounting standards.

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Revenue recognition

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Registered Scheme’s disclosures in relation to revenue recognition are included in Note 2, which details the accounting policies applied for each revenue stream and Note 4 which discloses the amount of each revenue stream.</p> <p>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.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • 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 • Testing 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 • Critically assessing the Registered Scheme’s disclosures in relation to revenue recognition by comparing these disclosures to our understanding of applicable 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 2018, 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.

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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

T R Mann
Director

Brisbane, 23 August 2018

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

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Brisbane QLD 4000

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AUDITORS

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Brisbane QLD 4000

SHARE REGISTRY

Link Market Services
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Sydney NSW 2000

STOCK EXCHANGE LISTING

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

ARSN 104 391 273





