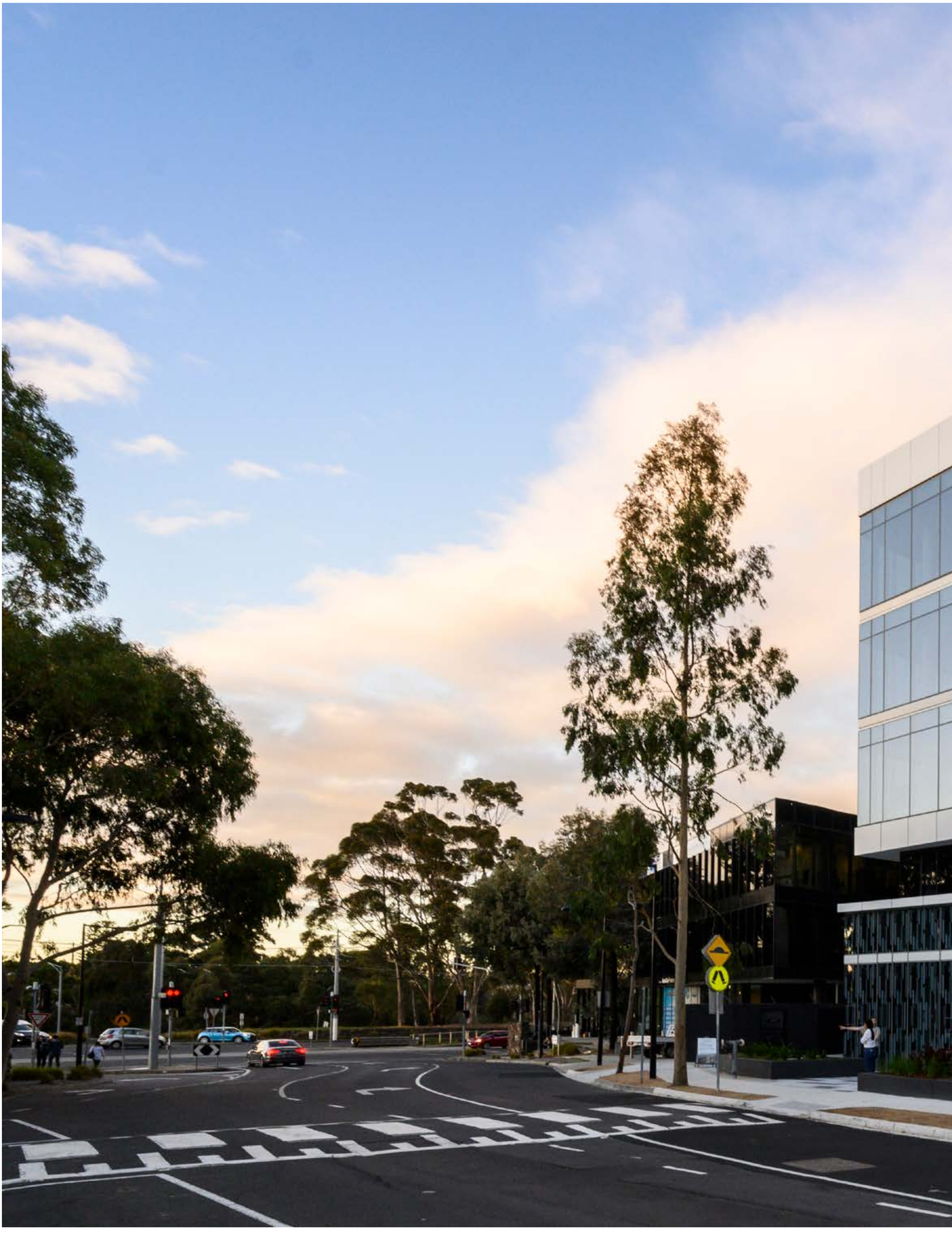
GARDA

GARDA DIVERSIFIED PROPERTY FUND

Annual Financial Report 2019

GARDA DIVERSIFIED PROPERTY FUND (ASX CODE: GDF)

ARSN 104 391 273



Contents

Directors' Report

01

Directors' Report

The Directors of GARDA Capital Limited (the **RE**), the responsible entity of GARDA Diversified Property Fund (the **Fund**), provide this report together with the financial statements of the Fund, for the year ended 30 June 2019 and the auditor's report thereon.

Information on directors of the responsible entity

The Directors of the RE 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 Morgan Parker	Independent Director (Appointed 13 December 2018)
— Mr Mark Hallett	Non-Executive Director
— Mr Philip Lee	Non-Executive Director
— Mr Leylan Neep	Executive Director (Resigned 18 March 2019

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

Interests in the units and options of the fund and related bodies corporate

At 30 June 2019 and at the date of this report, the interest of the directors in the units of the Fund are:

DIRECTORS OF THE RE	UNITS AT 30 JUNE 2019	UNITS AT DATE OF REPORT
Mr Matthew Madsen	146,401	146,401
Mr Morgan Parker	-	-
Mr Mark Hallett	48,698	48,698
Mr Philip Lee	61,628	61,628
Mr Leylan Neep [1]	-	-

1 Resigned from the Board on 18 March 2019

The directors of the RE do not hold 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 its constitution. There were no significant changes in the nature of the Fund's activities during the year.


VOLVO

Review and Results of Operations

FFO
$13.2m
△ $2.0 million

TOTAL ASSETS
$356.3m
△ $65.7 million

Operational highlights

Operational highlights for the year ended 30 June 2019 included:

- Successful completion of a $25.0 million entitlement offer in October 2018 at a price of $1.25 per unit.
- Completion of the Botanicca 9 commercial project located in the Melbourne city-fringe suburb of Richmond.
- Acquisition of two industrial sites located in Berrinba and Wacol, Brisbane for $3.0 million and $5.9 million, respectively.
- Continued execution of the Fund's capital improvements program, with a particular focus on the Cairns Corporate Tower.
- Divestment of the Murarrie office building, resulting in a net gain of $1.6 million or 10.5% on the carrying value of the property.
- Announcement on 27 June 2019 of the acquisition of four industrial properties at Acacia Ridge and Archerfield for $31.0 million plus costs, with completion occurring after year end on 5 July 2019.

Financial highlights

Financial highlights for the year included:

- Increase in total assets to $356.3 million
- Funds from Operations (**FFO**) of $13.2 million, representing a 17.7% increase on the prior year FFO of $11.2 million;
- Profit attributable to unitholders of $28.8 million, an increase of $4.6 million from the prior year;
- A $17.1 million uplift in independent valuations of the portfolio before capital additions;
- Distributions of $13.8 million, or 9.0 cents per unit, in line with full year guidance;
- NTA per unit of $1.37 (30 June 2018: $1.29 per unit), an uplift of 8 cents per unit for the year; and
- An ASX closing price at 30 June 2019 of $1.40 per unit, an increase of 20.2% from $1.165 per unit at 30 June 2018.

Capital Transactions

The Fund's total assets increased to $356.3 million from $290.6 million, an increase of $65.7 million. Significant property transactions during the year included:

a| $34.0 million invested to complete construction of 588 Swan Street, Richmond (Botanicca 9);

b| $9.0 million uplift in fair value of investment properties;

c| $3.0 million paid for the acquisition of 1-9 Huntress Road, Berrinba;

d| $5.9 million paid or the acquisition of 498 Progress Road, Wacol;

e| $8.6 million invested in capital improvements in the Fund's portfolio; and

f| $1.9 million in deposits and associated costs paid for the acquisition of three industrial properties at Acacia Ridge, and one at Archerfield, that settled on 5 July 2019.

Gross sale proceeds of $17.3 million before costs, were received on 27 June 2019 from the disposal of the Murarrie commercial property. The divestment resulted in a net gain on sale of $1.6 million.

Funds from operations

In accordance with Australian Accounting Standards, net profit includes a number of non-cash adjustments including fair value movements in asset and liability values. To more accurately reflect the underlying performance of the Fund, the RE discloses FFO[1] which adjusts statutory profit (under Australian Accounting Standards) for certain non-cash and other items. FFO is not calculated in accordance with Australian Accounting Standards and has not been audited or reviewed by the auditor of the Fund.

The following table reconciles between statutory profit attributable to unitholders and FFO:

	2019 $000	2018 $000
Net profit for the year attributable to unitholders	28,780	24,161
Net loss on financial liabilities held at fair value through profit and loss	1,951	246
Fair value movement in investment properties	(8,994)	(14,330)
Gain on sale of investment properties	(1,550)	-
Incentive amortisation and rent straight-line	(375)	448
Non-underlying and non-reccurring (benefit) / expense[2]	(6,620)	685
Funds From Operations (FFO)	**13,192**	**11,210**
Distribution paid	**13,810**	**11,284**
Distribution payout ratio - FFO	**104.7%**	**100.7%**

FFO of $13.2 million was generated during the year, representing an increase of $2.0 million from the prior year (2018: $11.2 million).

Distributions for the period totalled $13.8 million, representing a payout ratio of 104.7%. Distributions for 2019 increased compared to the prior period due to the allotment of 20.0 million new units following the $25.0 million institutional placement in October 2018.

[1] Property Council FFO is the Fund'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] Includes $8.0 million cash from settlement of litigation.

Investment property valuations

At 30 June 2019, the Fund held thirteen investment properties totalling $332.8 million in value and had paid a further $1.9 million in deposits and associated costs to secure a further four industrial properties, which were settled on 5 July 2019. Independent valuations were conducted on investment properties (excluding investment properties constructed or under construction) during May 2019 and adopted as at 30 June 2019 for the properties. (See note 7 for further detail).

INVESTMENT PROPERTIES	2019 $000	2018 $000
7-19 Lake Street, Cairns (including land at 26-30 Grafton Street)	57,000	51,000
69-79 Diesel Drive, Mackay	30,000	30,200
142-150 Benjamin Place, Lytton	9,500	9,700
B2, 747 Lytton Road, Murarrie[1]	-	14,250
154 Varsity Parade, Varsity Lakes	12,750	14,000
436 Elgar Rd, Box Hill	31,500	29,000
572-576 Swan Street, Richmond	53,000	52,500
41 Bivouac Street, Wacol	35,250	35,250
67 Noosa Street, Heathwood	10,500	9,800
70-82 Main Beach Road, Pinkenba	20,000	17,987
588A Swan Street, Richmond (Botanicca 9)	62,800	20,245
	322,300	**283,932**
INVESTMENT PROPERTIES UNDER CONSTRUCTION		
1-9 Huntress Road, Berrinba	3,000	-
498 Progress Road, Wacol	6,500	-
	9,500	**-**
VALUE ACCRETIVE ADDITIONS	**1,006**	**-**
Total Investment Properties	**332,806**	**283,932**

[1] Property sold on 27 June 2019

Leasing

The Fund benefited from positive leasing and renewal outcomes during the year, with 11,693m^2 leased across 16 completed transactions. At risk income from impending lease expiries for FY20 is 9% of Fund income.

Capital Improvements Program

During the financial year approximately $8.6 million (2018: $5.1 million) in capital expenditure was invested pursuant to the Fund's capital improvements program, with the majority expended on 7-19 Lake Street, Cairns.

The RE will continue its capital improvements program during 2020 with approximately $7.0 million of capital expenditure currently budgeted.

Capital Management

In November 2018, an institutional placement of 20.0 million new units at an issue price of $1.25 raised funds of $25.0 million, before costs. The net proceeds of $24.2 million were primarily used to reduce the Fund's debt facilities. GARDA Capital Group participated in the placement for $4 million, and currently owns 13.5% of the issued units in the Fund.

At balance date, the Fund had drawn borrowings of $128.3 million, with a loan to value ratio (LVR) of 38.6%[1].

The number of Fund units on issue at 30 June 2019 was 158,444,594 (2018: 138,444,594).

Legal Proceedings

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

In addition, the RE 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 is expected to be listed for trial during the first half of 2020. The directors of the RE do not have a view on the quantum of any possible recovery or the financial effect of the matter, and consequently no provision has been made in the accounts.

A legal dispute, which had been set down for court in December 2018, was settled prior to trial for $8.0 million. The settlement proceeds were received in cash on 20 December 2018.

Distributions paid or recommended

Distributions paid or payable in respect of the 2019 financial year totalled $13.8 million (2018: $11.3 million), representing a distribution of 9.0 cents per unit. This represents a distribution payout ratio of 104.7% of FFO, in line with the Fund's forecast payout ratio range. As at 30 June 2019, a declared distribution of $3.6 million in relation to the June 2019 quarter remained payable and is expected to be paid on 20 August 2019.

Significant changes in the state of affairs

In the opinion of the RE 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

On 2 July 2019, the Fund repaid $15.4 million of borrowings from proceeds from the sale of the Murarrie property which settled on 27 June 2019.

On 5 July 2019, the Fund completed the settlement of three industrial properties at Acacia Ridge and one industrial property at Archerfield, both in Brisbane. The total contracted price was $31.0 million plus costs, of which a deposit and associated costs totalling $1.9 million were paid on or before 30 June 2019. The balance of the purchase price was settled through a combination of debt facilities secured against the acquisition properties and a placement of 4,411,765 new units in the Fund at $1.36 per unit.

There are no other significant matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the

[1] LVR is calculated as total drawn debt against two former tenants for arrears of rent.

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 active management, the RE will continue to grow, enhance and diversify the Fund's portfolio.

The Fund's key objectives for financial year 2020 (FY20) include:

Projects

a) Leasing of the Botanicca 9 commercial office building in Richmond, Melbourne;

b) Construct and lease a 5,500m² industrial facility in Berrinba, Brisbane;

c) Secure approvals to commence development of the 17,000m² industrial facility, 'Pinnacle on Progress' in Wacol, Brisbane;

d) Advance specifications for the redevelopment of a newly acquired industrial facility in Acacia Ridge, Brisbane; and

e) Complete the current capital improvement program for Cairns Corporate Tower.

Fund Operations

a) Continually monitor ongoing capital requirements;

b) Undertake a fulsome restructure of the Fund's debt facilities;

c) Optimally manage expected tenancy expiries; and

d) Explore capital transactions to grow and diversify the Fund.

Environmental Issues

The Fund's operations were not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the directors of the RE believe the Fund has adequate systems in place for the management of its environmental requirements and are 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 RE 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 RE 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 RE has paid insurance premiums in respect of its officers for liability and legal expenses for the year ended 30 June 2019. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been directors or executive officers of the RE.

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 and business advisory 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 the RE 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*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

— all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor

— none of the services undermines the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants.*

Auditor's Independence Declaration

The Auditor's Independence Declaration forms part of the Directors Report and can be found on page 15.

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.

Matthew Madsen
Executive Chairman

22 August 2019

Auditor's Independence Declaration

02

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

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 2019, I declare that, to the best of my knowledge and belief, there have been:

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

T R Mann
Director

BDO Audit Pty Ltd

Brisbane, 22 August 2019

Statement of Profit or Loss and other Comprehensive Income

For the year ended 30 June 2019

03

Statement of Profit or Loss and other Comprehensive Income

	NOTE	2019 $000	2018 $000
Revenue and other income	4	33,462	19,267
Property expenses	5	(5,940)	(4,898)
Trust level expenses	5	(4,401)	(2,737)
Finance costs	5	(2,934)	(1,555)
Net loss on financial instrument held at fair value through profit and loss	5	(1,951)	(246)
Fair value movement in investment properties	7	8,994	14,330
Gain on sale of investment property		1,550	-
Profit for the year		**28,780**	**24,161**
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to:			
Owners of GARDA Diversified Property Fund		**28,780**	**24,161**
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	**18.9**	**18.8**

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

Statements of Financial Position

For the year ended 30 June 2019

04

Statement of Financial Position

	NOTE	2019 $000	2018 $000
ASSETS			
Current assets			
Cash and cash equivalents	18	20,213	4,523
Trade and other receivables	6	1,441	2,154
Total current assets		**21,654**	**6,677**
Non-current assets			
Investment properties	7	332,806	283,932
Deposits on investment properties		1,874	-
Total non-current assets		**334,680**	**283,932**
Total assets		**356,334**	**290,609**
LIABILITIES			
Current liabilities			
Trade and other payables	8	4,236	2,767
Distribution payable	11	3,565	3,115
Borrowings	9	15,417	18,307
Total current liabilities		**23,218**	**24,189**
Non-current liabilities			
Tenant security deposits		323	520
Borrowings	9	112,872	87,142
Derivative financial instruments	10	2,825	874
Total non-current liabilities		**116,020**	**88,536**
Total liabilities		**139,238**	**112,725**
Net assets		**217,096**	**177,884**
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Contributed equity	12	281,112	256,870
Accumulated losses		(64,016)	(78,986)
Total equity		**217,096**	**177,884**

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 2019

05

Statement of Changes in Equity
For the year ended 30 June 2019

	CONTRIBUTED EQUITY $000	ACCUMULATED LOSSES $000	TOTAL $000
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 in their capacity as 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**
Balance at 1 July 2018	**256,870**	**(78,986)**	**177,884**
Comprehensive income			
Profit for the year	–	28,780	28,780
Other comprehensive income	–	–	–
Total comprehensive income for the year	**-**	**28,780**	**28,780**
Transactions with owners in their capacity as owners			
Unit Issue	25,000	–	25,000
Equity transaction costs	(758)	–	(758)
Distributions paid or provided for	–	(13,810)	(13,810)
Total transactions with owners	24,242	(13,810)	10,432
Balance at 30 June 2019	**281,112**	**(64,016)**	**217,096**

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

Statements of Cash Flows

For the year ended 30 June 2019

06

Statement of Cash Flows
For the year ended 30 June 2019

	NOTE	2019 $000	2018 $000
Cash flows from operating activities			
Rent and outgoings received (includes GST)		27,903	21,502
Litigation proceeds	4	8,000	-
Cash payments in the course of operations (includes GST)		(15,282)	(14,449)
Interest received		101	95
Finance costs		(4,088)	(1,272)
GST refund		3,960	5,324
Net cash provided by operating activities	**18**	**20,594**	**11,200**
Cash flows from investing activities			
Payments for investment property improvements		(8,550)	(5,115)
Payments for acquisitions and capital expenditure on properties under construction		(33,741)	(65,512)
Deposits for investment properties for future construction		(1,874)	-
Payments for leasing fees and lease incentives		(557)	(757)
Payments for acquisition of investment properties		(10,292)	(10,475)
Proceeds on disposal of investment properties		16,416	-
Net cash used in investing activities		**(38,598)**	**(81,859)**
Cash flows from financing activities			
Proceeds of borrowings	9	57,561	71,059
Repayment of borrowings	9	(34,749)	(25,300)
Payments for borrowing costs		-	(261)
Proceeds from issue of additional equity		25,000	30,040
Equity transaction costs		(758)	(936)
Distributions paid to unitholders		(13,360)	(10,809)
Net cash provided by financing activities		**33,694**	**63,793**
Net (decrease)/increase in cash held		15,690	(6,866)
Cash and cash equivalents at the beginning of the financial year		4,523	11,389
Cash and cash equivalents at the end of the financial year	**18**	**20,213**	**4,523**

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

Notes to the Financial Report

07

Note 1 General Information

Introduction

GARDA Diversified Property Fund (the **Fund**) for the year ended 30 June 2019 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 (the **RE**) 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

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

Registered office

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

Authorisation of financial report

The financial report was authorised for issue on 22 August 2019 by the directors of the RE.

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 derivative instruments and investment properties.

The directors of the RE 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 taxable income is distributed in full to unitholders.

b. Revenue and Other Income

Lease revenues

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 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.

Interest revenue

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

Revenue from contracts with customers

Revenue from outgoings and other services is recognised at an amount that reflects the consideration to which the Fund is expected to be entitled in exchange for transferring goods or services to a customer. For each contract, the Fund: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price, taking into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of

Accounting Policies Continued.

Revenue from contracts with customers continued.

each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

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 $114,600 (2018: $85,291) for its services during the year.

d. Investment Properties

Investment properties comprise properties held for long-term rental yields and/ or capital appreciation and properties 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 discounted cash flows as the primary valuation methods. Gains and losses arising from changes in fair values of investment properties are included in profit or loss 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 measurable, 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. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Fund holds trade receivables with the objective of collecting contractual cash flows, which represent payments of principal and interest, and measures them subsequently at amortised cost using the effective interest method. Trade receivables are subject to the expected credit loss model for impairment assessment.

The Fund applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables.

To measure expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on forward looking provisioning based on the payment profiles of sales over a period of 36 months before 1 July 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted for macroeconomic factors, such as Australian GDP and the unemployment rate, which may affect the ability of customers to settle their receivables.

Accounting Policies Continued

f. 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 policies have been adopted by the directors of the RE to determine the accounting for the derivative financial instruments:

— Derivatives are initially measured at fair value on the date 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 reporting date is recognised in the statement of financial position as either a financial asset or liability.

— The derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative that does not qualify for hedge accounting are recognised immediately in profit or loss. Refer to Note 5 for details of the impact on the profit or loss.

— The full fair value of the hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

g. 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.

h. 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 profit or loss.

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.

Accounting Policies Continued

i. 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.

j. 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.

k. 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.

l. 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.

m. Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. There have been no restatements in the current reporting period.

n. Leases

The Fund leases its investment properties under agreements where the Fund 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.

o. Distributions to Unitholders

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

p. 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.

q. 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.

Accounting Policies Continued.

r. Rounding of amounts

The Fund has applied the relief available to it under ASIC Corporations (Rounding 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.

s. Borrowings

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.

t. Significant Accounting Estimates, Judgements and Assumptions

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

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

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

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

Key judgement – Going Concern

The Fund was in a net current asset deficit position as at 30 June 2019 by $1.6 million (2018: Deficiency of $17.5 million).

The deficiency at 30 June 2019 was primarily due to borrowings of $15.4 million being classified as current liabilities immediately prior to 30 June 2019. The borrowings were rep[aid on 2 July 2019 made from proceeds from the sale of the Murarrie property which settled on 27 June 2019.

The deficiency in the prior year was also primarily due to borrowings of $18.3 million being classified as current liabilities immediately prior to year end.

The responsible entity has executed an extension of loan facilities to a maturity date of 30 September 2020.

Key assumptions – investment property valuation

The Fund makes key assumptions in determining the fair value of its investment property portfolio as at reporting 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 has adopted AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Accounting Policies Continued.

There have been no significant changes to the Fund's financial performance and position as a result of the adoption of the new and other amended accounting standards and interpretations effective for reporting periods beginning on or after 1 July 2018.

AASB 9 Financial Instruments

The nature and effect of the key changes to the Fund's accounting policies resulting from the adoption of AASB 9 are summarised below.

i) Classification and measurement of financial assets and financial liabilities

The adoption of AASB 9 has not impacted the carrying value of financial assets but has resulted in classification changes on initial application at 1 July 2018 whereby trade and other receivables are to be classified under AASB 9 as financial assets at amortised cost. The Fund holds these financial assets in order to collect contractual cash flows, and the contractual terms are solely payments of outstanding principal and interest on the principal amount outstanding.

AASB 9 requires that all financial liabilities to be subsequently classified at amortised cost or at fair value through profit or loss. The application of AASB 9 has not resulted in any change to the classification of payables and borrowings on adoption.

ii) Impairment of financials assets

AASB 9 replaces the "incurred loss" model in AASB 139 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through comprehensive income (**FVOCI**), but not to investments in equity instruments.

At each reporting date, the Fund assesses whether financial assets carried at amortised cost are "credit-impaired". A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

iii) Accounting policies

AASB 9 contains three principal classification categories for financial assets:

— measured at amortised cost;

— fair value through other comprehensive income; and

— fair value through profit or loss.

The classification depends on the Fund's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets at amortised cost

Trade receivables

Loans and receivables are initially recognised at fair value, and subsequently at amortised cost, using the effective interest rate method less any allowance under the expected credit loss model.

All loans and receivables with maturities greater than 12 months after the reporting date are classified as non-current assets.

Recoverability of receivables

At each reporting date, the Fund assesses whether financial assets carried at amortised cost are 'credit-impaired'. A financial asset is 'credit impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of loan and other receivables and are a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that Fund expects to receive).

The Fund analyses the current observable data as a means to estimate lifetime expected credit loss. The current observable data may include:

— financial difficulties of a counterparty or probability that a counterparty will default on payment or will enter bankruptcy; and

AASB 9 Financial Instruments continued.

— conditions specific to the asset to which the receivable relates.

Debts that are known to be uncollectable are provided for or written off when identified.

iv) Derivatives

On 1 July 2018 (applicable for reporting periods commencing from 1 January 2018), the Fund elected to adopt the accounting option as per AASB 9 whereby the interest rate swap has not been classified as a cash flow hedge and is classified as at fair value through profit or loss, and the change in the in the fair value of the derivative financial instruments recognised in profit and loss.

AASB 15 Revenue from Contracts and Customers

The requirements of AASB 15 replace AASB 118 Revenue and AASB 111 Construction Contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and primarily 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.

It applies to all contracts with customers except leases, financial instruments and insurance contracts.

i) Classification and measurement of revenue

Revenue is recognised over time if:

— the customer simultaneously receives and consumes the benefits as the entity performs;

— the customer controls the asset as the entity creates or enhances it; or

— the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria are not met, revenue is recognised at a point in time based on the standalone selling price.

From the Fund's assessment of when performance obligations are satisfied under AASB 15, there is no change in the timing of revenue recognition when comparing the previous accounting policies disclosed in the annual financial statements for the year ended 30 June 2018 to those now required under AASB 15.

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 2019 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 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 statement of financial position 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 statement of financial position 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	There is no impact to the Fund as a result of adopting the AASB 16 Leases.

Note 3 Distributions

	2019 $000	2018 $000
Distributions paid or provided for by the Fund		
September quarter distribution 2.25 cents per unit (2018: 2.25 cents per unit)	3,115	2,527
December quarter distribution 2.25 cents per unit (2018: 2.25 cents per unit)	3,565	2,527
March quarter distribution 2.25 cents per unit (2018: 2.25 cents per unit)	3,565	3,115
June quarter distribution 2.25 cents per unit (2018: 2.25 cents per unit)	3,565	3,115
	13,810	**11,284**

Distributions declared for the quarter ended 30 June 2019 of $3.6 million but not paid until after year end have been provided for.

Note 4 Revenue

The Fund has applied AASB 15 for the first time during the year (see note 2u). The Fund recognises revenue to which AASB15 pertains from the transfer of goods and services over time and at a point in time, in respect of relevant items of rental income, lease and other fees. The table below sets out the information about the disaggregation of revenue items from the Fund's contracts with relevant customers.

	2019 $000	2018 $000
Revenue		
Rental income and other revenue[1]	26,342	20,149
Leasing fees amortised	(465)	(386)
Leasing incentives amortised	**(516)**	**(591)**
	25,361	**19,172**

1 Rental income derived from investment properties are recognised and measured in accordance with AASB 117 Leases.

	2019 $000	2018 $000
Other Income		
Litigation proceeds	8,000	-
Interest revenue	101	95
	8,101	**95**
Total revenue and other Income	**33,462**	**19,267**

Note 5 Expenses

	2019 $000	2018 $000
Property expenses		
Recoverable expenses	5,038	4,121
Direct expenses	658	665
Non-recoverable expenses	244	112
	5,940	**4,898**
Trust level expenses		
Responsible entity management fee[1]	2,067	1,487
Trust administration expenses	2,334	1,250
	4,401	**2,737**
Finance costs		
Interest expense	4,123	2,719
Interest capitalised to properties under construction	(1,364)	(1,319)
Borrowing costs	175	155
	2,934	**1,555**

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 3.75%.

Net (loss)/ gain on financial liability held at fair value through profit or loss		
Derivative financial instrument		
Mark-to-market of interest rate swap	(1,951)	(246)
	(1,951)	**(246)**

Note 6 Trade and Other Receivables

	2019 $000	2018 $000
Current		
Rent and outgoings receivable	604	408
Other receivables	–	1,355
Prepayments	593	258
Rental guarantees/ incentives receivable[1]	517	-
GST receivable	109	515
Provision for doubtful receivables	(382)	(382)
	1,441	**2,154**
Analysis of provision for doubtful receivables		
Opening balance	382	382
Provision for doubtful receivables	–	–
Closing balance	**382**	**382**

1 Rental guarantees and incentives receivable relate to the sale of 747 Lytton Road, Murarrie. Amounts receivable represent cash held in external lawyers trust accounts subject to release to the buyer as per contract conditions. A corresponding creditor has been recognised to reflect the future fulfilment of the rental guarantees/ incentive obligations. Refer note 8.

Note 7 Investment Properties

	2019 $000	2018 $000
Investment properties at independent valuation	322,300	210,450
Investment properties at directors' valuation	1,006	35,250
Investment properties under construction at independent valuation	9,500	38,232
	332,806	**283,932**
Movements during the year		
Balance at beginning of year	283,932	188,100
Movements in fair value	8,994	14,330
Acquisition of investment properties for future development	10,292	10,475
Capital expenditure on tenanted investment properties	8,550	5,115
Disposal of investment property	(14,753)	-
Capital expenditure on properties under construction during the year	34,851	65,630
Straight-lining of rental income	1,077	110
Net movement in leasing fees and incentives	(137)	172
Balance at end of year	**332,806**	**283,932**

During the year, the Fund disposed of commercial property at 747 Lytton Road, Murarrie for gross proceeds of $17.3 less costs. A net gain on sale of $1.6 million was recorded.

The basis of valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market. The 30 June 2019 valuations were based on independent assessments made by qualified and suitably experienced certified practicing external valuers in accordance with the methodology as set out in note 2(d), using a capitalisation approach and discounted cash flows 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 May 2019 and adopted at 30 June 2019.

The specific key assumptions and variables adopted in the valuations are set out on following page.

Investment Property Valuations Details
30 June 2019

PROPERTIES	VALUATION BASIS	CAPITALISATION RATE	NET MARKET INCOME $000	ADJUSTMENTS $000	VALUATION $000
7-19 Lake Street, Cairns	Independent	8.25%	5,072	(6,969)	55,000
Land at 26-30 Grafton Street, Cairns	Independent	n/a	n/a	n/a	2,000
154 Varsity Parade, Varsity Lakes	Independent	8.25%	1,209	(1,910)	12,750
142-150 Benjamin Place, Lytton	Independent	7.00%	722	(811)	9,500
436 Elgar Rd, Box Hill	Independent	6.25%	2,124	(1,740)	31,500
572-576 Swan Street, Richmond	Independent	5.75%	3,296	(4,500)	53,000
Diesel Drive, Mackay	Independent	7.50%	1,966	3,694	30,000
41 Bivouac Street, Wacol	Independent	6.25%	2,200	(62)	35,250
70-82 Main Beach Rd, Pinkenba	Independent	7.00%	1,400	-	20,000
588A Swan Street, Richmond (Botanicca 9)	Independent	5.75%	4,072	(7,943)	62,800
67 Noosa Street, Heathwood	Independent	7.25%	753	(35)	10,500
					322,300
PROPERTIES TO BE CONSTRUCTED					
1-9 Huntress Road, Berrinba	Independent				3,000
498 Progress Road, Wacol	Independent				6,500
Total properties					**9,500**
VALUE ACCRETIVE ADDITIONS	Directors				1,006
Total properties					**332,806**

Investment Property Valuations Details
30 June 2018

PROPERTIES	VALUATION BASIS	CAPITALISATION RATE	NET MARKET INCOME $000	ADJUSTMENTS $000	VALUATION $000
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 Street, 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 Street, 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 $35.25m 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 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 present a more reliable estimate of the fair value. Completion of project is anticipated for May 2019.

There were no value accretive additions in the prior year due to the valuations being completed in June 2018.

Contractual Obligations

The Fund has a contractual obligation to complete the purchase of a further four industrial properties, located at Acacia Ridge and Archerfield for a total purchase price of $31.0 million, of which $1.9 million was paid as a deposits and other associated costs at 30 June 2019. The sales completed on 5 July 2019. Refer to note 20 for further details.

There are no other contractual obligations to purchase, construct or develop investment properties as at 30 June 2019.

Leasing arrangements

Investment properties listed above (excluding Land at 26-30 Grafton Street, Cairns, 498 Progress Road, Wacol, 1-9 Huntress Road, Berrinba, and 588A Swan Street, Richmond (Botanicca 9)) 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 or 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

	2019 $000	2018 $000
Current		
Trade and other payables	2,972	2,557
Rental guarantees/ incentives payable[1]	517	–
Contract liabilities[2]	747	210
	4,236	**2,767**

[1] Rental guarantees and incentives payable relate to the sale of 747 Lytton Road, Murarrie. Amounts payable represent cash held in external lawyers trust accounts subject to release to the buyer as per the contract conditions. Until such cash is released, it represents a receivable to the Fund. Refer note 6.

[2] Contract liabilities represent revenue received in advance which are recognised when the performance to earn those revenues are completed. Revenue of $0.2m was recognised during the year which related to contract liability balance at the beginning of the period.

Note 9 Borrowings

	2019 $000	2018 $000
Current		
Bank loans (secured)	15,417	18,307
	15,417	**18,307**

$15.4 million of borrowings were classified as current liabilities immediately prior to 30 June 2019. The borrowings were repaid on 2 July 2019 made from proceeds from the sale of the Murarrie property which settled on 27 June 2019.

Non-Current		
Bank loans (secured)	112,872	87,142
	112,872	**87,142**
Total borrowings (Current and Non-Current)	**128,289**	**105,449**

The Fund has $138.1 million of facilities with St. George Bank (refer below), drawn to $97.9 million. The tranches have maturity dates as follows:-

— Drawn facilities of $85.6 million (limit of $125.8 million) due to mature on 30 September 2020.
— Undrawn facility of $40.2 million due to mature on 30 September 2020.
— Drawn facility of $4.4 million (fully drawn) due to mature on 30 April 2021.
— Drawn facility of $7.9 million (fully drawn) due to mature on 30 June 2021.

The Fund has two investment facilities with ANZ Banking Group for a total amount of $30.7 million, fully drawn to $30.7 million as at 30 June 2019 and classified as non-current. $9.5 million of the ANZ investment facilities is due to expire on 9 August 2020 and $21.2 million of the ANZ Investment Facilities is due to expire on 9 September 2020.

Movements in borrowings

	2019 $000	2018 $000
Balance at beginning of year	105,449	59,703
Proceeds from borrowings	57,561	71,059
Repayment of borrowings	(34,749)	(25,300)
Capitalised borrowing costs	(147)	(260)
Capitalised interest	–	92
Amortisation of borrowing costs	175	155
Balance at the end of the year	**128,289**	**105,449**

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 RE, limited to the value of the security properties.

Under the facility agreement with St. George Bank that was operable at 30 June 2019, the following covenants exist:

a. Interest cover ratio is to remain above 2.50 times; and
b. Loan to value ratio must not exceed 50%.

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 RE, limited to the value of the security properties.

Under the facility agreement with ANZ Banking Group that was operable at 30 June 2019, the following covenants exist:

a. Wacol LVR to be no greater than 60%;
b. Pinkenba LVR to be no greater than 50%; and
c. Interest cover ratio 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 2019 the following facility limits exist:

FACILITIES	FACILITY LIMIT $000	AMOUNT DRAWN $000	AMOUNT AVAILABLE $000
St. George Bank	138,073	97,863	40,210
ANZ Banking Group	30,650	30,650	–
Total facilities	**168,723**	**128,513**	**40,210**

At balance date, the Fund had fixed interest rate swap agreements of $60.0 million (2018: $60.0 million) over the total loan facility which expire in July 2022.

The carrying amounts of the bank loans approximate their fair values.

Note 10 Derivative Financial Instruments

	2019 $000	2018 $000
Non-Current		
Interest rate swap contracts	2,825	874

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

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

	2019 $000	2018 $000
Non-Current		
Provision for distribution	3,565	3,115
Movements in provisions		
Opening balance at beginning of year	3,115	2,640
Distributions provided for	13,810	11,284
Distributions paid	(13,360)	(10,809)
Balance at end of year	**3,565**	**3,115**

Note 12 Contributed Equity

	2019 $000	2018 $000
158,444,594 units (2018: 138,444,594)	281,112	256,870

	2019 NUMBER	2018 NUMBER	2019 $000	2018 $000
Movements during the year				
Balance at beginning of year	138,444,594	112,322,972	256,870	227,766
Entitlement offer	–	26,121,622	–	30,040
Placement offer	20,000,000	–	25,000	–
Capital raising costs	–	–	(758)	(936)
Balance at end of year	**158,444,594**	**138,444,594**	**281,112**	**256,870**

Units

Each unitholder has one vote for each unit that they hold 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 20,000,000 new units were issued at an issue price of $1.25 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).

The LVR at 30 June 2019 and 30 June 2018 was as follows:

	2019 $000	2018 $000
Total borrowings	128,513	105,702
Cash and cash equivalents	20,213	4,523
Gross value of investment properties	332,806	283,932
Loan to valuation ratio[1]	38.6%	37.2%
Gearing ratio[2]	32.5%	35.5%

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.

a. Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge its obligation resulting in the Fund incurring a financial loss.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets is the carrying amount net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Fund also holds security deposits of $0.3 million recognised as a liability in the statement of financial position, and also has bank guarantees in the Fund's favour of $9.2 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 RE.

	2019 $000	2018 $000
Cash and cash equivalents	20,213	4,523
Trade and other receivables (net of provision for doubtful debts)	1,441	1,896
	21,654	**6,419**

	2019			2018		
AGEING OF RECEIVABLES	$000	EXPECTED LOSS RATE	LOSS ALLOWANCE	$000	EXPECTED LOSS RATE	LOSS ALLOWANCE
Not past due	1,441	-%	-	1,896	-%	-
Past due 31-60 days	-	-%	-	-	-%	-
Past due >60 days	-	-%	-	-	-%	-
Impaired	382	100%	(382)	382	100%	(382)
	1,823		**(382)**	**2,278**		**(382)**

The Fund applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance in estimating expected credit losses to trade receivables, through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the fund based on recent sales experience, historical collection rates and forward-looking information that is available. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

Amounts are considered as 'past due' when the debt has not been settled within the terms and conditions agreed between the Fund and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Fund. Additionally, at each reporting date, the Group assesses whether financial assets carried at amortised cost are "credit-impaired".

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The balances of receivables that remain within initial trade terms are considered to be of high credit quality. This is assessed based on perform credit checks on the customers prior to granting them payment terms.

Impact on receivables upon transition to AASB 9

The Fund adopted AASB 9 from 1 July 2018. The key impact upon adoption of AASB 9 was the change in impairment model applicable to trade receivables balances. For trade receivables that do not contain a significant financing component in accordance with AASB 15 (so generally trade receivables with a maturity of 12 months or less), lifetime expected credit losses are required to be recognised.

The Fund has applied the lifetime expected credit loss model to its receivable balances at 1 July 2018. The calculated opening provision for expected credit losses was $nil. Given the calculated expected credit losses at 1 July 2018 is immaterial, no transitional adjustments have been made in these financial statements.

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 RE. The Fund manages liquidity risk by monitoring forecast cash flows and ensuring 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 2019. The amounts disclosed represent undiscounted cash flows.

The remaining contractual maturities of the financial liabilities are:

	2019 $000	2018 $000
Less than one year		
Trade and other payables	4,236	2,557
Distribution payable	3,565	3,115
Bank loans	–	18,307
Interest on bank loans	3,786	4,319
	11,587	**28,298**
Between one and five years		
Bank loans	128,513	87,142
Interest on bank loans	4,289	3,730
Derivatives	2,825	874
	135,627	**91,746**

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 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 statement of financial position and cash flows.

The Fund had 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 thereby eliminating any sensitivity to its results by the changing interest rates. An expense of $2.0 million was recognised in the statement of profit or loss and other comprehensive income during the year (2018: $0.3 million expense).

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, including:

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

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

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

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

NOTE	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
30 June 2019				
Assets				
Investment properties	-	-	332,806	332,806
			332,806	**332,806**
Liabilities				
Derivative financial instruments	-	2,825	-	2,825
	-	**2,825**	**-**	**2,825**
30 June 2018				
Assets				
Investment properties	-	-	283,932	283,932
	-	**-**	**283,932**	**283,932**
Liabilities				
Derivative financial instruments	-	874	-	874
	-	**874**	**-**	**874**

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 approximate 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 8.75%	
		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	2.26% to 2.80%	

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

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

Reconciliation of Level 3 fair value movements

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

Note 15 Related Parties and Key Management Personnel

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

Responsible entity

The responsible entity of the Fund is GARDA Capital Limited.

Key management personnel

The directors and key management personnel of the RE at any time during, or since the end of the financial year, were:

Directors

Mr Matthew Madsen	Executive Chairman Managing Director	Appointed 31 January 2017 Appointed 22 September 2011
Mr Morgan Parker	Independent Director	Appointed 13 December 2018
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, Resigned 18 March 2019

Senior Executive

Lachlan Davidson	General Counsel Company Secretary	Appointed 13 January 2014 Appointed 28 July 2016
David Addis	Chief Operating Officer	Appointed 18 March 2019

Key management personnel compensation

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

Unitholdings (number of units)

2019	OPENING BALANCE	DISPOSALS	ADDITIONS	CLOSING BALANCE
Directors of GARDA Capital Limited				
Mr Matthew Madsen	146,401	–	–	146,401
Mr Morgan Parker	–	–	–	–
Mr Mark Hallett	33,698	–	15,000	48,698
Mr Philip Lee	61,628	–	–	61,628
Mr Leylan Neep	–	–	–	–
Senior Executive of GARDA Capital Limited				
Lachlan Davidson	–	–	–	–
David Addis	–	–	–	–
Responsible entity				
GARDA Capital Limited	–	–	–	–
Other related entities				
GARDA Capital Trust	18,700,363	–	3,200,000	21,900,363

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

Transactions with Related Parties

a. Responsible entity's fees and other transactions

Under the Fund's constitution, the RE 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 RE were as follows:

	2019 $	2018 $
Responsible entity's fees		
Management fee	2,067,496	1,487,397
Capital works fees	1,916,109	540,152
Procurement fees	146,725	-
	4,130,330	**2,027,549**
Other transactions with the responsible entity		
Recovery of professional expenses	515,178	601,252
Distributions paid or payable on units held in the Fund by GARDA Capital Trust, the stapled entity of the responsible entity	1,899,032	1,291,728
Administration costs reimbursed in accordance with the Fund's Constitution	2,921	10,144
	2,417,131	**1,903,124**

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 RE. These entities are subsidiaries of the RE. 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:

	2019 $	2018 $
GARDA Real Estate Services Pty Ltd	1,526,020	1,101,036
GARDA Facilities Management Pty Ltd	194,757	163,187
GARDA Services Pty Ltd	174,667	122,580
GARDA Finance Pty Ltd	146,725	125,963
	2,042,169	**1,512,766**

Hallett Legal Pty Ltd, a related entity of Mark Hallett who is a director of the responsible entity, provided legal services to the Fund in the year ended 30 June 2018 and prior to its merger with Macpherson Kelly. Fees of $234,975 were paid for these services in the prior year. These expenses were incurred on normal commercial terms. No services were provided by Hallett Legal Pty Ltd to the Fund in the year ended 30 June 2019.

Transactions with Related Parties Continued.

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:

	2019 $	2018 $
Current payables		
GARDA Real Estate Services Pty Ltd	326,505	3,696
GARDA Capital Limited	417,655	392,554
GARDA Services Pty Ltd	12,757	11,318
GARDA Finance Pty Ltd	161,397	-
	918,314	**407,568**

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

	2019 $	2018 $
Remuneration of the auditor for:		
Audit and review of the financial report	57,000	53,000
	57,000	**53,000**

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:

	2019 $	2018 $
Business advisory services	99,684	-
Review and audit of compliance plan	13,400	13,400
Total remuneration for non-audit services	**113,084**	**13,400**

Note 17 Commitments

	2019 $000	2018 $000
Future minimum lease payments receivable:		
Within one year	17,576	13,714
One year to five years	53,316	39,127
Later than five years	41,850	24,489
	112,742	**77,330**

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

	2019 $000	2018 $000
Reconciliation of cash flow from operations with profit		
Profit	28,780	24,161
Adjustments for items in profit or loss		
Change in fair value of investment properties	(8,994)	(14,330)
Change in fair value of derivative	1,951	246
Amortisation of borrowing costs	175	156
Gain on sale of investment properties	(1,550)	-
Capitalised interest expense	(1,343)	-
Movements in assets and liabilities		
Trade and other receivables	(306)	(333)
Contract liabilities	537	(46)
Trade and other payables	1,772	405
Lease incentives	(428)	941
Cash flow from operations	**20,594**	**11,200**
Reconciliation to cash at the end of the year		
Cash at bank[1]	**20,213**	**4,523**

[1]Cash at bank includes $323,129 provided as security for a bank guarantee (2018: $529,140).

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.

	2019 $000	2018 $000
Borrowings (Current and Non-current)		
Opening balance	105,449	59,703
Cashflows	22,812	45,498
Non-cash changes capitalisation of interest and amortisation	28	248
Closing balance	**128,289**	**105,449**

Note 19 Earnings Per Unit

	2019 $000	2018 $000
Profit attributable to the unitholders of GARDA Diversified Property Fund:		
Profit from continuing operations	28,780	24,161
Basic and diluted profit per unit (cents per unit) for continuing operations	18.9	18.8
Weighted average number of ordinary units used in the calculation of basic and diluted profit per unit	152,406,238	128,783,172

Refer to Note 20 for number of units issued subsequent to year end. These units were not retrospectively adjusted in the calculation of earnings per unit.

Note 20 Events After Reporting Date

a. Settlement of property purchases

On 2 July 2019, the fund repaid $15.4 million of borrowings from proceeds from the sale of the Murarrie property which settled on 27 June 2019.

On 5 July 2019, the Fund completed the purchase of three industrial properties at Acacia Ridge and one industrial property at Archerfield, both in Brisbane. The total contracted price was $31.0 million plus costs, of which a deposit of $1.6 million was paid at 30 June 2019. The balance of the purchase price was settled through a combination of St. George Bank debt facilities secured against the acquisition properties and a placement of 4,411,765 new units in the Fund at $1.36 per unit.

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

Note 21 Contingent Assets/Liabilities

a. Contingent Asset

The RE is continuing claims against two former tenants for arrears of rent. One of those is listed for trial in October 2019.

The RE 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 joined additional third parties as defendants. The matter has a mediation currently scheduled for September 2019 and is expected to be listed for trial during the second half of 2020. As at 30 June 2019, it is not practicable to estimate the financial effect of the matter therefore no amount has been disclosed.

In November 2018, settlement was reached with Herron Todd White, in the matter which was due to be heard in the Queensland Supreme Court from 3 December 2018. The settlement resulted in the Fund receiving $8.0 million on 20 December 2018.

b. Contingent Liabilities

There were no contingent liabilities as at 30 June 2019.

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 RE 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.

Directors' Declaration

08

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 2019 and of its performance for the financial year ended on that date; and

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 operating officer for the year ended 30 June 2019.

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*.

Matthew Madsen
Executive Chairman

22 August 2019

Independent Auditors Report

To the members of GARDA Diversified Property Fund
For the year ended 30 June 2019

09

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

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 2019, 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 2019 and of its financial performance for the year ended on that date; and

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

Basis for opinion

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

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

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

Key audit matters

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

Valuation of investment properties

Key audit matter	*How the matter was addressed in our audit*
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. 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.	Our procedures included, amongst others: • Obtaining external 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 valuers • 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

Revenue recognition

Key audit matter	*How the matter was addressed in our audit*
The Registered Scheme's disclosures in relation to revenue recognition are included in Note 2, which details the accounting policies applied for each revenue stream and Note 4, which discloses the amount of each revenue stream. Revenue from leases of investment properties is a significant part of the financial statements and is important in the users' understanding of the Registered Scheme's performance for the year. Lease revenue is recognised on a straight-line basis over the lease term including adjustments for lease incentives granted and consideration of contingent rents and future rental increases. The number of leases in place that include these adjustments across differing periods creates complexity in the determination of revenue for the period in accordance with the stated accounting policies. The Registered Scheme's revenue recognition polices were updated following the implementation of AASB 15 *Revenue from Contracts with Customers*.	Our procedures included, amongst others: • Assessing the revenue recognition policy for compliance with AASB 15 *Revenue from Contracts with Customers* • Obtaining an understanding of the systems and controls in place surrounding the recognition of revenue including evaluation of the implementation and effectiveness of 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 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

The directors of GARDA Capital Limited as Responsible Entity of GARDA Diversified Property Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO

TMann

T R Mann
Director

Brisbane, 22 August 2019

Corporate Governance Statement

10

Corporate Governance Statement Year Ended 30 June 2019

The Board and Management of the GARDA Capital Group consider 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 2019.

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 2019.

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 relevance governance documents and materials on the Company's website (together the 'ASX Appendix 4G'), is provided in the corporate governance section of the Company's website at:

https://www.gardacapital.com.au/who-we-are/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

11

Unitholder Information

The unitholder information set out below was applicable as at 21 August 2019.

a. Distribution of Equity Units

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

NOTE	UNITS	NO. OF HOLDERS	TOTAL UNITS(%)
1 – 1,000	126,986	173	0.09%
1,001 – 5,000	3,531,496	1231	2.55%
5,001 – 10,000	4,756,527	643	3.44%
10,001 – 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 shares is 29.

b. Equity Security Holders

The names of the twenty largest holders of quoted equity securities 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 NOMINESS 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%
FIESTA INVESTMENTS PTY LTD	500,000	0.36%
MR ARTHUR ROSS PEERINS	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:

ESTIMATED BENEFICIAL HOLDINGS AS AT 21 AUGUST 2019	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.

CORPORATE DIRECTORY

DIRECTORS OF GARDA CAPITAL LIMITED

Matthew Madsen
Executive Chairman and Managing Director

Morgan Parker
Independent Director

Mark Hallett
Non-executive Director

Philip Lee
Non-executive Director

COMPANY SECRETARY

Lachlan Davidson
General Counsel and Company Secretary

REGISTERED OFFICE

Level 21, 12 Creek Street
Brisbane QLD 4000
Ph: +61 7 3002 5300
Fax: +61 7 3002 5311
Web: www.gardacapital.com.au

AUDITOR

BDO Audit Pty Ltd
Level 10, 12 Creek St
Brisbane QLD 4000

SHARE REGISTRY

Link Market Services
Level 12, 680 George Street
Sydney NSW 2000

STOCK EXCHANGE LISTING

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

ARSN 104 391 273