



**GARDA DIVERSIFIED  
PROPERTY FUND (GDF)**

ARSN 104 391 273



**INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

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These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by GARDA Diversified Property Fund during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

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

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

The financial statements were authorised for issue by the directors of the responsible entity on 21 February 2017. The directors have the power to amend and reissue the financial statements.

# 01

## DIRECTORS' REPORT

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The Directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund (Fund), present their report together with the financial statements of the Fund, for the half year ended 31 December 2016.

### INFORMATION ON DIRECTORS OF THE RESPONSIBLE ENTITY

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

<b>MR DAVID USASZ</b>	Independent Chairman (resigned 31 January 2017)
<b>MR MATTHEW MADSEN</b>	Executive Chairman and Managing Director
<b>MR MARK HALLETT</b>	Non-Executive Director
<b>MR PHILIP LEE</b>	Non-Executive Director
<b>MR LEYLAN NEEP</b>	Executive Director

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

### PRINCIPAL ACTIVITY

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

### REVIEW AND RESULTS OF OPERATIONS

The Fund generated a net profit of \$3.6 million during the half year, an increase of \$0.2 million compared to prior half year profit of \$3.4 million. Included in net profit is a fair value loss adjustment of \$1.7 million largely attributable to the acquisition costs of the industrial property in Mackay acquired during the half year.

During the half year, the Fund's total assets increased from \$156.4 million to \$209.1 million, an increase of \$52.7 million largely due to the acquisition of an industrial property in Mackay for \$29.5 million in August 2016, and the private placement proceeds in December 2016 of \$20 million, which were subsequently used to partially repay the Fund's debt facility in early January 2017.

Total unitholders' equity at 31 December 2016 was \$124.7 million, an increase of \$18.7 million on the 2016 financial year balance of \$106 million, which was largely reflective of the proceeds of \$20 million from private placement in December 2016.

Net tangible assets (NTA) for the half year ended 31 December 2016 are \$1.11 per unit, a decrease of \$0.02 per unit on 30 June 2016 NTA per unit of \$1.13 per unit. The decrease primarily reflects the expensing of the acquisition costs for the Mackay property.

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

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

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

	31 DECEMBER 2016 \$000'S	31 DECEMBER 2015 \$000'S
Net profit for the half year attributable to unitholders	<b>3,589</b>	3,390
Fair value movement in investment properties	<b>1,685</b>	590
Net (gain)/loss on fair value of derivative financial instrument	<b>(540)</b>	491
Incentives amortisation and rent straight-line	<b>442</b>	(444)
<b>Funds From Operations (FFO)<sup>1</sup></b>	<b>5,176</b>	4,027
Distribution paid and payable	<b>4,844</b>	4,276
FFO per unit <sup>2</sup> (represented in cents per unit)	<b>5.03</b>	4.20
Distribution payout ratio	<b>93.6%</b>	

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

<sup>2</sup> Numbers of units is based on the weighted average units on issue for the respective period.

The key financial highlights for the half year ended 31 December 2016 include:

- Profit attributable to unitholders of \$3.6 million, an increase of \$0.2 million from the prior period;
- FFO of \$5.2 million, representing a 28.5% increase on the prior half year FFO of \$4.0 million;
- Distributions of \$4.84 million, representing 4.7 cents per unit (cpu), in line with full year guidance of 9.4 cpu;
- Net tangible assets (NTA) per unit of \$1.11 (30 June 2016: \$1.13 per unit) following the Mackay acquisition;
- An ASX closing price at 31 December 2016 of \$1.06 per unit, up from \$1.025 per unit at 30 June 2016.

The key operational highlights for the half year ended 31 December 2016 include:

- An acquisition of a modern industrial distribution facility for \$29.5 million in Mackay, leased to Wesfarmers subsidiary, Blackwoods, until 2029, providing GDF with the benefit of a WALE in excess of 12 years;
- Leasing risk for the 2017 financial year being fully mitigated following the Kuehne & Nagel renewal at the Lytton industrial property;
- Continued execution of the capital improvements program, largely focused on the Cairns, Box Hill and Richmond assets; and
- Successful completion of a \$20 million private placement at an 8% premium to 5 day VWAP, which was applied to a debt repayment, reducing the Fund's LVR to 32.6%.

## FINANCIAL RESULTS

FFO of \$5.2 million was generated during the period representing an increase of \$1.2 million from the prior half year (2015: \$4.0 million). The increase in FFO is a result of additional lease revenue during the year following the acquisition of an industrial property in August 2016 and the lower rent free incentive levels in the current half year in comparison to the prior half year.

Net gain on fair value of derivative financial instruments of \$0.5 million is a result of mark to market valuation of interest rate swap contracts on the loan facility totalling \$45.6 million.

The Fund generated operational cash flows of \$5.2 million for the half year (2015: \$3.6 million).

## PROPERTY PORTFOLIO

On 26 August 2016, GARDA Diversified Property Fund settled an acquisition on a modern industrial distribution facility for \$29.5 million. The property, located in Mackay's primary industrial suburb of Paget approximately 8km from the Mackay CBD, is leased to Wesfarmers subsidiary, Blackwoods, until 2029, providing GDF with the benefit of a weighted average lease expiry (WALE) in excess of 12 years. The acquisition was fully debt funded from senior debt facilities with St. George Bank.

### PROPERTY PORTFOLIO CONT'

The portfolio continued to perform well, maintaining occupancy at 93% over the period. The capital improvements program accelerated in the period, with a total spend of approximately \$3.5 million, primarily focused on the Cairns, Box Hill and Richmond properties. The re-investment in the Cairns property is expected to continue at a similar or greater extent during the remainder of the financial year.

The Directors have continued to adopt the most recent independent valuations as at 31 December 2016 with the addition of capital expenditure deemed accretive. The weighted average capitalisation rate (WACR) is now 8.13% following the acquisition of the Mackay industrial property.

### CAPITAL MANAGEMENT

On 7 December 2016, a private unit placement of 18,518,516 new units at an issue price \$1.08 (representing an 8% premium to 5 day volume weighted average price (VWAP)) was completed, raising funds of \$20 million. The private placement proceeds of \$20 million temporarily increased cash in December 2016 prior to it being applied to partially repay the Fund's debt facility in early January 2017, coinciding with the facility's quarterly roll date. The debt repayment reduced the Fund's loan to value ratio (LVR) to 32.6%, consistent with the Fund's long term gearing target of 30% to 35%.

The number of units on issue in the Fund as at 31 December 2016 is 112,322,972 (30 June 2016: 93,804,456).

### AFTER BALANCE DATE EVENTS

On 9 January 2017, \$20 million from the funds raised from the private placement in December 2016 were used to partially repay the Fund's debt facility, reducing the drawn debt from \$79.6 million to \$59.6 million. The debt repayment reduced the Fund's loan to value ratio (LVR) to 32.6%, consistent with the Fund's long term gearing target of 30% to 35%.

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

### AUDITOR'S INDEPENDENCE DECLARATION

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

### ROUNDING OF AMOUNTS

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

### AUDITOR

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

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



**Mr Matthew Madsen**

Executive Chairman

21 February 2017

# 02

## AUDITOR'S INDEPENDENCE DECLARATION



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

As lead auditor for the review of GARDA Diversified Property Fund for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

**T R Mann**  
Director

**BDO Audit Pty Ltd**

Brisbane, 21 February 2017

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# 03

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTE	HALF YEAR	
		31 DECEMBER 2016 \$'000'S	31 DECEMBER 2015 \$'000'S
Revenue	3	9,441	8,493
Property expenses		(2,557)	(2,401)
Trust level expenses		(874)	(769)
Finance costs		(1,276)	(852)
Net gain/(loss) on financial instrument held at fair value through profit and loss	9	540	(491)
Fair value movement in investment properties	7	(1,685)	(590)
<b>Profit for the half year</b>		<b>3,589</b>	3,390
Other comprehensive income for the half year		-	-
<b>Total comprehensive income for the half year attributable to:</b>			
Owners of GARDA Diversified Property Fund		<b>3,589</b>	3,390
<b>Basic and diluted profit per unit attributable to the unitholders of GARDA Diversified Property Fund</b>			
<b>Basic and diluted profit per unit (cents per unit)</b>	5	<b>3.7</b>	3.5

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

# 04

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	NOTE	31 DECEMBER 2016 \$'000'S	30 JUNE 2016 \$'000'S
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	22,156	2,526
Trade and other receivables		415	318
<b>Total current assets</b>		<b>22,571</b>	<b>2,844</b>
<b>Non current assets</b>			
Investment properties	7	186,529	153,527
<b>Total non current assets</b>		<b>186,529</b>	<b>153,527</b>
<b>Total assets</b>		<b>209,100</b>	<b>156,371</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		1,507	1,481
Distribution payable	4	2,663	2,121
<b>Total current liabilities</b>		<b>4,170</b>	<b>3,602</b>
<b>Non current liabilities</b>			
Tenant security deposits		274	274
Borrowings	8	79,417	45,380
Derivative financial instrument	9	588	1,127
<b>Total non current liabilities</b>		<b>80,279</b>	<b>46,781</b>
<b>Total liabilities</b>		<b>84,449</b>	<b>50,383</b>
<b>Net assets</b>		<b>124,651</b>	<b>105,988</b>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>			
Issued units	10	227,766	207,848
Retained losses		(103,115)	(101,860)
<b>Total equity</b>		<b>124,651</b>	<b>105,988</b>

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



# 05

## STATEMENT OF CHANGES IN EQUITY

As at 31 December 2016

	ISSUED UNITS \$'000'S	RETAINED LOSSES \$'000'S	TOTAL \$'000'S
<b>Balance at 1 July 2015</b>	<b>211,152</b>	<b>(111,227)</b>	<b>99,925</b>
<b>Comprehensive income</b>			
Profit for the half year	-	3,390	3,390
Other comprehensive income	-	-	-
<b>Total comprehensive income for the half year</b>	<b>-</b>	<b>3,390</b>	<b>3,390</b>
<b>Transactions with owners in their capacity as owners</b>			
Unit buy back	(3,201)	-	(3,201)
Distributions provided for or paid	-	(4,276)	(4,276)
	(3,201)	(4,276)	(7,477)
<b>Balance at 31 December 2015</b>	<b>207,951</b>	<b>(112,113)</b>	<b>95,838</b>
<b>Balance at 1 July 2016</b>	<b>207,848</b>	<b>(101,860)</b>	<b>105,988</b>
<b>Comprehensive Income</b>			
Profit for the half year	-	3,589	3,589
Other comprehensive income	-	-	-
<b>Total comprehensive income for the half year</b>	<b>-</b>	<b>3,589</b>	<b>3,589</b>
<b>Transactions with owners in their capacity as owners</b>			
Unit issue	20,000	-	20,000
Equity transaction costs	(82)	-	(82)
Distributions provided for or paid	-	(4,844)	(4,844)
	19,918	(4,844)	15,074
<b>Balance at 31 December 2016</b>	<b>227,766</b>	<b>(103,115)</b>	<b>124,651</b>

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

# 06

## STATEMENT OF CASH FLOWS

As at 31 December 2016

	NOTE	HALF YEAR	
		31 DECEMBER 2016 \$'000'S	31 DECEMBER 2015 \$'000'S
<b>Cash flows from operating activities</b>			
Rental and outgoings received		10,802	8,263
Cash payments in the course of operations		(4,087)	(3,544)
Interest received		30	15
Finance costs		(1,243)	(828)
GST paid		(332)	(290)
Net cash provided by operating activities		5,170	3,616
<b>Cash flows from investing activities</b>			
Payments for investment property improvements		(3,530)	(1,268)
Payments for leasing fees		(87)	(101)
Payments for acquisition of investment properties		(31,540)	-
Net cash provided by/(used in) investing activities		(35,157)	(1,369)
<b>Cash flows from financing activities</b>			
Proceeds of borrowings		34,000	2,000
Capital raised		20,000	-
Equity transaction costs		(82)	-
Units Bought Back including brokerage costs		-	(3,211)
Distributions paid	4	(4,301)	(2,141)
Net cash provided by/(used) in financing activities		49,617	(3,352)
<b>Net decrease in cash and cash equivalents</b>		19,630	(1,105)
Cash and cash equivalents at the beginning of the half year		2,526	3,233
<b>Cash and cash equivalents at end of the half year</b>		22,156	2,128

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

# 07

## NOTES TO THE FINANCIAL STATEMENT

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### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These general purpose financial statements for the half year reporting period ended 31 December 2016 have been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Act 2001*.

These half year financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Fund as the full financial statements. Accordingly, these half year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2016 and any public announcements made by GARDA Capital Limited during the half year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

The historical cost basis has been used, except for investment properties and derivatives which have been measured at fair value.

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

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

#### **(a) Rounding of amounts**

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

### **NOTE 2: SEGMENT INFORMATION**

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

### **NOTE 3: REVENUE**

Revenue for the half year ended 31 December 2016 is \$9.4 million compared to \$8.5 million in prior year. The increase of \$0.9 million is a result of additional revenue following the acquisition of the Mackay property in August 2016 and the lower incentive levels in the current half year compared to prior half year.

**NOTE 4: DISTRIBUTIONS**

	HALF YEAR	
	31 DECEMBER 2016 \$'000'S	31 DECEMBER 2015 \$'000'S
Distributions provided for and/or paid by the Fund during the period were:		
September quarter distribution 2.35 cents per unit (2015: 2.25 cents per unit)	<b>(2,204)</b>	(2,162)
December quarter distribution 2.35 cents per unit (2015: 2.25 cents per unit)	<b>(2,640)</b>	(2,114)
	<b>(4,844)</b>	(4,276)

Distributions declared for the quarter ended 31 December 2016 of \$2.64 million, but not paid until after half year end, have been provided for. Total distributions not paid as at 31 December 2016 were \$2.663 million including withholding tax of \$0.023 million.

**NOTE 5: EARNINGS PER UNIT**

	HALF YEAR	
	31 DECEMBER 2016 \$'000'S	31 DECEMBER 2015 \$'000'S
Profit attributable to the unitholders of GARDA Diversified Property Fund:		
Profit from continuing operations	<b>3,589</b>	3,390
Basic and diluted profit per unit (cents per unit) for continuing operations	<b>3.7</b>	3.5
Weighted average number of ordinary shares used in the calculation of basic and diluted profit per unit	<b>96,334,308</b>	<b>95,933,072</b>

**NOTE 6: CASH AND CASH EQUIVALENTS**

At 31 December 2016, included in the cash and cash equivalents balance of \$22.16 million (30 June 2016: \$2.53 million) is the \$20 million private placement proceeds from December 2016. On 9 January 2017, \$20 million was applied to partially repay the Fund's debt facility, reducing drawn debt from \$79.6 million, as at 31 December 2016, to \$59.6 million.

**NOTE 7: INVESTMENT PROPERTIES**

	HALF YEAR	
	31 DECEMBER 2016 \$'000'S	30 JUNE 2016 \$'000'S
Investment properties	<b>186,529</b>	153,527
<b>Movements during the period</b>		
Balance at beginning of the period	<b>153,527</b>	140,650
Movements in fair value	<b>(1,685)</b>	10,093
Capital additions	<b>3,502</b>	2,693
Purchase of new property	<b>31,540</b>	-
Straight-lining of rental income	<b>(108)</b>	160
Net movement in leasing fees and incentives	<b>(247)</b>	(69)
<b>Balance at end of the period</b>	<b>186,529</b>	153,527

**Investment property valuations details**

The basis of the valuation of investment properties is fair value being the amounts for which the properties could have been exchanged between willing parties in an arm's length transaction, based on current prices in an active market. The 30 June 2016 valuations were based on independent assessments made by qualified and suitably experienced certified practicing external valuers, using a capitalisation approach and the discounted cash approach as the primary valuation methods. These approaches have in turn been checked by the direct comparison approach and analysed on a rate per square metre of total lettable area.

These valuations were undertaken by independent assessment on 1 June 2016 except for property acquired in Mackay in August 2016 for which the independent assessment was undertaken on 12 April 2016.

The Directors at 31 December 2016 have adopted the most recent independent valuations from 1 June 2016 and the independent valuation on 12 April 2016 for the property acquired in Mackay plus all capital expenditure incurred during the half year (including any capital expenditure on properties post 1 June 2016 valuations) which has been deemed by the Directors as capital accretive.

The acquisition costs for the industrial property in Mackay have been expensed during the period resulting in a fair value loss adjustment of \$2.0 million.

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

## NOTES TO THE FINANCIAL STATEMENT CONT'

### NOTE 7: INVESTMENT PROPERTIES CONT'

#### Independent valuations at 30 June 2016:

PROPERTIES	VALUATION	CAPITALISATION RATE	NET MARKET INCOME \$000'S	ADJUSTMENTS \$000'S	VALUATION \$000'S
7-19 Lake Street, Cairns	Independent	8.50%	4,245	(9,545)	41,000
Land at 26-30 Grafton Street, Cairns	Independent	n/a	n/a	n/a	1,200
12-14 The Circuit, Brisbane Airport	Independent	8.60%	1,890	671	22,400
B2, 747 Lytton Road, Murarrie	Independent	8.39%	1,275	(1,180)	14,100
154 Varsity Parade, Varsity Lakes	Independent	8.50%	1,221	(1,336)	12,900
436 Elgar Rd, Box Hill	Independent	8.50%	1,761	(1,251)	19,400
572-576 Swan Street, Richmond	Independent	7.50%	2,707	(2,213)	33,500
69-79 Diesel Drive, Paget, Mackay	Independent	7.75%	2,234	674	29,500
142-150 Benjamin Place, Lytton	Independent	8.25%	726	(192)	8,600
					<b>182,600</b>
Capital additions post independent valuations and up to 30 June 2016					<b>427</b>
Capital additions during the half year up to 31 December 2016					<b>3,502</b>
Investment properties at 31 December 2016					<b>186,529</b>

### NOTE 8: BORROWINGS

	31 DECEMBER 2016 \$'000'S	30 JUNE 2016 \$'000'S
<b>Non-Current</b>		
Bank loans (secured)	<b>79,417</b>	45,380
	<b>79,417</b>	45,380
<b>Movements in borrowings</b>		
Balance at beginning of the period	<b>45,380</b>	42,307
Proceeds from borrowings	<b>34,000</b>	3,000
Amortisation of borrowing costs	<b>37</b>	73
<b>Balance at the end of the period</b>	<b>79,417</b>	<b>45,380</b>

#### Bank Loan

The St. George Bank loan is secured by: (a) a first registered mortgage over the applicable property and the lease by the Guarantor over the Brisbane Airport Property; (b) a first registered fixed and floating charge over the assets of the Fund in favour of the bank; and (c) guarantee and indemnity provided by the responsible entity GARDA Capital Limited, limited to the value of the security properties.

## NOTES TO THE FINANCIAL STATEMENT CONT'

### NOTE 8: BORROWINGS CONT'

Under the facility agreement with St. George Bank that was operable at 31 December 2016, the following covenants exist:

- a. Interest cover ratio is to remain above 2.50 times; and
- b. Loan to value ratio must remain under 46%.

The St. George Bank loan has a facility limit of \$83.6 million (30 June 2016: \$63.3 million). Following the purchase of the Mackay property in August 2016, conditions precedent were satisfied for an increase in limit. The proceeds from borrowings were used to fund the purchase of this property.

At 31 December 2016, the debt was drawn to \$79.6 million (30 June 2016: \$45.6 million) which is within the facility limit. The Fund has fixed interest rate swap agreements over the total loan facility of \$45.6 million which expire on 3 July 2019.

The weighted average expiry term for the facility as at 31 December 2016 is 1.86 years.

On 7 December 2016, a private placement of 18,518,516 new units at an issue price \$1.08 was completed raising \$20 million. The private placement proceeds of \$20 million temporarily increased cash in December 2016 prior to it being applied to partially repay the Fund's debt facility in early January 2017 coinciding with the facility roll date. Total debt drawn reduced from \$79.6 million as at 31 December 2016 to \$59.6 million on 9 January 2017. The debt repayment reduced the Fund's loan to value ratio (LVR) to 32.6%, consistent with the Fund's long term gearing target of 30% to 35%.

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

### NOTE 9: DERIVATIVE FINANCIAL INSTRUMENTS

	31 DECEMBER 2016 \$'000'S	30 JUNE 2016 \$'000'S
<b>Non-current liabilities</b>		
Interest rate swap contracts	588	1,127

The interest rate swaps have not been designated as hedges for accounting purposes and hence all changes in fair value are recognised immediately in the statement of profit or loss.

The Fund has entered into interest rate swap contracts totalling \$45.6 million under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

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

During the half year ended 31 December 2016, a net gain on fair value of interest rate swap contracts for \$0.54 million (2015: loss \$0.49 million) has been recognised in the statement of profit or loss.

### NOTE 10: ISSUED UNITS

	31 DECEMBER 2016 NUMBER	30 JUNE 2016 NUMBER	31 DECEMBER 2016 \$'000'S	30 JUNE 2016 \$'000'S
Issued units	112,322,972	93,804,456	227,766	207,848
<b>Movements during the year</b>				
Balance at beginning of year	93,804,456	97,202,170	207,848	211,152
Units bought back	-	(3,397,714)	-	(3,304)
Private unit placement	18,518,516	-	20,000	-
Capital raising costs	-	-	(82)	-
<b>Balance at end of year</b>	<b>112,322,972</b>	<b>93,804,456</b>	<b>227,766</b>	<b>207,848</b>

## NOTE 11: CONTINGENT ASSETS AND LIABILITIES

As at 31 December 2016, no new matters were noted compared to matters already disclosed in the 30 June 2016 Annual Financial Report.

## NOTE 12: RELATED PARTY TRANSACTIONS

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

### Responsible entity

The responsible entity of the Fund is GARDA Capital Limited.

### Unitholdings (number of units)

31 DECEMBER 2016	OPENING BALANCE	DISPOSALS	ADDITIONS	CLOSING BALANCE
<b>Directors of GARDA Capital Limited</b>				
Mr David Usasz <sup>1</sup>	205,000	-	-	205,000
Mr Matthew Madsen	97,893	-	45,901	143,794
Mr Mark Hallett	-	-	3,000	3,000
Mr Philip Lee	50,000	-	-	50,000
Mr Leylan Neep	-	-	-	-
<b>Senior Executive of GARDA Capital Limited</b>				
Mr Lachlan Davidson	-	-	-	-
<b>Responsible entity</b>				
GARDA Capital Limited	-	-	-	-
<b>Other related entities</b>				
GARDA REIT Holdings Unit Trust	10,004,710	(10,004,710)	-	-
GARDA Capital Trust	-	-	10,004,710	10,004,710

<sup>1</sup> David Usasz resigned as Chairman on 31 January 2017.

30 JUNE 2016	OPENING BALANCE	DISPOSALS	ADDITIONS	CLOSING BALANCE
<b>Directors of GARDA Capital Limited</b>				
Mr David Usasz <sup>1</sup>	100,000	-	105,000	205,000
Mr Matthew Madsen	-	-	97,893	97,893
Mr Mark Hallett	6	(6)	-	-
Mr Philip Lee	50,000	-	-	50,000
Mr Leylan Neep	-	-	-	-
<b>Senior Executive of GARDA Capital Limited</b>				
Mr Lachlan Davidson	-	-	-	-
<b>Responsible entity</b>				
GARDA Capital Limited	4,704	(4,704)	-	-
<b>Other related entities</b>				
GARDA REIT Holdings Unit Trust	10,000,000	-	4,710	10,004,710

<sup>1</sup> David Usasz resigned as Chairman on 31 January 2017.



## NOTES TO THE FINANCIAL STATEMENT CONT'

### NOTE 12: RELATED PARTY TRANSACTIONS CONT'

#### (a) Responsible entity's fees and other transactions

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

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

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

	HALF YEAR	
	31 DECEMBER 2016 \$	31 DECEMBER 2015 \$
<b>Responsible entity's fees</b>		
Management fee	<b>583,077</b>	459,610
Capital works fee	<b>163,615</b>	57,472
	<b>746,692</b>	517,082
<b>Other transactions with the responsible entity</b>		
Recovery of accounting and funds administration expenses	<b>34,550</b>	39,561
Administration costs reimbursed in accordance with the Fund Constitution	<b>893</b>	7,076
	<b>35,443</b>	46,637

#### (b) Transactions with related parties

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

	HALF YEAR	
	31 DECEMBER 2016 \$	31 DECEMBER 2015 \$
GARDA Real Estate Services Pty Ltd	<b>427,504</b>	409,544
GARDA Facilities Management Pty Ltd	<b>78,654</b>	75,060
GARDA Services Pty Ltd	<b>45,625</b>	45,825
	<b>551,783</b>	530,429

During the half year ended 31 December 2016, the Fund paid a total of \$45,739 (2015: \$73,502) in legal fees to Hallett Legal Pty Ltd, a related entity of Mark Hallett who is a director of the responsible entity. A total of \$928 (30 June 2016: \$19,863) was outstanding at half year end. These expenses were incurred on normal commercial terms.

During the half year distributions provided for and/or paid to GARDA Capital Trust (a related entity of the responsible entity) was \$470,222 (2015: GARDA REIT Holdings Unit Trust was \$450,212).

## NOTES TO THE FINANCIAL STATEMENT CONT'

### NOTE 12: RELATED PARTY TRANSACTIONS CONT'

#### (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:

	HALF YEAR	
	31 DECEMBER 2016 \$	31 DECEMBER 2015 \$
<b>Current payables/(receivables)</b>		
GARDA Capital Limited	<b>111,129</b>	121,645
GARDA Real Estate Services Pty Ltd	<b>(2,781)</b>	18,982
GARDA Services Pty Ltd	<b>6,019</b>	4,302
	<b>114,367</b>	144,929

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

### NOTE 13: FAIR VALUE MEASUREMENT

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

- Derivative financial instruments
- Investment properties

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

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

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

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

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

#### Disclosed fair values

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

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.

### NOTE 14: EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

On 9 January 2017, \$20 million of the funds raised from the private placement in December 2016 were used to partially repay the Fund's debt facility, reducing the drawn debt from \$79.6 million to \$59.6 million. The debt repayment reduced the Fund's loan to value ratio (LVR) to 32.6%, consistent with the Fund's long term gearing target of 30% to 35%.

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

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## DIRECTORS' DECLARATION

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

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Accounting Standard AASB 134 *'Interim Financial Reporting'*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the Fund's financial position as at 31 December 2016 and of its performance for the half year ended on that date; and
- there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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



**Mr Matthew Madsen**

Executive Chairman

21 February 2017

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



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### INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of GARDA Diversified Property Fund

#### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of GARDA Diversified Property Fund, which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of GARDA Capital Limited as Responsible Entity of GARDA Diversified Property Fund.

#### Directors' Responsibility for the Half-Year Financial Report

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

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the registered scheme's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of GARDA Diversified Property Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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### Independence

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

### Conclusion

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

- A. giving a true and fair view of the registered scheme's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- B. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

**BDO Audit Pty Ltd**

A handwritten signature in black ink, appearing to read 'T R Mann', is written over a faint, light-colored BDO logo.

**T R Mann**  
Director

Brisbane, 21 February 2017

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## **CORPORATE DIRECTORY**

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GARDA

CAPITAL GROUP