

Centuria Diversified Property Fund

A stapled entity comprised of CDPF Stapled Fund No. 1 (ARSN: 124 364 718) and CDPF Stapled Fund No. 2 (ARSN: 124 364 656)

General Purpose Financial Report
For the year ended 30 June 2013

ARSN 115 588 317

Centuria Diversified Property Fund

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Centuria Diversified Property Fund

Directors' report

The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Diversified Property Fund ('the Fund'), being a stapled scheme consisting of CDPF Stapled Fund No. 1 ('the Parent') and CDPF Stapled Fund No. 2, present their report together with the financial report of the Fund for the year ended 30 June 2013 and the independent auditor's report thereon. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Responsible Entity

The directors of Centuria Property Funds Limited during or since the end of the financial year are:

John McBain	Appointed 5 March 1999. Resigned 19 July 2013.
Jason Huljich	Appointed 30 March 2001. Director of Centuria Capital Limited.
Peter Done	Appointed 5 December 2007. Director of Centuria Capital Limited.
Deepak Gupta	Appointed 5 December 2007. Resigned 22 May 2013.
Matthew Hardy	Appointed 4 July 2013.
Edward Psaltis	Appointed 4 July 2013.

The company secretaries of Centuria Property Funds Limited during or since the end of the financial year are:

Terrence Reid	Appointed in December 2007.
Matthew Coy	Appointed in October 2009.

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia.

The principal activity of the Fund in the course of the financial year is to invest funds in accordance with its investment objectives and guidelines as set out in the current Product Disclosure Statement, with the key asset category being investment property.

The Fund did not have any employees during the financial year.

Significant change in the state of affairs

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

Review of operations

Results

The results of the operations of the Fund are disclosed in the consolidated statement of profit or loss and other comprehensive income of these financial statements. The Fund's profit from continuing operations for the year ended 30 June 2013 was \$4,020,776 (2012: \$3,200,278 profit).

Centuria Diversified Property Fund

Directors' report

Review of operations (continued)

Distributions

Distributions paid or payable in respect of the financial year were:

	30 Jun 2013		30 Jun 2012	
	Cents per unit	\$	Cents per unit	\$
September quarter	0.55	459,137	-	-
December quarter	0.55	459,083	-	-
March quarter	0.54	449,156	-	-
June quarter	0.55	454,263	-	-
	2.19	1,821,639	-	-

Likely developments

Disclosure of information regarding likely developments in the operations of the Fund in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Fund. Accordingly, this information has not been disclosed in this report.

Environmental regulation

The Fund's operations are not subject to any significant environmental regulation under Commonwealth, State or Territory legislation.

Fund information in the directors' report

Responsible Entity interests

The following fees were paid and/or payable to the Responsible Entity and its associates out of Fund property during the financial year:

	30 Jun 2013	30 Jun 2012
	\$	\$
Finance costs	303,511	332,462
Leasing fees	20,328	156,447
Management fees	652,571	630,204
Property management fees	91,378	68,121
Other professional fees	12,100	28,392
	1,079,888	1,215,626

The Responsible Entity and/or its associates have held units in the Fund during the financial year as outlined in Note 17 to the financial statements.

Other Fund information

The number of units in the Fund issued and redeemed during the financial year, and the balance of issued units at the end of the financial year are disclosed in Note 12 to the financial statements.

The value of the Fund's assets as at the end of the financial year is disclosed in the consolidated statement of financial position as "Total assets" and the basis of valuation is included in Note 3 to the financial statements.

Centuria Diversified Property Fund

Directors' report

Events subsequent to balance date

On 27 July 2013 Cochlear Limited (the sole tenant of 14 Mars Road, Lane Cove) renewed their lease for another term of 8 years and 6 months effective from 1 July 2013 to 31 December 2021. The premises will be leased for \$1,889,953 per annum plus outgoing recoveries with a fixed annual increase of 4% per annum.

Indemnifying officers or auditors

Indemnification

Under the Fund constitution the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

The Responsible Entity has not indemnified or agreed to indemnify any auditor or other officer of the Fund, or any related body corporate.

Insurance premiums

The Responsible Entity has paid insurance premiums in respect of directors' and officers' liability and legal expense insurance contracts, for current and former directors and officers, including senior executives of the Responsible Entity.

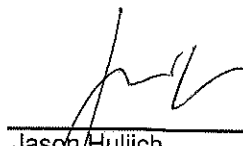
Auditor's independence declaration

The auditor's independence declaration is set out on page 4 and forms part of the directors' report for year ended 30 June 2013.

Signed in accordance with a resolution of the board of directors of Centuria Property Funds Limited made pursuant to s.298(2) of the Corporations Act 2001.



Peter Done
Director



Jason Huljich
Director

Dated at Sydney this 4 day of September

2013.



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Diversified Property Fund (a stapled entity comprising CDPF Stapled Fund No. 1 and CDPF Stapled Fund No. 2)

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Steven Gatt
Partner

Sydney

4 September 2013

Centuria Diversified Property Fund

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2013

	Note	30 Jun 2013 \$	30 Jun 2012 \$
Revenue			
Rent and recoverable outgoings		11,715,391	10,986,219
Other income			
Interest income	4	38,307	17,328
Gain on fair value of investment property	8	1,092,285	5,556,468
Gain on fair value of derivative financial instruments		877,023	-
Other income		-	5,857
Expenses			
Loss on fair value of derivative financial instruments		-	(2,255,067)
Rates, taxes and other property outgoings		(3,332,202)	(3,637,687)
Finance costs		(5,513,085)	(6,427,700)
Management fees	17	(652,571)	(630,204)
Professional fees		(113,570)	(297,717)
Trustee/custodian fees		(38,014)	(33,409)
Auditor's remuneration	5	(27,761)	(24,745)
Other expenses		(25,027)	(59,065)
Profit from continuing operations for the year		4,020,776	3,200,278
Net profit for the year		4,020,776	3,200,278
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		4,020,776	3,200,278
Net profit attributable to:			
Unitholders of the Parent	13	1,831,782	1,755,329
Non-controlling interest	14	2,188,994	1,444,949
		4,020,776	3,200,278
Total comprehensive income attributable to:			
Unitholders of the Parent		1,831,782	1,755,329
Non-controlling interest		2,188,994	1,444,949
		4,020,776	3,200,278

The notes on pages 9 to 29 form an integral part of these financial statements.

Centuria Diversified Property Fund

Consolidated statement of financial position

As at 30 June 2013

	Note	30 Jun 2013 \$	30 Jun 2012 \$
Assets			
Current assets			
Cash and cash equivalents	6	2,667,624	1,091,412
Trade and other receivables	7	1,217,410	774,281
Prepayments	9	200,965	232,728
Total current assets		4,085,999	2,098,421
Non-current assets			
Trade and other receivables	7	3,303,275	4,265,138
Investment property	8	102,674,337	101,185,416
Total non-current assets		105,977,612	105,450,554
Total assets		110,063,611	107,548,975
Liabilities			
Current liabilities			
Trade and other payables	10	1,163,464	2,275,021
Borrowings	11	66,504,079	2,706,316
Total current liabilities		67,667,543	4,981,337
Non-current liabilities			
Borrowings	11	1,351,316	62,845,000
Derivative financial instruments	16	2,733,399	3,610,422
Total non-current liabilities		4,084,715	66,455,422
Total liabilities		71,752,258	71,436,759
Net assets		38,311,353	36,112,216
Unitholder funds			
Issued units	12	29,255,257	29,255,257
Accumulated losses	13	(9,276,282)	(10,197,245)
Non-controlling interest	14	18,332,378	17,054,204
Total unitholder funds		38,311,353	36,112,216

The notes on pages 9 to 29 form an integral part of these financial statements.

Centuria Diversified Property Fund

Consolidated statement of changes in equity

For the year ended 30 June 2013

	Note	Issued units \$	Non- controlling interest \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2011		29,255,257	15,609,255	(11,952,574)	32,911,938
Net profit for the year		-	1,444,949	1,755,329	3,200,278
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	1,444,949	1,755,329	3,200,278
Applications	12	-	-	-	-
Redemptions	12	-	-	-	-
Distributions to unitholders	15	-	-	-	-
Balance at 30 June 2012		29,255,257	17,054,204	(10,197,245)	36,112,216
Net profit for the year		-	2,188,994	1,831,782	4,020,776
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	2,188,994	1,831,782	4,020,776
Applications	12	-	-	-	-
Redemptions	12	-	-	-	-
Distributions to unitholders	15	-	(910,820)	(910,819)	(1,821,639)
Balance at 30 June 2013		29,255,257	18,332,378	(9,276,282)	38,311,353

The notes on pages 9 to 29 form an integral part of these financial statements.

Centuria Diversified Property Fund

Consolidated statement of cash flows

For the year ended 30 June 2013

	Note	30 Jun 2013 \$	30 Jun 2012 \$
Cash flows from operating activities			
Receipts from customers		13,270,925	9,520,357
Payments to suppliers		(5,962,432)	(4,378,382)
Interest received		38,307	17,328
Interest paid		(5,714,905)	(5,798,749)
Net cash generated by/(used in) operating activities	6	<u>1,631,895</u>	<u>(639,446)</u>
Cash flows from investing activities			
Payments for investment property		(396,636)	(410,100)
Net cash used in investing activities		<u>(396,636)</u>	<u>(410,100)</u>
Cash flows from financing activities			
Distributions paid		(1,821,639)	-
Proceeds from borrowings		3,617,592	1,047,265
Repayment of borrowings		(1,355,000)	-
Payments to procure borrowings		(100,000)	(200,000)
Net cash generated by financing activities		<u>340,953</u>	<u>847,265</u>
Net increase/(decrease) in cash and cash equivalents		1,576,212	(202,281)
Cash and cash equivalents at beginning of financial year		1,091,412	1,293,693
Cash and cash equivalents at end of financial year	6	<u>2,667,624</u>	<u>1,091,412</u>

The notes on pages 9 to 29 form an integral part of these financial statements.

Centuria Diversified Property Fund

Notes to the financial statements

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Centuria Diversified Property Fund

Notes to the financial statements

1. General information

Centuria Diversified Property Fund is a registered managed investment scheme under the Corporations Act 2001 and domiciled in Australia. The principal activity of the Fund is disclosed in the directors' report.

2. Application of new and revised accounting standards

(a) Adoption of new and revised accounting standards

In the current year, the Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting year. The adoption of these new and revised Standards and Interpretations has not had any significant impact on the amounts reported in these financial statements.

(b) New standards and interpretations not yet adopted

At the date of this report, the Standards and Interpretations listed below were in issue but not yet effective. They are available for early adoption at 30 June 2013, but have not been applied in preparing these financial statements. The potential effect of the below Standards and Interpretations on the Fund's financial statements has not yet been determined:

- AASB 9 'Financial Instruments', AASB 2009-11 and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9'. Effective for annual reporting periods beginning on or after 1 January 2015.
- AASB 10 'Consolidated Financial Statements' and AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'. Effective for annual reporting periods beginning on or after 1 January 2013.
- AASB 13 'Fair Value Measurement', AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'. Effective for annual reporting periods beginning on or after 1 January 2013.
- AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'. Effective for annual reporting periods beginning on or after 1 July 2013.
- AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'. Effective for annual reporting periods beginning on or after 1 January 2013.
- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'. Effective for annual reporting periods beginning on or after 1 January 2014.

Centuria Diversified Property Fund

Notes to the financial statements

3. Significant accounting policies

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards including Interpretations, and complies with other requirements of the law.

Accounting Standards include Australian Accounting Standards. The financial statements and notes of the Fund comply with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB').

For the purposes of preparing the financial statements, the Fund is a for-profit entity.

The financial report was authorised for issue in accordance with a resolution of the board of directors of Centuria Property Funds Limited, the Responsible Entity, on 4 September 2013.

(b) Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2013.

Use of estimates and judgements

In the application of the Fund's accounting policies, the Responsible Entity is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements. 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 affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods. The key estimates and judgements in the financial report relate to the valuation of investment property and derivative financial instruments.

Judgements made by the Responsible Entity that have significant effects on the financial statements and estimates with significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Centuria Diversified Property Fund

Notes to the financial statements

3. Significant accounting policies (continued)

(b) Basis of preparation (continued)

Going concern

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

At reporting date, borrowings have been classified as a current liability due to the debt facility maturing on 30 June 2014. As a result, the Fund has a net current asset deficiency of \$63,581,544.

As at the date of this report there have been no breaches of any of the loan covenants relating to the existing debt facility. As the Fund continues to comply with its loan covenants, along with the forecast performance of the properties, the Responsible Entity believes that the facility renewal will be successfully renegotiated on similar terms and conditions as required prior to its expiry in June 2014.

After taking into account all available information, the directors have concluded that there are reasonable grounds to believe the basis of preparation of the financial report on a going concern basis is appropriate.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Fund's functional currency.

(d) Basis of consolidation

i. Stapled scheme

Centuria Diversified Property Fund was established for the purpose of facilitating a relationship between CDPF Stapled Fund No. 1 and CDPF Stapled Fund No. 2. The Fund was formed by stapling units in CDPF Stapled Fund No. 1 and CDPF Stapled Fund No. 2. Unitholders in the Fund are entitled to an equal interest in each stapled entity within the Fund.

In accordance with AASB 3, the Fund is required to appoint a parent under the stapling arrangement. CDPF Stapled Fund No. 1 has been appointed parent of the Fund. On the basis that there is no ownership interest between the entities involved in the stapling arrangement, the net assets and profit or loss of CDPF Stapled Fund No. 2 are disclosed separately as a non-controlling interest.

The stapling arrangement will cease upon the earlier of the winding up of any of the stapled entities, or any of the entities terminating the stapling arrangement.

The purchase method of accounting is used to account for business combinations including the acquisition of controlled entities. The purchase method views a business combination from the perspective of the combining entity that is identified as the acquirer. The acquirer purchases net assets and recognises, at fair value, the assets acquired and liabilities and contingent liabilities assumed, including those previously recognised by the acquiree. As the stapling arrangement does not involve one of the combining entities obtaining an ownership interest in another combining entity, no goodwill or excess of acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over acquisition cost is recognised in relation to the stapling arrangement.

Centuria Diversified Property Fund

Notes to the financial statements

3. Significant accounting policies (continued)

(d) Basis of consolidation (continued)

ii. General consolidation

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund. Control is achieved where the Fund has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the consolidated group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets attributable to unitholders of consolidated subsidiaries are identified separately from the Fund's unitholders. Non-controlling interests consist of the amount of those interests at the date of original business combination and the non-controlling share of changes in net assets attributable to unitholders since the date of the combination.

iii. Subsidiaries

In addition to the stapled entities noted above, which are deemed subsidiaries, the consolidated financial statements include the assets, liabilities and results of the following subsidiaries:

	Controlling Interest (%)	
	30 Jun 2013	30 Jun 2012
Centuria Diversified Property Trust	50	50

CDPF Stapled Fund No. 1 holds a 50% interest in Centuria Diversified Property Trust. The remaining 50% interest is held by CDPF Stapled Fund No. 2. As a result, 50% of the net assets and profit or loss of Centuria Diversified Property Trust are disclosed separately as a non-controlling interest.

(e) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and cash in banks, net of outstanding bank overdrafts.

(f) Investments

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value plus any directly attributable transaction costs and are subsequently stated at amortised cost using the effective interest rate method, less impairment losses.

Centuria Diversified Property Fund

Notes to the financial statements

3. Significant accounting policies (continued)

(f) Investments (continued)

ii. *Investment property*

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is initially recorded at cost which includes acquisition costs. Subsequently, the investment property is measured at fair value with any change therein recognised in profit or loss.

In accordance with the Fund's constitution, the Responsible Entity has the option of performing property valuations internally.

The fair value of the investment properties were determined by the directors of the Responsible Entity or by an external, independent valuation company having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations were prepared by considering the following valuation methodologies:

- Capitalisation Approach: the annual net rental income is capitalised at an appropriate market yield to arrive at the property's market value. Appropriate capital adjustments are then made where necessary to reflect the specific cash flow profile and the general characteristics of the property.
- Discounted Cash Flow Approach: this approach incorporates the estimation of future annual cash flows over a 10 year period by reference to expected rental growth rates, ongoing capital expenditure, terminal sale value and acquisition and disposal costs. The present value of future cash flows is then determined by the application of an appropriate discount rate to derive a net present value for the property.
- Direct Comparison Approach: this approach identifies comparable sales on a dollar per square metre of lettable area basis and compares the equivalent rates to the property being valued to determine the property's market value.

The valuations reflect, when appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between the lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

(g) Impairment

The carrying amounts of the Fund's assets, other than those recorded at fair value, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised directly in profit or loss.

Centuria Diversified Property Fund

Notes to the financial statements

3. Significant accounting policies (continued)

(h) Financial instruments

i. Derivative financial instruments

The Fund holds derivative financial instruments to hedge its interest rate exposures.

Derivatives are initially recognised at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and the resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

ii. Cash and fair value hedges

The Fund has not applied hedge accounting to its derivative financial instruments.

(i) Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services.

(j) Borrowings

Borrowings are recorded initially at fair value, net of any attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method with any difference between the initial and recognised amount and redemption value being recognised in profit or loss over the period of borrowing and are derecognised when the contractual obligations are discharged, cancelled or expire.

(k) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

(l) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. In accordance with AASB 132, unitholders funds are classified as 'equity instruments' and are therefore classified as equity and disclosed as such in the consolidated statement of financial position.

Centuria Diversified Property Fund

Notes to the financial statements

3. Significant accounting policies (continued)

(m) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after cancellation of units redeemed. The application and redemption prices are determined as the net asset value of the Fund adjusted for the estimated transaction costs divided by number of units on issue on the date of the application or redemption.

(n) Revenue

i. Rental income

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease. Rental income not received at reporting date is reflected in the consolidated statement of financial position as a receivable. If rents are paid in advance these amounts are recorded as payables in the consolidated statement of financial position.

Lease incentives granted are recognised as an integral part of the total rental income, on a straight line basis over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time are only recognised when due.

ii. Recoverable outgoings

Recovery of outgoings are recognised on an accrual basis.

iii. Interest income

Interest income is recognised in profit or loss as it accrues, using the effective interest rate of the instrument calculated at the acquisition or origination date.

(o) Expenses

i. Finance costs

Finance costs include interest expense and amortised borrowing costs. Interest expense is recognised in profit or loss as it accrues. Finance costs are recognised using the effective interest rate applicable to the financial liability.

ii. Other expenses

All other expenses, including management fees, are recognised in profit or loss on an accruals basis. Other operating expenses include legal, accounting and audit fees.

Centuria Diversified Property Fund

Notes to the financial statements

3. Significant accounting policies (continued)

(p) Distribution and taxation

Under current legislation the Fund is not subject to income tax when its taxable income (including assessable realised capital gains) is distributed in full to the unitholders. The Fund ordinarily fully distributes its distributable income, calculated in accordance with the Fund constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the constitution.

Under current legislation, and in accordance with the Fund's constitution, the Fund is subject to income tax at a rate 46.50% on the balance of taxable income not distributed to the unitholders. In the current year, the Fund has fully distributed its taxable income.

Investments and financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses the excess is distributed to the unitholders.

Distributions paid and payable are recognised as distributions within equity. A liability is recognised where distributions have not been paid. Distributions paid are included in cash flows from financing activities in the consolidated statement of cash flows.

(q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO) as an input tax credit (ITC).

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included in receivables or payables in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.

Centuria Diversified Property Fund

Notes to the financial statements

	30 Jun 2013 \$	30 Jun 2012 \$
4. Interest income		
Interest income arising from:		
Cash and cash equivalents	38,307	17,328
	<u>38,307</u>	<u>17,328</u>
5. Auditor's remuneration		
KPMG (2012: KPMG):		
Audit and review of financials	27,761	24,745
	<u>27,761</u>	<u>24,745</u>
6. Cash and cash equivalents		
Cash and bank balances	2,667,624	1,091,412
	<u>2,667,624</u>	<u>1,091,412</u>
Reconciliation of profit for the year to net cash flows from operating activities:		
Net profit for the year	4,020,776	3,200,278
Adjustments for:		
Gain on fair value of investment property	(1,092,285)	(5,556,468)
(Gain)/loss on fair value of derivatives	(877,023)	2,255,067
Borrowing cost amortisation	141,487	521,609
Changes in operating assets and liabilities:		
Decrease/(increase) in receivables	518,734	(2,336,998)
Decrease/(increase) in other assets	31,763	(37,272)
(Decrease)/increase in payables	(1,111,557)	1,314,338
Net cash generated by/(used in) operating activities	<u>1,631,895</u>	<u>(639,446)</u>
7. Trade and other receivables		
<i>Current</i>		
Trade debtors	15,889	603
Security deposits held in trust	-	5,125
Deferred rent and lease incentives	1,172,388	749,446
Other current receivables	29,133	19,107
	<u>1,217,410</u>	<u>774,281</u>
<i>Non-current</i>		
Deferred rent and lease incentives	3,303,275	4,265,138
	<u>3,303,275</u>	<u>4,265,138</u>

Deferred rent and lease incentives and other receivables are not considered to be financial assets. The Fund expects to recover the total carrying amount of receivables.

Centuria Diversified Property Fund

Notes to the financial statements

	30 Jun 2013 \$	30 Jun 2012 \$
8. Investment property		
Opening gross balance	106,200,000	97,900,000
Capital improvements	396,636	410,100
Change in deferred rent and lease incentives	(538,921)	2,333,432
Gain on fair value	1,092,285	5,556,468
Closing gross balance	107,150,000	106,200,000
Less: Total deferred rent and lease incentives	(4,475,663)	(5,014,584)
Closing net balance	102,674,337	101,185,416

Property	30 June 2013 Fair Value	30 June 2013 Valuer	Last Independent Valuation
3 Carlingford Road, Epping	16,250,000	M3	30 Jun 2013
44 Hampden Road, Artarmon	7,200,000	Colliers	30 Jun 2013
1 Richmond Road, Keswick	24,000,000	Director	31 Dec 2012
9 Help Street, Chatswood	42,700,000	Colliers	30 Jun 2013
14 Mars Road, Lane Cove	17,000,000	M3	30 Jun 2013
	107,150,000		

Leases as lessor

The Fund leases out investment property under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	30 Jun 2013 \$	30 Jun 2012 \$
Less than one year	11,689,231	8,586,331
Between one and five years	22,907,128	21,869,708
More than five years	4,737,080	5,404,894
	39,333,439	35,860,933

9. Prepayments

Current

Prepaid rates, taxes and other property outgoings	200,965	232,728
	200,965	232,728

10. Trade and other payables

Current

Trade creditors and expenses payable	445,715	1,255,345
Interest payable	92,654	435,961
Security deposits held	4,675	4,675
Other current creditors and accruals	620,420	579,040
	1,163,464	2,275,021

Other creditors and accruals are not considered to be financial liabilities.

Centuria Diversified Property Fund

Notes to the financial statements

	30 Jun 2013 \$	30 Jun 2012 \$
11. Borrowings		
<i>Current</i>		
Convertible note - related party	-	2,706,316
Secured loan	66,662,592	-
Borrowing costs	(158,513)	-
	<u>66,504,079</u>	<u>2,706,316</u>
<i>Non-current</i>		
Convertible note - related party	1,351,316	-
Secured loan	-	63,045,000
Borrowing costs	-	(200,000)
	<u>1,351,316</u>	<u>62,845,000</u>

The convertible note issued to Centuria Capital Limited bears interest at 10% and is unsecured. The note matures on 30 September 2014. The noteholder may at any time on or after, but not before, the maturity date, convert the convertible note into issued units in the Fund at an issue price calculated on the conversion date in accordance with the Fund's constitution.

The secured loan is secured by first mortgages over the Fund's investment properties and a first ranking fixed and floating charge over all assets of the Fund. The interest rate on the loan, including the impact of the derivative, is 7.22% as at 30 June 2013 and the loan is due for repayment on 30 June 2014.

At 30 June 2013, the Fund had no undrawn facilities on its secured loan.

The secured loan has covenants in relation to Loan to Value Ratio ("LVR"), Interest Coverage Ratio ("ICR"), Weighted Average Lease Expiry ("WALE") and Forward Looking Interest Coverage Ratio ("FLICR") which it has complied with during the year.

	30 Jun 2013		30 Jun 2012	
	Units	\$	Units	\$
12. Issued units - unitholders of the parent				
Opening balance	82,823,960	29,255,257	82,823,960	29,255,257
Applications	-	-	-	-
Redemptions	-	-	-	-
Closing balance	<u>82,823,960</u>	<u>29,255,257</u>	<u>82,823,960</u>	<u>29,255,257</u>

CDPF Stapled Fund No. 1 has been designated parent of the Fund. All units in the Fund are of the same class and carry equal rights to capital and income distributions.

	30 Jun 2013 \$	30 Jun 2012 \$
13. Accumulated losses		
Opening balance	(10,197,245)	(11,952,574)
Net profit attributable to unitholders of the parent	1,831,782	1,755,329
Distributions to unitholders	(910,819)	-
Closing balance	<u>(9,276,282)</u>	<u>(10,197,245)</u>

Centuria Diversified Property Fund

Notes to the financial statements

14. Non-controlling interest	30 Jun 2013		30 Jun 2012	
	Units	\$	Units	\$
Opening balance	82,823,960	17,054,204	82,823,960	15,609,255
Applications	-	-	-	-
Redemptions	-	-	-	-
Distributions to unitholders	-	(910,820)	-	-
Net profit attributable to non-controlling interest	-	2,188,994	-	1,444,949
Closing balance	82,823,960	18,332,378	82,823,960	17,054,204

On the basis that there is no ownership interest between the entities involved in the stapling arrangement, the net assets and profit or loss of CDPF Stapled Fund No. 2 are disclosed separately as a non-controlling interest.

15. Distributions to unitholders	30 Jun 2013		30 Jun 2012	
	Cents per unit	\$	Cents per unit	\$
September quarter	0.55	459,137	-	-
December quarter	0.55	459,083	-	-
March quarter	0.54	449,156	-	-
June quarter	0.55	454,263	-	-
	2.19	1,821,639	-	-

Centuria Diversified Property Fund

Notes to the financial statements

16. Financial instruments

A. Capital risk management

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund.

The risk associated with meeting redemption requests is minimal as the Responsible Entity has discretion in approving redemptions.

The Fund has no restrictions or specific capital requirements on the application and redemption of units, other than the approval of the Responsible Entity.

The Fund's overall investment strategy remains unchanged from the prior year.

B. Categories of financial instruments

The Fund has investment in the following categories of financial assets and liabilities:

	30 Jun 2013 \$	30 Jun 2012 \$
Financial assets		
Cash and cash equivalents	2,667,624	1,091,412
Receivables	15,889	5,728
	<u>2,683,513</u>	<u>1,097,140</u>
Financial liabilities		
Fair value through profit or loss (FVTPL)		
Derivative financial instruments	2,733,399	3,610,422
Payables and borrowings (excluding borrowing costs)	68,556,952	67,447,297
	<u>71,290,351</u>	<u>71,057,719</u>

These financial assets and liabilities are recognised in accordance with the accounting policies described in Note 3 to the financial statements.

C. Financial risk management objectives

The Fund is exposed to a variety of financial risks as a result of its activities. These risks include market risk (only interest rate risk), credit risk and liquidity risk. The Fund's risk management and investment policies seek to minimise the potential adverse effects of these risks on the Fund's financial performance.

D. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund's activities expose it primarily to the financial risks of changes in interest rates. The Fund enters into derivative financial instruments to manage its exposure to interest rate risk and these include interest rate swaps that the Fund has entered into to mitigate the risk of rising interest rates.

There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk from the previous year.

Centuria Diversified Property Fund

Notes to the financial statements

16. Financial instruments (continued)

D. Market risk (continued)

Interest rate risk management

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at reporting date:

	Note	30 Jun 2013		30 Jun 2012	
		Effective interest rate	Total \$	Effective interest rate	Total \$
Financial assets					
Cash and cash equivalents	6	1.08%	2,667,624	1.87%	1,091,412
			<u>2,667,624</u>		<u>1,091,412</u>
Financial liabilities					
Derivative financial instruments		5.87%	2,733,399	5.47%	3,610,422
Borrowings (excluding borrowing costs)	11	5.36%	68,013,908	6.40%	65,751,316
			<u>70,747,307</u>		<u>69,361,738</u>

The sensitivity analysis below has been determined based on the Fund's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of financial assets and financial liabilities that have variable interest rates. A 100 (2012: 100) basis point increase or decrease is used when assessing the effect.

At reporting date, if variable interest rates had been 100 (2012: 100) basis points higher or lower and all other variables were held constant, the impact to the Fund would have been as follows:

	Variable + / -	Sensitivity impact	
		Rate increase \$	Rate decrease \$
30 Jun 2013			
Net profit/(loss)	1.00%	695,216	(713,466)
		<u>695,216</u>	<u>(713,466)</u>
30 Jun 2012			
Net profit/(loss)	1.00%	1,427,854	(1,470,412)
		<u>1,427,854</u>	<u>(1,470,412)</u>

The Fund's sensitivity to interest rates has decreased during the current year mainly due to the change in the fair value impact of the interest rate swap contracts. The methods and assumptions used to prepare the sensitivity analysis have not changed during the year.

Centuria Diversified Property Fund

Notes to the financial statements

16. Financial instruments (continued)

D. Market risk (continued)

Interest rate swap contracts

Under interest rate swap contracts, the Fund agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Fund to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held.

The fair value of the interest rate swaps is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract. The following tables detail the specific instruments held, showing the notional principal amounts and contracted fixed interest rate of each contract:

Type of contract	Expiration	Contracted fixed interest rate	Notional amount of contract \$	Fair value of assets \$	Fair value of liabilities \$
30 Jun 2013					
Interest rate swap	23 Mar 15	6.16%	23,875,000	-	(1,378,520)
Interest rate swap	23 Mar 15	4.63%	4,843,750	-	(152,632)
Interest rate swap	23 Mar 15	4.97%	1,308,750	-	(504,697)
Interest rate swap	23 Mar 15	5.90%	13,170,000	-	(697,550)
			<u>43,197,500</u>	-	<u>(2,733,399)</u>
30 Jun 2012					
Interest rate swap	31 Dec 12	3.78%	8,087,500	-	(20,433)
Interest rate swap	23 Mar 15	6.25%	23,875,000	-	(1,832,867)
Interest rate swap	23 Mar 15	4.63%	4,843,750	-	(187,643)
Interest rate swap	23 Mar 15	4.97%	13,068,750	-	(622,348)
Interest rate swap	23 Mar 15	5.90%	13,170,000	-	(947,131)
			<u>63,045,000</u>	-	<u>(3,610,422)</u>

Centuria Diversified Property Fund

Notes to the financial statements

16. Financial instruments (continued)

E. Credit risk

The Fund has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default. The Fund's exposure and the credit ratings of its counterparties are continuously monitored by the Responsible Entity.

At 30 June 2013, the main financial assets exposed to credit risk are trade and other receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2013. Refer to Note 7 for details of trade and other receivables.

The credit risk on trade and other receivables is minimal because of the proven remittance history of the counterparties. Credit risk from balances with banks and financial institutions is managed by the Responsible Entity in accordance with the Fund's investment policy. Cash investments are made only with approved counterparties.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

F. Liquidity risk

The Fund's constitution provides for the application and redemption of units and it is therefore exposed to the liquidity risk of meeting unitholder redemptions during these periods. The risk associated with meeting unitholders redemptions is minimal as the Responsible Entity has discretion in approving redemptions.

The Fund's strategy to managing liquidity risk is in accordance with the Fund's investment strategy and remains unchanged from 2012. The Fund also manages liquidity risk by maintaining adequate banking facilities and through the continuous monitoring of forecast and actual cash flows and matching the profiles of financial assets and liabilities.

The following tables summarise the maturity profile of the Fund's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The tables include both interest and principal cash flows:

	Effective interest rate	Total principal and interest	Less than 1 year	1 to 5 years	5+ years
30 Jun 2013					
Trade and other payables	0.00%	543,044	543,044	-	-
Borrowings	5.36%	71,695,848	70,310,842	1,385,006	-
Derivative financial instruments	5.87%	3,006,928	1,739,348	1,267,580	-
		75,245,820	72,593,234	2,652,586	-
30 Jun 2012					
Trade and other payables	0.00%	1,695,981	1,695,981	-	-
Borrowings	6.40%	73,799,095	6,824,578	66,974,517	-
Derivative financial instruments	5.47%	4,183,998	1,546,484	2,637,514	-
		79,679,074	10,067,043	69,612,031	-

The principal amounts included in the above borrowings is \$68,013,908 (2012: \$65,751,316).

Centuria Diversified Property Fund

Notes to the financial statements

16. Financial instruments (continued)

G. Fair value

Fair value of financial instruments carried at amortised cost

The directors of the Responsible Entity consider that the carrying amount of the financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair value.

Valuation techniques

The fair value of financial assets and financial liabilities are determined as follows:

- Financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- Derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Total	Level 1	Level 2	Level 3
30 Jun 2013				
Financial liabilities at FVTPL				
Derivative financial instruments	2,733,399	-	2,733,399	-
	2,733,399	-	2,733,399	-
30 Jun 2012				
Financial liabilities at FVTPL				
Derivative financial instruments	3,610,422	-	3,610,422	-
	3,610,422	-	3,610,422	-

Centuria Diversified Property Fund

Notes to the financial statements

17. Related parties

Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered the key management personnel. The directors of the Responsible Entity are key management personnel of that entity and their names are:

John McBain	Resigned 19 July 2013.
Jason Huljich	
Peter Done	
Deepak Gupta	Resigned 22 May 2013.
Matthew Hardy	Appointed 4 July 2013.
Edward Psaltis	Appointed 4 July 2013.

The Responsible Entity is entitled to a management fee which is calculated at up to 0.60% of the gross value of assets held plus GST.

The Fund has entered into an arrangement whereby an incentive fee is payable to the Responsible Entity when an investment property is sold, provided certain performance benchmarks are achieved. The fee is calculated as 15.00% of the excess of the gross sale price over the total acquisition cost of the investment property.

No provision has been recognised for incentive fees as there is no indication as at 30 June 2013 that the performance benchmarks would be achieved upon the future sale of investment properties.

At reporting date an amount of \$66,435 (2012: \$470,695) owing to the Responsible Entity was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices.

No compensation is paid directly by the Fund to any of the directors or key management personnel of the Responsible Entity.

Responsible entity fees and other transactions

	Fair value 30 Jun 2013	Fair value 30 Jun 2012
	\$	\$
Finance costs	303,511	332,462
Leasing fees	20,328	156,447
Management fees	652,571	630,204
Property management fees	91,378	68,121
Other professional fees	12,100	28,392
	<u>1,079,888</u>	<u>1,215,626</u>

Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time Centuria Property Funds Limited, its directors or its director-related entities may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors.

Centuria Diversified Property Fund

Notes to the financial statements

17. Related parties (continued)

Related party investments held by the Fund

The Fund has no investments in the Responsible Entity or its associates.

Units in the Fund held by related parties

At 30 June 2013, the following related parties of the Responsible Entity hold units in the Fund:

	Units held	Interest held	Distributions	Amounts payable
		%	\$	\$
30 Jun 2013				
Centuria Growth Bond Fund	11,119,259	13.43%	244,624	-
CBF1 Investment Trust 1	2,636,754	3.18%	58,008	-
Centuria Capital Ltd	80,000	0.10%	1,760	-
Jason Huljich	12,408	0.01%	274	-
	13,848,421	16.72%	304,666	-
30 Jun 2012				
Centuria Growth Bond Fund	11,119,259	13.43%	-	-
CBF1 Investment Trust 1	2,636,754	3.18%	-	-
Centuria Capital Ltd	80,000	0.10%	-	-
Jason Huljich	12,408	0.01%	-	-
	13,848,421	16.72%	-	-

No other related parties of the Responsible Entity held units in the Fund.

Loans with related entities

The Fund had a convertible note issued to Centuria Capital Limited of \$1,351,316 (2012: \$2,706,316 payable). The convertible note issued to Centuria Capital Limited bears interest at 10% (2012: 10%) and is unsecured. The note matures on 30 September 2014. Refer to Note 11 for the terms and conditions of the convertible note.

Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions within the Fund

No director has entered into a material contract with the Fund since the end of the previous year and there were no material contracts involving directors' interests subsisting at year end.

Centuria Diversified Property Fund

Notes to the financial statements

18. Events subsequent to reporting date

On 27 July 2013 Cochlear Limited (the sole tenant of 14 Mars Road, Lane Cove) renewed their lease for another term of 8 years and 6 months effective from 1 July 2013 to 31 December 2021. The premises will be leased for \$1,889,953 per annum plus outgoing recoveries with a fixed annual increase of 4% per annum.

19. Parent entity disclosures

Financial position

Assets

	30 Jun 2013 \$	30 Jun 2012 \$
Current assets	21,333,700	19,608,863
Non-current assets	16,157,601	17,086,607
Total assets	37,491,301	36,695,470

Liabilities

Current liabilities	11,279,299	387,611
Non-current liabilities	456,005	10,194,699
Total liabilities	11,735,304	10,582,310

Equity

Issued units	29,255,257	29,255,257
Accumulated losses	(3,499,260)	(3,142,097)
Total equity	25,755,997	26,113,160

Financial performance

(Loss)/profit for the year*	(357,163)	310,332
Other comprehensive income	-	-
Total comprehensive (loss)/income for the year	(357,163)	310,332

At reporting date, the Parent has not entered into any guarantees or commitments to purchase property plant and equipment, and does not have any contingent liabilities.

* Net profit attributable to members of the Parent of \$1,831,782 (2012: \$1,755,329 profit), per the consolidated statement of profit or loss and other comprehensive income, includes net profit of the Parent's subsidiaries of \$2,188,945 (2012: \$1,444,997 profit).

20. Additional information

The registered office and principal place of business of the Fund and the Responsible Entity are as follows:

Registered office:

Suite 2301, Level 23, 111 Pacific Highway
NORTH SYDNEY NSW 2060

Principal place of business:

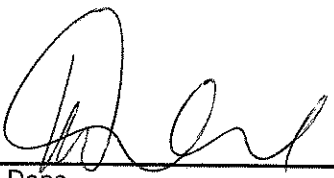
Suite 2301, Level 23, 111 Pacific Highway
NORTH SYDNEY NSW 2060

Centuria Diversified Property Fund Directors' declaration

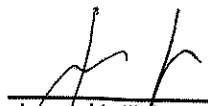
The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Diversified Property Fund ('the Fund'), declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (b) the attached financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note 3(a) to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Australian Accounting Standards and giving a true and fair view of the Fund's financial position as at 30 June 2013 and of its performance for the financial year ended on that date.

Signed in accordance with a resolution of the board of directors of the Responsible Entity made pursuant to s.295(5) of the Corporations Act 2001.



Peter Done
Director



Jason Huljich
Director

Dated at Sydney this 4 day of September 2013.



Independent auditor's report to the unitholders of Centuria Diversified Property Fund (a stapled entity comprising CDPF Stapled Fund No. 1 and CDPF Stapled Fund No. 2)

We have audited the accompanying financial report of Centuria Diversified Property Fund (a stapled entity comprising CDPF Stapled Fund No. 1 and CDPF Stapled Fund No. 2) (the Stapled Entity), which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 20 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of Centuria Property Funds Limited (the Responsible Entity) 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 is free from material misstatement, whether due to fraud or error. In note 3(a), the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Stapled Entity's financial position, and of its performance.

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



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Centuria Diversified Property Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Stapled Entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 3(a).

Emphasis of matter – net current asset deficiency

Without qualification to the opinion expressed above, attention is drawn to the Stapled Entity's net current asset deficiency of \$63,581,544 at 30 June 2013. This is due to the classification of bank debt as a current liability due to its expiry on 30 June 2014. As disclosed in Note 3(b), the Directors of the Responsible Entity intend to refinance the bank debt. In the event that the Stapled Entity is unable to refinance, there may be doubt as to the Stapled Entity's ability to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business and at the amounts recognised in the financial statements.

KPMG

Steven Gatt
Partner

Sydney

4 September 2013