GARDA DIVERSIFIED PROPERTY FUND
(ASX CODE: GDF)
ARSN: 104 391 273

GARDA
CAPITAL GROUP

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2018


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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 2018 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 interim financial statements of GARDA Diversified Property Fund are as an individual entity. The interim 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 interim financial statements were authorised for issue by the directors of the responsible entity on 20 February 2019. The directors have the power to amend and reissue the interim financial statements.

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DIRECTORS' REPORT

The directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund (**Fund**), provide this report together with the financial statements of the Fund, for the half year ended 31 December 2018.

INFORMATION ON DIRECTORS OF THE RESPONSIBLE ENTITY

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

Mr Matthew Madsen	Executive Chairman and Managing Director
Mr Mark Hallett	Non-Executive Director
Mr Philip Lee	Non-Executive Director
Mr Morgan Parker	Non-Executive Director (Appointed 13 December 2018)
Mr Leylan Neep	Executive Director

PRINCIPAL ACTIVITY

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

REVIEW AND RESULTS OF OPERATIONS

The Fund generated a net profit of $12.9 million during the half year, an increase of $8.2 million compared to prior half year profit of $4.7 million. The primary reason for this increase in profit is due to the settlement of the litigation matter with Herron Todd White (**HTW**) for which the Fund received $8.0 million in cash proceeds.

The Fund's total assets at 31 December 2018 increased to $319.5 million from $290.6 million at 30 June 2018, an increase of $28.9 million. The increase in total assets is primarily attributable to:

a) an $8.0 million cash settlement for the litigation matter with HTW;

b) a further $13.6 million outlaid on the construction of 588 Swan Street, Richmond (Botanicca 9);

c) $3.0 million for the acquisition and settlement of 1-9 Huntress Road, Berrinba; and

d) $4.5 million deployed on value accretive capital improvements on tenanted properties.

Total unitholders' equity at 31 December 2018 was $208.3 million, an increase of $30.4 million on the 2018 financial year balance of $177.9 million, which was largely reflective of the net proceeds of $24.2 million from the Fund's placement completed in November 2018, and the $8.0 million in litigation proceeds from the settlement of the HTW matter.

Net tangible assets (**NTA**) for the half year ended 31 December 2018 were $1.31 per unit, an increase of $0.02 per unit on the 30 June 2018 NTA per unit of $1.29 per unit. Fund units traded at an ASX closing price at 31 December 2018 of $1.32 per unit, an uplift of 13.3% from $1.165 per unit at 30 June 2018.

The Fund benefited from positive leasing and renewal outcomes during the half year, with 4,425m² leased across eight transactions completed since 30 June 2018, increasing the portfolio occupancy to 99%.

In accordance with Australian Accounting Standards, net profit includes a number of non-cash adjustments including fair value movements in asset and liability values. Property Council funds from operations[1] (**FFO**) is a global financial measure of real estate operating performance that reflects the underlying and recurring earnings from operations. This is determined by adjusting the statutory profit (under Australian Accounting Standards) for certain non-cash and other items.

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.

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

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

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

	31 DECEMBER 2018 $000'S	31 DECEMBER 2017 $000'S
Net profit for the half year attributable to unitholders	12,870	4,740
Fair value movement in investment properties	593	274
Net loss on fair value of derivative financial instrument	475	177
Incentives amortisation and rent straight-line	(153)	6
Non-underlying and non-recurring revenue[1]	(8,000)	-
Non-underlying and non-recurring legal expenses[2]	666	323
Funds From Operations (FFO)	**6,451**	**5,520**
Distribution paid and payable	**6,680**	**5,054**
FFO per unit[3] (represented in cents per unit)	**4.40**	**4.84**
Distribution payout ratio	**103.5%**	**91.6%**

1 Litigation proceeds for a settled litigation matter not viewed by management as part of the underlying and recurring revenue.
2 Litigation expenses not viewed by management as part of the underlying and recurring expenses.
3 Number of units is based on the weighted average units on issue for the respective period.

FFO of $6.5 million was generated during the period, representing an increase of $1.0 million from the prior half year (2017: $5.5 million). Distributions for the period totalled $6.7 million, which equated to a payout ratio of 103.5%.

Distributions for the half year increased compared to the prior period as a result of the allotment of 20.0 million units following the $25.0 million placement completed in November 2018.

The Fund generated operational cash flows of $12.5 million for the half year (2017: $4.9 million).This includes the $8.0 million received from the settlement of an outstanding litigation matter with HTW.

ACQUISITION AND CAPITAL MANAGEMENT

On 21 September 2018, the Fund entered into an unconditional contract to acquire a 4.1 hectare industrial site at 498 Progress Road in Wacol, Queensland for $5.9 million. Settlement is due for May 2019.

On 15 November 2018, the Fund settled the acquisition of an 11,940m^2 industrial site at 1-9 Huntress Road in Berrinba, Queensland for $3.0 million.

The Fund intends to build modern industrial facilities on both sites above, to be leased and retained as investment properties.

The Directors have continued to adopt the most recent independent valuations as at 31 December 2018 with the addition of capital expenditure during the period deemed accretive.

In November 2018, a placement of 20.0 million new units at an issue price of $1.25 raised funds of $25.0 million before costs. The net proceeds of $24.2 million were primarily used to reduce the Fund's debt facilities. As manager to the Fund, the GARDA Capital Group participated in the placement for $4 million, increasing its stake to 13.8% of the issued units in the Fund.

The number of units on issue in the Fund as at 31 December 2018 is 158,444,594 (30 June 2018: 138,444,594).

At balance date, the Fund had drawn debt of $104.4 million, with a loan to value ratio (LVR) of 34%[2].

DISTRIBUTIONS PAID OR RECOMMENDED

Distributions paid and payable throughout the half year totalled $6.7 million (2017: $5.1 million), representing a distribution of 4.5 cents per unit. This represents a distribution payout ratio of 103.5% of FFO, in line with the Fund's forecast payout ratio range. As at 31 December 2018, a distribution declared of $3.6 million in relation to the December 2018 quarter remained payable and was subsequently paid on 21 January 2019.

2 LVR is calculated as total drawn debt divided by total property value (including the 498 Progress Road deposit in Other Assets).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the responsible entity, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

On 19 February 2019, the responsible entity entered into an agreement to extend the two tranches of the St George Bank loan that were due to expire on 30 June 2019. The maturity date for these tranches totalling $20.3 million is now 30 June 2020.

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

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING OF AMOUNTS

The Fund is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the interim 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

20 February 2019

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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 2018, I declare that, to the best of my knowledge and belief, there have been:

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

T R Mann
Director

BDO Audit Pty Ltd

Brisbane, 20 February 2019

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	NOTES	HALF YEAR 31 DECEMBER 2018 $000'S	HALF YEAR 31 DECEMBER 2017 $000'S
Revenue	4	20,435	9,797
Property expenses		(2,922)	(2,426)
Trust level expenses		(2,022)	(1,284)
Finance costs		(1,553)	(896)
Net loss on financial instrument held at fair value through profit and loss	10	(475)	(177)
Fair value movement in investment properties	8	(593)	(274)
Profit for the half year		**12,870**	**4,740**
Other comprehensive income for the half year		-	-
Total comprehensive income for the half year attributable to:			
Owners of GARDA Diversified Property Fund		12,870	4,740
Basic and diluted profit per unit attributable to the unitholders of GARDA Diversified Property Fund			
Basic and diluted profit per unit (cents per unit)	5	**8.8**	**4.2**

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

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STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	NOTES	31 DECEMBER 2018 $000'S	30 JUNE 2018 $000'S
ASSETS			
Current assets			
Cash and cash equivalents	6	11,001	4,523
Trade and other receivables		1,311	2,154
Total current assets		**12,312**	**6,677**
Non-current assets			
Other assets	7	904	-
Investment properties	8	306,302	283,932
Total non-current assets		**307,206**	**283,932**
Total assets		**319,518**	**290,609**
LIABILITIES			
Current liabilities			
Trade and other payables		1,519	2,767
Distribution payable	3	3,565	3,115
Borrowings	9	14,750	18,307
Total current liabilities		**19,834**	**24,189**
Non-current liabilities			
Tenant security deposits		556	520
Borrowings	9	89,463	87,142
Derivative financial instruments	10	1,349	874
Total non-current liabilities		**91,368**	**88,536**
Total liabilities		**111,202**	**112,725**
Net assets		**208,316**	**177,884**
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Contributed equity	11	281,112	256,870
Accumulated losses		(72,796)	(78,986)
Total equity		**208,316**	**177,884**

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

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STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	CONTRIBUTED EQUITY $000'S	RETAINED LOSSES $000'S	TOTAL $000'S
Balance at 1 July 2017	**227,766**	**(91,863)**	**135,903**
Comprehensive Income			
Profit for the half year	-	4,740	4,740
Other comprehensive income	-	-	-
Total comprehensive income for the half year	**-**	**4,740**	**4,740**
Transactions with owners in their capacity as owners			
Unit Issue	30,040	-	30,040
Equity transaction costs	(917)	-	(917)
Distributions paid or provided for	-	(5,054)	(5,054)
	29,123	(5,054)	24,069
Balance at 31 December 2017	**256,889**	**(92,177)**	**164,712**
Balance at 1 July 2018	**256,870**	**(78,986)**	**177,884**
Comprehensive Income			
Profit for the half year	-	12,870	12,870
Other comprehensive income	-	-	-
Total comprehensive income for the half year	**-**	**12,870**	**12,870**
Transactions with owners in their capacity as owners			
Unit Issue	25,000	-	25,000
Equity transaction costs	(758)	-	(758)
Distributions paid or provided for	-	(6,680)	(6,680)
	24,242	(6,680)	17,562
Balance at 31 December 2018	**281,112**	**(72,796)**	**208,316**

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

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STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	NOTES	HALF YEAR 31 DECEMBER 2018 $000'S	HALF YEAR 31 DECEMBER 2017 $000'S
Cash flows from operating activities			
Rental and outgoings received (includes GST)		13,691	10,921
Litigation proceeds	6	8,000	-
Cash payments in the course of operations (includes GST)		(8,610)	(7,203)
Interest received		32	47
Finance costs		(2,129)	(1,229)
GST refund		1,557	2,399
Net cash provided by operating activities		**12,541**	**4,935**
Cash flows from investing activities			
Payments for investment property improvements		(4,493)	(2,182)
Payments for acquisitions and capital expenditure on investment properties under construction		(18,035)	(19,646)
Payments for leasing fees and lease incentives		(319)	(212)
Net cash used in investing activities		**(22,847)**	**(22,040)**
Cash flows from financing activities			
Proceeds of borrowings		25,051	22,800
Repayments of borrowings		(26,250)	(10,250)
Payments for borrowing costs		(29)	(260)
Proceeds from issue of additional equity		25,000	30,040
Equity transaction costs		(758)	(896)
Distributions paid to unitholders	3	(6,230)	(5,167)
Net cash provided by financing activities		**16,784**	**36,267**
Net increase in cash and cash equivalents		6,478	19,162
Cash and cash equivalents at the beginning of the half year		4,523	11,389
Cash and cash equivalents at end of the half year		**11,001**	**30,551**

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

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These general purpose financial statements for the half year reporting period ended 31 December 2018 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 2018 and any public announcements made by GARDA Diversified Property Fund during the half year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Basis of Preparation of half year report

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 except for the adoption of new and amended standards as set out below.

Key judgement – Going Concern

The Fund was in a net current asset deficiency position as at 31 December 2018 by $7.52 million (2017: $17.51 million). The deficiency was primarily as a result of borrowings of $14.75 million (2017: $18.31 million) being classified as current liabilities due to certain tranches of the St. George loan expiring on 30 June 2019. Subsequent to balance date, the responsible entity has executed an extension on these tranches to a maturity date of 30 June 2020.

The directors of GARDA Capital Limited, the responsible entity of GARDA Diversified Property Fund, are of the reasonable opinion that the Fund will be able to meet its liabilities as and when they fall due.

New Accounting Standards and Impact on Accounting Policies

The Fund has adopted AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers at 1 July 2018 (applicable for reporting periods commencing from 1 January 2018). AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. AASB 15 contains a single model that applies to contracts with customers and primarily two approaches to recognising revenue: at a point in time or over time.

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

New accounting standards and interpretations that are not mandatory for the interim reporting period have not been early adopted. The Fund has not yet performed its assessment of the potential impacts of the new accounting standards.

AASB 9 Financial Instruments

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

i) Classification and measurement of financial assets and financial liabilities

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

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

ii) Impairment of financials assets

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Accounting policies

AASB 9 contains three principal classification categories for financial assets:

- measured at amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

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

Financial assets at amortised cost

Loans and receivables

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

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

Recoverability of loans and receivables

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

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

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

- financial difficulties of a counterparty or probability that a counterparty will default on payment or will enter bankruptcy; and
- conditions specific to the asset to which the receivable relates.

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

iv) Derivatives

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

There has been no impact with the adoption of AASB 9 on the Fund's derivatives and to the accounting policies disclosed in the annual financial statements for the year ended 30 June 2018.

AASB 15 Revenue from Contracts and Customers

The requirements of AASB 15 replace AASB 118 Revenue and AASB 111 Construction Contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and primarily two approaches to recognising revenue: at a point in time of over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

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

i) Classification and measurement of revenue

Revenue is recognised over time if:

- the customer simultaneously receives and consumes the benefits as the entity performs;
- the customer controls the asset as the entity creates or enhances it; or
- the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Rounding of amounts

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

NOTE 2 SEGMENT INFORMATION

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

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

NOTE 3 DISTRIBUTIONS

	HALF YEAR	
	31 DECEMBER 2018 $000'S	31 DECEMBER 2017 $000'S
Distributions provided for and/or paid by the Fund during the period were:		
September quarter distribution 2.25 cents per unit (2017: 2.25 cents per unit)	(3,115)	(2,527)
December quarter distribution 2.25 cents per unit (2017: 2.25 cents per unit)	(3,565)	(2,527)
	(6,680)	**(5,054)**

Distributions declared for the quarter ended 31 December 2018 of $3.6 million, but not paid until after half year end, have been provided for.

NOTE 4 REVENUE

	HALF YEAR	
	31 DECEMBER 2018 $000'S	31 DECEMBER 2017 $000'S
Rental income and other revenue	12,835	10,254
Litigation proceeds	8,000	-
Interest revenue	82	47
Leasing fees amortised	(220)	(181)
Leasing incentives amortised	(262)	(323)
	20,435	**9,797**

The increase in rental income and other revenue during the year is primarily attributable the completion of construction and lease commencements for the Wacol and Pinkenba properties, and the addition of the Heathwood property during the calendar year.

In November 2018, a settlement in a litigation matter was reached with HTW, which resulted in the Fund receiving $8.0 million in cash proceeds on 20 December 2018.

NOTE 5 EARNINGS PER UNIT

	HALF YEAR	
	31 DECEMBER 2018 $000'S	31 DECEMBER 2017 $000'S
Profit attributable to the unitholders of GARDA Diversified Property Fund:		
Profit from continuing operations	12,870	4,740
Basic and diluted profit per unit (cents per unit) for continuing operations	8.8	4.2
Weighted average number of ordinary units used in the calculation of basic and diluted profit per unit	146,466,333	114,035,865

NOTE 6 CASH AND CASH EQUIVALENTS

At 31 December 2018, included in the cash and cash equivalents balance of $11.0 million (30 June 2018: $4.5 million) is the litigation proceeds of $8.0 million received on 20 December 2018 from the Fund's settlement of an outstanding litigation matter with Herron Todd White. On 2 January 2019, $8.5 million was applied to partially repay the Fund's debt facility, reducing drawn debt from $104.4 million, as at 31 December 2018, to $95.9 million.

NOTE 7 OTHER ASSETS

On 21 September 2018, the Fund entered into an unconditional contract to acquire a 4.1 hectare industrial site at 498 Progress Road in Wacol, Queensland for $5.9 million. Deposit and other directly attributable costs associated with the unconditional contract have been recognised as other assets in anticipation of settlement which is due for May 2019. On settlement, the balance will be transferred to investment properties.

NOTE 8 INVESTMENT PROPERTIES

	31 DECEMBER 2018 $000'S	30 JUNE 2018 $000'S
Investment properties at independent valuation	264,700	210,450
Capital expenditure post independent valuation at directors valuation	4,493	-
Investment properties at directors' valuation	-	35,250
Investment properties under construction at directors' valuation	37,109	38,232
	306,302	**283,932**
Movements during the period		
Balance at beginning of the period	283,932	188,100
Movements in fair value	(593)	14,330
Acquisition of tenanted investment properties	-	10,475
Capital expenditure on tenanted investment properties	4,493	5,115
Acquisition and capital expenditure of properties under construction	17,941	65,630
Straight-lining of rental income	497	110
Net movement in leasing fees and incentives	32	172
Balance at end of the period	**306,302**	**283,932**

Investment property independent valuation details

The basis of the valuation of investment properties is fair value being the amounts for which the properties could have been exchanged between willing parties in an arm's length transaction, based on current prices in an active market.

NOTE 8 INVESTMENT PROPERTIES (CONTINUED)

The 30 June 2018 valuations were based on independent assessments made by qualified and suitably experienced certified practicing external valuers, using a capitalisation approach and the discounted cash approach as the primary valuation methods. These approaches have in turn been checked by the direct comparison approach and analysed on a rate per square metre of total lettable area.

These valuations were undertaken by independent assessment during June 2018 (with the exception of Heathwood conducted at the end of March 2018, Wacol conducted in early July 2017 on an "as if" complete basis and Pinkenba conducted at the end of May 2017 on an "as if" completed basis). These valuations were adopted at 30 June 2018. Construction for Wacol completed in June 2018, and Pinkenba in July 2018.

The Directors at 31 December 2018 have adopted the most recent independent valuations plus all capital expenditure incurred during the half year which has been deemed by directors as being capital accretive.

Investment properties under construction

On 15 November 2018, the Fund settled the acquisition of an 11,940m^2 industrial site at 1-9 Huntress Road in Berrinba, Queensland for $3.0 million.

Other properties under construction as reported in the 30 June 2018 Fund annual report are carried at independent valuation on completion less cost to complete the project as at 31 December 2018, being the Directors' valuation as at 31 December 2018.

Independent property valuations details

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

INVESTMENT PROPERTIES AT INDEPENDENT VALUATION	VALUATION BASIS	CAPITALISATION RATE	NET MARKET INCOME $000'S	ADJUSTMENTS $000'S	VALUATION $000'S
7-19 Lake Street, Cairns	Independent	8.50%	5,166	(8,501)	49,000
Land at 26-30 Grafton Street, Cairns	Independent	n/a	n/a	n/a	2,000
69-79 Diesel Drive, Mackay	Independent	7.50%	2,084	2,533	30,200
142-150 Benjamin Place, Lytton	Independent	7.00%	722	(730)	9,700
B2, 747 Lytton Road, Murarrie	Independent	8.00%	1,351	(2,474)	14,250
154 Varsity Parade, Varsity Lakes	Independent	8.25%	1,325	(1,565)	14,000
436 Elgar Rd, Box Hill	Independent	6.25%	2,095	(4,393)	29,000
572-576 Swan Street, Richmond	Independent	5.75%	3,102	(1,099)	52,500
41 Bivouac Place, Wacol	Independent	6.25%	2,200	-	35,250
67 Noosa Street, Heathwood	Independent	7.37%	724	(29)	9,800
70-82 Main Beach Rd, Pinkenba	Independent	7.50%	1,400	(191)	19,000
					264,700
Capital expenditure post independent valuation	Directors				**4,493**
Investment properties under construction					
588 Swan Street, Richmond (Botanicca 9)[1]	Directors				33,889
1-9 Huntress Road, Berrinba	Directors				3,220
					37,109
Total investment properties					**306,302**

1 Directors' valuation for 588 Swan Street, Richmond is based on internal valuation on an 'as if' complete basis less cost to complete the project, including risk allowances, at 31 December 2018. The directors have determined that the internal valuation presents a more reliable estimate of the fair value. Completion of the project is anticipated for May 2019.

NOTE 8 INVESTMENT PROPERTIES (CONTINUED)

Contractual Obligations

Contractual obligations to develop or construct investment properties at 31 December 2018 are as follows:

PROPERTIES	COST TO COMPLETE $000'S
588 Swan Street, Richmond (Botanicca 9)[1]	22,111
Total	**22,111**

1 Completion of construction is anticipated for May 2019.

On 21 September 2018, the Fund entered into an unconditional contract to acquire a 4.1 hectare industrial site at 498 Progress Road in Wacol, Queensland for $5.9 million. As at 31 December 2018, settlement for $5.6 million is due for May 2019.

There are no other unconditional contractual obligations to purchase, construct or develop investment properties as at 31 December 2018.

NOTE 9 BORROWINGS

	31 DECEMBER 2018 $000'S	30 JUNE 2018 $000'S
Current		
Bank loans (secured)	14,750	18,307
	14,750	**18,307**
Non-Current		
Bank loans (secured)	89,463	87,142
	89,463	**87,142**
Total borrowings (Current and Non-Current)	**104,213**	**105,449**

The Fund has $20.3 million of facilities with St. George Bank, drawn to $14.75 million, classified as current at 31 December 2018, which are due to expire on 30 June 2019. Subsequent to balance date, the responsible entity has executed an extension on these tranches to a maturity date of 30 June 2020. The Fund has a further $63.3 million of the St George Bank facilities due to expire on 30 June 2020, and $4.41 million of the St George Bank facilities due to expire on 30 April 2021.

The Fund has two investment facilities with ANZ Banking Group for a total amount of $30.65 million, fully drawn to $30.65 million as at 31 December 2018 and classified as non-current. $9.5 million of the ANZ investment facilities are due to expire on 9 August 2020 and $21.15m of the ANZ Investment Facilities are due to expire on 9 September 2020.

	31 DECEMBER 2018 $000'S	30 JUNE 2018 $000'S
Movements in borrowings		
Balance at beginning of the half year	105,449	59,703
Proceeds from borrowings	25,051	71,059
Repayment of borrowings	(26,250)	(25,300)
Capitalised borrowing costs	(29)	(260)
Capitalised interest	(92)	92
Amortisation of borrowing costs	84	155
Balance at the end of the half year	**104,213**	**105,449**

Bank Loan

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

NOTE 9 BORROWINGS (CONTINUED)

Under the facility agreement with St. George Bank that was operable at 31 December 2018, the following covenants exist:

a. Interest cover ratio is to remain above 2.50 times; and

b. Loan to value ratio (LVR) must remain under 50%.

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

Under the facility agreement with ANZ Banking Group at 31 December 2018, the following covenants exist:

a. Interest cover ratio is to remain above 2.50 times;

b. Wacol LVR to be no greater than 60%; and

c. Pinkenba LVR to be no greater than 50%.

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

There were no breaches of covenants during the year.

At the 31 December 2018 the following facility limits exist:

FACILITY	FACILITY LIMIT $000'S	AMOUNT DRAWN $000'S	AMOUNT AVAILABLE $000'S
St. George Bank	95,863	73,760	22,103
ANZ Banking Group	30,650	30,650	-
Total facilities	**126,513**	**104,410**	**22,103**

At balance date, the Fund's LVR was 34%[1].

The Fund had fixed interest rate swap agreements of $60.0 million (30 June 2018: $60.0 million) which expire in July 2022.

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

1 LVR is calculated as total drawn debt divided by total property value (including the 498 Progress Road deposit in Other Assets).

NOTE 10 DERIVATIVE FINANCIAL INSTRUMENTS

	31 DECEMBER 2018 $000'S	30 JUNE 2018 $000'S
Non-current liabilities		
Interest rate swap contracts	1,349	874

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

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

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

During the half year ended 31 December 2018, a net loss on fair value of interest rate swap for $0.5 million (2017: $0.2 million) has been recognised in the statement of profit or loss and other comprehensive income.

NOTE 11 CONTRIBUTED EQUITY

	31 DECEMBER 2018 NUMBER	30 JUNE 2018 NUMBER	31 DECEMBER 2018 $000'S	30 JUNE 2018 $000'S
Issued units	158,444,594	138,444,594	281,112	256,870
Movements during the year				
Balance at beginning of year	138,444,594	112,322,972	256,870	227,766
Entitlement offer	-	26,121,622	-	30,040
Placement offer	20,000,000	-	25,000	-
Capital raising costs	-	-	(758)	(936)
Balance at end of year	**158,444,594**	**138,444,594**	**281,112**	**256,870**

NOTE 12 CONTINGENT ASSETS AND LIABILITIES

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

As at 31 December 2018, no other new matters were noted compared to matters already disclosed in the 30 June 2018 annual financial report.

NOTE 13 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 (AFSL 246 714).

Unitholdings (number of units)

31 DECEMBER 2018	OPENING BALANCE	DISPOSALS	ADDITIONS	CLOSING BALANCE
Directors of GARDA Capital Limited				
Mr Matthew Madsen	146,401	-	-	146,401
Mr Mark Hallett	33,698	-	15,000	48,698
Mr Philip Lee	61,628	-	-	61,628
Mr Morgan Parker	-	-	-	-
Mr Leylan Neep	-	-	-	-
Senior Executive of GARDA Capital Limited				
Mr Lachlan Davidson	-	-	-	-
Responsible entity				
GARDA Capital Limited	-	-	-	-
Other related entities				
GARDA Capital Trust	18,700,363	-	3,200,000	21,900,363

NOTE 13 RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties

(a) Responsible entity's fees and other transactions

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

- A management fee of 0.65% per annum of gross asset value (GAV) (reducing to 0.60% per annum of GAV in excess of $750 million); and
- A 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 2018 $	31 DECEMBER 2017 $
Responsible entity's fees		
Management fee	997,343	679,841
Capital works fee	811,998	215,760
	1,809,341	**895,601**
Other transactions with the responsible entity		
Recovery of professional expenses	220,083	356,052
Distributions paid or payable on units held in the Fund by GARDA Capital Trust, the stapled entity of the responsible entity	913,516	450,212
Administration costs reimbursed in accordance with the Fund Constitution	-	10,144
	1,133,599	**816,408**

(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 2018 $	31 DECEMBER 2017 $
GARDA Real Estate Services Pty Ltd	706,498	504,397
GARDA Facilities Management Pty Ltd	97,378	81,014
GARDA Services Pty Ltd	79,833	60,803
	883,709	**646,214**

Hallett Legal Pty Ltd, a related entity of Mark Hallet which is a director of the responsible entity, provided legal services to the Fund prior to its merger with Macpherson Kelly. Fees of $nil (31 December 2017: $136,351) were paid for these services. As at 31 December 2018 the Group did not owe anything (30 June 2018: $nil) to Hallett Legal Pty Ltd.

NOTE 13 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	HALF YEAR	
	31 DECEMBER 2018 $	30 JUNE 2018 $
Current payables		
GARDA Capital Limited	490,508	392,554
GARDA Real Estate Services Pty Ltd	42,338	3,696
GARDA Services Pty Ltd	15,963	11,318
	548,809	**407,568**

Amounts 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 14 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.

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

	LEVEL 1 $000'S	LEVEL 2 $000'S	LEVEL 3 $000'S	LEVEL 4 $000'S
31 December 2018				
Assets				
Investment properties	-	-	306,302	306,302
	-	**-**	**306,302**	**306,302**
Liabilities				
Derivative financial instruments	-	1,349	-	1,349
	-	**1,349**	**-**	**1,349**
30 June 2018				
Assets				
Investment properties	-	-	283,932	283,932
	-	**-**	**283,932**	**283,932**
Liabilities				
Derivative financial instruments	-	874	-	874
	-	**874**	**-**	**874**

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

NOTE 14 FAIR VALUE MEASUREMENT (CONTINUED)

The Fund's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

Disclosed fair values

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

The following table sets out the valuation techniques used to measure fair value within Level 3, including details of the significant unobservable inputs used and the relationship between unobservable inputs and fair value.

DESCRIPTION	VALUATION APPROACH	UNOBSERVABLE INPUTS	RANGE OF INPUTS	RELATIONSHIP BETWEEN UNOBSERVABLE INPUTS AND FAIR VALUE
Investment properties	Income approach based on estimated rental value of the property. Discount rates, terminal yields, expected vacancy rates and rental growth rates are estimated by an external valuer or management based on comparable transactions and industry data.	Discount rate	6.50% to 9.00%	The higher the discount rate, terminal yield and expected vacancy rate, the lower the fair value.
		Capitalisation rate	5.75% to 8.25%	
		Terminal yield	6.00% to 8.50%	
		Expected vacancy rate	(weighted average 0%)	The higher the rental growth, the higher the fair value. Based on Gross Face Rental growth 10 year CAGR.
		Rental growth rate	2.17% to 2.55%	

The Board considers the valuations of each property half-yearly and either ensure an external independent valuer has been instructed, or adopt a Directors' valuation.

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

Reconciliation of Level 3 fair value movements

Refer to note 8 for the reconciliation of movements in investment properties. There have been no transfers to or from Level 1 or 2. There were no unrecognised gains/(losses) recognised in profit or loss for investment properties.

NOTE 15 EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

On 19 February 2019, the responsible entity entered into an agreement to extend the two tranches of the St George Bank loan that were due to expire on 30 June 2019. The maturity date for these tranches totalling $20.3 million is now 30 June 2020.

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

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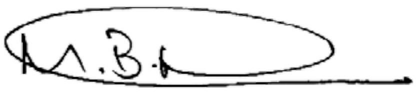
DIRECTORS' DECLARATION

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

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Accounting Standard *AASB 134 'Interim Financial Reporting'*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the Fund's financial position as at 31 December 2018 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

20 February 2019

INDEPENDENT AUDITOR'S REVIEW REPORT

AS AT 31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the unitholders of GARDA Diversified Property Fund

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of GARDA Diversified Property Fund (the Registered Scheme), which comprises the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of GARDA Capital Limited as Responsible Entity of GARDA Diversified Property Fund.

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

(i) Giving a true and fair view of the Registered Scheme's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Registered Scheme's financial position as at 31 December 2018 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Registered Scheme, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

BDO Audit Pty Ltd

BDO

T Mann

T R Mann
Director

Brisbane, 20 February 2019

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CORPORATE DIRECTORY

DIRECTORS

Matthew Madsen
Executive Chairman and Managing Director

Mark Hallett
Non-executive Director

Philip Lee
Non-executive Director

Morgan Parker
Non-executive Director

Leylan Neep
Executive Director and Chief Financial Officer

COMPANY SECRETARY

Lachlan Davidson
General Counsel and Company Secretary

REGISTERED OFFICE

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STOCK EXCHANGE LISTING

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

ARSN 104 391 273


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VOLVO

GARDA

CAPITAL GROUP