



**LEX Property Fund  
(ARSN 123 437 838)**

**Responsible Entity:  
LEX Property Management Limited  
(ABN 53 111 779 689)**

**Annual Financial Report  
30 June 2011**

# Contents

<b>DIRECTORS' REPORT .....</b>	<b>2</b>
<b>AUDITORS' INDEPENDENCE DECLARATION .....</b>	<b>4</b>
<b>STATEMENT OF COMPREHENSIVE INCOME.....</b>	<b>6</b>
<b>STATEMENT OF FINANCIAL POSITION.....</b>	<b>7</b>
<b>CASH FLOW STATEMENT .....</b>	<b>8</b>
<b>STATEMENT OF CHANGES IN EQUITY.....</b>	<b>9</b>
<b>NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>10</b>
<b>1 CORPORATE INFORMATION.....</b>	<b>10</b>
<b>2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....</b>	<b>10</b>
<b>3 FINANCE COSTS .....</b>	<b>16</b>
<b>4 DISTRIBUTIONS PAID OR PAYABLE.....</b>	<b>16</b>
<b>5 INVESTMENT PROPERTY .....</b>	<b>16</b>
<b>6 CASH AND CASH EQUIVALENTS .....</b>	<b>17</b>
<b>7 TRADE AND OTHER RECEIVABLES.....</b>	<b>18</b>
<b>8 TRADE AND OTHER PAYABLES.....</b>	<b>18</b>
<b>9 INTEREST BEARING BORROWINGS.....</b>	<b>18</b>
<b>10 UNIT CAPITAL.....</b>	<b>19</b>
<b>11 UNDISTRIBUTED INCOME.....</b>	<b>19</b>
<b>12 CAPITAL DISTRIBUTION RESERVE.....</b>	<b>20</b>
<b>13 NET TANGIBLE ASSET VALUE PER UNIT.....</b>	<b>20</b>
<b>14 FAIR VALUE OF FINANCIAL INSTRUMENTS .....</b>	<b>20</b>
<b>15 RISK MANAGEMENT STRATEGY .....</b>	<b>21</b>
<b>16 COMMITMENTS AND CONTINGENCIES .....</b>	<b>22</b>
<b>17 RELATED PARTY DISCLOSURES.....</b>	<b>23</b>
<b>18 AUDITORS' REMUNERATION.....</b>	<b>24</b>
<b>19 DIRECTOR DISCLOSURES .....</b>	<b>24</b>
<b>20 EVENTS AFTER THE BALANCE SHEET DATE.....</b>	<b>25</b>
<b>21 SEGMENT REPORTING.....</b>	<b>25</b>
<b>DIRECTORS' DECLARATION.....</b>	<b>26</b>
<b>AUDIT REPORT .....</b>	<b>27</b>

## DIRECTORS' REPORT

In accordance with the Corporations Act 2001 and the Australian Accounting Standards Board, the Directors of LEX Property Management Limited (ABN 53 111 779 689), the Responsible Entity of LEX Property Fund, a managed investment scheme (ARSN 123 457 838), provide this report for the year ended 30 June 2011.

### DIRECTORS

The names, details and qualifications of the directors in office during the year and until the date of this report are below. Directors were in office for this entire period unless otherwise stated.

#### Alan W Tribe CPA, FCCA

#### Non Executive Director and Chairman

As Managing Director of Cebas Pty Ltd, the IKEA franchisee for South Australia and Western Australia, he maintains overall control of retail operations and the performance of the retail business with specific responsibility for the planning and development of Cebas' franchise expansion opportunities. He has extensive experience from a broad range of commercial roles in Australia and overseas and has broad experience in corporate matters in both the public and private sectors. He is an associate of The Queensgate Trust, a shareholder of the Responsible Entity.

#### Nicholas C Wyatt BA (Hons), ACA (UK)

#### Managing Director

A Chartered Accountant originally from the UK, who has gained significant exposure in a whole range of industries. He has developed his career through various finance and company secretarial functions into broader operational and corporate management roles, more recently specialising in acquisitions, property development and corporate finance opportunities. He is an associate of The Bridgewater Trust which is a shareholder of the Company. As Managing Director, he has overseen all aspects of the Responsible Entity's formation and strategic growth to date, including the structuring, debt-funding and capital raising completed for both investment funds under management.

#### Stephen R Dixon B.Bus, CPA

#### Director – Funds Management

A CPA with broad experience in all aspects of fund management with specific experience in managing listed property trusts, unlisted property trusts, property excluded offers, life insurance, superannuation, retail and wholesale managed funds. He has extensive experience through a variety of previous roles with Armstrong Jones, Guardian Funds Management Limited and Acumen Capital Limited. He is also a current director of Macro Fund Services Pty Ltd, a shareholder of the Responsible Entity. As Director – Funds Management, he has a focus on product structuring, capital raising and operational matters.

#### Peter M Morrison CPA

#### Non Executive Director

A CPA with over 25 years experience in the funds management industry. Joining Armstrong Jones in 1980, he gained experience across all funds management business units including listed and unlisted property trusts, mortgage funds and managed investment funds. Following roles at Oakvale Capital Limited and Settlers Lifestyle Limited, he is also now a current director of Macro Fund Services Pty Ltd, a shareholder of the Responsible Entity.

### DIRECTORS' INTERESTS

Details of the interests of the directors in the units of the Fund at the end of the year are set out below:

	2011		2010	
	Number of Units		Number of Units	
	Directly	Indirectly	Directly	Indirectly
<b>Specified Directors</b>				
Alan W Tribe		16,699,850	-	16,599,850
Nicholas C Wyatt	300,000	150,000	300,000	150,000
Stephen R Dixon	-	30,000	-	30,000
Peter M Morrison	-	50,000	-	50,000

## PRINCIPAL ACTIVITY

The Fund is a managed investment scheme, which was registered with ASIC on 25 January 2007. The Fund was established by the Responsible Entity for the purpose of the developing a retail centre in Perth, Western Australia which comprises a purpose-built IKEA Store leased to the IKEA franchisee, together with other perimeter buildings which provide additional retail and office space adjacent to the IKEA Store.

## REVIEW AND RESULTS OF OPERATIONS

During the year, the Fund has continued to collect rental income from the tenants and no significant asset management issues have arisen in relation to the property. The IKEA Perth Store and perimeter buildings (“Property”) owned by the Fund are fully leased.

The Fund has recorded a net profit of \$3,937,000 for the year (30 June 2010: \$10,958,000) after recognising a non-cash fair value revaluation surplus adjustment to investment property of \$8,000 (30 June 2010: \$7,000,000). Hence, net profit of the Fund for the year before fair value adjustments was \$3,929,000 (30 June 2010: \$3,958,000).

Quarterly Distributions were paid to unitholders during the year. The distributions for the quarter ended 30 June 2011 were paid on 29 July 2011. Total cash distributions paid to unitholders for the year ended 30 June 2011 amounted to 9.05 cents per unit, which represents a 3.4% increase from the previous corresponding period.

The Property owned by the Fund has been independently valued at \$120.0 million at 30 June 2011. In relation to the Fund’s debt facility at 30 June 2011, the Directors confirm:

- The Fund has no debt facilities which require renegotiation in the near term.
- The term debt facility has a maturity date in February 2013.
- Interest expense on 100% of the debt drawn under this facility is fixed until the maturity date.
- The loan to value ratio of the facility is 55.3% as at 30 June 2011 (compared to the bank’s requirement that this ratio should not exceed 60.0%).
- Interest cover is 2.03 times for the year to 30 June 2011 (compared to the bank’s requirement that this ratio should not fall below 1.50 times).

## SIGNIFICANT CHANGES IN THE STATE OF THE COMPANY’S AFFAIRS

There were no significant changes in the state of the Fund’s affairs during the year.

## SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

On 29 July 2011, a cash distribution of \$1,051,102 (2.300 cents per unit) was paid to unitholders for the quarter ended 30 June 2011.

## ROUNDING

The amounts contained in the annual financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Fund under ASIC Class Order 98/0100. The Fund is an entity to which the Class Order applies.

## INDEMNITY TO DIRECTORS AND OFFICERS

The Responsible Entity paid premiums in respect of a contract insuring the Directors against liabilities while acting as an officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the premium. The Responsible Entity has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor against a liability incurred as such by an officer or auditor.

## AUDITORS' INDEPENDENCE DECLARATION

In accordance with Section 307C of the Corporations Act 2001, the Directors have obtained a declaration of independence from Deloitte Touche Tohmatsu, the entity's auditors. The declaration of independence is at page 5 of this report.

Signed in accordance with a resolution of the Directors of LEX Property Management Limited:



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Alan W Tribe  
Chairman



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Nicholas C Wyatt  
Managing Director

Perth, 29 September 2011

The Board of Directors  
LEX Property Management Ltd As Responsible Entity for LEX Property Fund  
8B Sunray Drive  
Innaloo WA 6008

29 September 2011

Dear Board Members

## LEX Property Fund

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of LEX Property Management Ltd as responsible entity for LEX Property Fund.

As lead audit partner for the audit of the financial statements of LEX Property Fund for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



**Chris Nicoloff**  
Partner  
Chartered Accountants

## Statement of Comprehensive Income

### FOR THE YEAR ENDED 30 JUNE 2011

	<i>Notes</i>	<i>2011</i> \$'000	<i>2010</i> \$'000
<b>Continuing Operations</b>			
<b>Revenue</b>			
Rental income		9,926	9,682
Other property income		1,109	1,046
Interest income		63	33
Fair value adjustment to investment property	5	8	7,000
<b>Total revenue</b>		<b>11,106</b>	<b>17,761</b>
<b>Expenses</b>			
Other property expenses		(1,109)	(1,046)
Responsible entity's fees		(674)	(578)
Administrative expenses		(296)	(189)
<b>Net profit from continuing operations before finance costs</b>		<b>9,027</b>	<b>15,948</b>
Finance costs	3	(5,090)	(4,990)
<b>Net profit from continuing operations attributable to unitholders of the LEX Property Fund</b>		<b>3,937</b>	<b>10,958</b>
Other comprehensive income		-	-
<b>Total comprehensive income attributable to unitholders of the LEX Property Fund</b>		<b>3,937</b>	<b>10,958</b>

The statement is to be read in conjunction with the attached notes.

# Statement of Financial Position

AS AT 30 JUNE 2011

	<i>Notes</i>	<i>2011</i> \$'000	<i>2010</i> \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	6	1,596	1,648
Trade and other receivables	7	61	15
<b>Total Current Assets</b>		<u>1,657</u>	<u>1,663</u>
<b>Non Current Assets</b>			
Investment property	5	120,000	120,000
<b>Total Non Current Assets</b>		<u>120,000</u>	<u>120,000</u>
<b>TOTAL ASSETS</b>		<u>121,657</u>	<u>121,663</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	8	459	429
Distributions payable	4	1,551	1,590
<b>Total Current Liabilities</b>		<u>2,010</u>	<u>2,019</u>
<b>Non Current Liabilities</b>			
Interest bearing borrowings	9	65,725	65,528
<b>Total Non Current Liabilities</b>		<u>65,725</u>	<u>65,528</u>
<b>TOTAL LIABILITIES</b>		<u>67,735</u>	<u>67,547</u>
<b>NET ASSETS</b>		<u>53,922</u>	<u>54,116</u>
<b>UNITHOLDERS' EQUITY</b>			
<b>Equity attributable to unitholders of LEX Property Fund</b>			
Unit capital	10	38,212	38,212
Undistributed income	11	16,386	16,378
Capital distribution reserve	12	(676)	(474)
<b>TOTAL UNITHOLDERS' EQUITY</b>		<u>53,922</u>	<u>54,116</u>
<b>Net tangible asset value per unit</b>	13	<u>\$1.18</u>	<u>\$1.18</u>

The statement is to be read in conjunction with the attached notes.

## Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2011

	<i>Notes</i>	<i>2011</i> \$'000	<i>2010</i> \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		12,102	11,809
Payments to suppliers		(2,481)	(2,341)
Payments to responsible entity		(674)	(578)
Interest received		63	33
Interest paid		(4,892)	(4,794)
<b>Net cash flows from operating activities</b>	6	<u>4,118</u>	<u>4,129</u>
<b>Cash flows from financing activities</b>			
Distributions paid		(4,170)	(3,856)
<b>Net cash flows from financing activities</b>		<u>(4,170)</u>	<u>(3,856)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(52)	273
<b>Cash and cash equivalents at beginning of period</b>		<u>1,648</u>	<u>1,375</u>
<b>Cash and cash equivalents at end of period</b>	6	<u><u>1,596</u></u>	<u><u>1,648</u></u>

The statement is to be read in conjunction with the attached notes.

## Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2011

	<i>Unit capital \$'000</i>	<i>Undistributed income \$'000</i>	<i>Capital distribution reserve \$'000</i>	<i>Total \$'000</i>
<b>Balance at 1 July 2009</b>	38,212	9,378	(272)	47,318
Net profit for the year	-	10,958	-	10,958
Other comprehensive income for the year	-	-	-	-
<b>Total comprehensive income for the year</b>	-	10,958	-	10,958
Capital distributions payable	-	-	(202)	(202)
Income distributions payable	-	(3,958)	-	(3,958)
<b>Balance at 30 June 2010</b>	38,212	16,378	(474)	54,116
Net profit for the year	-	3,937	-	3,937
Other comprehensive income for the year	-	-	-	-
<b>Total comprehensive income for the year</b>	-	3,937	-	3,937
Capital distributions payable	-	-	(202)	(202)
Income distributions payable	-	(3,929)	-	(3,929)
<b>Balance at 30 June 2011</b>	38,212	16,386	(676)	53,922

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

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## 1 CORPORATE INFORMATION

The financial report of the LEX Property Fund (“the Fund”) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors of LEX Property Management Limited (“the Responsible Entity”) on 28 September 2011.

The Fund is a managed investment scheme, which was registered with ASIC on 25 January 2007. The Fund’s main asset is an investment property situated on freehold land owned by the Fund in Innaloo, Western Australia.

The investment property is a new retail centre which comprises a purpose built IKEA Store, together with other perimeter buildings which provide additional retail and office space adjacent to the IKEA Store. The IKEA Store is leased to Cebas Pty Ltd (“Cebas”), the IKEA franchisee for Western Australia and South Australia.

The Fund is domiciled in Australia and the principal office is located at 8B Sunray Drive, Innaloo, Western Australia 6018.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations (AASB’s) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Fund complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report has also been prepared on a historical cost basis, except for the investment property which has been measured at fair value.

#### *Rounding*

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$’000) unless otherwise stated under the option available to the Fund under ASIC Class Order 98/100. The Fund is an entity to which the class order applies.

#### *Going Concern*

The Fund has recorded a net profit of \$3,937,000 for the year (30 June 2010: \$10,958,000) after recognising a non-cash fair value revaluation surplus to investment property of \$8,000 (30 June 2010: \$7,000,000). Hence, net profit of the Fund for the year before fair value adjustments was \$3,929,000 (30 June 2010: \$3,958,000).

As at the reporting date, the current liabilities exceed the amount of current assets by \$353,000. However, the directors of the Responsible Entity have prepared cash flow forecasts that indicate that the Fund will have sufficient cashflows for a period of at least 12 months from the date of this report and the Fund is expected to generate adequate revenues to meet the obligations of the Fund as and when they fall due.

Based on the cash flow forecasts, the directors of the Responsible Entity are satisfied that the going concern basis of preparation is appropriate. The financial report has therefore 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.

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2011

#### (b) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will be mandatory for the Trust's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Trust has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities. The amendments, which will become mandatory for the Trust's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2010-6 *Disclosures on Transfers of Financial Asset*: amends AASB 7 *Financial Instruments: Disclosures* in respect of disclosure requirements about transfers of financial assets (for example securitisations, factoring of receivables) and introduces new disclosure requirements for transferred financial assets that are not derecognised in their entirety, and transferred financial assets that are derecognised in their entirety where the entity has continuing involvement in them through retained contractual rights or obligations inherent in the transferred asset or newly obtained contractual rights or obligations relating to the transferred asset. The amendments, which will become mandatory for the entity's 30 June 2012 financial statements, are not expected to have any material impact on the financial statements.
- AASB 2010-4 *Annual Improvements 2010* amends AASB 134 *Interim Financial Reporting* emphasising that the disclosures about significant events and transactions in the interim periods should update the relevant information presented in the most recent annual financial report. Clarifies how to apply this principle in respect of financial instruments and their fair values. The amendments, which will become mandatory for the entity's 31 December 2011 half year financial report could have an impact if significant events and transactions occur during the half year period.
- AASB 2010-8 *Deferred Tax: Recovery of Underlying Assets* amends AASB 112 *Income Taxes* to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale and as a result of the amendments, Interpretation 112 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments, which will become mandatory for the entity's 30 June 2013 financial statements, are not expected to have any material impact on the financial statements due to tax exempt status of entity and uniform tax rate of 30% on operating profits and capital gains.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

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### (c) Adoption of new or revised accounting standards

The following standards, amendments to standards and interpretations have been adopted by the entity for the current financial year:

- Revised AASB 2009-5. Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments do not have a significant impact on the financial statements.
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions, resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. The amendments do not have any impact on the entity's financial statements as the entity does not engage in share based payments.

### (d) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

#### *Rental Income*

Rental income is recognised as income when receivable under the terms of the relevant lease agreement.

#### *Interest Income*

Finance income comprises interest income on cash held at financial institutions. Interest income is recognised as it accrues, using the effective interest method.

### (e) Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Fund becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity.

A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Impairment in carrying amount of the financial assets is initially recorded in an allowance account. The carrying amount of the financial asset is reduced directly for the impairment loss when the loss is crystallised. Crystallisation of such losses is recorded initially against the allowance account (to the extent of losses recognised in previous financial years in allowance account), and the balance in the Statement of Comprehensive Income. Allowances for impairment losses of financial assets are derecognised simultaneously with derecognition of the financial asset.

### (f) Finance Expenses

Finance expenses are measured at amortised costs applying the effective interest rate method.

### (g) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank.

For the purposes of the Cash Flow Statement, cash and cash equivalents are as defined above.

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2011

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#### (h) Trade and Other Receivables

Trade receivables have less than 90 day terms and are recognised and carried at original cost less an allowance for any uncollectible amounts.

An assessment of recoverability of trade and other receivables is performed by the management at each reporting date.

An allowance account is initially used to provide for doubtful receivables. Where objective evidence exists to suggest non-recoverability, then the receivable is written off against the allowance account.

Management considers various factors to determine the recoverability of receivables including factors such as (i) existence of bank guarantees; (ii) deposits held; (iii) recent payment patterns, and (iv) correspondence with tenants.

The movements in allowance accounts are recognised in the Statement of Comprehensive Income, either as gain or loss.

#### (i) Investment property

The investment property represents an investment interest in land and buildings held for the purpose of producing rental income and capital appreciation.

Investment property is initially recognised at cost, being the fair value of the consideration given and directly attributable transaction costs.

Subsequently investment property is measured at fair value at each reporting date.

Fair value is determined by independent valuations of property investments which are obtained at intervals of not more than three years. Notwithstanding this, the Directors of the Responsible Entity assess the carrying value at each reporting period to ensure carrying values do not differ materially from fair values. When carrying value differs from fair values, those assets are adjusted to their fair value.

A revaluation increment or decrement is credited or charged directly to the Statement of Comprehensive Income.

Land, buildings and integral fixed assets are considered to have the function of an investment and are therefore regarded as a composite asset. Accounting Standards do not require investment properties to be depreciated. Accordingly, the buildings and components thereof (including plant and equipment) are not depreciated.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

Any gains or losses on derecognition of an investment property are recognised in the Income Statement in the period of derecognition. Any potential effect of Capital Gains Tax ("CGT") on derecognition of an investment property has not been taken into account because the Fund does not expect to be ultimately liable for CGT in respect of assets.

#### (j) Trade and Other Payables

Trade creditors and accruals are recognised and measured at amortised cost upon the receipt of or consumption of goods and services.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

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**(k) Interest Bearing Borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings.

An assessment of the borrowings effective interest rate is made at initial recognition based on the estimated cash-flows relating to such borrowing.

After initial recognition, the borrowings are measured at each reporting date at amortisation cost applying the effective interest rate.

Gains and losses are recognised in the Statement of Comprehensive Income through the amortisation process and also at derecognition of the borrowings. However finance costs relating to a qualifying asset is capitalised as part of the asset's cost.

**(l) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreements so as to reflect the risks and benefits incidental to ownership.

*Operating Leases*

The minimum rental revenues of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the net profit in equal instalments over the lease term.

**(m) Unit Capital**

Unit capital represents receipts from unitholders, less the capital raising costs.

Pursuant to amendments included in AASB 132: *“Financial Instruments: Presentation”*, unitholders' funds are being classified as equity contribution.

**(n) Capital Raising Costs**

All costs directly related to the raising of equity funds for the Fund are offset against unitholders' equity as a reduction of proceeds from the issue of units in accordance with AASB 132 *Financial Instruments: Presentation*.

**(o) Distributions payable**

The Responsible Entity determines the distributions entitlement of each unit on a quarterly basis. The Fund recognises liability to the extent of unpaid distributions at each reporting date.

**(p) Income Tax**

Under current Australian income tax legislation, the Fund is not liable for income tax provided that its taxable income, including any realised capital gains, is fully distributed to unitholders each year.

Where assets have been revalued, the potential effect of CGT on disposal has not been taken into account in the determination of the revalued carrying amount because the Fund does not expect to be ultimately liable for CGT in respect of assets.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

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**(q) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (“GST”) except where the GST incurred on a purchase of goods or services is not recoverable from the taxation authority.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(r) Critical judgements and key sources of estimating uncertainty**

Information about areas of estimation uncertainty and critical judgements in applying accounting policies are disclosed in the notes specific to that asset or liability. The key areas where management has applied judgement include:

**(i) Investment property**

When assessing fair value, discounted cash flows of the investment property, the highest and best use of the investment property and sales of similar properties are considered.

Fair value is based on the price at which a property might reasonably be expected to be sold at the date of valuation assuming:

- A willing, but not anxious, buyer and seller on an arm’s length basis;
- A reasonable period in which to negotiate the sale, having regard to the nature and situation of the investment property and the state of the market for property of the same kind;
- That the investment property will be reasonably exposed to that market;
- That no account is taken of the value or other advantage or benefit to the buyer, additional to market value, that is incidental to ownership of the investment property being valued; and
- That it is based on all information that the valuer needs for the purposes of the valuation being made available by, or on behalf of the Fund.

The discounted cash flow approach applied for investment properties usually includes assumptions in relation to current and recent investment property prices. If such prices are not available, then the fair value of investment properties is determined using assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management’s estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, and appropriate discount rates. The expected future market rentals are determined on the basis of existing contractual terms and current markets for similar properties in the same location and condition.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 3 FINANCE COSTS

	2011 \$'000	2010 \$'000
Interest charges and fees – banks	4,888	4,788
Amortisation of debt funding costs	202	202
	<u>5,090</u>	<u>4,990</u>

### 4 DISTRIBUTIONS PAID OR PAYABLE

	30 June 2011 \$'000	30 June 2010 \$'000
<b>Distributions payable</b>		
Balance brought forward	1,590	1,286
Income distributions attributable to unitholders	3,929	3,958
Capital distributions attributable to unitholders	202	202
Cash distributions paid to unitholders	(4,170)	(3,856)
Balance carried forward	<u>1,551</u>	<u>1,590</u>

	Cents per unit	Cents per unit
Total distributions attributable to unitholders	9.04	9.10
Cash distributions paid to unitholders	9.12	8.44

#### *Income distributions*

Income distributions represent distributions from the profit attributable to unitholders of the Fund.

#### *Capital distributions*

Capital distributions relate to amortisation arising from establishment fees associated with the debt.

### 5 INVESTMENT PROPERTY

#### *Reconciliation of Movements*

	2011 \$'000	2010 \$'000
Fair value of investment property brought forward	120,000	113,000
Adjustment to cost	(8)	-
Fair value adjustment to investment property	8	7,000
Fair value of investment property carried forward	<u>120,000</u>	<u>120,000</u>

#### *Valuation Policy*

Investment properties are carried at fair value.

Fair value is determined by a full independent valuation of property investments which is obtained at intervals of not more than three years. Notwithstanding this, the Directors of the Responsible Entity assess the carrying value at each reporting period to ensure carrying values do not differ materially from fair values. When carrying value differs from fair values, those assets are adjusted to their fair value.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

The Directors have assessed the fair value of the investment property at 30 June 2011 to be \$120,000,000 using a short form independent valuation report prepared by Knight Frank Australia Pty Ltd as at the reporting date. This independent report was prepared for reporting purposes and was prepared as an update of the previous full detailed independent valuation report prepared by and Knight Frank Australia Pty Ltd for mortgage purposes which was included within the Product Disclosure Statement dated 31 January 2007.

### *Valuation Methodology and Significant Assumptions*

Independent valuations are carried out by a valuer who holds a relevant professional qualification and has recent experience in the location and category of the investment property. Based on the property's fair value, the implied capitalisation rate is in the range of 8.25% to 8.50%.

The valuer's assessment of the property's fair value includes a consideration of the following factors:

- recent market data for property transactions at a comparable level;
- tenancy profile of the Fund's property and comparable properties;
- recent economic factors, including movements in interest rates; and
- characteristics specific to the Fund's property.

### *Operating Leases*

The investment property comprises a purpose-built IKEA Store in Perth, Western Australia together with other perimeter buildings. The property is constructed on freehold land which is owned by the Fund. The Fund (as lessor) has entered into long term lease arrangements with the tenant of the investment property, Cebas Pty Ltd and tenants of the other perimeter building tenancies.

The key terms of operating lease arrangements for the IKEA Store are included in detail in Note 16.

## 6 CASH AND CASH EQUIVALENTS

	2011 \$'000	2010 \$'000
<b>Reconciliation of cash</b>		
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:		
Cash at bank	1,596	1,648

	2011 \$'000	2010 \$'000
The entity is exposed to credit risk and interest rate risk on account of cash and cash equivalents. Refer to Note 15 for further discussion.		
<b>Reconciliation from the net profit after tax to the net cash flows from operations</b>		
Net profit attributable to unitholders of LEX Property Fund	3,937	10,958
<i>Adjustments for:</i>		
Amortisation of debt funding costs	202	202
Fair value adjustment to investment property	(8)	(7,000)
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(46)	8
(Increase) in prepaid finance costs	(4)	(6)
Increase /(decrease) in trade creditors and other payables	37	(33)
Net cash flows from operating activities	4,118	4,129

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 7 TRADE AND OTHER RECEIVABLES

	2011 \$'000	2010 \$'000
Other costs recoverable	61	15

Trade receivables are non-interest bearing and are normally settled on 30-day terms.

Trade and other receivables expose the entity to liquidity risks. Refer to Note 15 for further discussion on risk management.

### 8 TRADE AND OTHER PAYABLES

	2011 \$'000	2010 \$'000
Trade creditors and accruals	459	429

Trade payables are unsecured, non-interest bearing and are normally settled on 30-day terms.

Trade and other payables expose the entity to liquidity risks. Refer to Note 15 for further discussion on risk management.

### 9 INTEREST BEARING BORROWINGS

	2011 \$'000	2010 \$'000
<b>Non Current</b>		
Interest bearing liabilities at amortised cost	65,725	65,528

The interest bearing liabilities expose the entity to liquidity and interest rate risks. Refer to Note 15 for further discussion regarding risk management strategy.

At 30 June 2011, the Fund had access to a bank bill facility totalling \$66,300,000 through facility agreements with National Australia Bank Limited ("NAB"). The position of the principal amount was:

	<i>Date of Maturity</i>	2011 \$'000	2010 \$'000
<b>Non Current</b>			
Term debt loan	04/02/13	66,300	66,300

The facility is for a period of five years following practical completion and is due to expire on 4 February 2013. The term debt loan is secured by the following:

- A Registered Mortgage over the Property; and
- A Fixed and Floating Charge over the present and future property, assets and undertakings of the Fund.

The facility is an interest only facility with all of the interest subject to an agreed schedule of fixed rates for the term of the loan.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

The Fund is in full compliance with the terms of its borrowings. No breach of the terms has been noted during the year.

### 10 UNIT CAPITAL

	<i>No. of units</i> 2011	<i>No. of units</i> 2010
<b><i>Issued capital</i></b>		
Fully paid units on issue	45,700,100	45,700,100

#### *Capital Management Policy*

The Responsible Entity monitors the adequacy of its capital and gearing to meet debt covenants in place. The debt covenants include a maximum loan to value ratio of 60%, compared to the actual loan to value ratio of 55.3% at the reporting date.

	2011 \$'000	2010 \$'000
<b><i>Unit capital</i></b>		
Balance brought forward and carried forward	38,212	38,212

Unit capital represents receipts from unitholders less capital raising costs incurred. As the unit capital has a residual interest in assets of the Fund, it is treated as equity under AASB 132 "Financial Instruments: Presentation".

Under the constitution of the Fund, the Fund is to be wound up at the end of 80 years (less one day) from the commencement date, being 23 July 2003. The Fund could be wound up earlier either by determination of the manager, or when required by law.

### 11 UNDISTRIBUTED INCOME

	2011 \$'000	2010 \$'000
Balance brought forward	16,378	9,378
Net profit attributable to unitholders	3,937	10,958
Income distributions payable to unitholders	(3,929)	(3,958)
Balance carried forward	16,386	16,378

The balance of undistributed income at the end of the financial year represents the fair value adjustment to the investment property which has been accounted for to date in the Income Statement after initial recognition at cost in accordance with AASB 140 "Investment Properties". This treatment is consistent with the Directors having elected to adopt the fair value method.

Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to distribute both the capital and income of the Fund. As the fair value adjustment to investment property is recorded in the Income Statement to comply with the fair value method, the Directors have deemed that such an adjustment to the Income Statement will not be distributed to unitholders. It is therefore carried forward at the reporting date as an undistributed income balance.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 12 CAPITAL DISTRIBUTION RESERVE

	2011 \$'000	2010 \$'000
Balance brought forward	474	272
Capital distributions	202	202
Balance carried forward	676	474

Capital distributions represent the amount distributed by the Fund in excess of the taxable income and arise from the non cash impact of amortisation charges expensed for accounting purposes in respect of debt funding costs incurred.

### 13 NET TANGIBLE ASSET VALUE PER UNIT

	2011 \$'000	2010 \$'000
Net tangible assets (\$'000)	53,922	54,116
Number of units on issue used in the calculation	45,700,100	45,700,100
Net tangible asset value per unit	\$1.18	\$1.18

The net tangible assets of the Fund take into account total equity of the Fund as shown in the balance sheet.

### 14 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values and carrying amounts of various financial instruments recognised at reporting date are noted below:

	<i>Carrying amount</i> 2011 \$'000	<i>Fair value</i> 2011 \$'000	<i>Carrying amount</i> 2010 \$'000	<i>Fair value</i> 2010 \$'000
Cash and cash equivalents	1,596	1,596	1,648	1,648
Trade and other receivables	61	61	15	15
Trade and other payables	459	459	429	429
Distributions payable	1,551	1,551	1,590	1,590
Interest bearing borrowings	65,725	64,088	65,528	64,152

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and distributions payable are reasonable approximation of their fair values, on account of their short maturity cycle.

The fair value of interest bearing borrowings are estimated by discounting the future expected cash-flows applying the current Government yield curve at reporting date plus an adjustment for entity's credit spread. Management does not expect prepayments of the loans.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 15 RISK MANAGEMENT STRATEGY

The Fund is primarily exposed to credit risks, liquidity risks and interest rate risks. The nature and extent of risk exposure, and the Fund's risk management strategies are noted below.

#### *Credit Risk*

The Fund's credit risks arise from:

- Failure of its tenants to pay rent
- Failure of the Fund's banking institution

Cebas Pty Ltd is the anchor tenant of the investment property and has entered into a long term lease with the Fund, the key terms are detailed in Note 16.

Receivables (rent payments) are made by Cebas and other tenants at the beginning of each month.

They are normally paid on the first of each month, and are generally not paid later than four days from the first of the month.

The Fund does not monitor the credit risks in relation to cash which is transacted through NAB. The Directors believe NAB is subject to strict regulations through legislation, the Reserve Bank and other regulatory bodies.

#### *Liquidity Risk*

Liquidity risk is the risk the Fund will not be able to meet its financial liabilities. The entity is exposed to liquidity risk on account of (i) trade and other payables; and (ii) interest bearing borrowings.

Liquidity risk is constantly monitored to ensure that cleared funds are always available to meet financial liabilities.

The Fund's trading terms with suppliers generally grant 30 days' credit from the invoice date.

The ageing analysis of trade payables details supplier invoices outstanding for over 30 days at each reporting date as:

	2011 \$'000	2010 \$'000
Ageing analysis of trade payables		
0 – 30 days	459	429

The Fund's principal financial instrument comprises of a bank term debt loan. The main purpose of the term debt loan was to refinance the construction debt advanced during the construction of the investment property.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

Maturity analysis of contractual undiscounted cash-flows on financial liabilities at reporting date:

	<1 year	>1 - <2 years	>2 - <3 years	>3 - <4 years	>4 - <5 years	>5year s	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2011</b>							
Term debt loan	(4,986)	(70,900)	-	-	-	-	(75,886)
Trade and other payables	(459)	-	-	-	-	-	(459)
Distributions payable	(1,551)	-	-	-	-	-	(1,551)
<b>Year ended 30 June 2010</b>							
Term debt loan	(4,884)	(4,887)	(70,808)	-	-	-	(80,579)
Trade and other payables	(429)	-	-	-	-	-	(429)
Distributions payable	(1,590)	-	-	-	-	-	(1,590)

### Interest Rate Risk

Interest rate risk is the risk that fair values and cash flows of the Fund's financial instruments will be affected by changes in the market interest rates.

Entity's cash and cash equivalent, and interest bearing loans are impacted by interest rate risks. Other receivables and payables have short maturities and are non-interest bearing.

The management does not closely monitor the interest rates offered on cash and cash equivalent as the entity's primary objective is to earn rental income rather than interest income. The excess cash balances are invested at the prevailing short term market interest rates with credit worthy financial institutions.

The interest rate risk exposure on account of interest bearing loans has been mitigated as the entire loan bears fixed interest rate up to February 2013. The management has not devised risk management strategy for periods beyond February 2013 as the future strategy of the Fund would be decided by the unit holders. The fair value of the loans is affected by the movement in market interest rates. However the management does not monitor such fair value movements as the Fund does not intend to trade in its liabilities.

However, as the loans are subject to fixed interest rates for the period until 4 February 2013, the Directors do not believe changes in the market interest rate affect the Fund.

## 16 COMMITMENTS AND CONTINGENCIES

### Operating lease commitments - Fund as lessor

The Fund has entered into a lease of the IKEA Store with Cebas Pty Ltd, the key terms of which are as follows:

- Commencement of the lease on 4 February 2008;
- The initial term is for fifteen years with three further option periods of five years each;
- Commencing rental on the IKEA Store was calculated at 8.75% of the total development cost of the IKEA Store;
- Annual rent reviews at the rate of CPI with market reviews every five years. The rent following any review cannot be lower than the rent in the preceding year;
- A bank guarantee equivalent to six monthly instalments of rent;
- Cebas is responsible for all apportioned outgoings and operating costs;
- Cebas is responsible for the costs of all structural repairs caused by its actions;

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2011

- Cebas is responsible for all repairs and maintenance subject to the usual exceptions for fair wear and tear; and
- Cebas has a first right of refusal to purchase the Property during the term.

The Fund has also entered into lease arrangements with tenants for various tenancy areas within the other perimeter buildings.

Future minimum rentals receivable under all lease arrangements contracted at 30 June 2011 are as follows:

	2011 \$'000	2010 \$'000
Within one year	10,083	9,811
After one year but not more than five years	37,380	37,332
More than five years	59,474	66,889
	106,937	114,032

#### Guarantees

Cebas has provided a bank guarantee to the Fund for an amount equivalent to six months' rent under the terms of the lease between the Fund (as lessor) and Cebas (as lessee). The Fund is also in receipt of other bank guarantees and security deposits provided by various other tenants under the terms of leases for other perimeter buildings.

There have been no other material commitments or contingencies affecting the Fund's Financial Report.

## 17 RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year:

Related party	Income from related parties \$'000	Expenses to related parties \$'000	Distributions to related parties \$'000
<b>Year ended 30 June 2011</b>			
Cebas Pty Ltd	9,936	-	(1,339)
LEX Pty Ltd	79	(201)	-
LEX Property Management Limited	-	(674)	(81)
<b>Year ended 30 June 2010</b>			
Cebas Pty Ltd	9,702	-	(1,286)
LEX Pty Ltd	75	(113)	-
LEX Property Management Limited	-	(578)	(79)

#### Relationship with Cebas

Cebas is the tenant of the IKEA Store and is the tenant of one perimeter building tenancy. Mr Tribe has an indirect interest in Cebas as a beneficiary of a discretionary trust that indirectly controls Cebas.

As tenant, Cebas has made lease rental payments to the Fund of \$9,002,000 for the period to 30 June 2011. Cebas has also paid apportioned outgoings and operating costs of \$934,000 for the same period.

During the year to 30 June 2011, Cebas was entitled to receive cash distributions totalling \$1,339,000 in respect of Cebas's unitholding in the Fund.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### *Relationship with LEX Pty Ltd*

Mr Tribe and Mr Wyatt are directors of LEX Pty Ltd and Mr Tribe has an indirect interest in LEX Pty Ltd as a beneficiary of a discretionary trust that controls LEX Pty Ltd.

As tenant of a perimeter building tenancy, LEX Pty Ltd has made lease rental payments to the Fund of \$62,000 for the period to 30 June 2011. LEX Pty Ltd has also paid apportioned outgoings and operating costs of \$17,000 for the same period.

During the year to 30 June 2011, payments totalling \$201,000 were also made to LEX Pty Ltd for the reimbursement of asset management, consultancy fees and other general administrative expenses.

### *Relationship with LEX Property Management Limited*

LEX Property Management Limited is the responsible entity for the Fund. The directors of the responsible entity each have an ownership interest in the responsible entity, with Mr Tribe holding an indirect controlling interest as a beneficiary of a discretionary trust that indirectly controls LEX Property Management Limited.

During the year to 30 June 2011, the Fund made payments totalling \$674,000 to the Responsible Entity in respect of responsible entity management fees. LEX Property Management Limited was also entitled to receive cash distributions totalling \$81,000 in respect of its unitholding in the Fund during the same period.

### *Management fees*

The Responsible Entity is entitled to a monthly fee of up to 1% per annum (plus GST) of the gross value of the Fund's assets but has agreed to waive part of this fee and accept a fee of 0.55% per annum (plus GST) of the gross value of the Fund's assets for the year ended 30 June 2011.

## 18 AUDITORS' REMUNERATION

	2011 \$'000	2010 \$'000
Amounts received or due and receivable for:		
Deloitte Touche Tohmatsu – for audit services	31	20
PKF Chartered Accountants – for audit services	-	10
	31	30

## 19 DIRECTOR DISCLOSURES

### (a) Details of Specified Directors

The following persons were specified directors of the Responsible Entity, LEX Property Management Limited during the financial year:

Mr Alan W Tribe	Non Executive Director and Chairman
Mr Nicholas C Wyatt	Managing Director
Mr Stephen R Dixon	Director – Funds Management
Mr Peter M Morrison	Non Executive Director

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### (b) Remuneration of Specified Directors

#### *Remuneration Policy*

The right of the Responsible Entity to be remunerated and indemnified by the Fund is set out in the Constitution of the Fund. The Constitution is available from ASIC and is available to unitholders on request.

Remuneration expenses of the Responsible Entity are not borne by the Fund. Directors are remunerated by the responsible entity in accordance with service agreements entered into.

### (c) Unit holdings

Details of the interests of the directors in the units of the Fund at the end of the year are set out below:

	2011		2010	
	Number of Units		Number of Units	
	Directly	Indirectly	Directly	Indirectly
<b>Specified Directors</b>				
Alan W Tribe	-	16,699,850	-	16,599,850
Nicholas C Wyatt	300,000	150,000	300,000	150,000
Stephen R Dixon	-	30,000	-	30,000
Peter M Morrison	-	50,000	-	50,000

## 20 EVENTS AFTER THE BALANCE SHEET DATE

On 29 July 2011, a cash distribution of \$1,051,102 (2.300 cents per unit) was paid to unitholders for the quarter ended 30 June 2011.

No other matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations, results of operations, or state of affairs of the Fund in subsequent financial years.

## 21 SEGMENT REPORTING

The Fund operates in one business and geographic segment, being holder of investment property in Australia.

## Directors' Declaration

In accordance with a resolution of the directors of LEX Property Management Limited, Responsible Entity for the LEX Property Fund ("the Fund"), the Directors declare that:

- (a) the financial statements and notes of the Fund are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Fund's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
- (c) 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 the directors of the Responsible Entity pursuant to Section 295(5) of the Corporations Act 2001.

For and on behalf of the board of LEX Property Management Limited.



Alan W Tribe  
Chairman

Perth, 29 September 2011

## Independent Auditor's Report to the Unitholders of LEX Property Fund

We have audited the accompanying financial report of LEX Property Fund, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 6 to 26.

### *Directors' Responsibility for the Financial Report*

The directors of LEX Property Management Limited as Responsible Entity for LEX Property Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Auditor's Independence Declaration*

In conducting our audit, 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 LEX Property Management Limited as Responsible Entity for LEX Property Fund, would be in the same terms if given to the directors as at the time of this auditor's report.

## *Opinion*

In our opinion:

- (a) the financial report of LEX Property Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.



DELOITTE TOUCHE TOHMATSU



**Chris Nicoloff**

Partner

Chartered Accountants

Perth, 29 September 2011