



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

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

**Annual Financial Report  
30 June 2009**

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## 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 2009.

### 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

A CPA with extensive experience from a broad range of commercial roles in Australia and overseas. He became Managing Director of Cebas Pty Ltd, the IKEA franchisee for South Australia and Western Australia, in 1997 and 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 broad experience in corporate matters in both the public and private sectors. He is an associate of The Queensgate Trust which is 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 Funds Limited, 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 24 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 Funds Limited, 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:

	2009		2008	
	Directly	Indirectly	Directly	Indirectly
<b>Specified Directors</b>				
Alan W Tribe	-	16,599,850	-	16,399,850
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 new 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 showroom 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 loss of \$3,217,000 for the year (30 June 2008: \$17,633,000 profit) after recognising a non-cash fair value deficit adjustment to investment property of \$7,000,000 (30 June 2008: \$16,378,000 surplus). Hence, net profit of the Fund for the year before fair value adjustments was \$3,783,000 (30 June 2008: \$1,255,000 profit).

Quarterly Distributions were paid to unitholders during the year. The distributions for the quarter ended 30 June 2009 were paid on 20 July 2009. Total cash distributions paid to unitholders for the year ended 30 June 2009 amounted to 8.25 cents per unit, which is consistent with the forecast distribution for the year as outlined in the Fund's Product Disclosure Statement ("PDS") dated 31 January 2007.

The much publicised Financial Crisis has led to weaker conditions in the property market. In general, the capitalisation rates used in property valuations have increased. In determining the value of the Property at 30 June 2009, the independent valuer applied a higher capitalisation rate. Although the rental returns derived from the Property have increased due to annual reviews, the updated valuation of \$113,000,000 is 5.8% less than the June 2008 value of \$120,000,000. This latest independent valuation still exceeds the original forecast valuation at completion (February 2008) of \$110,500,000 outlined in the PDS.

In light of the current economic conditions, the Directors completed a capital and debt management review in the quarter to 30 June 2009. Having regard to the Fund's full compliance with banking covenants and the financial performance to date, the Directors are satisfied that no changes to the Fund's capital and debt structure are necessary at this time. In particular, the Fund's loan to value ratio, interest cover and property valuation are all in line with or slightly better than the forecast position included with the PDS.

In relation to the Fund's debt facility at 30 June 2009, the Directors confirm the following key points:

- 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 58.7% as at 30 June 2009 (compared to the bank's requirement that this ratio should not exceed 60.0%).
- Interest cover is 1.98 times for the year to 30 June 2009 (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 20 July 2009, a cash distribution of \$942,564 (2.0625 cents per unit) was paid to unitholders for the quarter ending 30 June 2009.

The Fund has recorded a net loss of \$3,217,000 for the year (30 June 2008: \$17,633,000 profit) after recognising a non-cash fair value deficit adjustment to investment property of \$7,000,000 (30 June 2008: \$16,378,000

surplus). Hence, net profit of the Fund for the year before fair value adjustments was \$3,783,000 (30 June 2008: \$1,255,000 profit).

## 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.

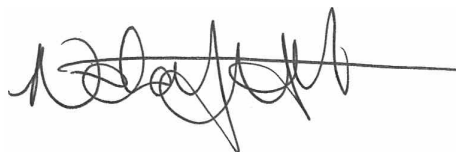
## AUDITORS' INDEPENDENCE DECLARATION

In accordance with Section 307C of the Corporations Act 2001, the Directors have obtained a declaration of independence from PKF Chartered Accountants, the entity's auditors. The declaration of independence is at page 6 of this report.

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



Alan W Tribe  
Chairman



Nicholas C Wyatt  
Managing Director

Perth, 3 September 2009

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead engagement partner for the audit of LEX Property Fund for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

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



**PKF**  
Chartered Accountants



**Chris Nicoloff**  
Partner

Dated at Perth, Western Australia this 3<sup>rd</sup> day of September 2009.

Tel: 61 8 9278 2222 | Fax: 61 8 9278 2200 | [www.pkf.com.au](http://www.pkf.com.au)  
West Australian Partnership | ABN 39 542 778 278  
Level 7, BGC Centre | 28 The Esplanade | Perth | Western Australia 6000 | Australia  
PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

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## Income Statement

FOR THE YEAR ENDED 30 JUNE 2009

	<i>Notes</i>	<i>2009</i> \$'000	<i>2008</i> \$'000
<b>Continuing Operations</b>			
<b>Revenue</b>			
Rental income		9,323	3,459
Other property income		720	441
Interest income		25	60
Fair value adjustment to investment property	5	(7,000)	16,378
<b>Total revenue</b>		<u>3,068</u>	<u>20,338</u>
<b>Expenses</b>			
Other property expenses		(720)	(441)
Responsible entity's fees		(486)	(251)
Administrative expenses		(170)	(71)
<b>Net profit from continuing operations before finance costs</b>		<u>1,692</u>	<u>19,575</u>
Finance costs	3	(4,909)	(1,942)
<b>Net (loss)/profit from continuing operations attributable to unitholders of the LEX Property Fund</b>		<u>(3,217)</u>	<u>17,633</u>
<b>STATEMENT OF DISTRIBUTION</b>			
Undistributed income at the beginning of the financial period		16,378	-
Net (loss)/profit attributable to unitholders of the LEX Property Fund		(3,217)	17,633
Distributions paid or payable	4	(3,783)	(1,255)
Undistributed income at the end of the financial period	12	<u>9,378</u>	<u>16,378</u>

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

# Balance Sheet

AS AT 30 JUNE 2009

	<i>Notes</i>	<i>2009</i> \$'000	<i>2008</i> \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	1,375	12
Trade and other receivables	8	12	31
<b>Total Current Assets</b>		<u>1,387</u>	<u>43</u>
<b>Non Current Assets</b>			
Investment property	5	113,000	120,000
Property, plant and equipment	6	-	-
<b>Total Non Current Assets</b>		<u>113,000</u>	<u>120,000</u>
<b>TOTAL ASSETS</b>		<u>114,387</u>	<u>120,043</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	9	451	1,498
Distributions payable	4	1,286	935
<b>Total Current Liabilities</b>		<u>1,737</u>	<u>2,433</u>
<b>Non Current Liabilities</b>			
Interest bearing borrowings	10	65,332	63,096
Unit capital	11	38,212	38,212
<b>Total Non Current Liabilities</b>		<u>103,544</u>	<u>101,308</u>
<b>TOTAL LIABILITIES</b>		<u>105,281</u>	<u>103,741</u>
<b>NET ASSETS</b>		<u>9,106</u>	<u>16,302</u>
<b>UNITHOLDERS' EQUITY</b>			
<b>Equity attributable to unitholders of LEX Property Fund</b>			
Undistributed income	12	9,378	16,378
Capital distribution reserve	13	(272)	(76)
<b>TOTAL UNITHOLDERS' EQUITY</b>		<u>9,106</u>	<u>16,302</u>
<b>Net tangible asset value per unit</b>	14	<u>\$1.04</u>	<u>\$1.19</u>

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

## Cash Flow Statement

### FOR THE YEAR ENDED 30 JUNE 2009

	<i>Notes</i>	<i>2009</i> \$'000	<i>2008</i> \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		10,045	4,436
Refund of GST paid to suppliers		-	702
Payments to suppliers		(1,920)	(563)
Payments to responsible entity		(486)	(251)
Interest received		25	60
Interest paid		(4,001)	(2,808)
<b>Net cash flows from operating activities</b>	<b>7</b>	<b>3,663</b>	<b>1,576</b>
<b>Cash flows from investing activities</b>			
Payment of costs of property, plant and equipment		-	(38,789)
<b>Net cash flows used in investing activities</b>		<b>-</b>	<b>(38,789)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings – external		1,426	37,184
Payment of borrowing costs		(98)	(330)
Distributions paid		(3,628)	(457)
<b>Net cash flows from financing activities</b>		<b>(2,300)</b>	<b>36,397</b>
Net increase /(decrease) in cash and cash equivalents		1,363	(816)
Cash and cash equivalents at beginning of period		12	828
<b>Cash and cash equivalents at end of period</b>	<b>7</b>	<b>1,375</b>	<b>12</b>

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

## Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2009

	<i>Undistributed income \$'000</i>	<i>Capital distribution reserve \$'000</i>	<i>Total \$'000</i>
<b>Balance at 1 July 2007</b>	-	-	-
Net profit for the year	17,633	-	17,633
Capital distributions payable	-	(76)	(76)
Income distributions payable	(1,255)	-	(1,255)
<b>Balance at 30 June 2008</b>	16,378	(76)	16,302
Net (loss)/profit for the year	(3,217)	-	(3,217)
Capital distributions payable	-	(196)	(196)
Income distributions payable	(3,783)	-	(3,783)
<b>Balance at 30 June 2009</b>	9,378	(272)	9,106

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 1 CORPORATE INFORMATION

The financial report of the LEX Property Fund (“the Fund”) for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors of LEX Property Management Limited (“the Responsible Entity”) on 28 August 2009.

The Fund is a managed investment scheme, which was registered with ASIC on 25 January 2007. The Fund’s main asset is a 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 showroom 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 loss of \$3,217,000 for the year (30 June 2008: \$17,633,000 profit) after recognising a non-cash fair value deficit adjustment to investment property of \$7,000,000 (30 June 2008: \$16,378,000 surplus). Hence, net profit of the Fund for the year before fair value adjustments was \$3,783,000 (30 June 2008: \$1,255,000 profit).

As at the reporting date, the current liabilities exceed the amount of assets by \$350,000. 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 2009

### (b) Changes to Accounting Standards, Not Yet Adopted

Certain Australian Accounting Standards and UIG interpretations have recently been issued or amended but are not yet effective. These standards have not been adopted by the Fund for the year ended 30 June 2009. Amendments issued affecting the Fund are outlined below:

Reference	Title	Summary	Application date of standard	Impact on Fund's financial report	Application date for Fund
AASB 101	Presentation of Financial Statements (Revised)	The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards however, it is important to note that the AASB has decided that Australian issuers must make use in financial reports of the descriptions- Statement of Financial Performance and Position rather than Balance Sheet and Income Statement and use the term "financial report" and not "financial statement." The Amending Standard updates references in various other pronouncements.	1 January 2009	AASB 101 is a presentation standard, so will have no direct impact on amounts in the financial report. However amendments will result in changes in presentation to the financial report.	1 January 2009

Amendments / revision of other Accounting Standards and interpretations would not impact the Fund.

### (c) 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*

Interest income is recognised as income when control of the right to receive the interest payment is attained.

### (d) Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised on the balance sheet 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.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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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 Income Statement. Allowances for impairment losses of financial assets are derecognised simultaneously with derecognition of the financial asset.

**(e) Finance Expenses**

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

**(f) 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.

**(g) 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 there are 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 Income Statement, either as gain or loss.

**(h) Investment property**

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

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 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 Income Statement.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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Expenditure capitalised as freehold improvements includes the cost of acquisition, capital and refurbishment additions, and during development includes rates, taxes, financing charges and related fees incurred, and net of sundry cost recoveries.

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 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.

The property was under construction until completion, and in accordance with AASB 140 “Investment Property”, all amounts were carried at cost until completion.

As assets under the course of construction are considered to have the function of an investment they are not depreciated.

### (i) 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.

### (j) 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 Income Statement 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.

### (k) 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.

### (l) Unit Capital

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

Pursuant to AASB 132, unitholders’ funds are recognised as liabilities rather than equity as the Fund’s Constitution does not contain a perpetuity clause.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

**(m) 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".

**(n) 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.

**(o) 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.

**(p) 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.

### 3 FINANCE COSTS

	2009 \$'000	2008 \$'000
Interest charges and fees – banks	4,713	1,866
Amortisation of debt funding costs	196	76
	<u>4,909</u>	<u>1,942</u>

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 4 DISTRIBUTIONS PAID OR PAYABLE

	30 June 2009 \$'000	30 June 2008 \$'000
<b>Distributions payable</b>		
Balance brought forward	935	61
Income distributions to unitholders	3,783	1,255
Capital distributions to unitholders	196	76
Cash distributions paid to unitholders	(3,628)	(457)
Balance carried forward	<u>1,286</u>	<u>935</u>

	30 June 2009 Cents per unit	30 June 2008 Cents per unit
Cash distributions paid to unitholders	<u>7.94</u>	<u>1.00</u>

#### *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*

	2009 \$'000	2008 \$'000
Fair value of investment property brought forward	120,000	-
Cost of land and buildings constructed in the period and transferred to investment properties at completion	-	103,622
Fair value adjustment to investment property	(7,000)	16,378
Fair value of investment property carried forward	<u>113,000</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 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.

The Directors have assessed the fair value of the investment property at 30 June 2009 to be \$113,000,000 using a short form independent valuation report prepared by Knight Frank Australia Pty Ltd as at the balance sheet 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.

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2009

#### *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.

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 17.

## 6 PROPERTY, PLANT & EQUIPMENT (NON CURRENT)

	2009 \$'000	2008 \$'000
Balance brought forward	-	70,511
Cost of freehold improvements completed in the period	-	33,111
Transfer to investment properties	-	(103,622)
Balance carried forward	-	-

## 7 CASH AND CASH EQUIVALENTS

	2009 \$'000	2008 \$'000
<b>Reconciliation of cash</b>		
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:		
Cash at bank	1,375	12

The entity is exposed to credit risk and interest rate risk on account of cash and cash equivalents. Refer to Note 16 for further discussion.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$'000	2008 \$'000
<b>Reconciliation from the net (loss)/profit after tax to the net cash flows from operations</b>		
Net (loss)/profit attributable to unitholders of LEX Property Fund	(3,217)	17,633
<i>Adjustments for:</i>		
Amortisation of debt funding costs	196	76
Fair value adjustment to investment property	7,000	(16,378)
<i>Changes in assets and liabilities</i>		
Decrease in trade and other receivables	2	415
Decrease/(increase) in prepayments	712	(942)
Decrease in GST recoverable	17	772
Decrease in trade creditors and other payables	(1,047)	-
Net cash flows from operating activities	<u>3,663</u>	<u>1,576</u>

### 8 TRADE AND OTHER RECEIVABLES

	2009 \$'000	2008 \$'000
Trade receivables	-	11
GST receivable	-	17
Other costs recoverable	12	3
	<u>12</u>	<u>31</u>

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 16 for further discussion on risk management.

### 9 TRADE AND OTHER PAYABLES

	2009 \$'000	2008 \$'000
Trade creditors and accruals	451	1,498

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 16 for further discussion on risk management.

### 10 INTEREST BEARING BORROWINGS

	2009 \$'000	2008 \$'000
<b>Non Current</b>		-
Interest bearing liabilities at amortised cost	65,332	63,096

The interest bearing liabilities expose the entity to liquidity and interest rate risks. Refer to Note 16 for further discussion regarding risk management strategy.

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2009

At 30 June 2009, 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>	<i>2009 \$'000</i>	<i>2008 \$'000</i>
<b>Non Current</b>			
Term debt loan	04/02/13	66,300	64,874

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.

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

## 11 UNIT CAPITAL

	<i>No. of units 2009</i>	<i>No. of units 2008</i>
<b>Issued capital</b>		
Fully paid units on issue	45,700,100	45,700,100

	<i>No. of units 2009</i>	<i>No. of units 2008</i>
<b>Movements in issued capital</b>		
Balance brought forward and carried forward	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 58.7% at the reporting date.

	<i>2009 \$'000</i>	<i>2008 \$'000</i>
<b>Unit capital</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 finite life, it is treated as a liability 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.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 12 UNDISTRIBUTED INCOME

	2009 \$'000	2008 \$'000
Balance brought forward	16,378	-
Net (loss)/profit attributable to unitholders	(3,217)	17,633
Income distributions payable to unitholders	(3,783)	(1,255)
Balance carried forward	<u>9,378</u>	<u>16,378</u>

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 balance sheet date as an undistributed income balance.

### 13 CAPITAL DISTRIBUTION RESERVE

	2009 \$'000	2008 \$'000
Balance brought forward	76	-
Capital distributions	196	76
Balance carried forward	<u>272</u>	<u>76</u>

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.

### 14 NET TANGIBLE ASSET VALUE PER UNIT

	2009 \$'000	2008 \$'000
Net tangible assets (\$'000)	47,318	54,514
Number of units on issue used in the calculation	45,700,100	45,700,100
Net tangible asset value per unit	\$1.04	\$1.19

The net tangible assets of the Fund take into account unit capital and total equity of the Fund as shown in the balance sheet. Net tangible asset value per unit is calculated as if unit capital is classified as equity even though AASB 132 "Financial Instruments: Presentation" requires unit capital to be disclosed as non current liabilities. The definition of "liability" in the Fund's Constitution was amended allowing the unit capital to be classified as equity for the purposes of calculating net tangible assets.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 15 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 2009 \$'000</i>	<i>Fair Values 2009 \$'000</i>	<i>Carrying Amount 2008 \$'000</i>	<i>Fair Value 2008 \$'000</i>
Cash and cash equivalents	1,375	1,375	12	12
Trade and other receivables	12	12	31	31
Trade and other payables	451	451	1,498	1,498
Distributions payable	1,286	1,286	935	935
Interest bearing borrowings	65,332	63,952	63,096	61,701

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.

The fair value of unit capital financial liability has not been assessed. The unit holders hold residual interest in the equity of the Fund.

### 16 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 17.

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.

As at 30 June 2009, the entity had maximum credit exposure from the tenants of \$6,000 (2008: \$11,000).

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.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 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:

	2009 \$'000	2008 \$'000
Ageing analysis of trade payables		
0 – 30 days	451	1,498

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.

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

	<1 year \$'000	>1 - <2 years \$'000	>2 - <3 years \$'000	>3 - <4 years \$'000	>4 - <5 years \$'000	>5years \$'000	Total \$'000
<b>Year ended 30 June 2009</b>							
Term debt loan	(4,901)	(4,884)	(4,887)	(70,808)	-	-	(85,480)
Trade and other payables	(451)	-	-	-	-	-	(451)
Distributions payable	(1,286)	-	-	-	-	-	(1,286)

	<1 year \$'000	>1 - <2 years \$'000	>2 - <3 years \$'000	>3 - <4 years \$'000	>4 - <5 years \$'000	>5years \$'000	Total \$'000
<b>Year ended 30 June 2008</b>							
Term debt loan	(4,695)	(4,922)	(5,098)	(5,140)	(68,860)	-	(88,715)
Trade and other payables	(1,498)	-	-	-	-	-	(1,498)
Distributions payable	(935)	-	-	-	-	-	(935)

### 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.

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2009

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.

## 17 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 of 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 is 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;
- 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 2009 are as follows:

	2009 \$'000	2008 \$'000
Within one year	9,605	9,117
After one year but not more than five years	37,449	36,626
More than five years	74,211	79,989
	121,265	125,732

### *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.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 18 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	<i>Receipts from related parties</i> \$'000	<i>Payments to related parties</i> \$'000	<i>Distributions to related parties</i> \$'000
<b>Year ended 30 June 2009</b>			
Cebas Pty Ltd	9,140	-	(1,209)
LEX Pty Ltd	74	(221)	-
LEX Property Management Limited	-	(486)	(74)
<b>Year ended 30 June 2008</b>			
Cebas Pty Ltd	11,269	(250)	((399)
LEX Pty Ltd	134	(1,932)	-
LEX Property Management Limited	-	(251)	(25)

#### *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 \$8,534,000 for the period to 30 June 2009. Cebas has also paid apportioned outgoings and operating costs of \$591,000 and tenant related construction cost recoveries of \$15,000 to the Fund during the same period.

During the year to 30 June 2009, Cebas was entitled to receive cash distributions totalling \$1,209,000 in respect of Cebas's unitholding in the Fund.

#### *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 \$59,000 for the period to 30 June 2009. LEX Pty Ltd has also paid to the Fund apportioned outgoings and operating costs of \$12,000 and tenant related construction cost recoveries of \$3,000 during the same period.

During the year to 30 June 2009, payments totalling \$139,000 were made to LEX Pty Ltd for fees and disbursements in respect of project and development management services provided to the Fund. Payments totalling \$82,000 were also made to LEX Pty Ltd for the reimbursement of asset management 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.

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2009

During the year to 30 June 2009, the Fund made payments totalling \$486,000 to the Responsible Entity in respect of responsible entity management fees. LEX Property Management Limited was also entitled to receive cash distributions totalling \$74,000 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 0.4% per annum (plus GST) of the gross value of the Fund's assets from the date of Practical Completion to 30 June 2009.

## 19 AUDITORS' REMUNERATION

	2009 \$'000	2008 \$'000
Amounts received or due and receivable by PKF Australia for:		
• audit and financial report	30	29
• taxation services	10	10
	40	39

## 20 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

### (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:

	2009		2008	
	<i>Directly</i>	<i>Indirectly</i>	<i>Directly</i>	<i>Indirectly</i>
<b>Specified Directors</b>				
Alan W Tribe	-	16,599,850	-	16,399,850
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

## **Notes to the Financial Statements (continued)**

### **FOR THE YEAR ENDED 30 JUNE 2009**

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#### **21 EVENTS AFTER THE BALANCE SHEET DATE**

On 20 July 2009, a cash distribution of \$942,564 (2.0625 cents per unit) was paid to unitholders for the quarter ending 30 June 2009.

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.

#### **22 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"), I state 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 2009 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and Corporations Regulations 2001;
- (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.

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



Alan W Tribe  
Chairman  
Perth, 3 September 2009



Chartered Accountants  
& Business Advisers

## **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 balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### *Directors' of LEX Property Management Limited responsibility for the Financial Report*

The directors of LEX Property Management Limited ("the Responsible Entity") are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing 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 and fair presentation of the financial report 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.

Tel: 61 8 9278 2222 | Fax: 61 8 9278 2200 | [www.pkf.com.au](http://www.pkf.com.au)  
West Australian Partnership | ABN 39 542 778 278  
Level 7, BGC Centre | 28 The Esplanade | Perth | Western Australia 6000 | Australia  
PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

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*Independence*

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

**Auditor's Opinion**

In our opinion:

- (a) the financial report of 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 2009 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).



**PKF**  
Chartered Accountants



**Chris Nicoloff**  
Partner

Dated at Perth, Western Australia this 3<sup>rd</sup> day of September 2009