LEX Property Fund
(ARSN 123 437 838)

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

Half-Year Financial Report
31 December 2016

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DIRECTORS' REPORT

The Directors of LEX Property Management Limited (ABN 53 111 779 689) ("the Responsible Entity") submit herewith the financial report of LEX Property Fund, a managed investment scheme (ARSN 123 437 838), for the half year ended 31 December 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names of the directors of LEX Property Management Limited in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

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

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 developing a new retail centre in Perth, Western Australia which comprises a purpose-built IKEA store leased to the IKEA franchise, together with other perimeter buildings which provide additional showroom retail and office space adjacent to the IKEA Store.

EXTRAORDINARY MEETING OF UNITHOLDERS – 24 FEBRUARY 2017

Following an unsolicited approach by IKEA Pty Limited, and subsequent negotiations which took place during the period from November 2016 to January 2017, the Responsible Entity entered into a conditional contract ("Contract") on 1 February 2017 for the sale of the Fund's property at a gross sale price of $132 million which was the same as the last independent valuation.

The Responsible Entity convened an extraordinary general meeting ("EGM") of the unitholders on 24 February 2017. The purpose of the EGM was to consider a resolution seeking authorisation from unitholders to sell the Property in accordance with the terms of the Contract ("Resolution").

The Directors of the Responsible Entity recommended that unitholders vote in favour of the Resolution.

The Responsible Entity and the Directors of the Responsible Entity were not eligible to vote in accordance with Section 235E of the Corporations Act 2001.

The Resolution was put forward as a Special Resolution requiring at least 75% of votes cast to be in favour of the Resolution for it to be carried at the meeting. Votes totalling 65.6% were cast in favour (in person or by proxy) at the meeting and, as a result of the vote at the EGM, the Special Resolution was not passed.

Unitholders received the results of the meeting by correspondence dated 2 March 2017, in which the Responsible Entity also confirmed that:

a) Following the vote at the EGM, the Contract for the sale of the Property had been terminated and the Fund retains ownership of it;
b) The Responsible Entity will examine ways of obtaining a better selling price, while also taking advice on Cebas' first right to purchase;
c) While the future strategy for the Fund's Property is being determined, the Directors will continue to manage the Fund, the Fund's property, the tenancy leases to maximise long term returns to unitholders.

The Responsible Entity also advised unitholders that:

a) On 1 March 2017, it had been notified that the business of the Fund's anchor tenant, Cebas Pty Ltd ("Cebas"), had been acquired by IKEA Pty Limited; and
b) Under the terms of the IKEA Store Lease, Cebas' first right to purchase the Property remains in place and that the Responsible Entity is required to make an offer to Cebas under the first right provision contained in that lease.

As at the date of this report, the Responsible Entity continues to review the future strategy for the Fund's Property.

REVIEW AND RESULTS OF OPERATIONS

During the period, the Fund continued to collect rental income from the tenants of the retail centre owned by the Fund and no significant asset management issues have arisen to date in relation to the property.

The Fund recorded a net profit for the half year to 31 December 2016 of $3,937,000 (31 December 2015: $3,261,000) after recognition of a non-cash fair value adjustment to the derivative financial instruments of $724,000 (31 December 2015: an expense of $23,000). There was no non-cash fair value adjustment to the investment property in the period (31 December 2015: an expense of $23,000). Hence, the net profit of the Fund for the half year before fair value adjustments was $3,213,000 (31 December 2015: $3,307,000).

Distributions

Cash distributions for the quarters ending 30 June 2016 and 30 September 2016 were paid in the half year to 31 December 2016.

The distribution for the quarter ended 31 December 2016 was paid on 19 January 2017. This means that total cash distributions have now been paid to unitholders for the half year ended 31 December 2016 amounting to 7.25 cents per unit which represents an increase of 3.6% compared to the previous corresponding period to 31 December 2015 (7.00 cents).

Property Valuation

The Directors of the Responsible Entity have concluded that the property valuation for determining fair value of the Fund's property should remain unchanged at 31 December 2016 from the independent valuation of the property adopted at 30 June 2016 ($132,000,000).

Debt Management

The debt management policy for the Fund is considered by the Responsible Entity to be conservative and one which positions the Fund to provide stability for investors.

The Responsible Entity has an agreement with Australia and New Zealand Banking Group Limited ("ANZ") for the Fund to access a debt facility ("ANZ Debt Facility") on the following key terms:

- An interest-only term loan facility of $66,300,000 with a maturity date of 30 June 2018;
- Security provided by the Fund by way of a Mortgage over the Fund's property and a General Security Agreement over the assets and undertakings of the Fund;
- A loan to value ratio not to exceed 60% (the loan to value ratio at 31 December 2016 is 50.2%); and
- An interest cover ratio not to fall below 2.0 times (the ratio for the half year to 31 December 2016 is 3.63 times).

Financial Derivatives

In August 2014, the Responsible Entity entered into an interest rate swap transaction which provides the Fund with interest rate protection for the period from 1 July 2015 through to expiry of the debt facility on 30 June 2018.

The transaction was consistent with the Responsible Entity's debt management policy of managing its exposure to interest rate risk in relation to the borrowing facilities.

The interest rate swaps are measured at fair value. The fair value adjustment for the period under review of $724,000 is recognised as income in the profit and loss account (31 December 2015: $23,000 recognised as an expense) and a liability is recognised in the balance sheet, being a “mark to market” realignment of the swaps as at the balance sheet date. This fair value liability is non-cash and will effectively reverse in full over the remaining period of the swap contracts unless the contracts are terminated at a date earlier than the contractual maturity dates.

Net Tangible Asset Value

As the value of the Fund’s property at 31 December 2016 is unchanged from the independent valuation at 30 June 2016, the Fund’s gearing level of 50.2% and net tangible asset (“NTA”) value per unit of $1.428 at 30 June 2016 both also remain materially unchanged.

Investors should note that the December 2016 NTA value of $1.428 is based on a valuation methodology adopted which the Directors consider reflects of the market value of the property. However, the underlying value of the Fund’s units may not necessarily reflect this NTA value as other market factors, such as liquidity, exit fees and sales and marketing costs also need to be taken into account. Investors should therefore seek their own independent advice when considering unit values.

SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

On 19 January 2017, distribution payments totalling $1,656,629 (3.625 cents per unit) were made to unitholders for the quarter ended 31 December 2016.

On 24 February 2017, at the EGM of the Fund’s Unitholders outlined above, a Resolution put forward seeking authorisation for a sale of the Fund’s Property was not passed.

AUDITORS’ INDEPENDENCE DECLARATION

In accordance with Section 307C of the Corporations Act 2001, the Directors have obtained a declaration of independence from BDO Audit (WA) Pty Ltd, the entity’s auditors. The declaration of independence is at page 6 of this report.

ROUNDING

The amounts contained in the half-year 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.

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

Nicholas C Wyatt Managing Director	Stephen R Dixon Executive Director

Perth, 30 March 2017

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DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF 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 Limited as Responsible Entity for LEX Property Fund.

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

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

2. No contraventions of any applicable code of professional conduct in relation to the review.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 30 March 2017

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Notes	31 Dec 2016 $'000	31 Dec 2015 $'000
Continuing operations			
Revenue			
Rental income		5,623	5,513
Other property income		1,198	1,167
Finance income		23	28
Net change in fair value of derivative financial instruments	7	724	-
Total revenue		7,568	6,708
Expenses			
Other property expenses		(1,197)	(1,168)
Responsible entity's fees		(525)	(481)
Administrative expenses		(237)	(156)
Asset maintenance costs		(119)	(25)
Fair value adjustment to investment property	5	-	(23)
Net change in fair value of derivative financial instruments	7	-	(23)
Finance costs	3	(1,553)	(1,571)
Net profit from continuing operations attributable to unitholders of the LEX Property Fund		3,937	3,261
Other comprehensive income attributable to unitholders of the LEX Property Fund		-	-
Total comprehensive income attributable to unitholders of the LEX Property Fund		3,785	3,261

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

CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	31 Dec 2016 $'000	30 Jun 2016 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		2,754	2,887
Trade and other receivables		101	29
Total Current Assets		2,855	2,916
Non-Current Assets			
Investment property	5	132,000	132,000
Total Non-Current Assets		132,000	132,000
TOTAL ASSETS		134,855	134,916
LIABILITIES			
Current Liabilities			
Trade and other payables		731	635
Distributions payable	4	2,569	2,725
Interest bearing borrowings	6	-	-
Derivative financial instruments	7	-	-
Total Current Liabilities		3,300	3,361
Non-Current Liabilities			
Interest bearing borrowings	6	66,294	66,292
Derivative financial instruments	7	1,485	2,209
Total Non-Current Liabilities		67,779	68,501
TOTAL LIABILITIES		71,079	71,862
NET ASSETS		63,776	63,054
UNITHOLDERS' EQUITY			
Equity attributable to unitholder of LEX Property Fund			
Unit capital	8	38,212	38,212
Undistributed income	9	26,665	25,941
Capital distribution reserve		(1,101)	(1,099)
TOTAL EQUITY		63,776	63,054
Net tangible asset value per unit	10	**$1.428**	**$1.428**

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

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Notes	31 Dec 2016 $'000	31 Dec 2015 $'000
Cash flows from operating activities			
Receipts from customers		7,430	7,324
Payments to suppliers		(2,123)	(2,023)
Payments to responsible entity		(525)	(481)
Interest received		23	28
Interest paid		(1,567)	(1,549)
Net cash flows from operating activities		3,238	3,299
Cash flows from investing activities			
Capital expenditure paid		-	(65)
Net cash flows used in investing activities		-	(65)
Cash flows from financing activities			
Distributions paid	4	(3,371)	(3,141)
Borrowing costs paid		-	-
Net cash flows from financing activities		(3,371)	(3,141)
Net increase in cash and cash equivalents		(133)	93
Cash and cash equivalents at beginning of period		2,887	2,583
Cash and cash equivalents at end of period		2,754	2,676

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

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Unit capital $'000	*Undistributed income $'000*	*Capital distribution reserve $'000*	*Total $'000*
Balance at 1 July 2015	38,212	24,129	(1,095)	61,246
Net profit for the half-year	-	3,261	-	3,261
Other comprehensive income for the half-year	-	-	-	-
Total comprehensive income for the half-year	-	3,261	-	3,261
Capital distributions payable	-	-	(2)	(2)
Income distributions payable	-	(3,307)	-	(3,307)
Balance at 31 December 2015	38,212	24,083	(1,097)	61,198
Balance at 1 July 2016	38,212	25,941	(1,099)	63,054
Net profit for the half-year	-	3,937	-	3,937
Other comprehensive income for the half-year	-	-	-	-
Total comprehensive income for the half-year	-	3,937	-	3,937
Capital distributions payable	-	-	(2)	(2)
Income distributions payable	-	(3,213)	-	(3,213)
Balance at 31 December 2016	38,212	26,665	(1,101)	63,776

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

1. CORPORATE INFORMATION

The financial report of the LEX Property Fund ("the Fund") for the half-year ended 31 December 2016 was authorised for issue in accordance with a resolution of the Directors of LEX Property Management Limited ("the Responsible Entity") on 30 March 2017.

The Fund is a managed investment scheme, with its main asset being an investment property situated on freehold land owned by the Fund in Innaloo, Western Australia.

The investment property is a 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 33B Walters Drive, Osborne Park, Western Australia, 6017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all of the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Fund as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of the Fund as at 30 June 2016.

(a) Basis of Preparation

The half-year financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis, except where stated.

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 98/0100. The Fund is an entity to which the class order applies.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

Going Concern
The Fund recorded a net profit for the half year to 31 December 2016 of $3,937,000 (31 December 2015: $3,261,000) after recognition of a non-cash fair value adjustment to the derivative financial instruments of $724,000 (31 December 2015: an expense of $23,000). There was no non-cash fair value adjustment to the investment property in the period (31 December 2015: an expense of $23,000). Hence, the net profit of the Fund for the half year before fair value adjustments was $3,213,000 (31 December 2015: $3,307,000).

As at the reporting date, the current liabilities exceed the amount of assets by $445,000 (30 June 2016: $445,000). The deficiency at 31 December 2016 has arisen primarily due to the liability of $2,569,000 (30 June 2016: $2,725,000) recognised on account of distributable profits.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

The Fund is in full compliance with all banking covenants and the directors of the Responsible Entity have prepared cash flow forecasts that indicate that the Fund will have sufficient cash flows for a period of at least 12 months from the date of this report and the Fund is expected to generate adequate revenues from operations 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.

(b) Significant accounting policies

The half-year financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2016.

Derivative financial instruments
The Fund enters into derivative financial instruments (interest rate swaps) to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(c) Changes in accounting policies

Adoption of new and revised Accounting Standards
The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period. The adoption of these amendments has not resulted in any changes to the Fund's accounting policies and has no effect on the amounts reported for the current or prior periods.

Standards and Interpretations issued but not yet effective
At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Fund for the year ended 30 June 2016:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers	1 January 2018	30 June 2019
AASB 16 Leases	1 January 2019	30 June 2020

The Fund has performed an assessment of the standards and interpretations effective for future periods and has determined that there would be no material impacts on the financial position of the Fund for the year ended 30 June 2016.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

3. FINANCE COSTS

	31 Dec 2016 *$'000*	*31 Dec 2015* *$'000*
Interest charges - banks	1,551	1,569
Amortisation of debt funding costs	2	2
	1,553	1,571

4. DISTRIBUTIONS PAID OR PAYABLE

	31 Dec 2016 *$'000*	*30 June 2016* *$'000*
Distributions payable		
Balance brought forward	2,725	2,399
Income distributions attributable to unitholders	3,213	6,663
Capital distributions attributable to unitholders	2	4
Cash distributions paid to unitholders	(3,371)	(6,341)
Balance carried forward	2,569	2,725

	31 Dec 2016 *Cents per unit*	*30 June 2016* *Cents per unit*
Total distributions attributable to unitholders	7.03	14.59
Cash distributions paid to unitholders	7.38	13.88

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

	31 Dec 2016 *$'000*	*30 June 2016* *$'000*
Fair value of investment property brought forward	132,000	130,000
Adjustment to cost	-	23
Fair value adjustment to investment property	-	1,977
Fair value of investment property carried forward	132,000	132,000

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 31 December 2016 to be $132,000,000, which has not changed since an independent valuation report was prepared by Jones Lang LaSalle as at 30 June 2016.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

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 fair value computation is categorised under 'Level 3' hierarchy per AASB 13. Further details are included in Note 12.

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 11.

6. INTEREST BEARING BORROWINGS

	31 Dec 2016 $'000	*30 June 2016 $'000*
Current		
Interest bearing liabilities at amortised cost	-	-
Non-Current		
Interest bearing liabilities at amortised cost	66,294	66,292

The interest bearing liabilities expose the entity to liquidity and interest rate risks.

The Fund has access to an investment loan facility ("Term Facility") with ANZ on the following key terms:

- The Term Facility is an interest-only loan facility.
- The Term Facility has a maturity date of 30 June 2018.
- The bank requires the Fund's loan to value ratio of the facility not to exceed 60.0% (the Fund's loan to value ratio at 31 December 2016 is 50.2%).
- The bank requires the Fund's interest cover ratio not to fall below 2.0 times (the Fund's ratio for the half year to 31 December 2016 is 3.14 times).

At 31 December 2016 there were no amounts undrawn and the position of the principal amounts is:

	Date of Maturity	*31 Dec 2016 $'000*	*30 June 2016 $'000*
Current			
Term Facility		-	-
Non-Current			
Term Facility	30/06/18	66,300	66,300

The Term Facility 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 Fund is in compliance with the terms of its borrowings. No breach of the terms has been noted during the period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

7. DERIVATIVE FINANCIAL INSTRUMENTS

	31 Dec 2016 $'000	*30 June 2016 $'000*
Current		
Interest rate swaps	-	-
Non-Current		
Interest rate swaps	1,485	2,209

In August 2014, the Fund entered into interest rate swap agreements with ANZ to manage its exposure to interest rate risk in relation to the borrowing facilities disclosed in Note 6. The interest rate swaps are measured at fair value.

8. UNIT CAPITAL

	31 Dec 2016 No. of units	*30 June 2016 No. of units*
Issued capital		
Fully paid units on issue	45,700,100	45,700,100
Movements in issued capital		
Balance brought forward and carried forward	45,700,100	45,700,100

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 50.2% (30 June 2016: 50.2%) at the reporting date.

	31 Dec 2016 $'000	*30 June 2016 $'000*
Unit Capital		
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 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.

9. UNDISTRIBUTED INCOME

	31 Dec 2016 $'000	*30 June 2016 $'000*
Balance brought forward	25,941	24,129
Net profit attributable to unitholders	3,937	8,475
Income distributions payable to unitholders	(3,213)	(6,663)
Balance carried forward	26,665	25,941

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

The balance of undistributed income at the end of the half-year includes the fair value adjustment to the investment property which was accounted for to date and credited to the Statement of Comprehensive Income after initial recognition at cost in accordance with *AASB 140 Investment Properties*.

The balance of undistributed income at the end of the half-year also includes the fair value adjustment to the Fund's derivative financial instruments.

The treatment of both of these items 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 and fair value adjustment to derivate financial instruments are both accounted for in the Statement of Comprehensive Income to comply with the fair value method, the Directors have deemed that such adjustments to the Statement of Comprehensive Income will not be distributed to unitholders. The adjustments are therefore carried forward at the reporting date as part of an undistributed income balance.

10. NET TANGIBLE ASSET VALUE PER UNIT

	31 Dec 2016	*30 June 2016*
Net tangible assets ($'000)	65,261	65,263
Number of units on issue used in calculation	45,700,100	45,700,100
Net tangible asset value per unit	$1.428	$1.428

The net tangible assets of the Fund take into account total equity of the Fund as shown in the balance sheet, adjusted to exclude the liability recognised at the balance date in respect of derivative financial instruments.

11. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – the Fund as lessor
The Fund has entered into long term lease arrangements for the property with Cebas Pty Ltd, the key terms of which are as follows:

- Commencement of the lease on 4 February 2008.
- The initial term of the lease is fifteen years with three further option periods of five years each.
- The commencing rent 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 months' 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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Future minimum rentals receivable under the lease arrangements contracted at 31 December 2016 are as follows:

	31 Dec 2016 *$'000*	*30 Jun 2016* *$'000*
Within one year	11,128	11,177
After one year but not more than five years	40,499	41,081
More than five years	10,784	15,756
	62,411	68,015

Guarantees

Cebas has provided a bank guarantee to the Fund for an amount equivalent to six month's 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 Half-Year Financial Report.

12. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

This note provides an update on the judgements and estimates made by the Fund in determining the fair values of financial instruments since the last annual financial report.

(a) *Fair Value Hierarchy*

To provide an indication about the reliability of the inputs used in determining fair value, the Fund classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows.

The following table presents the Fund's financial assets and financial liabilities measured and recognised at fair value at 31 December and 30 June 2016 on a recurring basis:

	Level 1 *$'000*	*Level 2* *$'000*	*Level 3* *$'000*	*Total* *$'000*
At 31 December 2016				
Assets				
Investment property	-	-	132,000	132,000
Liabilities				
Derivative financial instruments	-	1,485	-	1,485
At 30 June 2016				
Assets				
Investment property	-	-	132,000	132,000
Liabilities				
Derivative financial instruments	-	2,209	-	2,209

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

There were no transfers between levels during the half year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

(b) Valuation Techniques Used to Determine Fair Values

Level 2: The fair value of derivative financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- For investment properties, the fair value of similar assets, location and market conditions (Level 3)
- For interest rate swap, the present value of the estimated future cash flows based on observable yield curves (Level 2)

(c) Fair Value Measurements Using Significant Observable Inputs (Level 3)

Movements in Level 3 assets during the half year are set out below:

	Investment Property $'000
Balance at 1 July 2016	132,000
Adjustment to cost	-
Fair value adjustment to investment property	-
Balance at 31 December 2016	132,000

The valuation is based on combination of discounted cash flows technique and market capitalisation approach. The key assumptions in the valuation are:

	31 Dec 2016	*30 Jun 2016*
Income capitalisation approach		
Net passing income from the property	$11,253,000	$11,251,000
Capitalisation rate	8.25%-8.50%	8.25% - 8.50%
Discounted cash flows approach		
Period	10 years	10 years
Discount rate	9.00%	9.00%
Terminal rate	8.50%	8.50%

The sensitivity of the investment property valuation for a movement in capitalisation rates is:

- A decrease by 25 basis points would increase the property valuation by approximately $3,988,000; and
- An increase by 25 basis points would decrease the property valuation by approximately $3,761,000.

(d) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

13. SEGMENT INFORMATION

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

14. EVENTS AFTER THE BALANCE SHEET DATE

On 19 January 2017, a cash distribution of $1,656,629 (3.625 cents per unit) was paid to unitholders for the quarter ended 31 December 2016.

On 24 February 2017, at the EGM of the Fund's Unitholders outlined above, a Resolution put forward seeking authorisation for a sale of the Fund's Property was not passed.

No other matters or circumstances have arisen since the end of the half year which have significantly affected or may significantly affect the operations or state of affairs of the Fund in future financial years.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of LEX Property Management Limited, the 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 the 31 December 2016 and of its performance for the half-year ended on that date; and

  ii. comply with Accounting Standard *AASB 134 Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) 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 made pursuant to Section 303(5) of the Corporations Act 2001.

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

Nicholas C Wyatt
Managing Director
Perth, 30 March 2017

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of LEX Property Fund

Report on the Half-Year Financial Report

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

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

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

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

Independence

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

Conclusion

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

(i) giving a true and fair view of the fund's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

BDO Audit (WA) Pty Ltd

BDO

Dean Just
Director

Perth, 30 March 2017