LEX Property Fund
(ARSN 123 437 838)

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

Annual Financial Report
30 June 2016

Contents

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 Company), the Responsible Entity of LEX Property Fund, a managed investment scheme (ARSN 123 437 838), provide this report for the year ended 30 June 2016.

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 **Non-Executive Director and Chairman**

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

Nicholas C Wyatt BA (Hons), ACA (UK) **Managing Director**

A Chartered Accountant originally from the UK, who has gained significant exposure in a 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 operational activities to date, including the structuring, debt-funding and capital raisings completed to date.

Stephen R Dixon BBus, CPA **Director – Funds Management**

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

Peter M Morrison CPA **Non-Executive Director**

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

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:

	2016		*2015*	
	Number of Units		*Number of Units*	
	Directly	*Indirectly*	*Directly*	*Indirectly*
Specified Directors				
Alan W Tribe	-	16,699,850	-	16,699,850
Nicholas C Wyatt	100,000	484,000	100,000	484,000
Stephen R Dixon	-	30,000	-	30,000
Peter M Morrison	-	50,000	-	50,000

PRINCIPAL ACTIVITY

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

At completion, the Fund retained ownership of the Property for investment purposes.

REVIEW AND RESULTS OF OPERATIONS

The IKEA Perth Store and perimeter buildings (“Property”) owned by the Fund are fully leased as at the reporting date.

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 Fund has recorded a net profit of $8,475,000 for the year (30 June 2015: $5,275,000) after recognising a non-cash fair value revaluation surplus adjustment to investment property of $1,977,000 at 30 June 2016 (30 June 2015: $1,313,000) and a non-cash fair value revaluation deficit adjustment to derivative financial instruments of $165,000 (30 June 2015: $2,044,000). Hence, net profit of the Fund for the year before fair value adjustments was $6,663,000 (30 June 2015: $6,006,000).

The increase in net profit before fair value adjustments of $657,000 compared to the previous year arises predominantly from the additional rental income generated following annual rental reviews for various tenancies and the first full year’s impact of the net interest cost savings on the Fund’s debt after new margin arrangements came into effect in September 2014 on the ANZ Debt Facility.

Income Distributions

Quarterly distributions were paid to unitholders during the year.

The distributions for the quarter ended 30 June 2016 were paid on 19 July 2016.

Total cash distributions paid to unitholders for the year ended 30 June 2016 amounted to 14.25 cents per unit (cpu), which represents an increase of 11.75% from the previous corresponding period (12.75 cpu).

Property Valuation

The Property owned by the Fund has been independently valued at $132,000,000 at 30 June 2016.

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 Fund has access to an investment loan facility (“Term Facility”) with the following key terms:

- An interest-only term loan facility of $66,300,000;
- A term loan facility maturing on 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;
- The Fund’s loan to value ratio not to exceed 60%; and
- The Fund’s interest cover ratio not to fall below 2.0 times.

In the previous financial year, the Responsible Entity entered into an interest rate swap transaction through ANZ which provides the Fund with interest rate protection for the period from 1 July 2015 through to 30 June 2018.

In relation to the Fund’s debt facility, the Directors confirm:

- The loan to value ratio of the facility is 50.2% as at 30 June 2016 (compared to the bank’s requirement that this ratio should not exceed 60%).
- Interest cover is 3.57 times net rental income for the year to 30 June 2016 (compared to the bank’s requirement that this ratio should not fall below 2.0 times).

Financial Derivatives
As noted above, the Fund entered into interest rate swap agreements in the period with ANZ to manage its exposure to interest rate risk in relation to the borrowing facilities.

The interest rate swaps are measured at fair value. The movement in the fair value liability of $165,000 in the year (30 June 2015: $2,044,000) is recognised in the profit and loss account. The fair value liability is recognised in the balance sheet, being a “mark to market” realignment of the swaps. This fair value liability of $2,209,000 (30 June 2015: $2,044,000) 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 at 30 June 2016, the net tangible asset (“NTA”) value per unit is $1.428.

Investors should note that this NTA value of $1.428 is based on a valuation methodology which the Directors consider reflects 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 in account. Investors should therefore seek their own independent advice when considering unit values.

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
The following subsequent events have occurred since the balance sheet date:

- On 19 July 2016, a cash distribution of $1,714,000 (3.75 cents per unit) was paid to unitholders for the quarter ended 30 June 2016.

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.

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 BDO Australia, 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 under Section 298(2) of the Corporations Act 2001

CHANGE OF AUDITORS

During the year, the Company changed its auditors to BDO Audit (WA) Pty Ltd. The financial statements of LEX Property Fund for the year ended 30 June 2015 were audited by Deloitte Touche Tohmatsu who expressed an unmodified opinion on these statements on 30 September 2015.

____
Nicholas C Wyatt
Director

____
Stephen R Dixon
Director

Perth, 16 September 2016

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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 of LEX Property Fund for the year ended 30 June 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 16 September 2016

Statement of Profit or Loss and Other Comprehensive Income
FOR THE YEAR ENDED 30 JUNE 2016

	Note	*2016 $'000*	*2015 $'000*
Continuing Operations			
Revenue			
Rental income		11,114	10,807
Property outgoings and operating costs		1,477	1,309
Interest income		56	51
Fair value adjustment to investment property	5	1,977	1,313
Total revenue		14,624	13,480
Expenses			
Property outgoings and operating expenses		1,476	1,316
Responsible entity management fees		960	919
Asset management and administration costs		433	423
Net change in fair value of derivative financial instruments	10	165	2,044
Total expenses		3,034	4,702
Net profit from continuing operations before finance costs		11,590	8,778
Finance costs	3	(3,115)	(3,503)
Net profit from continuing operations attributable to unitholders of the LEX Property Fund		8,475	5,275
Other comprehensive income		-	-
Total comprehensive income attributable to unitholders of the LEX Property Fund		8,475	5,275

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

Statement of Financial Position

AS AT 30 JUNE 2016

	Note	*2016* *$'000*	*2015* *$'000*
ASSETS			
Current Assets			
Cash and cash equivalents	6	2,887	2,583
Trade and other receivables	7	29	56
Total Current Assets		2,916	2,639
Non-Current Assets			
Investment property	5	132,000	130,000
Total Non-Current Assets		132,000	130,000
TOTAL ASSETS		134,916	132,639
LIABILITIES			
Current Liabilities			
Trade and other payables	8	635	661
Distributions payable	4	2,725	2,399
Derivative financial instruments	10	-	681
Total Current Liabilities		3,361	3,741
Non-Current Liabilities			
Interest bearing borrowings	9	66,292	66,289
Derivative financial instruments	10	2,209	1,363
Total Non-Current Liabilities		68,501	67,652
TOTAL LIABILITIES		71,862	71,393
NET ASSETS		63,054	61,246
UNITHOLDERS' EQUITY			
Equity attributable to unitholders of LEX Property Fund			
Unit capital	11	38,212	38,212
Undistributed income	12	25,941	24,129
Capital distribution reserve	13	(1,099)	(1,095)
TOTAL UNITHOLDERS' EQUITY		63,054	61,246
Net tangible asset value per unit	14	$1.428	$1.385

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

	Note	*2016* *$'000*	*2015* *$'000*
Cash flows from operating activities			
Receipts from customers		13,880	13,310
Payments to suppliers		(3,110)	(2,773)
Payments to responsible entity		(1,056)	(1,011)
Interest received		56	51
Interest paid		(3,102)	(3,121)
Net cash flows from operating activities	6	6,668	6,456
Cash flows from financing activities			
Distributions paid		(6,341)	(5,713)
Borrowing costs paid		-	(14)
Net cash flows from financing activities		(6,341)	(5,727)
Cash flows from investing activities			
Capital expenditure paid		(23)	(187)
Net cash flows from investing activities		(23)	(187)
Net increase in cash and cash equivalents		304	542
Cash and cash equivalents at beginning of period		2,583	2,041
Cash and cash equivalents at end of period	6	2,887	2,583

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

	Unit capital $'000	*Undistributed income $'000*	*Capital distribution reserve $'000*	*Total $'000*
Balance at 30 June 2014	38,212	24,860	(1,057)	62,015
Net profit for the year	-	5,275	-	5,275
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	5,275	-	5,275
Capital distributions payable	-	-	(38)	(38)
Income distributions payable	-	(6,006)	-	(6,006)
Balance at 30 June 2015	38,212	24,129	(1,095)	61,246
Net profit for the year	-	8,475	-	8,475
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	8,475	-	8,475
Capital distributions payable	-	-	(4)	(4)
Income distributions payable	-	(6,663)	-	(6,663)
Balance at 30 June 2016	38,212	25,941	(1,099)	(63,054)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

1 CORPORATE INFORMATION

The financial report of the LEX Property Fund ("the Fund") for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors of LEX Property Management Limited ("the Responsible Entity") on 16 September 2016.

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

The investment property is a retail centre completed in 2008, which comprises a purpose built IKEA Store and four perimeter buildings which provide additional retail and office space adjacent to the IKEA Store. The IKEA Store is leased to Cebas Pty Ltd ("Cebas"), the IKEA franchisee for Western Australia and South Australia.

The Fund is domiciled in Australia and the principal office is located at 33A Walters Drive, Osborne Park, Western Australia 6017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

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

Rounding

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

Going Concern

The Fund has recorded a net profit of $8,475,000 for the year (30 June 2015: $5,275,000) after recognising a non-cash fair value revaluation surplus adjustment to investment property of $1,977,000 at 30 June 2016 (30 June 2015: $1,313,000) and a non-cash fair value deficit to derivative financial instruments of $165,000 (30 June 2015: $2,044,000l). Hence, net profit of the Fund for the year before fair value adjustments was $6,663,000 (30 June 2015: $6,006,000).

As at the reporting date, the current liabilities exceed the current assets by $445,000 (30 June 2015: $1,102,000). However, this deficiency at 30 June 2016 has arisen primarily due to the liability of $2,725,000 (30 June 2015: $2,399,000) recognised on account of distributable profits, GST payable of $250,000 (30 June 2015: $249,000) and accrued interest costs of $209,000 (30 June 2015: $201,000).

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 to meet the obligations of the Fund as and when they fall due.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2016

Based on the cash flow forecasts of the Fund, the Directors of the Responsible Entity are satisfied that the going concern basis of preparation is appropriate. The financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

(b) New Accounting Standards and Interpretations

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.

(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

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

(d) Financial Assets and Financial Liabilities

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

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

A financial liability is removed from the Statement of Financial Position 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 2016

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 the allowance account), and the balance in the Statement of Comprehensive Income. Allowances for impairment losses of financial assets are de-recognised simultaneously with de-recognition 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 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 the allowance accounts are recognised in the Statement of Comprehensive Income, either as a 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.

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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 de-recognition of an investment property are recognised in the Income Statement in the period of de-recognition. Any potential effect of Capital Gains Tax ("CGT") on de-recognition 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.

(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 Statement of Comprehensive Income through the amortisation process and also at de-recognition of the borrowings. However, finance costs relating to a qualifying asset is capitalised as part of the asset's cost.

(k) 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.

(l) Leases

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

Operating Leases

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

(m) Unit Capital

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

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

(n) Capital Raising Costs

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2016

(o) Distributions payable

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

(p) Income Tax

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

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

(q) Goods and Services Tax

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

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

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

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

(r) Critical judgements and key sources of estimating uncertainty

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

(i) Investment property

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

3 FINANCE COSTS

	2016 $'000	*2015 $'000*
Interest charges and fees – banks	3,111	3,465
Amortisation of debt funding costs	4	38
	3,115	3,503

4 DISTRIBUTIONS PAID OR PAYABLE

	30 June 2016 $'000	*30 June 2015 $'000*
Distributions payable		
Balance brought forward	2,399	2,068
Income distributions attributable to unitholders	6,663	6,006
Capital distributions attributable to unitholders	4	38
Cash distributions paid to unitholders in the year	(6,341)	(5,713)
Balance carried forward	2,725	2,399

	Cents per unit	*Cents per unit*
Total distributions attributable to unitholders	14.59	13.23
Cash distributions paid to unitholders in the year	13.88	12.50

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

	2016 $'000	*2015 $'000*
Fair value of investment property brought forward	130,000	128,500
Adjustment to cost	23	187
Fair value adjustment to investment property	1,977	1,313
Fair value of investment property carried forward	132,000	130,000

Valuation Policy

Investment properties are carried at fair value.

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

The Directors have assessed the fair value of the investment property at 30 June 2016 to be $132,000,000 using an independent valuation report prepared by Jones Lang LaSalle at the reporting date. This independent report was prepared by Jones Lang LaSalle for asset reporting purposes and has been adopted for reporting at the balance date by the Directors.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 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. Based on the property's fair value, the implied capitalisation rate is in the range of 8.25% to 8.50%.

The valuer's assessment of the property's fair value includes a consideration of the following factors:
- recent market data for property transactions at a comparable level;
- tenancy profile of the Fund's property and comparable properties;
- recent economic factors, including movements in interest rates; and
- characteristics specific to the Fund's property.

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

The key terms of operating lease arrangements for the IKEA Store are included in detail in Note 17.

6 CASH AND CASH EQUIVALENTS

	2016 *$'000*	*2015* *$'000*
Reconciliation of cash		
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:		
Cash at bank	2,887	2,583

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.

	2016 *$'000*	*2015* *$'000*
Reconciliation from the net profit after tax to the net cash flows from operations		
Net profit attributable to unitholders of LEX Property Fund	8,475	5,275
Adjustments for:		
Amortisation of debt funding costs	4	38
Fair value adjustment to investment property	(1,977)	(1,313)
Fair value adjustment to financial derivatives	165	2,044
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	27	(16)
Decrease in prepaid finance costs	-	143
Increase in accrued finance costs	8	201
(Decrease)/increase in trade creditors and other payables	(34)	84
Net cash flows from operating activities	6,668	6,456

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

7 TRADE AND OTHER RECEIVABLES

	2016 *$'000*	*2015* *$'000*
Other costs recoverable	29	56

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.

8 TRADE AND OTHER PAYABLES

	2016 *$'000*	*2015* *$'000*
Trade creditors and accruals	635	661

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.

9 INTEREST BEARING BORROWINGS

	2016 *$'000*	*2015* *$'000*
Non-Current		
Interest bearing liabilities at amortised cost	66,292	66,289

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 30 June 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 full year at 30 June 2016 is 3.57 times).

At 30 June 2016 there were no amounts undrawn and the position of the principal amounts is:

	Date of Maturity	*2016* *$'000*	*2015* *$'000*
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 General Security Agreement over the 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 YEAR ENDED 30 JUNE 2016

10 DERIVATIVE FINANCIAL INSTRUMENTS

	2016 $'000	*2015 $'000*
Current		
Interest rate swaps	-	681
Non-Current		
Interest rate swaps	2,209	1,363

During the previous financial year, 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 9. The interest rate swaps are measured at fair value.

11 UNIT CAPITAL

	No. of units 2016	*No. of units 2015*
Issued capital		
Fully paid units on issue	45,700,100	45,700,100

Capital Management Policy

The Responsible Entity monitors the adequacy of its capital and gearing to meet debt covenants in place. The debt covenants include a maximum loan to value ratio of 60%, compared to the actual loan to value ratio of 50.2% (30 June 2015: 51.0%) at the reporting date.

	2016 $'000	*2015 $'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 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.

12 UNDISTRIBUTED INCOME

	2016 $'000	*2015 $'000*
Balance brought forward	24,129	24,860
Net profit attributable to unitholders	8,475	5,275
Income distributions payable to unitholders	(6,663)	(6,006)
Balance carried forward	25,941	24,129

The balance of undistributed income at the end of the financial year includes 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

The balance of undistributed income at the end of the financial 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 derivative financial instruments are both accounted for 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. The adjustments are therefore carried forward at the reporting date as an undistributed income balance.

13 CAPITAL DISTRIBUTION RESERVE

	2016 *$'000*	*2015* *$'000*
Balance brought forward	1,095	1,057
Capital distributions	4	38
Balance carried forward	1,099	1,095

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

	2016 *$'000*	*2015* *$'000*
Net tangible assets ($'000)	65,263	62,146
Number of units on issue used in the calculation	45,700,100	45,700,100
Net tangible asset value per unit	$1.428	$1.385

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.

15 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 30 June 2016 and 30 June 2015 on a recurring basis:

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

	Level 1 $'000	*Level 2 $'000*	*Level 3 $'000*	*Total $'000*
At 30 June 2016				
Assets				
Investment property	-	-	132,000	132,000
Liabilities				
Derivative financial instruments	-	2,209	-	2,209
At 30 June 2015				
Assets				
Investment property	-	-	130,000	130,000
Liabilities				
Derivative financial instruments	-	2,044	-	2,044

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 year.

(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 year are set out below:

	Investment Property $'000
Balance at 1 July 2015	130,000
Adjustment to cost	23
Fair value adjustment to investment property	1,977
Balance at 30 June 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:

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

	30 Jun 2016	*30 Jun 2015*
Income capitalisation approach		
Net passing income from the property	$11,251,000	$10,988,000
Capitalisation rate	8.25% - 8.50%	8.25% - 8.50%
Discounted cash flows approach		
Period	10 years	10 years
Discount rate	9.00%	9.75%
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 $3,998,000; and
- An increase by 25 basis points would decrease the property valuation by approximately $3,770,000.

(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.

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.

The Fund does not monitor the credit risks in relation to cash which is transacted through ANZ, its corporate banker as at the reporting date. The Directors believe ANZ is subject to strict regulations through legislation, the Reserve Bank and other regulatory bodies.

Liquidity Risk

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

Liquidity risk in relation to trade and other payables and distributions payable are 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2016

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

	2016 $'000	*2015 $'000*
Ageing analysis of trade payables		
0 – 30 days	635	661

The Fund's principal financial instrument comprises of a bank term debt loan to assist with ownership of the Fund's 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*
Year ended 30 June 2016							
Term debt loan	(3,103)	(69,403)	-	-	-	-	(72,506)
Trade and other payables	(635)	-	-	-	-	-	(635)
Distributions payable	(2,725)	-	-	-	-	-	(2,725)
Year ended 30 June 2015							
Term debt loan	(3,103)	(3,103)	(69,403)	-	-	-	(75,609)
Trade and other payables	(661)	-	-	-	-	-	(661)
Distributions payable	(2,399)	-	-	-	-	-	(2,399)

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

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

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

The interest rate risk exposure on account of interest bearing loans has been mitigated as the entire loan bears a fixed interest rate up to June 2018 under swap contracts in place with ANZ. The fair value of the debt facility is sensitive to the market interest rate movements. However, the management does not monitor such fair value movements as the Fund does not intend to trade in its liabilities.

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 on 4 February 2008;
- The initial term is for fifteen years with three further option periods of five years each;
- Commencing rental on the IKEA Store was calculated at 8.75% of the total development cost of the IKEA Store;

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

- 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;
- Rental security by way of 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 2016 are as follows:

	2016 *$'000*	*2015* *$'000*
Within one year	11,177	10,952
After one year but not more than five years	41,081	41,367
More than five years	15,756	25,254
	68,015	77,574

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 Annual Financial Report.

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	*Income from related parties* *$'000*	*Expenses to related parties* *$'000*
Year ended 30 June 2016		
Cebas Pty Ltd	11,209	-
LEX Pty Ltd	88	(256)
LEX Property Management Limited	-	(960)
Macro Fund Services Pty Ltd	-	(1)
Year ended 30 June 2015		
Cebas Pty Ltd	10,854	-
LEX Pty Ltd	91	(241)
LEX Property Management Limited	-	(919)
Macro Fund Services Pty Ltd	-	-

Relationship with Cebas Pty Ltd

Cebas Pty Ltd ("Cebas") is the tenant of the IKEA Store and is the tenant of one of the perimeter building tenancies. Mr Tribe has an indirect interest in Cebas as a beneficiary of a discretionary trust that indirectly controls Cebas.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

As tenant, Cebas has made lease rental payments to the Fund of $9,962,000 for the period to 30 June 2016 (2015: $9,778,000). Cebas has also paid apportioned outgoings and operating costs of $1,247,000 for the same period (2015: $1,076,000).

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 one of the perimeter building tenancies for part of the year, LEX Pty Ltd has made lease rental payments to the Fund of $68,000 for the period to 30 June 2016 (2015: $74,000). LEX Pty Ltd has also paid apportioned outgoings and operating costs of $20,000 for the same period (2015: $17,000).

During the year to 30 June 2016, payments totalling $257,000 were also made to LEX Pty Ltd for the reimbursement of asset management, consultancy fees and other general administrative expenses (2015: $241,000).

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

During the year to 30 June 2016, the Fund made payments totalling $960,000 to the Responsible Entity in respect of responsible entity management fees (2015: $919,000). 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 0.725% per annum (plus GST) of the gross value of the Fund's assets for the year ended 30 June 2016.

Relationship with Macro Fund Services Pty Ltd
Mr Dixon and Mr Morrison are directors of Macro Fund Services Pty Ltd and each have an indirect ownership interest in the Responsible Entity as shareholders of Macro Fund Services Pty Ltd.

During the year to 30 June 2016, the Fund made no payments to Macro Fund Services Pty Ltd in respect of consultancy fees (2015: $Nil).

19 AUDITORS' REMUNERATION

	2016 *$*	*2015* *$*
Amounts received or due and receivable for:		
BDO Australia – for audit services	20,000	
Deloitte Touche Tohmatsu – for audit services		31,000

20 DIRECTORS' DISCLOSURES

(a) Details of Specified Directors

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

(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:

	2016 Number of Units		*2015 Number of Units*	
	Directly	*Indirectly*	*Directly*	*Indirectly*
Specified Directors				
Alan W Tribe	-	16,699,850	-	16,699,850
Nicholas C Wyatt	100,000	484,000	100,000	484,000
Stephen R Dixon	-	30,000	-	30,000
Peter M Morrison	-	50,000	-	50,000

21 EVENTS AFTER THE BALANCE SHEET DATE

The following events have occurred after the balance sheet date:

- On 19 July 2016, a cash distribution of $1,714,000 (3.75 cents per unit) was paid to unitholders for the quarter ended 30 June 2016.

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"), the Directors declare that:

(a) the financial statements and notes of the Fund are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Accounting Standards;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and

(c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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

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

Nicholas C Wyatt
Director
Perth, 16 September 2016

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INDEPENDENT AUDITOR'S REPORT

To the unitholders of LEX Property Fund

Report on the Financial Report

We have audited the accompanying financial report of LEX Property Fund, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the LEX Property Management Limited as Responsible Entity for LEX Property Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company'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.

Independence

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

Opinion

In our opinion:

(a) the financial report of LEX Property Fund is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

BDO Audit (WA) Pty Ltd

Dean Just

Director

Perth, 16 September 2016