

Valad Property Group Annual Report 2010

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Theodorstrasse 293,
Düsseldorf, Germany



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Above
Stamholmen 147-161, Hvidovre,
Copenhagen, Denmark

Dear Security holder,

Valad improved its performance in the 2010 financial year, reflecting considerable progress with our objective of restoring the Group's financial strength.

Last year we set out the steps that we would pursue to firstly stabilise the business, then grow earnings:

- continuing to strengthen our balance sheet;
- improving profitability from our existing operations; and
- growing our business through new Real Estate Investment Management (REIM) mandates.

Strengthening the Balance Sheet

Capital management was and remains very important. During the year Valad:

- sold \$70 million of assets, including our rural assets, and our self storage investment;
- raised \$64 million of new equity; and
- extended three corporate debt arrangements totalling approximately \$234 million.

Profitability from existing operations

Valad reported a statutory net loss after tax of \$165.2 million compared with the 2009 net loss of \$1,492.3 million. This statutory result included fair value adjustments, impairments and other non-cash items totalling \$173.2 million for the full year.

We have achieved substantial cost savings reducing operating costs by 44% from \$133 million in financial year 2009 to \$74 million in financial year 2010, a reduction of \$59 million.

We advised you last year that we were targeting a better than breakeven result in underlying earnings. We've achieved that, with an underlying profit after tax of \$8 million for the full year. This result represents a \$44 million improvement in underlying earnings from last year.



New REIM mandates

We have added a further \$1 billion of assets under management with Valad being appointed investment manager of:

- the €250 million European Commercial Real Estate (ECREL), with assets located in Germany, the Netherlands and the Nordic region; and
- the €480 million Swedish portfolio of Kefren Properties.

For financial year 2011, our ongoing strategy will continue to be growing security holder value through improving profitability, winning new mandates, and further strengthening our balance sheet.

An important element of this strategy is to sell down stakes in our development assets, preferably into funds managed by us and using the proceeds to reduce debt. As these assets are not currently income producing, this will improve profits by reducing interest paid.

We see potential to improve revenues using our existing platform, through the creation of traditional funds, as well as winning further mandates from investors and financiers that require localised real estate skills to work through difficult asset portfolios.

We will continue to look to reduce debt and extend debt maturities. Renewing the investment portfolio debt that matures in September 2011 will be a particular focus over the coming months.

No distribution was declared for the 2010 financial year and none is expected for the 2011 year. As noted above, Valad is taking a measured approach to capital management.

And finally, it is our intention to propose a 1-for-20 security consolidation at the AGM in late October.

The achievements of the Group are the result of an extraordinary team effort involving the executive team led by Peter Hurley and all staff in our offices in Europe and in Australia. The Board would like to express its thanks and appreciation to everyone involved for their efforts over the past year and I would also like to thank my fellow directors for their support and input.

Trevor Gerber
Chairman



Above
Parc de LIMONEST "TECHLID",
1 rue de Vergers, Limonest, France

Dear Securityholder,

Valad operates two distinct businesses in seven operating regions both underpinned by our local active "value-add" real estate skills:

- Real Estate Investment Management in Australia and Europe; and
- Real Estate Ownership in Australia and New Zealand and through co-investment in our managed funds in Europe.

Valad has 23 offices in 13 countries spanning Australia, the UK and Continental Europe. We manage approximately 9,000 tenants and 1,000 properties in a platform which specialises in multi-let commercial and light industrial properties providing risk diversity, high income and value-adding opportunities.

The strength of this business, and what we believe sets us apart from competitors, is the quality of our various local real estate teams.

Valad manages a total of \$9.0 billion in assets across all parts of the business, with our operations employing approximately 300 people.

Our Real Estate Investment Management business manages \$8.1 billion in assets and we have balance sheet assets of approximately \$900 million. The former are predominantly office and industrial with the majority managed across Europe.

This is complemented by our significant interest in the Australian residential market through One Alfred Street in Sydney (formerly known as Goldfields House), Pentridge Coburg and Sheraton Noosa.

As outlined by Trevor Gerber, our continuing strategy is aimed at strengthening the balance sheet, improving profitability and growing the business through new mandates.

Strengthening the balance sheet

We are working on extending the term of debt expiring within the next 18 months, primarily the investment portfolio debt which matures in September 2011. The Kimco convertible note has a series of maturity dates, with the first being February 2013, with certain repricing events, extendable until a final maturity in August 2014.

Those familiar with the balance sheet know we have a significant proportion of our assets invested in developments (which includes our mezzanine loan positions). These assets are positioned and valued to provide medium and long term value, however currently they provide little if any income and at the same time we are paying interest to fund the investment into these projects.

In order to improve this position, in the short term we will seek to sell down stakes in these assets, preferably into funds managed by us.

Capital received will be available to repay debt and therefore improve our balance sheet and our profitability.



Improving profitability

The business continues to perform with a \$53 million cash backed EBITDA result for financial year 2010.

As a result of the efforts of all concerned, we have achieved a substantial reduction in costs of \$59 million (or 44%) since last financial year. This achievement enabled the Group to improve underlying earnings by \$44 million with underlying profit after tax of \$8 million.

The Real Estate Investment Management business has maintained the margins achieved despite some lagged effect of asset value declines and therefore fee declines during that period. The incremental margins on new business will improve the average margin across the REIM business.

In the Real Estate Ownership business our leasing activity in our investment portfolio has increased occupancy significantly from 92% at 31 December 2009 to 96% at 30 June 2010 and we continue to focus on improving income and the weighted average lease expiry of the portfolio.

New mandates

As mentioned, we have added a further \$1 billion of assets under management through our appointment as investment manager of ECREL and Kefren Properties.

We see continued potential to add mandates through partnering with banks and investors, providing local real estate skills to work through difficult asset portfolios.

We are also pursuing opportunities to grow our business in key markets with the establishment of traditional funds.

In our Real Estate Investment Management operations in Australia and Europe, the scale of our funds business provides a recurring income stream which will grow in line with asset value growth.

In our other key business, Real Estate Ownership, Valad has sought to increase values by focusing on maximising income growth with active management. This has been achieved through real estate fundamentals: high tenant retention, active tenant management with low delinquencies and a high level of fixed rental reviews. With our developments, Valad believes there is potential to bring in new investors and improve earnings by using this capital to repay corporate level debt over time.

I would like to convey my thanks to our investors, joint venture partners and financiers for their continued support.

The improved business performance has been achieved through the hard work and commitment of the executive teams, and all staff in Europe and Australia, for which I would like to express my sincere appreciation and thanks.

Finally, I would like to acknowledge the contribution and efforts of my fellow directors and thank them for their guidance and energy.

Peter Hurley
Managing Director

→ REAL ESTATE INVESTMENT MANAGEMENT



Above
CityPoint, ul Matuszewska
14, Warsaw, Poland

Growing our Real Estate Investment Management (REIM) platform in Europe and Australia remains core to the Group's strategy of improving profitability and winning new REIM mandates using the skills of our local real estate teams.

Across seven international regions, Valad manages 22 funds and mandates with a weighted average maturity of 5.5 years.

Valad's REIM platform manages a total of \$8.1 billion in assets, the majority of which is in Europe. Assets managed in Europe have increased from €4.4 billion to €5.1 billion with two new REIM appointments since April 2010, increasing Assets under Management by \$1 billion, including:

- The appointment of Valad Europe as investment manager of European Commercial Real Estate (ECREL)'s €250 million portfolio in Germany, the Netherlands and the Nordic region.
- Management of Kefren Properties' €480 million real estate portfolio in Sweden. The portfolio comprises approximately 150 properties totalling more than 827,000 square metres of mainly offices but also includes warehouse and retail space with tenants including Ericsson, Volvo and SKF.

The net increase in Assets under Management (AUM) for the financial year, with like for like currency exchange rates, was \$700 million including new mandates, sales and impairments¹.



Above
227 Elizabeth Street,
Sydney, NSW, Australia

Fee income amounted to \$72.3 million which was \$13.8 million lower than fiscal 2009 due to foreign currency differences and reduced management fees reflecting lower gross asset valuations. The European portfolio accounted for \$64.4 million of the 2010 total.

Valad leased more than one million square metres of commercial and industrial space in Europe as a result of 1,500 new lease deals or renewals during the year.

We focus on actively managing existing funds particularly in some markets where valuations have been under pressure which has had an impact on debt facilities. We have had no major breaches of debt facilities and we have completed new and renewed facilities totalling \$485.0 million during the year.

We continue to look for opportunities to grow the business through new mandates, traditional funds and bringing new equity into existing mandates or funds. The Group also sees potential to partner with investors and financiers working through difficult asset portfolios.

¹ When measured in Australian dollars the net AUM increase after reductions due to foreign currency differences of \$600 million, was \$100 million.

→ REAL ESTATE OWNERSHIP



Above
2 Richardson Place,
North Ryde, NSW, Australia

Overview

Valad's real estate ownership provides the Group's main source of income in Australia and includes a direct income producing property portfolio, fund co-investments and interests in developments. It focuses primarily on Australia and New Zealand but also has a presence in Europe through co-investment in managed funds.

The Group's on balance sheet property assets generated revenue of \$50.3 million comprising \$42.6 million of net rental income from the investment portfolio, \$2.4 million from co-investment in funds and \$5.2 million from developments. This total was significantly lower than in the previous year, largely reflecting the sale of the European portfolio into the DUKE joint venture in 2009.

Real Estate Investment Portfolio

The Group's direct investment portfolio comprises investments in 29 properties across the commercial, industrial, bulky goods retail, and residential sectors in Australia and New Zealand.

→ The Group revalued 100% of its properties during the year – externally in the first half and internally at year-end – resulting in fair value adjustments and impairments of \$51.9 million in the Australia/New Zealand investment portfolio.

Total portfolio value at 30 June 2010 was \$520.9 million.

During financial year 2010 asset sales totalled \$64 million. These included Chandos Street, St Leonards, the sale of the remaining 25% interest in the KVSI self-storage joint venture with Kennards and the Group's rural assets in Victoria. Valad no longer has any self-storage or rural assets.

The portfolio generated net rental income of \$42.6 million and had occupancy of 95.5% as at 30 June 2010 (95.9% at 30 June 2009). Weighted average lease expiry (WALE) has remained steady at around 4.3 years as at 30 June 2010 (4.3 years at 30 June 2009).

The weighted average cap rate of the portfolio was 8.8% at 30 June, 2010 (8.6% at 30 June 2009).

In line with our active tenant management, Valad continued to seek opportunities to maximise income growth and extend the term of leases by adding value to properties where possible.

This helped us achieve a high level of tenant retention, low rental arrears and no delinquencies. Like-for-like rental income growth was 2.7%.



Fund Co-Investments

The value of fund co-investments was \$94.5 million at 30 June 2010 (\$98.7 million at 30 June 2009). Write-downs on fund co-investments were \$11.9 million during the financial year.

The Group's largest co-investment positions remain the 18% interest in the Australian V+ Fund and a 21% direct stake in One Alfred Street, Sydney. The fund investment in V+ was valued at \$62.4 million as at 30 June 2010.

The Australian V+ Fund has experienced a stabilisation in its portfolio value with evidence of increases in value for several assets at 30 June 2010, as a result of strong leasing results during the year. The market timing for investment in value-add is positive as investors are beginning to consider opportunities in this sector, given the competition in the core sector.

Below
370 Queen Street,
Brisbane, QLD, Australia



→ REAL ESTATE OWNERSHIP



Above
Artist's Impression, Pentridge Coburg,
Melbourne, VIC, Australia

Real Estate Developments

Valad maintains a development portfolio that includes four key on-balance sheet assets – One Alfred Street Sydney, Pentridge Coburg, Top Ryde and Sheraton Noosa.

The portfolio includes direct investment, interests in joint ventures and investment through mezzanine loan positions and covers the retail and residential sectors.

Key projects:

→ **One Alfred Street in Sydney – Proposed development of residential towers**

Following a design competition in November 2009 and a unanimous decision to appoint the winning design and architect, Kerry Hill Architects of Singapore, the Group intends submitting its Stage 2 DA during the 2011 financial year. Leasing is currently ahead of budget, providing holding cashflow.

Market research in Australia, Singapore, Hong Kong and Shanghai is assessing the potential market for buyers in each location. The focus will be to optimise the saleable area and cost efficiency of the apartments without compromising on quality.

→ **Pentridge Coburg – Development of mixed-use, high density residential and retail/commercial**

Formal approval for a master planned community development was received in December 2009. Following construction of the first stage "QM" residential component, which are fully built and sold, 76% by volume of the 290 units in the second stage "AIR Apartments" have been unconditionally pre-sold.

The Group will now embark on a marketing program to attract equity participation via a targeted "expression of interest" campaign from selected local and overseas investors.



→ **Top Ryde Shopping Centre redevelopment**

Top Ryde is a regional shopping centre comprising c78,000 square metres of retail space. The centre was officially opened on 20 August 2010 with an entertainment precinct to be opened in the near term. Valad's interest is held as a mezzanine loan.

→ **Sheraton Noosa – 50% joint venture**

Our interest in the Sheraton Noosa is held in a 50:50 joint venture with a trust controlled by the Ashington Group, in relation to which we are currently in litigation.

The hotel is performing well with occupancy levels averaging 74% and the room rate and RevPAR¹ performing above average.

We are enthusiastic about the development potential of the asset, and continue to progress the development analysis.

Below
 Sheraton Noosa,
 QLD, Australia



¹ Revenue per Available Room

→ SUSTAINABILITY



Above
132 Arthur Street,
North Sydney, NSW, Australia

Corporate responsibility

Valad places great importance on the economic, social and environmental impacts of its business. We recognise that behaving ethically and operating in a responsible manner leads to a culture within the business that drives security holder returns and meets our obligations to the communities in which we operate.

As an international property group, Valad operates under a set of corporate governance principles and applies those principles in operating our business, joint ventures, funds and assets that we manage.

Valad also actively encourages staff to become involved in community and charity activities. We believe that an active community presence is not only essential for success in business but leads to greater employee commitment and enthusiasm.

People

With approximately 300 employees in 23 offices, representing many cultures, we undertook a group wide review to capture the shared values of the employees in the business. The result of this collaboration was six shared values which are captured by the acronym **STRIVE**. These are:

Smart – we take the lead, set the benchmark

Teamwork – the team's goals come first

Respect – we listen carefully, stay open minded, are direct and give credit where it's due

Integrity – ethical behaviour is essential, we do the right thing

Valad Spirit – we question without fear, are enthusiastic and energetic

Excellence – we strive to do better, we aspire to create value



Above
Advantage, 87 Castle Street,
Reading, UK

Environment

At Valad we are committed to sustainable environmental practices that benefit our tenants, investors, staff, the business and the wider community. Our goal is to be recognised as astute and active in all areas of property sustainability.

Valad aims to enhance security holder value by embedding long-term sustainability practices into its day-to-day business.

We achieve this through:

- Incorporating practical sustainability improvements that reposition assets to increase their life cycle and value;
- Incorporating sustainability improvements as a requirement when undertaking due diligence in the acquisition of an asset; and
- Employing achievable sustainability measures that reflect the potential of the asset.

Our sustainability improvements are achieved through:

- Achieving appropriate minimum ratings against standards in each jurisdiction;
- Supporting tenants to improve their sustainability efforts;
- Working closely with building managers to improve operational efficiencies;
- Seeking environmentally sustainable design options through the development process;
- Monitoring all government sustainability and energy control measures;
- Meeting all statutory controls and reporting requirements; and
- Improving Valad's own internal sustainability processes.

Overall and Ongoing

Our environmental actions are aimed at creating an ever-increasing awareness with the many stakeholders involved in our business, while seeking to maximise the outputs of sustainability including innovation, cost savings and improved security holder returns.

→ BOARD OF DIRECTORS



Trevor Gerber

Independent Non-Executive Chairman



Peter Hurley

Managing Director

→ GROUP EXECUTIVE

Australia



Peter Hurley

Managing Director



Jennifer Lambert

*Group Chief
Financial Officer*

→ SENIOR MANAGEMENT

Australia



Mark Frinsdorf

Head of Real Estate



Vivienne Bower

Head of Communications



Giles Stapleton

*Head of Real Estate
Investment Management*



Katherine Grace

General Counsel



Gareth Price

*Head of
Structured Investments*



Fiona Foster

*Human Resources
Manager*



Andrew Martin

Independent Non-Executive Director



David Robinson

Independent Non-Executive Director



Robert Seidler

Independent Non-Executive Director

Europe



Martyn McCarthy

CEO Europe



David Kirkby

*Group Head of Real Estate
Investment Management*

Europe



Christian Bearman

*Chief Operating
Officer*

Fraser Kennedy

*Chief Financial
Officer*

Gilles Vaissié

Head of France

Klaus Kortebein

Head of Germany

Matthew Bann

*Head of Central &
Eastern Europe*

Mark McLaughlin

Head of Benelux

Michael Bruhn

Head of Nordics

Rob Howe

*Head of UK
Investment*

Below
Phase 1, The Royal Arsenal,
Woolwich, London, UK



→ VALAD PROPERTY GROUP AND VALAD PROPERTY TRUST ANNUAL CONCISE REPORT – 30 JUNE 2010

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This concise financial report covers both Valad Funds Management Limited and Valad Property Trust as individual entities, the consolidated entity consisting of Valad Property Trust and its controlled entities ("Consolidated Entity"), the consolidated entity Valad Property Group ("Group"), consisting of Valad Funds Management Limited and its controlled entities and Valad Property Trust and its controlled entities. The concise financial report is presented in the Australian currency.

Valad Property Group is a stapled group ("Group"), governed by a stapling agreement and domiciled in Australia. The registered office is located at Level 9, 1 Chifley Square, Sydney NSW 2000.

Valad Commercial Management Limited, the Responsible Entity of Valad Property Trust, is domiciled in Australia. The registered office and principal place of business of the Responsible Entity is located at Level 9, 1 Chifley Square, Sydney NSW 2000.

Financial Statements for Valad Funds Management Limited consolidated group and Valad Property Trust consolidated group for the full year ended 30 June 2010 have been presented in this report, jointly as permitted by ASIC class order 05/642.

The financial statements were authorised for issue by the directors on 26 August 2010. The directors have the power to amend and reissue the financial report.

Relationship of the concise financial report to the full financial report

The concise financial report is an extract from the full financial report for the year ended 30 June 2010. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Valad Property Group as the full financial report. Further information can be obtained from the full financial report.

The full financial report and auditor's report will be sent to security holders on request, free of charge. Please call 1800 825 231 (free call), international security holders please call +61 2 8257 6600, and a copy will be forwarded to you. Alternatively, both the full financial report and the concise report can be requested via e-mail by e-mailing: marketing@valad.com.au, or accessed via the internet on our website: www.valad.com.au

Valad considers it important to establish and maintain comprehensive corporate governance policies and practices which address the requirements of the market regulator, securityholders and all stakeholders who deal with Valad.

The principles below provide an overview of Valad's main corporate governance practices and compare these against the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations with respect to corporate governance.

Principle 1: Lay Solid Foundation for Management and Oversight

The Valad Board (the Board) has adopted a Board Charter which sets out the objectives, responsibilities and framework for the operation of the Board. The Board Charter also sets out those matters and powers which are reserved to the Board and not delegated to management.

In summary, the Board Charter sets out the following as responsibilities of the Board:

- Providing strategic guidance to Valad;
- Reviewing Valad's performance against agreed business plans and strategic objectives;
- Approval of major capital expenditure, capital management, and property sales and purchases;
- Approval of annual and half-yearly reports and material ASX Announcements;
- Overseeing the operation of Valad's compliance and risk management systems; and
- Liaison with Valad's auditors.

A summary of the Board's Charter is provided on Valad's website.

Principle 2: Structure the Board to Add Value

Board Experience and Skill

The Board presently comprises five members who have been chosen to provide a mix of professional, business skills and experiences to add value to Valad's activities. As at the date of this report, the Board comprises four independent non-executive directors and the Managing Director.

Trevor Gerber, Robert Seidler, Andrew Martin and David Robinson are considered by the Board to be independent based on the following principles:

- A director must not be an executive or a substantial securityholder of Valad;
- Within the last three years a director must not have been employed in an executive capacity by Valad or a controlled entity, or been a director after ceasing to hold any such employment;
- Within the last three years a director must not have been a principal of a material professional advisor or a material consultant to Valad or a controlled entity, or been an employee materially associated with the service provided;
- A director must not be a material supplier or customer of Valad or a controlled entity, or an officer of or otherwise associated directly with a material supplier or contractor;
- A director must not have a material contractual relationship with Valad or a controlled entity;
- A director must not have been on the Board for a period which could, or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of Valad; and
- A director is free from any interest and any business or other relationship that could, or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of Valad.

Materiality thresholds are considered on a case by case basis for individual directors

The Managing Director is Peter Hurley

The Board regularly assesses whether or not each director is independent.

The skills, experience and period of office for each of the directors are outlined in the Directors' Report, which forms part of the Valad's Financial Statements.

The directors have access to independent legal advice, at Valad's expense, where appropriate.

Chairman and Independence

As mentioned above, the Board considers Mr Gerber to be independent.

Remuneration and Nomination Committee

The members of the Remuneration and Nomination Committee are Robert Seidler (Chairman), Andrew Martin, Trevor Gerber and Peter Hurley. The Remuneration and Nomination Committee is chaired by an independent director, has a majority of independent directors and has more than three members as recommended by the Principles.

The Remuneration and Nomination Committee has a Charter and is empowered to do the following:

- Make recommendations to the Board on the remuneration for directors and senior executives of Valad;
 - Review Board succession plans;
 - Recommend the election or re-election of directors; and
- Assist with the evaluation of the Board's performance.

A summary of the Remuneration and Nomination Committee Charter is available on the website.

Retirement and Re-election of Directors

The Valad Funds Management Limited constitution states that at each AGM one-third of the directors (excluding the Managing Director) and any director who has been in office for more than three years since his last election must retire. Eligible directors who retire may offer themselves for re-election by securityholders at the next AGM and are able to provide information to securityholders in support of their re-election.

Additional Procedures

Valad has a process for evaluating the performance of the Board and Board Committees. Directors complete a questionnaire and the Board collectively discusses the responses. The Chairman coordinates with the Managing Director and the Company Secretary to implement any changes as a result of the performance evaluation.

A performance evaluation for the Board occurred during the reporting period.

Valad provides induction programs for each new director prior to, or within a short time of, that person joining the Board. Valad also offers ongoing training for each of the directors undertaken by senior executives and /or external service providers. The training outlines the directors' responsibilities and obligations as directors of Valad and education on Valad's business activities, operations, and financial, strategic and risk management profile.

All directors have access to the Company Secretary and senior executives.

Principle 3: Promote ethical and responsible decision making

Code of Conduct

Valad has in place a Code of Conduct which applies to all directors and employees. The Code is given to all new directors and employees during a compulsory induction and is regularly reinforced to existing directors and employees.

The Code of Conduct reflects Valad's commitment to the highest standards of integrity and behaviour and deals with, amongst other things, managing conflicts of interest, inside information, travel, whistleblowing and a commitment to good corporate citizenship.

A copy of the Code of Conduct is available on the website.

Valad's Security Trading Policy

In addition to directors and employees being subject to restrictions set out in the Corporations Act on trading in securities, Valad has in place restrictions on when directors and employees can trade in Valad securities. These restrictions include times when directors or employees are in possession of price-sensitive information relating to Valad or entities it is dealing with, which has not been published or made generally available to the public. In addition, Directors and employees can only trade in a six week period after the release of half-yearly and full year results and for four weeks after Valad's Annual General Meeting and during any offer period for Valad securities which is open to the investing public or any entitlement or similar offer. Compliance with the policy is constantly monitored.

A copy of Valad's Security Trading Policy is available on the website.

→ CORPORATE GOVERNANCE (continued)

Principle 4: Safeguard Integrity in Financial Reporting

Audit Committee

The members of the Audit, Risk and Compliance Committee (Committee) are David Robinson (Chairman), Trevor Gerber, Robert Seidler and Andrew Martin each of whom are independent, non-executive directors.

The Committee's responsibilities (outlined in its Charter) include to:

- Assist the Board in discharging oversight responsibilities for financial activities of Valad, including the financial reporting process to ensure the balance, transparency and integrity of published financial information;
- Review and assess the annual and half-yearly reports;
- Review the performance and continued independence of the external auditors; and
- Monitor Valad's compliance with laws and regulations affecting financial reporting, including Valad's compliance with Australian International Financial Reporting Standards (AIFRS).

The Committee can, and does, meet with the external auditors without management being present.

A copy of the Committee Charter is available on Valad's website.

Valad's current auditor is PricewaterhouseCoopers. The rotation of audit partners is consistent with good corporate governance principles, the requirements of the law and ASIC policy.

Principle 5: Make Timely and Balanced Disclosure

Valad has in place procedures to ensure that all market participants have equal opportunity to access information about Valad and its activities. Day to day responsibilities for this lies with the General Counsel and Company Secretary who is responsible for ensuring compliance with ASX Listing Rules. The Managing Director, CEO – Europe and Chief Financial Officer coordinate information disclosure to analysts, brokers and securityholders and liaise with the media and the public.

Valad ensures that any information to be provided at analysts' briefings is simultaneously made available to the market via the internet.

Valad has a Continuous Disclosure Policy which outlines the verification and authorisation processes for disclosures. Valad also has a Media Policy which provides who may speak to the media and guidance on what information may be provided. A copy of the Continuous Disclosure Policy and the Media Policy are provided on Valad's website.

All securityholders are entitled to receive a copy of Valad's annual (full or concise) and half-yearly reports (in print or electronic form), and have access to Valad's external auditors at the Annual General Meeting. Commentary in relation to the financial results is provided in ASX announcements and results presentations which are disclosed to the ASX and appear on Valad's website.

Principle 6: Respect the Rights of Securityholders

Valad continues to upgrade its website and the information contained on it, including corporate governance information.

Valad continues to investigate and implement improvements in communications with securityholders through electronic means including making results and other presentations available through webcasts and its website.

Principle 7: Recognising and Managing Risks

Risk Monitoring and Management

Valad has a Risk Management Policy which outlines the oversight and management of material business risks. This policy is supplemented by a risk management framework wherein the risks faced by Valad are regularly identified, monitored and managed.

All major risks are reported on at quarterly Audit, Risk and Compliance Committee meetings and a risk register is regularly updated with any emerging risks and responsibility for managing those risks allocated. Management report to the Audit, Risk and Compliance Committee and all major risk and internal control issues are reported to the Board.

Certificate of the Managing Director, CEO – Europe and Chief Financial Officer

The Board receives from the Managing Director, CEO – Europe and the Chief Financial Officer a statement (under s.295A of the *Corporations Act 2001*) at each relevant Board meeting that:

- The financial records have been properly maintained in accordance with the *Corporations Act 2001*;
- Valad's financial reports are complete and present a true and fair view of Valad's financial position and performance;
- The financial statements and notes comply with Accounting Standards and the *Corporations Act 2001*;
- There are reasonable grounds to believe that Valad will be able to pay its debts as and when they become due and payable;
- The above statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- Valad's risk management, compliance and controls are operating efficiently and effectively in all material respects.

Principle 8: Remunerate Fairly and Responsibly

Remuneration and Nomination Committee

As outlined above, Valad has a Remuneration and Nomination Committee.

Remuneration Policies

The Remuneration and Nomination Committee, as stated above, has the responsibility to make recommendations to the Board on Valad's remuneration policies. These policies are designed to attract and retain directors and executives to achieve Valad's stated objectives.

The Remuneration Report in the Director's Report outlines Valad's remuneration and its policies and discloses the remuneration of directors and senior executives.

A summary of the Remuneration and Nomination Committee Charter is provided on Valad's website.

Non-Executive Directors' Remuneration

Fees paid to Non-Executive Directors are set by the Board based on external advice and are within an aggregate limit set by the securityholders.

The directors of Valad Funds Management Limited ("VFML" or the "Company") (ABN: 89 102 249 294) and Valad Commercial Management Limited ("VCML") (ABN: 76 101 802 046) [as the Responsible entity for Valad Property Trust (the "Trust")] (ARSN: 102 618 824) present their reports together with the consolidated financial report of Valad Property Group ("VPG" or the "Group") and Valad Property Trust ("VPT" or the "Consolidated entity") for the year ended 30 June 2010.

The units in the Trust are 'stapled' to the shares in the Company. These entities form Valad Property Group. A stapled security comprises one Trust unit and one Company share. The stapled securities cannot be traded or dealt with separately.

Directors

The following persons were directors of the Company and VCML during the financial year and up to the date of this report, unless indicated otherwise:

T. Gerber	Chairman
P. Hurley	Managing Director
A. Martin	Director
K. McCabe	Director (Resigned 30 November 2009)
I. Robertson	Director (Resigned 30 November 2009)
D. Robinson	Director (Appointed 1 February 2010)
R. Seidler	Director

Principal activities

The principal continuing activities of the Group consist of Real Estate Investment Management and Real Estate Ownership through the investment portfolio, fund co-investments and developments (including Valad Capital Services). The principal continuing activities of the Consolidated entity consists of passive real estate ownership.

Earnings per stapled security

	VPG 2010 CENTS PER STAPLED SECURITY	VPT 2010 CENTS PER UNIT	VPG 2009 CENTS PER STAPLED SECURITY	VPT 2009 CENTS PER UNIT
Basic earnings	(8.0)	(1.6)	(92.9)	(63.5)
Diluted earnings	(8.0)	(1.6)	(92.7)	(63.3)
Basic underlying earnings	0.4	1.1	(2.2)	(9.3)
Diluted underlying earnings	0.4	1.1	(2.2)	(9.3)

Weighted average number of stapled securities used as the denominator – underlying earnings

	VPG 2010 '000	VPT 2010 '000	VPG 2009 '000	VPT 2009 '000
Weighted average number of ordinary stapled securities/units used as the denominator in calculating basic earnings per stapled security/unit	2,060,473	2,060,473	1,605,598	1,605,598
Adjustments for calculation of underlying earnings per stapled security/unit:				
Employee security ownership plan	2,159	2,159	2,409	2,409
Weighted average number of ordinary stapled securities/units used as the denominator in calculating basic underlying earnings per stapled security/unit	2,062,632	2,062,632	1,608,007	1,608,007
Adjustments for calculation of diluted underlying earnings per stapled security/unit:				
Options	16,905	16,905	4,895	4,895
Weighted average number of ordinary stapled securities/units and potential ordinary stapled securities/units used as the denominator in calculating diluted underlying earnings per stapled security/unit	2,079,537	2,079,537	1,612,902	1,612,902

Securities on issue

There were 2,287,682,926 securities on issue at 30 June 2010 (2009: 1,608,007,487).

→ DIRECTORS' REPORT (continued)

Reconciliation of contributed equity

DATE	PRICE	VALAD PROPERTY TRUST		VALAD FUNDS MANAGEMENT LIMITED	
		NO OF UNITS '000	\$'000	NO OF SHARES '000	\$'000
1 Jul 09	Opening balance	1,608,007	1,768,880	1,608,007	721,718
14 Oct 09	Security placement – Institutional	\$0.10	415,411	26,171	15,370
14 Oct 09	Security placement – Retail	\$0.10	26,225	1,652	970
27 Oct 09	Security placement – Retail	\$0.10	144,620	9,111	5,351
27 Oct 09	Security placement – Institutional	\$0.10	52,745	3,323	1,952
4 Nov 09	Valad Employee Ownership Plan	\$0.14	1,539	139	81
11 May 10	Security placement – Institutional	\$0.12	39,136	3,035	1,783
30 Jun 10	Closing balance	2,287,683	1,812,311	2,287,683	747,225
	Contributed equity		1,812,311		747,225
	Issue costs		(38,186)		(15,648)
	Securities issued under Valad securities ownership plan		(4,148)		(1,081)
	Treasury stock		–		–
	Net contributed equity		1,769,977		730,496
	Total net contributed equity				2,500,473

Review of operations

A summary of consolidated results is set out below:

	VPG 2010 \$'000	VPT 2010 \$'000	VPG 2009 \$'000	VPT 2009 \$'000
Net loss attributable to security holders	(165,214)	(32,632)	(1,492,344)	(1,020,067)
Add back/(deduct) non-recurring and non-cash items after tax effect:				
Amortisation of intangibles	8,291	–	11,045	–
Amortisation of lease incentives	1,350	611	1,337	671
Straight-line rental income	(973)	(899)	(3,125)	(1,851)
Finance charge on cross staple loan	–	(14,270)	–	–
Non-cash deferred compensation finance charge	–	–	(1,431)	–
Impairment of intangible assets	14,327	–	459,722	–
Unrealised impairment of assets	101,209	22,568	513,859	800,483
Unrealised fair value adjustment to assets	51,582	31,282	231,959	102,233
Unrealised fair value adjustment to investment property – indirect	–	–	220,085	82,148
Unrealised fair value adjustment to derivatives	21	(240)	60,225	29,710
Profit on disposal of controlled entities	–	–	(93,331)	(22,317)
Realised derivative close out	540	540	76,077	76,077
Unrealised foreign exchange (gains)/losses	(1,941)	14,928	(8,445)	8,386
Non-cash employee benefit expense with respect to employee securities	(1,354)	–	4,339	–
Income tax effect	163	–	(15,989)	–
Underlying earnings	8,001	21,888	(36,017)	55,473

Operational overview

VPG operates two businesses, Real Estate Investment Management (REIM) in Australia and Europe, and Real Estate Ownership, primarily in Australia and New Zealand but also in Europe through co-investment in our managed funds. At 30 June 2010 VPG had 294 employees (2009: 325).

Real Estate Investment Management

As at 30 June 2010, the Group has \$8.1 billion (2009: \$9.2 billion) in assets under management across 22 funds and mandates in Europe (including the Kefren mandate) and Australia.

Real Estate Ownership

This division is represented by the investment portfolio, fund co-investments and interests in developments.

As at 30 June 2010 the investment property portfolio had a total value of \$520.927m, with investments in 34 properties across the commercial, industrial, bulky retail, residential, and rural sectors in Australia and New Zealand. The weighted average capitalisation rate of the current portfolio (excluding residential and rural assets) at 30 June 2010 is 8.9%.

As at 30 June 2010 the book value of the Group's co-investment in managed funds is \$94.467m. The largest investment position is the 18% interest in V+ (Australia) with a value at 30 June 2010 of \$62.400m.

As at 30 June 2010 developments included direct investment, interests in joint ventures and investment through mezzanine positions. The total portfolio has a carrying value of \$141.376m and covers the retail and residential sectors.

Financial overview

Profit and loss

The total revenue was \$182.483m in 2010, which was lower than the \$307.255m earned in 2009, due to the significant changes to the business during that time, including the sale of the property portfolio in Europe into DUKE. Specifically the comparative decline was a result of:

- Fund management fee income of \$76.999m in 2010 was \$9.106m lower than 2009, reflecting foreign exchange translation differences and a reduction in base management fees as a result of lower gross assets in funds
- No rental income from assets which were sold into the DUKE joint venture in June 2009 (2009: \$30.066m)
- Lower proceeds on the sale of developments in 2010: \$6.040m (2009: \$52.716m)

- Interest income was lower in 2010 by \$31.645m, due to the impairment of the VCS loans, lower level of cash on deposit, and the transfer of interest earning receivable assets to DUKE.

The cost reduction program undertaken last year has meant that operating costs in 2010 were 51% lower than 2009. Specific reductions include:

- A 48% reduction in employment expenses
- A 48% reduction in office rent
- A 57% reduction in travel expense.

There continues to be close attention to costs.

The underlying earnings before interest, tax, depreciation and amortisation (EBITDA) was \$53.285m (2009: \$88.704m).

In 2010 borrowing costs were \$43.949m down from \$118.645m in 2009, reflecting both the transfer of the European direct property portfolio to Duke and a reduction in debt.

Overall, the underlying earnings (earnings before amortisation, depreciation and fair value adjustments) was a profit of \$8.001m in 2010, an improvement on the 2009 loss of \$36.017m.

Fair value adjustments, impairments and other non-cash items totalled \$173.215m for 2010, relating primarily to:

- \$51.932m for the Australia/New Zealand portfolio, representing a decrease of 8.8% for the year. 100% of properties were revalued as at 30 June 2010 (47.9% externally within 12 months of the date of this report)
- The Group's co-investments in managed funds incurred write downs of \$11.931m during the year
- The development portfolio was revalued downwards by \$88.021m during the year
- Impairment of intangibles of \$14.327m.

The Group recorded a loss attributable to security holders of \$165.214m for the year ended 30 June 2010 (2009: net loss \$1,492.344m)

The directors have elected not to pay a distribution for the year ended 30 June 2010 (2009: nil).

Balance sheet

At 30 June 2010, the Group held \$82.641m of cash (2009: \$76.903m) and total assets were \$962.271m (2009: \$1,268.393m). Total assets decreased by 24% due to:

- Devaluation of assets as outlined above
- Repayment of debt from proceeds of sales and cash reserves.

→ DIRECTORS' REPORT (continued)

Sales in the period included:

→ Investment properties

- Chandos St St Leonards for \$19.050m
- 8 Terrace Place Murarrie for \$10.900m
- Rural assets for \$16.450m (exchange occurred June 2010 and settlement on 14 July 2010)

→ In June 2010 the remaining 25% interest in the storage joint venture KVSI was sold to the Kennards Group. The original sale occurred in June 2008 with the final amount subject to a put and call option agreement.

At 30 June 2010, the Group had total liabilities of \$580.799m (2009: \$775.612m). This 25% decrease in total liabilities was achieved by:

- Repaying debt of \$103.755m from \$593.695m at 30 June 2009 to \$489.939m at 30 June 2010, representing a reduction of 17%
- Payment of deferred purchase consideration for the Scarborough acquisition (2009: value of \$60.666m).

The Group's gearing (calculated as interest bearing liabilities less cash divided by total assets less cash) at 30 June 2010 is 46% (2009: 43%).

VPG also extended the term of the debt facilities:

- The Investment portfolio debt facility (\$199.521m) term was extended for 12 months and now matures on 30 September 2011. The extension was a result of VPG meeting a pre-set level of banking covenant targets at 31 December 2009. The major covenants were a loan to value ratio of less than 45% and security pool interest cover ratio above 1.6 times at 31 December 2009. Consequently, the margin reduced from 3.25% to 3.00% effective 1 January 2010.
- Two debt facilities in Australia for \$33.233m were extended by 12–24 months.

Net Assets / Equity

There was a change in net assets from \$492.781m at 30 June 2009 to \$381.472m at 30 June 2010. The key reasons for this decline were as follows:

- Total loss for the period of (\$165.214m)
- Total movement in reserves of (\$14.211m), offset by:
- Equity issuance totalling \$68.669m (net of issue costs expense).

In October 2009 VPG raised \$63.900m in an equity issue, the net proceeds were used to fund the final Scarborough deferred payment.

Net tangible assets per stapled security decreased to \$0.13 (2009: \$0.24) due to the Loss for the financial year of \$165,214m and the issue of 639 million securities at 10 cents per security (the \$63.900m equity issue disclosed above) and other equity issued during the financial year.

Significant changes in the state of affairs

Changes in the state of affairs of the Group and Consolidated entity during the financial year are set out in the Directors' Report and financial statements. In the opinion of the directors there were no other significant changes in the state of affairs of the Group and Consolidated entity that occurred during the financial year under review.

Matters subsequent to the end of the financial year

On 14 July 2010 VPG sold its rural assets for \$16.450m.

On 26 July 2010 VPG was appointed by Kefren Properties IX AB as investment manager of its \$689.000m (€480.000m) real estate portfolio in Sweden. The Kefren portfolio comprises approximately 150 properties totalling more than 827,000 sq m of lettable area. The portfolio consists of predominantly office assets, but also includes warehouse and retail space.

Since year end VPG has contributed \$5.600m to the Noosa joint venture, in accordance with commitments set out in note 35 in the full financial report. VPG has exercised its contractual right to acquire the interest of its joint venture partner, Ashington Capital Pty Limited in the Sheraton Noosa.

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and Consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group and Consolidated entity.

Environmental regulation

The Group and Consolidated entity are subject to significant environmental regulation in respect of its property activities. The directors of the Group and Consolidated entity are satisfied that adequate systems are in place for the management of its environmental responsibility and compliance with the various licence requirements and regulations. Further, the directors are not aware of any material breaches of these requirements and to their best knowledge all activities have been undertaken in compliance with environmental requirements.

Information on directors

The same directors comprise the boards of both the Company and VCML.

Trevor Gerber – Chairman, Non-Executive Independent Director

Experience and expertise

Trevor joined the Valad board as Deputy Chairman in 2002 and was appointed Chairman on 28 August 2008. Trevor was an executive at Westfield Holdings until 1999. During his 14 year career at Westfield, Trevor's roles included group treasurer and director of funds management responsible for Westfield Trust and Westfield America Trust. Trevor is a chartered accountant, with an accountancy degree from the University of the Witwatersrand, South Africa. He is 54.

Other current listed directorships

MApp Airports Limited.

Former listed directorships in last three years

Valad Commercial Management Limited as Responsible entity for Valad Opportunity Fund No. 11, Macquarie ProLogis Trust, Everest Babcock & Brown Alternative Investment Trust, Everest Financial Group Limited.

Special responsibilities

Member of the VPG Audit, Risk and Compliance Committee, Member of the VOF 11 Audit, Risk and Compliance Committee, Member of the VOF 12 Audit, Risk and Compliance Committee, Member of the Remuneration and Nomination Committee.

Peter Hurley – Managing Director

Experience and expertise

Peter joined the Valad board in 1997 as Joint Managing Director, a position he held until 2004. From 2004 to 2006, Peter held the position of Managing Director, following which he spent two years based in London establishing Valad's European platform. In 2008 Peter returned to Sydney and resumed his position as Managing Director. Before joining Valad, Peter held senior positions at Lend Lease in a 10-year career that included establishing their funds management operations in Paris, London and Singapore. Peter has an Honours degree in civil engineering from the University of New South Wales. He is 47.

Other current listed directorships

Nil.

Former listed directorships in last three years

Valad Commercial Management Limited as Responsible entity for Valad Opportunity Fund No. 11.

Special responsibilities

Member of the Remuneration and Nomination Committee, Chairman of Valad Core Plus Management Limited as responsible entity of the Valad Active Trust and the Valad Investment Trust (V+ Fund), Chairman of the Valad Select Property Trust Compliance Committee, Director of certain entities within the ICA series of funds and a Director of Noosa Venture 1 Pty Ltd (Sheraton Noosa joint venture). Peter also sits on the Management Committee for the Valad Fields Holding Trust joint venture and the Investors' Committee for the Valad Fields Trust (One Alfred Street joint venture).

Robert Seidler – Non-Executive Independent Director

Experience and expertise

Robert joined the Valad board in February 2005, and is a consultant to the Australian legal firm Blake Dawson. He is a member of the Australian Government's Corporations and Markets advisory committee, an alternate director of Leighton Holdings Ltd, a director of Leighton Properties Pty Ltd, a director of Leighton International Ltd, a member of the Investment Review Board of the Australian Prime Property Fund and chairman of Hunter Phillip Japan Ltd. Robert has a law degree from the University of Sydney. He is 61.

Other current listed directorships

Leighton Holdings Limited.

Former listed directorships in last three years

Valad Commercial Management Limited as Responsible entity for Valad Opportunity Fund No. 11.

Special responsibilities

Chairman of the Remuneration and Nomination Committee, Member of the VPG Audit, Risk and Compliance Committee, Member of the VOF 11 Audit, Risk and Compliance Committee, Member of the VOF 12 Audit, Risk and Compliance Committee.

Andrew Martin – Non-Executive Independent Director

Experience and expertise

Andrew joined the Valad board in November 2006. His international property career spans four decades and includes 23 years with Jones Lang LaSalle where he was an International Director in the firm's capital markets group. Andrew has worked in the Australian, UK and Indonesian property markets and has also spent time identifying and working with Japanese companies investing in global real estate. Andrew has an arts degree from the University of New South Wales, and is a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Australian Property Institute. He is 57.

Other current listed directorships

Nil.

→ DIRECTORS' REPORT (continued)

Former listed directorships in last three years

Aspen Group Limited and Aspen Funds Management Limited.

Special responsibilities

Member of the Remuneration and Nomination Committee, Member of the VPG Audit, Risk and Compliance Committee, Member of the VOF 11 Audit, Risk and Compliance Committee, Member of the VOF 12 Audit, Risk and Compliance Committee, and director of Valad Core Plus Management Limited as responsible entity of the Valad Investment Trust and Valad Active Trust (V+ Fund).

David Robinson – Non-Executive Independent Director (Appointed 1 February 2010)

Experience and expertise

David joined the Valad board in 2010. David is the principal of Harveys Chartered Accountants in Sydney where he acts as an advisor to local and overseas companies with interests in Australia. David is a registered company auditor, tax agent and chartered accountant. David holds a Bachelor of Economics, a Master of Commerce, is a Fellow Chartered Accountant and is a Fellow of the Taxation Institute of Australia. He is 54.

Other current listed directorships

Leighton Holdings Limited.

Former listed directorships in last three years

Nil.

Special responsibilities

Chairman of the VPG Audit, Risk and Compliance Committee, Chairman of the VOF 11 Audit, Risk and Compliance Committee, Chairman of the VOF 12 Audit, Risk and Compliance Committee.

Katherine Grace – Company Secretary, General Counsel (Appointed 17 February 2010)

Katherine was appointed as Company Secretary in 2010. Katherine joined Valad in 2007 as a legal counsel and in 2010 was promoted to the role of General Counsel with responsibility for all legal and compliance functions including company secretarial. Katherine holds a Bachelor of Arts (Hons), Bachelor of Laws (Hons 1st class) and a Master of Public Policy degree from the University of Sydney. She is 35.

Meetings of directors

The number of meetings of the Group's Board of directors and each board committee held during the year ended 30 June 2010 and the number of meetings attended by each director were:

<i>DIRECTORS</i>	<i>BOARD</i>		
	<i>NUMBER OF MEETINGS ATTENDED</i>	<i>NUMBER OF MEETINGS HELD¹</i>	<i>NUMBER OF MEETINGS HELD BY CIRCULAR RESOLUTION²</i>
T. Gerber	11	12	5
P. Hurley	11	12	5
A. Martin	11	12	5
D. Robinson ³	3	3	3
R. Seidler	12	12	5

<i>DIRECTORS</i>	<i>AUDIT, RISK & COMPLIANCE COMMITTEE</i>		<i>REMUNERATION & NOMINATION COMMITTEE</i>	
	<i>NUMBER OF MEETINGS ATTENDED</i>	<i>NUMBER OF MEETINGS HELD¹</i>	<i>NUMBER OF MEETINGS ATTENDED</i>	<i>NUMBER OF MEETINGS HELD¹</i>
T. Gerber	9	9	9	9
P. Hurley	*	*	9	9
A. Martin	7	9	9	9
D. Robinson ³	4	4	*	*
R. Seidler	8	9	9	9

1 = Number of meetings held during the time the director held office or was a member of the committee during the year and was eligible to attend

2 = Number of meetings held by circular resolution (in addition to other meetings held)

3 = Appointed to the board in February 2010

* = Not a member of the relevant committee

→ DIRECTORS' REPORT

(continued)

Remuneration report

This report covers:

1. Reporting requirements
2. Remuneration policy and strategy
3. Remuneration – Executive Director and other employees
4. Remuneration – Non-Executive Directors
5. Insurance arrangements
6. Remuneration details
7. Deferred bonuses
8. Group performance

1. Reporting requirements

The information provided in this remuneration report is prepared in accordance with Section 300A of the *Corporations Act 2001* and Accounting Standard AASB 124 *Related Party Disclosures*.

These reporting requirements require the Group to make certain disclosures for 'Key Management Personnel' (KMP). KMP is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. For the purposes of this report, the KMP are the members of the Group Executive being Peter Hurley, David Kirkby, Jennifer Lambert and Martyn McCarthy. In addition to the KMP disclosure there is a requirement to include the five highest paid executives whether or not those individuals are KMPs. This has resulted in the inclusion of two executives in the European business.

As a result of these reporting requirements, this report covers three separate groups:

Non-Executive Directors	Trevor Gerber (Chairman)	
	Andrew Martin	
	Kevin McCabe (Resigned 30 November 2009)	
	Ian Robertson (Resigned 30 November 2009)	
	David Robinson (Appointed 1 February 2010)	
	Robert Seidler	
Executive Director	Peter Hurley	Managing Director
Executives	Michael Bruhn	Head of Nordic
	Chris Carroll	Group General Counsel and Company Secretary (Ceased employment – 28 February 2010)
	David Kirkby	Group Head of Real Estate Investment Management (Appointed to role 1 July 2009)
	Klaus Kortebein	Head of Germany
	Jennifer Lambert	Group Chief Financial Officer
	Martyn McCarthy	Chief Executive Officer, Europe

This information has been audited as required by section 308(3C) of the *Corporations Act 2001*.

2. Remuneration policy and strategy

The Charter of the Remuneration and Nomination Committee requires it to:

1. Review and make recommendations to the Board on remuneration strategy and policies for Group employees.
2. Annually review and make recommendations to the Board on the Managing Director's and his direct reports' remuneration and performance.
3. Make recommendations to the Board on directors' compensation.

3. Remuneration – Executive Director and other employees

3.1 Policy

Valad Property Group's Remuneration Policy is intended to:

Attract executives of the calibre required to be successful in terms of long-term returns to security holders and align security holders' and employees' interests.

Performance of employees is reviewed every six months with the Remuneration and Nomination Committee and the Board reviewing the performance of the Managing Director and the Executive Team. Appraisals and market information are used in the setting of remuneration levels.

3.2 Remuneration components

The remuneration components for all executives covered by this report for the fiscal year ending 30 June 2010 were a combination of base salary and a bonus. Bonuses are:

- At risk;
- Within a range of 10-150% of base salary depending on the employee's position;
- Split between cash and securities where the bonus is above certain levels.

The cash component of any bonus is paid in the year following the year to which the bonus relates and the securities component will be in the form of either, Group securities, performance rights or options and will be subject to continuity of employment conditions set by the Board.

The bonus arrangements prior to the financial year ending 30 June 2010 were also split between current and deferred arrangements (referred to as short-term incentives (STI) and long-term incentives (LTI)). The deferred bonuses under these arrangements are subject to continuity of employment and performance hurdles which were set by the Board at the time of granting the bonuses.

For the purposes of this report, bonuses settled otherwise than in cash are referred to as deferred bonuses.

Deferred bonuses will vest if the terms of issue determined by the Board are met. Forfeiture of deferred bonuses will occur if employees voluntarily leave employment or if vesting conditions are not met. Deferred bonuses will expire if vesting conditions are met but, in the case of options or performance rights, not exercised.

At the discretion of the Board (for example in the event of sickness, death or redundancy) deferred bonuses may vest early. In the event of a takeover of the Group, deferred bonuses will vest pro-rata, for example, if a takeover occurs two-thirds of the way through the vesting period, two-thirds of the deferred bonuses vest.

There is a cap of 5% of the Group's issued capital on the number of securities which may be issued under the deferred bonus arrangements.

The Group does not permit employees holding options, performance rights or Group securities under deferred arrangements to sell, hedge, assign, or otherwise deal with or grant security interests. Compliance with this policy is confirmed annually by the Executives. Employee trading of securities is subject to further restrictions including the Corporations Law, ASX Listing Rules and internal policies.

A number of different option and performance right schemes have been adopted in the past for the Managing Director, Executive team and senior employees. Refer to note 38 of the full financial report for details of all unvested and exercisable deferred securities.

3.3. Service Agreements

3.3.1 Managing Director

Remuneration and other terms for the Managing Director include the provision of, when eligible, performance related bonuses. Other major terms include:

- Term – Ongoing, commenced October 2002
- Total fixed remuneration (TFR) of \$799,000 per annum from 1 February 2009, reviewed annually by the Board on the recommendation of the Remuneration and Nomination Committee. As Mr Hurley voluntarily reduced his TFR from \$940,000 to \$799,000 from 1 February 2009, if he is terminated without cause any termination payments will be based on a TFR of \$940,000
- If Mr Hurley's employment is terminated without cause in a year prior to 30 June 2011, he is entitled to a termination payment of \$2,284,000 including any redundancy payments. If Mr Hurley is terminated after 30 June 2011 then he is entitled to an amount equal to the average of the total remuneration (Total Fixed Remuneration + STI paid or payable + LTI granted in the year), for the two completed financial years preceding the date on which Mr Hurley's employment terminates. If Mr Hurley's employment is terminated without cause, he is entitled to nine months notice and three months if terminated with cause or a payment in lieu of notice.

3.3.2 Executive Team

The standard termination notice period for most of the employees of the Group is one month's notice. In the case of the Executive team and top five remunerated employees between 6 and 12 months' notice is required (2009: 6 to 9 months) by either the Group or the Executive.

→ DIRECTORS' REPORT

(continued)

4. Remuneration – Non-Executive Directors

4.1 Policy

The Remuneration and Nomination Committee makes recommendations to the Board concerning the remuneration for Non-Executive Directors.

Non-Executive Director remuneration comprises three main elements:

1. Main Board fees
2. Committee fees
3. Superannuation contributions at the statutory Superannuation Guarantee Levy rate

Where the Board or Committee member's time commitment is beyond the normal requirements, for example in the case of a major project, the Board or Committee member will be entitled to a payment on an hourly basis.

Non-Executive Directors do not participate in any incentive or performance based arrangements.

Non-Executive Directors are not entitled to any retirement benefits, other than their superannuation contributions.

Non-Executive Directors' remuneration is set by reference to comparable entities listed on the Australian Stock Exchange and external independent advice of reasonable remuneration for Non-Executive Directors is sought regularly.

The Chairman of a committee is paid a fee at a higher rate than other committee members to reflect additional workloads and responsibilities.

4.2 Cap on fees

Total Non-Executive Directors' fees must be within the aggregate amount set out in the Company's constitution. The current maximum aggregate amount is \$1,200,000 per annum. This amount can only be increased at a general meeting of the Company.

The total of Directors' fees paid to Non-Executive Directors for the year ended 30 June 2010 was \$1,003,578 (2009: \$721,679).

The total of Committee fees paid to Non-Executive Directors for the year ended 30 June 2010 was \$156,422 (2009: \$193,697).

No Directors' fees were paid to Executive Directors.

5. Insurance arrangements

During the year, the Group has paid insurance premiums in respect of Directors' and Officers' liability insurance contracts for Directors, Executive Directors, Company Secretaries and Officers. Such insurance contracts insure against certain liabilities (subject to specified exclusions) for persons who are or have been Directors and Officers of the Group.

Premiums are also paid for fidelity insurance and professional indemnity insurance policies to cover certain risks for a broad range of employees, including Directors and Executives.

6. Remuneration Details

6.1 Details of remuneration earned or paid during the year ended 30 June 2010

2010	NOTES FIVE HIGHEST PAID EXECUTIVES	SHORT-TERM BENEFITS					POST EMPLOY- MENT BENEFITS	TERM- INATION BENEFITS	LONG-TERM BENEFITS				TOTAL	FIXED AND DISCRETIONARY PERCENTAGES ⁹		
		CASH SALARIES AND FEES ¹	EX- PATRIATE ALLOW- ANCES ²	OTHER SHORT- TERM BENEFITS	CASH BONUS	SUPER- ANNUA- TION	RETENTION PAYMENT ⁷	CASH DEFERRED BONUS	LONG SERVICE LEAVE	SHARE BASED PAYMENTS ³				\$	%	%
Non-Executive Directors																
Trevor Gerber	9	498,624	-	-	-	31,376	-	-	-	-	-	-	530,000	100	-	-
Andrew Martin		88,750	-	-	-	50,000	-	-	-	-	-	-	138,750	100	-	-
Kevin McCabe	4	47,917	-	-	-	-	-	-	-	-	-	-	47,917	100	-	-
Ian Robertson	4	58,333	-	-	-	-	-	-	-	-	-	-	58,333	100	-	-
David Robinson	5	83,333	-	-	-	-	-	-	-	-	-	-	83,333	100	-	-
Robert Seidler	9	297,813	-	-	-	3,854	-	-	-	-	-	-	301,667	100	-	-
Sub-total		1,074,770	-	-	-	85,230	-	-	-	-	-	-	1,160,000			
Executive Director																
Peter Hurley		689,677	-	13,400	-	25,000	-	940,000	-	5,639	74,427	1,748,143	95	-	5	
Other key management personnel																
Chris Carroll	6 *	134,915	-	-	-	47,606	497,306	-	-	(26,121)	32,776	686,482	95	-	5	
David Kirkby	*	274,627	288,679	30,643	44,739	-	-	-	-	-	96,841	735,529	87	-	13	
Jennifer Lambert		316,714	-	-	75,000	14,461	-	-	31,250	2,646	69,818	509,889	80	6	14	
Martyn McCarthy	*	456,529	329,813	-	53,686	-	-	-	35,417	7,146	155,614	1,038,205	81	4	15	
Other Group executives																
Michael Bruhn	*	483,804	-	26,228	39,357	48,380	-	-	-	-	43,822	641,591	87	6	7	
Klaus Kortebein	*	465,200	-	39,341	250,308	76,329	-	-	-	-	41,316	872,494	66	29	5	
Total		3,896,236	618,492	109,612	463,090	297,006	497,306	940,000	66,667	(10,690)	514,614	7,392,333				

Notes

- Includes adjustment for net annual leave accrual and hourly rate consultancy.
- Expatriate allowances include relocation allowance and housing allowance paid to employees relocated away from their home country at the Group's request.
- Share based payments is the pro-rata cost recognised in respect of deferred bonus granted.
- Resigned 30 November 2009.
- Appointed 1 February 2010.
- Ceased employment effective 26 February 2010.
- Retention payments made in accordance with service agreements.
- The discretionary percentages represent cash bonus and share based payments expense as a proportion of the total. Share based payments expense may relate to prior years grants. The balance is considered fixed.
- Additional fees of \$150,000 were paid to each of Trevor Gerber and Robert Seidler for work performed in addition to their usual directors' duties.

→ DIRECTORS' REPORT

(continued)

Remuneration report (continued)

6.2 Details of remuneration earned or paid during the year ended 30 June 2009

2009	NOTES FIVE HIGHEST PAID EXECUTIVES	REVENUE								TOTAL ⁴	FIXED AND DISCRETIONARY PERCENTAGES ¹¹		
		SHORT-TERM BENEFITS			POST EMPLOYMENT BENEFITS	TERMINATION BENEFITS	LONG-TERM BENEFITS				FIXED	DISCRETIONARY	
		CASH SALARIES AND FEES \$	EX-PATRIATE ALLOWANCES ² \$	OTHER SHORT-TERM BENEFITS \$	SUPER-ANNUATION \$	\$	RETENTION PAYMENT ¹ \$	CASH DEFERRED BONUS \$	SHARE BASED PAYMENTS ^{3,10} \$		\$	CASH %	SHARE BASED %
Non-Executive Directors													
Trevor Gerber		332,582	-	-	29,932	-	-	-	362,514	100	-	-	
Andrew Martin		49,960	-	-	95,040	-	-	-	145,000	100	-	-	
Kevin McCabe		112,615	-	-	-	-	-	-	112,615	100	-	-	
Ian Robertson		136,030	-	-	-	-	-	-	136,030	100	-	-	
Robert Seidler		159,202	-	-	-	-	-	-	159,202	100	-	-	
Sub-total		790,389	-	-	124,972	-	-	-	915,361				
Executive Directors													
Stephen Day	5	695,225	-	10,050	37,500	1,750,000	-	(1,106,285)	1,386,490	33	-	-	
Peter Hurley	6	787,826	289,876	5,583	50,000	-	940,000	-	521,195	2,594,480	80	20	
Other key management personnel													
Chris Carroll		260,967	-	-	74,450	-	262,500	-	158,417	756,334	79	11	21
Nicki Garrett	7	276,032	-	10,050	24,843	197,502	-	(221,194)	287,233	40	-	-	
Jennifer Lambert	*	360,475	-	13,400	15,983	-	300,000	14,374	165,239	869,471	79	2	19
Jeff Locke	8 *	269,433	-	7,817	20,524	839,146	-	-	197,411	1,334,331	40	-	15
Stephen McBride		393,283	-	71,852	39,061	-	-	-	36,046	540,242	93	-	7
Martyn McCarthy	*	409,248	486,699	-	-	-	506,250	-	172,212	1,574,409	89	-	11
Didier Tandy		621,311	-	3,383	60,764	-	-	-	56,376	741,834	47	-	8
Rebecca Thompson	9 *	153,631	-	7,817	13,827	538,351	-	-	102,810	816,436	40	-	13
Other Group executives													
Michael Bruhn	*	803,748	-	48,822	80,374	-	-	-	-	932,944	100	-	-
Total		5,821,568	776,575	178,774	542,298	3,324,999	2,008,750	14,374	82,227	12,749,565			

Notes

- 1 Retention payments made in accordance with service agreements.
- 2 Expatriate allowances include relocation allowance and housing allowance paid to employees relocated away from their home country at the Group's request.
- 3 Share based payments is the pro-rata cost recognised in respect of deferred bonus granted. Negative amounts reflect the reversal of deferred bonus costs expensed in prior periods for unvested deferred bonus forfeited in 2009.
- 4 Excludes any deferred cash payments.
- 5 Ceased employment effective 1 April 2009. Termination payment includes accrued leave, long service leave and severance payment with \$750,000 payable in March 2010.
- 6 Relocated from Europe back to Australia, effective 1 February 2009. During the year \$940,000 was expensed relating to the retention payment conditionally payable 30 June 2010.
- 7 Resigned 11 March 2009 and provided 6 months notice. Cash salary and superannuation for notice period included in Termination benefits.
- 8 Ceased employment effective 30 January 2009.
- 9 Ceased employment effective 2 February 2009.
- 10 Represents current year pro-rata accounting expense of past years' grant.
- 11 The discretionary percentages represent cash bonus and share based payments expense as a proportion of the total. Share based payments expense may relate to prior years grants. The balance is considered fixed.

7. Deferred bonuses

Refer to note 36(b)(ii) in the full financial report for balances and movement during the year for deferred bonus holdings for Directors and KMP.

7.1 Terms and conditions of deferred bonus

The following table sets out the terms and conditions of each grant of deferred bonus affecting the disclosed employees.

COMMENCEMENT DATE	PERFORMANCE HURDLE	DATE VESTED AND EXERCISABLE	EXPIRY DATE	TYPE OF BONUS	EXERCISE PRICE	VALUE PER DEFERRED BONUS AT GRANT DATE	VESTING HURDLE ACHIEVED	% VESTED
8 December 2009	Employment	7 December 2012	9 April 2013	Security	\$0.00	\$0.12	To be determined	n/a
8 December 2009	Employment	7 December 2012	9 April 2013	Performance right	\$0.00	\$0.12	To be determined	n/a
8 December 2009	Employment	7 December 2012	9 April 2013	Option	\$0.12	\$0.03	To be determined	n/a
1 July 2008	Share price ¹	1 July 2011	4 October 2011	Option	\$0.04	\$0.02	To be determined	n/a
1 July 2007	Employment	1 July 2009	7 October 2009	Option	\$1.13	\$0.03	Yes	100%
1 July 2007	Employment	1 July 2009	7 October 2009	Performance right	\$0.00	\$0.58	Yes	100%
11 July 2007	Employment	1 July 2009	7 October 2010	Option	\$1.13	\$0.05	Yes	100%
11 July 2007	Employment	1 July 2009	7 October 2010	Performance right	\$0.00	\$0.54	Yes	100%
1 July 2007	Employment	1 July 2010	7 October 2011	Option	\$1.13	\$0.06	Yes	100%
1 July 2007	Employment	1 July 2010	7 October 2011	Performance right	\$0.00	\$0.47	Yes	100%
28 Jun 2007	Employment	1 July 2009	7 October 2010	Option	\$1.13	\$0.18	Yes	100%
28 Jun 2007	Employment	1 July 2010	7 October 2010	Option	\$1.13	\$0.17	Yes	100%
1 July 2006	Total security return	26 August 2008	7 October 2009	Option	\$1.36	\$0.10	No	Did not vest
1 July 2006	Total security return	26 August 2008	7 October 2009	Performance right	\$0.00	\$0.63	No	Did not vest
1 July 2006	Earnings per security	26 August 2008	7 October 2009	Option	\$1.36	\$0.11	Yes	58%
1 July 2006	Earnings per security	26 August 2008	7 October 2009	Performance right	\$0.00	\$1.18	Yes	58%
1 July 2006	Total security return	26 August 2009	7 October 2010	Option	\$1.36	\$0.11	No	Did not vest
1 July 2006	Total security return	26 August 2009	7 October 2010	Performance right	\$0.00	\$0.59	No	Did not vest
1 July 2006	Earnings per security	26 August 2009	7 October 2010	Option	\$1.36	\$0.12	No	Did not vest
1 July 2006	Earnings per security	26 August 2009	7 October 2010	Performance right	\$0.00	\$1.06	No	Did not vest

1. Performance hurdle based on exceeding agreed compound share price growth above exercise price.

→ DIRECTORS' REPORT

(continued)

Remuneration report (continued)

7.2 Movement in deferred bonus for disclosed employees

	NUMBER OF DEFERRED BONUS GRANTED DURING THE YEAR	VALUE AT GRANT DATE ¹ \$	NUMBER OF DEFERRED BONUS VESTED DURING THE YEAR	NUMBER OF DEFERRED BONUS EXERCISED DURING THE YEAR	VALUE AT EXERCISE DATE ² \$	NUMBER OF DEFERRED BONUS FORFEITED/ EXPIRED DURING THE YEAR	VALUE AT FORFEITED/ EXPIRED DATE ³ \$
2010							
Peter Hurley	3,282,662	\$399,500	7,813,735	–	–	2,452,756	\$32,339
Chris Carroll	–	–	3,548,156	96,339	\$12,326	2,724,760	\$228,789
David Kirkby	2,165,180	\$263,502	527,500	–	–	–	–
Jennifer Lambert	1,540,673	\$187,500	2,004,604	109,687	\$14,034	1,663,954	\$133,312
Martyn McCarthy	18,000,000	\$577,800	2,100,758	134,987	\$17,272	2,025,164	\$167,785
Michael Bruhn	1,932,776	\$235,219	–	–	–	–	–
Klaus Kortebein	1,822,253	\$221,768	–	–	–	–	–
2009							
Peter Hurley	–	–	4,184,776	–	–	5,244,616 ⁴	\$99,026
Chris Carroll	1,125,000	\$16,875	1,036,496	–	–	283,411	\$15,025
Jennifer Lambert	1,200,000	\$18,000	1,136,046	–	–	310,635	\$16,469
Martyn McCarthy	1,500,000	\$22,500	2,637,146	–	–	721,085	\$38,228

- Notes
- 1 The value at grant date calculated in accordance with AASB 2 *Share Based Payment* of deferred bonus granted during the year as part of remuneration.
 - 2 The value at exercise date of deferred bonuses that were granted as part of remuneration and were exercised during the year.
 - 3 The value of deferred bonuses that were granted as part of remuneration and that expired/forfeited during the year due to the failure to satisfy a vesting condition (calculated at expired/forfeited date but assuming the vesting condition was satisfied).
 - 4 The Executive Director voluntarily waived his rights to 3,681,876 of these deferred bonuses and his rights to compensation for the forfeiture of this bonus.

7.3 Summary of deferred bonuses at 30 June 2010 for disclosed employees

The following table shows deferred bonuses that either vested or were forfeited in this financial year only.

Of those deferred bonuses that vested, the value of the bonuses that were exercised is shown in table 7.2.

DEFERRED BONUS					
NAME	YEAR GRANTED	VESTED %	FORFEITED %	FINANCIAL YEARS IN WHICH DEFERRED BONUS MAY VEST	MAXIMUM TOTAL OF GRANT YET TO BE EXPENSED ¹ \$
Peter Hurley	2010	–	–	2013	325,073
	2008	100%	–	2010	–
	2007	–	100%	2010	–
Chris Carroll ²	2009	100%	–	2010	–
	2008	100%	–	2010	–
	2008	100%	–	2010	–
	2008	100%	–	2010	–
	2007	–	100%	2010	–
David Kirkby	2010	–	–	2013	214,412
	2008	–	–	2011	–
	2008	100%	–	2010	–
Jennifer Lambert	2010	–	–	2013	152,568
	2009	–	–	2012	6,000
	2008	100%	–	2010	–
	2008	–	–	2011	–
	2008	100%	–	2010	–
	2007	–	100%	2010	–
Martyn McCarthy	2010	–	–	2013	304,816
	2009	–	–	2012	7,500
	2008	100%	–	2010	–
	2008	–	–	2011	–
	2008	100%	–	2010	–
	2007	–	100%	2010	–
Michael Bruhn	2010	–	–	2013	191,397
	2008	–	–	2012	–
Klaus Kortebein	2010	–	–	2013	180,452

1 The maximum value of the deferred bonus yet to vest has been determined as the amount of the grant date fair value of the deferred bonus that is yet to be expensed. No deferred bonus will vest if the performance conditions underlying each deferred bonus grant are not satisfied, hence the minimum value of all deferred bonuses yet to vest is nil.

2 81% of cash deferred bonus was paid during the year and is reflected in his termination payment in Table 6.1, the remainder was forfeited.

→ DIRECTORS' REPORT (continued)

8. Group Performance

The Group's performance for 2010 and the preceding four years was as follows:

	2006	2007	2008	2009	2010
Underlying earnings	\$55.989m	\$76.193m	\$169.642m	\$(36.017m)	\$8.001m
Net tangible assets per security	\$0.98	\$1.25	\$0.95	\$0.24	\$0.13
Security price	\$1.36	\$1.985	\$0.67	\$0.073	\$0.091
Dividend/distribution per security (cents)	10.30	11.07	11.10	–	–
Underlying earnings per security (cents)	10.44	11.12	11.13	(2.2)	0.4

Loans to directors and executives

Information on loans to directors and executives, including amounts, interest rates and repayment terms are set out in note 36 in the full financial report.

Indemnification and insurance of officers and auditors

During the financial year, the Group paid a premium to insure all officers of the Group and its controlled entities. The officers covered by the insurance policy include the directors, officers, company secretary, employees and trustees. The insurance policy specifically prohibits disclosure of the nature of the liability covered and the amount of the premium paid. PricewaterhouseCoopers, although indemnified out of the assets of the Group for some services, are not indemnified for the provision of services where such an indemnification is prohibited by the *Corporations Act 2001*.

Rounding of amounts

The Group and Consolidated entity is a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the thousand dollars, or in certain cases, to the nearest dollar.

Non-audit services

The Group and Consolidated entity may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group and Consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirement of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditor of the parent entities, VFML and VPT:

	CONSOLIDATED			
	VPG 2010 \$	VPT 2010 \$	VPG 2009 \$	VPT 2009 \$
Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of the financial reports and other audit work under the <i>Corporations Act 2001</i>	1,075,520	308,220	2,231,200	655,740
Related practices of PricewaterhouseCoopers Australian firm				
Audit and review of the financial statements	654,806	-	1,836,792	8,448
Non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the Group	60,099	-	65,879	-
Total remuneration for audit services	1,790,425	308,220	4,133,871	664,188
Other assurance services				
PricewaterhouseCoopers Australian firm				
Other audit services	14,000	14,000	6,700	3,100
Total remuneration for assurance services	1,804,425	322,220	4,140,571	667,288
Non-audit services				
PricewaterhouseCoopers Australian firm				
Tax compliance services including review of company and trust tax returns	108,796	62,000	155,771	-
Other tax consulting	49,736	19,500	216,783	66,129
Tax and accounting for property acquisitions/disposals	-	-	9,183	-
Tax, accounting and due diligence for business acquisitions	-	-	196,030	-
Technical accounting advice	-	-	100,639	31,300
Organisation design and effectiveness review and other advisory services	-	-	739,714	-
Assistance with debt restructure	-	-	1,050,000	-
Other consulting	15,099	-	224,914	-
Related practices of PricewaterhouseCoopers Australian firm				
Tax compliance	28,722	-	348,189	-
Other consulting	65,317	-	-	-
Non-PricewaterhouseCoopers accounting firms (overseas)				
Tax compliance	148,944	-	3,700	-
Other tax consulting	108,739	-	30,707	-
Tax, accounting and due diligence for business acquisitions/disposals	-	-	18,502	-

Audit fees have reduced due to business restructure in June 2009.

→ DIRECTORS' REPORT (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on pages 41 and 42.

Auditor

PricewaterhouseCoopers continues in office as auditor for the Group and Consolidated entity in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors.



Trevor Gerber

Chairman, Valad Funds Management Limited and Valad Commercial Management Limited
(as responsible entity for Valad Property Trust)

Sydney
26 August 2010

→ AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Valad Property Group for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Valad Property Group and the entities it controlled during the period.



JA Dunning
Partner
PricewaterhouseCoopers

Sydney
26 August 2010

→ AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Valad Property Trust for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Valad Property Trust and the entities it controlled during the period.



JA Dunning
Partner
PricewaterhouseCoopers

Sydney
26 August 2010

→ FINANCIAL STATEMENTS/INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

<i>CONSOLIDATED</i>					
	NOTE	VPG 2010 \$'000	VPT 2010 \$'000	VPG 2009 \$'000	VPT 2009 \$'000
Revenue	5	182,483	89,877	307,255	136,944
Profit on disposal of controlled entities		-	-	93,331	22,317
Employee benefits expense		(48,633)	-	(96,998)	-
Finance costs		(43,949)	(38,606)	(118,645)	(87,201)
Investment property expenses		(11,580)	(7,335)	(15,660)	(8,779)
Cost of property developments sold		(5,508)	-	(66,344)	-
Cost of investments sold		(18,910)	(8,125)	-	-
Agricultural cost of sales		(4,901)	-	(5,155)	-
Administrative expenses		(27,649)	(526)	(63,204)	(3,279)
Management expenses		-	(2,756)	-	(6,016)
Amortisation		(8,291)	-	(12,233)	-
Depreciation		(2,623)	-	(2,517)	-
Other expenses		(421)	-	(1,610)	(603)
Disposal of fixed assets		(682)	-	-	-
Cross staple loan forgiven		-	-	-	(100,000)
Impairment of intangible assets		(14,327)	-	(459,787)	-
Impairment of assets		(118,877)	(23,011)	(537,945)	(686,515)
Unrealised fair value adjustments to assets		(51,582)	(31,282)	(451,842)	(192,838)
Unrealised fair value adjustment to derivatives		(21)	240	(27,595)	(29,710)
Realised foreign exchange gains/(losses)		440	686	(39,564)	(54,571)
Unrealised foreign exchange gains/(losses)		2,182	(14,928)	8,480	(8,445)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method		6,244	3,150	(20,979)	(1,342)
Loss before income tax expense/(credit)		(166,605)	(32,616)	(1,511,012)	(1,020,038)
Less: Income tax (expense)/credit		838	(16)	18,678	(29)
Loss for the year		(165,767)	(32,632)	(1,492,334)	(1,020,067)
Non-controlling interest		553	-	(10)	-
Loss attributable to the stapled security/unit holders of Valad Property Group and Valad Property Trust		(165,214)	(32,632)	(1,492,344)	(1,020,067)
		VPG 2010 CENTS PER STAPLED SECURITY	VPT 2010 CENTS PER UNIT	VPG 2009 CENTS PER STAPLED SECURITY	VPT 2009 CENTS PER UNIT
Basic earnings	3	(8.0)	(1.6)	(92.9)	(63.5)
Diluted earnings	3	(8.0)	(1.6)	(92.7)	(63.3)

The above income statements should be read in conjunction with the accompanying notes.

→ STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	<i>CONSOLIDATED</i>			
	<i>VPG</i> 2010 \$'000	<i>VPT</i> 2010 \$'000	<i>VPG</i> 2009 \$'000	<i>VPT</i> 2009 \$'000
Loss for the year	(165,767)	(32,632)	(1,492,334)	(1,020,067)
Other comprehensive income				
Changes in the fair value of financial assets, net of tax	138	-	(1,247)	(1,755)
Cash flow hedges, net of tax	2,751	577	(51,001)	(30,408)
Net investment hedges, net of tax	(2,410)	(433)	(14,763)	(10,075)
Exchange differences on translation of foreign operations	(5,518)	1,006	38,779	12,186
Other comprehensive income for the year, net of tax	(5,039)	1,150	(28,232)	(30,052)
Total comprehensive income for the year	(170,806)	(31,482)	(1,520,566)	(1,050,119)
Total comprehensive income for the year attributable to:				
Stapled security/unit holders of Valad Property Group/ Valad Property Trust	(170,253)	(31,482)	(1,520,576)	(1,050,119)
Non-controlling interests	(553)	-	10	-
	(170,806)	(31,482)	(1,520,566)	(1,050,119)

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

→ BALANCE SHEETS

AS AT 30 JUNE 2010

<i>CONSOLIDATED</i>					
	<i>NOTE</i>	<i>VPG 2010 \$'000</i>	<i>VPT 2010 \$'000</i>	<i>VPG 2009 \$'000</i>	<i>VPT 2009 \$'000</i>
<i>Current assets</i>					
Cash and cash equivalents		82,641	3,032	76,903	5,650
Loans and receivables		67,470	43,015	137,961	70,042
Non-current assets held for sale	6	17,344	–	35,966	7,841
Other assets		3,861	767	3,399	570
Total current assets		171,316	46,814	254,229	84,103
<i>Non-current assets</i>					
Loans and receivables		13,403	514,365	116,971	519,085
Inventory		55,520	–	81,805	–
Investments accounted for using the equity method		49,300	3,700	49,842	6,508
Other financial assets		77,688	65,314	74,053	62,629
Property, plant and equipment		3,088	–	8,355	–
Investment property	7	508,646	320,617	563,158	359,062
Deferred tax assets		9,400	–	12,347	–
Intangible assets		73,910	–	107,633	–
Total non-current assets		790,955	903,996	1,014,164	947,284
Total assets		962,271	950,810	1,268,393	1,031,387
<i>Current liabilities</i>					
Payables		37,865	4,167	111,235	10,297
Interest bearing liabilities		57,970	22,383	61,001	17,000
Current tax liabilities		3,660	–	4,869	–
Derivative financial instruments		–	–	430	430
Provisions		4,339	–	5,855	–
Total current liabilities		103,834	26,550	183,390	27,727
<i>Non-current liabilities</i>					
Payables		10,843	–	21,327	–
Interest bearing liabilities		431,969	347,460	532,694	436,689
Deferred tax liabilities		21,275	–	24,565	–
Derivative financial instruments		11,667	11,409	11,743	11,747
Provisions		1,211	–	1,893	–
Total non-current liabilities		476,965	358,869	592,222	448,436
Total liabilities		580,799	385,419	775,612	476,163
Net assets		381,472	565,391	492,781	555,224
<i>Equity</i>					
Contributed equity		2,500,473	1,769,977	2,431,804	1,728,328
Reserves		(77,464)	(15,853)	(63,253)	(17,003)
Accumulated losses		(2,041,028)	(1,188,733)	(1,875,814)	(1,156,101)
Non-controlling interest		(509)	–	44	–
Total equity		381,472	565,391	492,781	555,224

The above balance sheets should be read in conjunction with the accompanying notes.

→ STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

ATTRIBUTABLE TO THE OWNERS OF VALAD PROPERTY GROUP						
VPG	CONTRIBUTED EQUITY \$'000	RESERVES \$'000	ACCUMULATED LOSSES \$'000	TOTAL \$'000	NON- CONTROLLING INTEREST \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2009	2,431,804	(63,253)	(1,875,814)	492,737	44	492,781
Total comprehensive income for the year	–	(5,039)	(165,214)	(170,253)	(553)	(170,806)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	66,160	–	–	66,160	–	66,160
Valad securities ownership plan	2,509	(9,172)	–	(6,663)	–	(6,663)
	68,669	(9,172)	–	59,497	–	59,497
Balance at 30 June 2010	2,500,473	(77,464)	(2,041,028)	381,981	(509)	381,472

ATTRIBUTABLE TO THE OWNERS OF VALAD PROPERTY GROUP						
VPG	CONTRIBUTED EQUITY \$'000	RESERVES \$'000	ACCUMULATED LOSSES \$'000	TOTAL \$'000	NON- CONTROLLING INTEREST \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2008	2,431,628	(471,215)	126,606	2,087,019	1,672	2,088,691
Total comprehensive income for the year	–	(28,232)	(1,492,344)	(1,520,576)	10	(1,520,566)
Capital reserve	–	432,088	(432,088)	–	–	–
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	(186)	–	–	(186)	–	(186)
Disposal of subsidiaries	–	–	–	–	(1,399)	(1,399)
Distribution paid	–	–	(77,988)	(77,988)	(239)	(78,227)
Valad securities ownership plan	362	4,106	–	4,468	–	4,468
	176	4,106	(77,988)	(73,706)	(1,638)	(75,344)
Balance at 30 June 2009	2,431,804	(63,253)	(1,875,814)	492,737	44	492,781

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

<i>ATTRIBUTABLE TO THE OWNERS OF VALAD PROPERTY TRUST</i>				
<i>VPT</i>	<i>CONTRIBUTED EQUITY \$'000</i>	<i>RESERVES \$'000</i>	<i>ACCUMULATED LOSSES \$'000</i>	<i>TOTAL EQUITY \$'000</i>
Balance at 1 July 2009	1,728,328	(17,003)	(1,156,101)	555,224
Total comprehensive income for the year	–	1,150	(32,632)	(31,482)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	41,662	–	–	41,662
Valad securities ownership plan	(13)	–	–	(13)
	41,649	–	–	41,649
Balance at 30 June 2010	1,769,977	(15,853)	(1,188,733)	565,391

<i>ATTRIBUTABLE TO THE OWNERS OF VALAD PROPERTY TRUST</i>				
<i>VPT</i>	<i>CONTRIBUTED EQUITY \$'000</i>	<i>RESERVES \$'000</i>	<i>ACCUMULATED LOSSES \$'000</i>	<i>TOTAL EQUITY \$'000</i>
Balance at 1 July 2008	1,728,344	(108,811)	63,814	1,683,347
Total comprehensive income for the year	–	(30,052)	(1,020,067)	(1,050,119)
Capital reserve	–	121,860	(121,860)	–
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	(116)	–	–	(116)
Distribution paid	–	–	(77,988)	(77,988)
Valad securities ownership plan	100	–	–	100
	(16)	–	(77,988)	(78,004)
Balance at 30 June 2009	1,728,328	(17,003)	(1,156,101)	555,224

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

→ CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	<i>CONSOLIDATED</i>			
	<i>VPG</i> 2010 \$'000	<i>VPT</i> 2010 \$'000	<i>VPG</i> 2009 \$'000	<i>VPT</i> 2009 \$'000
<i>Cash flows from operating activities</i>				
Cash receipts in the course of operations	138,112	37,116	238,395	60,224
Cash payments in the course of operations	(94,097)	(17,268)	(221,806)	(26,373)
Close out of derivatives	(540)	(540)	(14,907)	(14,907)
Interest received	4,077	234	45,616	10,078
Distributions and dividends received	5,564	5,073	19,617	9,186
Borrowing costs paid	(41,374)	(35,506)	(74,266)	(58,484)
Income tax paid	211	(16)	(947)	(29)
Net cash (outflow)/inflow from operating activities	11,953	(10,907)	(8,298)	(20,305)
<i>Cash flows from investing activities</i>				
Payment for deferred consideration	(52,792)	-	(101,565)	-
Proceeds from sale of investment properties	98,057	79,007	160,447	153,029
Payments for investment properties	-	-	(11,344)	-
Capital expenditure on investment properties	(4,069)	(1,748)	(13,748)	(8,246)
Preliminary costs for acquisitions	-	-	(1,623)	-
Proceeds from sale of inventory	5,295	-	80,801	-
Payments for purchase of inventory	(10,224)	-	(74,066)	-
Proceeds from sale of property, plant and equipment	33	-	-	-
Payments for property, plant and equipment	(1,068)	-	(9,770)	(8,195)
Purchase of software asset	(1,988)	-	-	-
Proceeds from sale of investments	19,875	8,786	129,056	18,004
Return of investments	2,582	-	-	-
Costs on disposal of investment	-	-	(7,388)	-
Payments for purchase of investments	(30,199)	(7,207)	(57,936)	(16,520)
Purchase of treasury stock	(125)	-	-	-
Repayment of shares by employees and directors	(112)	-	-	-
Loans to joint ventures/associates	(422)	-	(14,882)	-
Repayment of loans from joint ventures/associates	12,302	-	44,021	-
Loans to third parties	(189)	-	(14,239)	19,065
Repayment of loans from third parties	6,045	-	30,823	-
Loans to related parties	-	(102,822)	-	(266,623)
Repayment of loans from related parties	-	80,957	-	345,143
Net cash inflow from investing activities	43,001	56,973	138,587	235,657
<i>Cash flows from financing activities</i>				
Proceeds from issue of securities	63,900	40,396	-	-
Payment for issue costs	(2,868)	(1,797)	-	-
Distributions paid	-	-	(77,988)	(77,988)
Proceeds from borrowings	18,008	-	335,953	234,214
Repayment of borrowings	(120,354)	(87,306)	(450,518)	(425,345)
Net cash outflow from financing activities	(41,314)	(48,707)	(192,553)	(269,119)
Net (decrease)/increase in cash held	13,640	(2,641)	(62,264)	(53,767)
Cash at the beginning of the financial year	76,903	5,650	121,162	59,071
Effect of exchange rate changes on cash and cash equivalents	(7,902)	23	18,005	346
Cash at the end of the financial year	82,641	3,032	76,903	5,650

The above cash flow statements should be read in conjunction with the accompanying notes.

→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

This concise financial report includes separate financial statements for the consolidated entity of Valad Property Trust and its controlled entities ("Consolidated entity") and the consolidated entity consisting of Valad Funds Management Limited and its controlled entities, and Valad Property Trust and its controlled entities. These entities are together referred to in this financial report as the Group. The accounting policies adopted have been consistently applied to all years presented.

The units in Valad Property Trust are 'stapled' to the shares in Valad Funds Management Limited. These entities form Valad Property Group (the "Group"). A stapled security comprises one Trust unit and one Company share. The stapled securities cannot be traded or dealt with separately.

Note 1 Presentation currency

The presentation currency used in this concise financial report is Australian dollars.

Note 2 Going concern

For the year ended 30 June 2010 the Group recorded a net accounting loss of \$165.214m (2009: loss of \$1,492.344m) and the Consolidated entity recorded a net loss of \$32.632m (2009: loss of \$1,020.067m). Cash inflows from operations for the Group were \$11.953m (2009: outflows of \$8.298m) and the Consolidated entity cash outflows were \$10.907m (2009: outflows of \$20.305m). The Group has net current assets of \$67.482m (2009: \$70.839m) and the Consolidated entity has net current assets of \$20.264m (2009: \$56.376m).

Based on the facts set out above, the forecast results and cash flows, including asset sales and debt repayment, of the Group and the Consolidated entity expected over the next 12 months from the date of this report, there are reasonable grounds for the directors to believe that the Group and the Consolidated entity will be able to meet financial undertakings in debt facilities which are tested regularly, meet their debts as and when they become due and payable and accordingly the financial statements have been prepared on a going concern basis.

Note 3 Earnings per stapled security/unit

	CONSOLIDATED			
	VPG 2010	VPT 2010	VPG 2009	VPT 2009
Basic earnings per stapled security/unit (cents)	(8.0)	(1.6)	(92.9)	(63.5)
Diluted earnings per stapled security/unit (cents)	(8.0)	(1.6)	(92.7)	(63.3)

(a) Reconciliation of earnings used in calculating earnings per stapled security

	CONSOLIDATED			
	VPG 2010 \$'000	VPT 2010 \$'000	VPG 2009 \$'000	VPT 2009 \$'000
Basic earnings per stapled security/unit				
Net loss	(165,214)	(32,632)	(1,492,344)	(1,020,067)
Diluted earnings per stapled security/unit				
Net loss	(165,214)	(32,632)	(1,492,344)	(1,020,067)

(b) *Weighted average number of stapled securities/units used as the denominator*

	<i>CONSOLIDATED</i>			
	<i>VPG 2010 '000</i>	<i>VPT 2010 '000</i>	<i>VPG 2009 '000</i>	<i>VPT 2009 '000</i>
<i>Weighted average number of ordinary stapled securities/units used as the denominator in calculating basic earnings per stapled security/unit</i>	2,060,473	2,060,473	1,605,598	1,605,598
Adjustments for calculation of diluted earnings per stapled security/unit				
Options	16,905	16,905	4,895	4,895
<i>Weighted average number of ordinary stapled securities/units and potential ordinary stapled securities/units used as the denominator in calculating diluted earnings per stapled security/unit</i>	2,077,378	2,077,378	1,610,493	1,610,493

Note 4 Segment information

(a) Description of segments

The Group and Consolidated entity have adopted AASB 8 *Operating Segments* which requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

The Group and Consolidated entity views and reports to internal management, segments of the business from a core competencies and geographic basis. This basis has identified five segments, Australian and New Zealand real estate ownership and real estate investment management, European real estate ownership and real estate investment management and Corporate. The segment result is the measure of operating profit reported to the chief operating decision maker and reflects the total profit or loss for the period excluding non-cash, non-recurring items.

Australian and New Zealand Real Estate Ownership

The segment consists of rental income producing passive properties, properties held for development and resale, property structured finance to external parties and joint ventures and investments held in property funds within the Australian and New Zealand region.

European Real Estate Ownership

The segment consists of the DUKE joint venture (a 50:50 joint venture with Uberior (Europe) a subsidiary of Bank of Scotland) and joint ventures and investments held in property funds within the European region.

Australian and New Zealand Real Estate Investment Management

The segment establishes and manages listed and unlisted property funds within the Australian and New Zealand region.

European Funds Real Estate Investment Management

The segment establishes and manages listed and unlisted property funds within the European region.

Corporate

The segment includes all employee costs and associated administration costs for the Group and the Group's financing cost.

→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Note 4 Segment information (continued)

(b) Reportable segments

VPG

2010	AUST/NZ REAL ESTATE OWNERSHIP \$'000	EUROPEAN REAL ESTATE OWNERSHIP \$'000	AUST/NZ REAL ESTATE INVESTMENT MANAGEMENT \$'000	EUROPEAN REAL ESTATE INVESTMENT MANAGEMENT \$'000	CORPORATE \$'000	CONSOLIDATED \$'000
Net revenue from external customers	44,082	577	7,969	64,397	–	117,025
Interest income	–	–	–	–	4,128	4,128
Shares of net profit of associates and joint ventures	5,926	–	–	–	13	5,939
Total revenue and other income	50,008	577	7,969	64,397	4,141	127,092
Less costs:						
Administrative and other expenses	–	–	–	–	(23,630)	(23,630)
Employment expenses	–	–	–	–	(50,237)	(50,237)
Financing cost	–	–	–	–	(43,611)	(43,611)
Depreciation	–	–	–	–	(2,623)	(2,623)
Income tax expense	–	–	–	–	1,010	1,010
Segment result	50,008	577	7,969	64,397	(114,950)	8,001
Impairment of assets	(99,550)	(4,768)	–	(427)	3,536	(101,209)
Impairment of intangible assets	–	–	–	(14,316)	(11)	(14,327)
Unrealised fair value adjustment to assets	(51,582)	–	–	–	–	(51,582)
Unrealised fair value adjustment to derivatives	–	–	–	–	(21)	(21)
Segment assets	734,733	28,474	8,111	62,337	128,616	962,271
Segment liabilities	–	–	–	–	580,799	580,799

2009	AUST/NZ REAL ESTATE OWNERSHIP \$'000	EUROPEAN REAL ESTATE OWNERSHIP \$'000	AUST/NZ REAL ESTATE INVESTMENT MANAGEMENT \$'000	EUROPEAN REAL ESTATE INVESTMENT MANAGEMENT \$'000	CORPORATE \$'000	CONSOLIDATED \$'000
Net revenue from external customers	41,701	21,679	14,712	79,389	9,500	166,981
Interest income	11,781	-	-	-	16,500	28,281
Shares of net profit of associates and joint ventures	(1,358)	(26,442)	6	6,794	-	(21,000)
Total revenue and other income	52,124	(4,763)	14,718	86,183	26,000	174,262
Less costs:						
Administrative and other expenses	-	-	-	-	(19,086)	(19,086)
Employment expenses	-	-	-	-	(92,661)	(92,661)
Financing cost	-	-	-	-	(97,488)	(97,488)
Depreciation	-	-	-	-	(3,655)	(3,655)
Income tax expense	-	-	-	-	2,611	2,611
Segment result	52,124	(4,763)	14,718	86,183	(184,279)	(36,017)
Impairment of assets	(227,999)	(266,175)	-	-	(19,685)	(513,859)
Impairment of intangible assets	-	(159,692)	(44,427)	(255,603)	-	(459,722)
Unrealised fair value adjustment to assets	(142,881)	(309,163)	-	-	-	(452,044)
Unrealised fair value adjustment to derivatives	-	-	-	-	(60,225)	(60,225)
Segment assets	988,195	36,619	11,743	118,213	113,623	1,268,393
Segment liabilities	-	-	-	-	775,612	775,612

→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Note 4 Segment information (continued)

(b) Reportable segments (continued)

	VPT				
2010	AUST/NZ REAL ESTATE OWNERSHIP \$'000	EUROPEAN REAL ESTATE OWNERSHIP \$'000	AUST/NZ REAL ESTATE INVESTMENT MANAGEMENT \$'000	CORPORATE \$'000	CONSOLIDATED \$'000
Net revenue from external customers	20,479	2	2,013	7,918	30,412
Interest income	–	–	–	28,944	28,944
Shares of net profit of associates and joint ventures	3,150	–	–	–	3,150
Total revenue and other income	23,629	2	2,013	36,862	62,506
Less costs:					
Administrative and other expenses	–	–	–	(2,536)	(2,536)
Financing cost	–	–	–	(38,066)	(38,066)
Income tax expense	–	–	–	(16)	(16)
Segment result	23,629	2	2,013	(3,756)	21,888
Impairment of assets	(5,234)	(478)	–	(16,856)	(22,568)
Unrealised fair value adjustment to assets	(31,282)	–	–	–	(31,282)
Unrealised fair value adjustment to derivatives	–	–	–	240	240
Segment assets	386,717	2,914	–	561,179	950,810
Segment liabilities	–	–	–	385,419	385,419

2009	AUST/NZ REAL ESTATE OWNERSHIP \$'000	EUROPEAN REAL ESTATE OWNERSHIP \$'000	AUST/NZ REAL ESTATE INVESTMENT MANAGEMENT \$'000	CORPORATE \$'000	CONSOLIDATED \$'000
Net revenue from external customers	49,512	3,191	–	–	52,703
Interest income	300		–	73,900	74,200
Shares of net profit of associates and joint ventures	(862)	(438)	–	–	(1,300)
Total revenue and other income	48,950	2,753	–	73,900	125,603
Less costs:					
Administrative and other expenses	–	–	–	(5,444)	(5,444)
Financing cost	–	–	–	(64,657)	(64,657)
Income tax expense	–	–	–	(29)	(29)
Segment result	48,950	2,753	–	3,770	55,473
Impairment of assets	(25,624)	(183,048)	–	(591,811)	(800,483)
Unrealised fair value adjustment to assets	(94,164)	(90,217)	–	–	(184,381)
Unrealised fair value adjustment to derivatives	–	–	–	(29,710)	(29,710)
Segment assets	500,307	4,080	–	527,000	1,031,387
Segment liabilities	–	–	–	476,163	476,163

→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Note 4 Segment information (continued)

(b) Reportable segments (continued)

RECONCILIATION TO LOSS FOR THE YEAR

CONSOLIDATED

	VPG 2010 \$'000	VPT 2010 \$'000	VPG 2009 \$'000	VPT 2009 \$'000
Segment result	8,001	21,888	(36,017)	55,473
Impairment of assets	(101,209)	(22,568)	(513,859)	(800,483)
Impairment of intangibles	(14,327)	-	(459,722)	-
Unrealised fair value adjustment to assets	(51,582)	(31,282)	(452,044)	(184,381)
Unrealised fair value adjustment to derivatives	(21)	240	(60,225)	(29,710)
Non-cash employee benefit expense with respect to employee securities	1,354	-	(4,339)	-
Straight-line rental income	973	899	3,125	1,851
Amortisation	(8,291)	-	(11,045)	-
Amortisation of lease incentives	(1,350)	(611)	(1,337)	(671)
Non-cash deferred compensation finance charge	-	-	1,431	-
Finance charge on cross staple loan	-	14,270	-	-
Unrealised foreign exchange gains/(losses)	1,941	(14,928)	8,445	(8,386)
Income tax expense relating to non-cash items	(163)	-	15,989	-
Derivative closeout	(540)	(540)	(76,077)	(76,077)
Profit on sale of controlled entity	-	-	93,331	22,317
Loss for the year	(165,214)	(32,632)	(1,492,344)	(1,020,067)

(c) Other segment information

There are no sales between segments and therefore no elimination of inter-segment revenue is required.

Revenues from external customers are derived from rental income, sales of property, interest income, dividends and distributions and fund management fees.

There is no external customer that contributes more than 10% of VPG's revenue.

For VPT, revenues of approximately 12.7% (2009: less than 10%) are derived from a single external customer. These revenues are attributable to the Australian and New Zealand Real Estate Ownership segment.

Note 5 Revenue

	<i>CONSOLIDATED</i>			
	<i>VPG 2010 \$'000</i>	<i>VPT 2010 \$'000</i>	<i>VPG 2009 \$'000</i>	<i>VPT 2009 \$'000</i>
Rental income	51,095	34,467	97,579	55,946
Straight-line adjustment	973	899	3,126	1,851
Amortisation of lease incentives	(1,350)	(611)	(1,337)	(671)
	50,718	34,755	99,368	57,126
Property development sales	6,040	–	52,716	–
Funds management income	76,999	2,013	86,105	–
Agricultural income	4,901	–	5,940	–
Dividend and distribution income from investments	2,642	1,917	6,505	5,587
Interest income	22,123	43,352	53,768	74,231
Proceeds on disposal of investments	18,797	7,780	–	–
Other revenue	263	60	2,853	–
	182,483	89,877	307,255	136,944

Note 6 Non-current assets held for sale

	<i>CONSOLIDATED</i>			
	<i>VPG 2010 \$'000</i>	<i>VPT 2010 \$'000</i>	<i>VPG 2009 \$'000</i>	<i>VPT 2009 \$'000</i>
Investments accounted for using the equity method	–	–	15,066	7,841
Investment property	12,281	–	20,900	–
Property, plant and equipment	2,311	–	–	–
Livestock	2,752	–	–	–
	17,344	–	35,966	7,841

(a) Assets pledged as security

Refer to note 28(b) of the full financial report for information on assets pledged as security.

→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Note 6 Non-current assets held for sale (continued)

(b) Details of the sale of DUKE assets at 30 June 2009

	CONSOLIDATED	
	VPG 2009 \$'000	VPT 2009 \$'000
Consideration received or receivable:		
Contribution payable under joint venture agreement	(45,866)	–
Total disposal consideration paid	(45,866)	–
Carrying amount of net liabilities sold	189,761	8,030
Other adjustments	3,250	10,174
Transfer from reserves	(53,814)	4,113
Gain on sale before income tax	93,331	22,317
Income tax	–	–
Gain on sale after income tax	93,331	22,317

The carrying amount of assets as at the date of sale (30 June 2009) were:

	CONSOLIDATED	
	VPG 2009 \$'000	VPT 2009 \$'000
Cash and cash equivalents	4,382	280
Loans and receivables	87,103	–
Inventory	38,808	–
Investments accounted for using the equity method	83,700	–
Financial assets at fair value through profit and loss	55,436	55,436
Other financial assets	1,058	–
Investment property	267,293	–
Other assets	2,552	–
Total assets	540,332	55,716
Interest bearing liabilities	(650,393)	(62,025)
Derivative financial instruments	(44,769)	(1,493)
Other liabilities	(34,931)	(228)
Total liabilities	(730,093)	(63,746)
Net liabilities	(189,761)	(8,030)

On 30 June 2009, the Group contributed the majority of its European property assets and all associated debt to the DUKE joint venture.

Note 7 Investment property

<i>CONSOLIDATED</i>				
	<i>VPG</i> 2010 \$'000	<i>VPT</i> 2010 \$'000	<i>VPG</i> 2009 \$'000	<i>VPT</i> 2009 \$'000
Current				
Office	-	-	20,900	-
Industrial/Other	12,281	-	-	-
Total current investment property	12,281	-	20,900	-
Non-current				
Office	166,515	56,941	185,708	64,000
Bulky goods	127,363	79,113	132,375	86,675
Industrial/Other	214,768	184,563	245,075	208,387
Total non-current investment property	508,646	320,617	563,158	359,062
Total investment property	520,927	320,617	584,058	359,062

A reconciliation of the carrying amounts of investment property for the reporting period are set out below:

<i>CONSOLIDATED</i>				
	<i>VPG</i> 2010 \$'000	<i>VPT</i> 2010 \$'000	<i>VPG</i> 2009 \$'000	<i>VPT</i> 2009 \$'000
Opening balance at 1 July	584,058	359,062	1,002,919	584,791
Acquisitions	-	-	29,734	149
Capital expenditure	4,269	2,727	10,284	5,609
Lease incentives	(525)	(555)	2,464	1,587
Straight-line rental income	973	899	3,125	1,851
Disposals	(29,950)	(10,900)	(247,219)	(220,063)
Disposals into DUKE	-	-	(267,293)	-
Loss from fair value adjustment	(50,973)	(31,282)	(231,960)	(102,232)
Transfers from property, plant and equipment, and inventory	12,207	-	264,567	85,335
Effect of exchange rate changes	868	666	17,437	2,035
Closing balance at 30 June	520,927	320,617	584,058	359,062

Properties held by the Group and Consolidated entity are classified in the balance sheet under the following categories:

<i>CONSOLIDATED</i>					
<i>PROPERTY PORTFOLIO</i>	<i>CLASSIFIED UNDER</i>	<i>VPG BOOK</i> <i>VALUE</i> 2010 \$'000	<i>VPT BOOK</i> <i>VALUE</i> 2010 \$'000	<i>VPG BOOK</i> <i>VALUE</i> 2009 \$'000	<i>VPT BOOK</i> <i>VALUE</i> 2009 \$'000
Investment property	Non-current assets held for sale	12,281	-	20,900	-
Investment property	Non-current investment property	508,646	320,617	563,158	359,062
Total property portfolio		520,927	320,617	584,058	359,062

→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Note 7 Investment property (continued)

INVESTMENT PROPERTY	ACQUISITION DATE	INDEPENDENT VALUATION DATE	INDEPENDENT VALUATION AMOUNT \$'000	INDEPENDENT VALUER	CONSOLIDATED			
					VPG BOOK VALUE 2010 \$'000	VPT BOOK VALUE 2010 \$'000	VPG BOOK VALUE 2009 \$'000	VPT BOOK VALUE 2009 \$'000
Current								
– Office (Australia)								
Chandos Street, St Leonards NSW	Feb 2008	Mar 2008	24,800	Colliers	-	-	20,900	-
– Other (Australia)								
432 Moroka Road, Valencia Creek VIC	Feb 2008	Feb 2009	4,500	Herron Todd White	2,499	-	-	-
259 Smyths Road, Valencia Creek VIC	Feb 2008	Feb 2009	1,900	Herron Todd White	1,067	-	-	-
170 Dows Road, Valencia Creek VIC	Feb 2008	Feb 2009	1,045	Herron Todd White	602	-	-	-
Pilkington Road, Fish Creek, VIC	Feb 2008	Feb 2009	7,400	PRP Valuers	4,323	-	-	-
Darnum, River Road, Yarragon VIC	Jun 2008	Mar 2009	5,800	PRP Valuers	3,790	-	-	-
Total current investment property					12,281	-	20,900	-
Non-current								
– Office (Australia)								
Riverside Corporate Place, North Ryde NSW	Oct 2005	Aug 2009	57,300	Knight Frank	57,267	-	63,225	-
207 Pacific Highway, St Leonards NSW (50%)	Aug 2004	Aug 2009	57,000	Knight Frank	56,940	56,940	64,000	64,000
370 Queen Street, Brisbane QLD	Oct 2007	Dec 2009	19,000	Knight Frank	18,944	-	21,700	-
502 Flinders Street, Townsville QLD	Jun 2009	Jul 2009	10,750	Herron Todd White	10,747	-	11,060	-
– Office (New Zealand)								
34 Shortland Street, Auckland	Dec 2007	Aug 2009	19,841	CB Richard Ellis	22,617	-	25,723	-
– Bulky goods (Australia)								
Home Central, Bankstown NSW	Mar 2005	Aug 2009	30,000	Jones Lang Lasalle	32,000	32,000	36,700	36,700
Home Central, McGraths Hill NSW	Dec 2004	Dec 2009	25,000	Knight Frank	24,976	24,976	25,875	25,875
555 Kessels Road, Macgregor QLD	Dec 2007	Dec 2009	21,750	Knight Frank	22,137	22,137	24,100	24,100
280–290 Benalla Road, Shepparton VIC	Jan 2007	Apr 2009	18,500	Savills (Vic)	17,750	-	18,500	-
Bath Road, Kirrawee NSW	Aug 2008	Apr 2009	29,500	Knight Frank	30,500	-	27,200	-
– Industrial (Australia)								
21 Metroplex Avenue, Murarrie QLD	Aug 2007	Dec 2009	8,000	Knight Frank	7,971	7,971	8,800	8,800
17–21 Strezlecki Avenue, Sunshine VIC	Dec 2007	Dec 2009	5,000	Knight Frank	5,009	5,009	5,300	5,300
80–100 Fulton Drive, Derrimut VIC	Nov 2007	Dec 2009	7,000	Knight Frank	7,501	7,501	7,460	7,460
991 Mountain Highway, Boronia VIC	Nov 2007	Dec 2009	9,800	CB Richard Ellis	9,810	9,810	10,100	10,100
65–75 Strezlecki Avenue, Sunshine VIC	Nov 2007	Dec 2009	16,400	CB Richard Ellis	16,408	16,408	18,350	18,350
Boundary Road, Richlands QLD	Oct 2005	Aug 2009	12,250	Knight Frank	12,261	12,261	13,600	13,600
Newton Road, Wetherill Park NSW	Jul 2006	Dec 2009	13,900	Jones Lang Lasalle	13,900	13,900	14,800	14,800
Malta & Seville Streets, Fairfield NSW	Aug 2007	Dec 2009	8,900	Jones Lang Lasalle	8,932	8,932	9,900	9,900
Eurora Street, Kingston QLD	Aug 2007	Dec 2009	6,100	Knight Frank	6,128	6,128	6,000	6,000
McCredie Street, Smithfield NSW	Aug 2007	Dec 2009	19,250	Jones Lang Lasalle	19,328	19,328	21,900	21,900
Lot 7 Erskine Park NSW	Jul 2007	Jun 2009	13,425	Jones Lang Lasalle	13,425	13,425	13,419	13,419
8 Terrace Street, Murarrie QLD	Aug 2007	Jun 2008	16,000	Savills (Qld)	-	-	13,750	13,750

								<i>CONSOLIDATED</i>	
<i>INVESTMENT PROPERTY</i>	<i>ACQUISITION DATE</i>	<i>INDEPENDENT VALUATION DATE</i>	<i>INDEPENDENT VALUATION AMOUNT \$'000</i>	<i>INDEPENDENT VALUER</i>	<i>VPG BOOK VALUE 2010 \$'000</i>	<i>VPT BOOK VALUE 2010 \$'000</i>	<i>VPG BOOK VALUE 2009 \$'000</i>	<i>VPT BOOK VALUE 2009 \$'000</i>	
<i>Non-current (continued)</i>									
<i>– Other (Australia)</i>									
Central Apartments, 502 Flinders Street, Townsville QLD	Jun 2009	May 2010	15,400	Herron Todd White	15,052	–	14,738	–	
Itara Apartments, 15 Sporting Drive, Kirwan QLD	May 2009	Dec 2008	3,252	Herron Todd White	2,945	–	2,945	–	
432 Moroka Road, Valencia Creek VIC	Feb 2008	Feb 2009	4,500	Herron Todd White	–	–	3,828	–	
259 Smyths Road, Valencia Creek VIC	Feb 2008	Feb 2009	1,900	Herron Todd White	–	–	1,712	–	
170 Dows Road, Valencia Creek VIC	Feb 2008	Feb 2009	1,045	Herron Todd White	–	–	951	–	
Pilkington Road, Fish Creek VIC	Feb 2008	Feb 2009	7,400	PRP Valuers	–	–	7,413	–	
Darnum, River Road, Yarragon VIC	Jun 2008	Mar 2009	5,800	PRP Valuers	–	–	5,101	–	
<i>– Industrial (New Zealand)</i>									
20 Mahunga Drive, Mangere	Aug 2007	Dec 2009	20,125	CB Richard Ellis	20,169	20,169	20,842	20,842	
11 Tararua Road, Levin	Aug 2007	Dec 2009	7,920	CB Richard Ellis	7,931	7,931	8,623	8,623	
85 Shands Road, Christchurch	Aug 2007	Dec 2009	10,733	CB Richard Ellis	10,756	10,756	10,875	10,875	
196 Browns Road, Manukau	Aug 2007	Dec 2009	12,766	CB Richard Ellis	12,800	12,800	12,221	12,221	
862 Great South Road, Penrose	Aug 2007	Dec 2009	12,197	CB Richard Ellis	12,235	12,235	12,447	12,447	
60 McEwan Road, Marsden Point	Apr 2008	Oct 2009	11,540	DTZ	12,207	–	–	–	
Total non-current investment property					508,646	320,617	563,158	359,062	
Total investment property					520,927	320,617	584,058	359,062	

→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Note 7 Investment property (continued)

(a) Valuation basis

The basis of the valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The 2010 external valuations were based on independent assessments made by members of the Australian Property Institute.

If there is no external valuation performed, an internal valuation is completed at each reporting period.

	2010				AUSTRALIA/NEW ZEALAND PORTFOLIO VPG ¹ 2009			
	OFFICE	BULKY GOODS	INDUSTRIAL	TOTAL	OFFICE	BULKY GOODS	INDUSTRIAL	TOTAL
Weighted average capitalisation rate %	8.7%	8.8%	9.3%	8.9%	8.2 %	8.7%	8.8%	8.6 %
Weighted average lease expiry	3.8 yrs	5.3 yrs	5.1 yrs	4.7 yrs	3.4 yrs	5.3 yrs	5.2 yrs	4.6 yrs
Vacancy %	5.2%	7.3%	0%	4.2%	5.5%	8.1%	0.0%	4.1%

¹ The Consolidated entity average rates are not considered relevant to the Group.

Refer to note 4 of the full financial report for critical accounting estimates and assumptions.

(b) Non-current assets pledged as security

Refer to note 28(b) of the full financial report for information on non-current assets pledged as security.

(c) Contractual obligations

Refer to note 35 of the full financial report for disclosure of contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(d) Leasing arrangements

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	<i>CONSOLIDATED</i>			
	<i>VPG</i> <i>2010</i> <i>\$'000</i>	<i>VPT</i> <i>2010</i> <i>\$'000</i>	<i>VPG</i> <i>2009</i> <i>\$'000</i>	<i>VPT</i> <i>2009</i> <i>\$'000</i>
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:				
Within one year	46,685	32,295	50,470	36,077
Later than one year, but not later than five years	147,563	102,883	152,753	107,276
Later than five years	45,690	24,397	58,668	35,196
	239,938	159,575	261,891	178,549

Note 8 Dividends and distributions

	<i>CONSOLIDATED</i>			
	<i>VPG</i> <i>2010</i> <i>\$'000</i>	<i>VPT</i> <i>2010</i> <i>\$'000</i>	<i>VPG</i> <i>2009</i> <i>\$'000</i>	<i>VPT</i> <i>2009</i> <i>\$'000</i>
(a) Ordinary securities				
30 June 2008	-	-	77,988	77,988
Total distributions paid	-	-	77,988	77,988

No distribution will be paid for the 2010 financial year (2009: nil).

(b) Franked dividends

	<i>CONSOLIDATED</i>			
	<i>VPG</i> <i>2010</i> <i>\$'000</i>	<i>VPT</i> <i>2010</i> <i>\$'000</i>	<i>VPG</i> <i>2009</i> <i>\$'000</i>	<i>VPT</i> <i>2009</i> <i>\$'000</i>
Franking credits available for subsequent financial years based on a tax rate of 30%			2,626	3,618

→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Note 9 Events occurring after reporting date

On 14 July 2010 VPG sold its rural assets.

On 26 July 2010 VPG was appointed by Kefren Properties IXAB as investment manager of its \$689.000m (€480.000m) real estate portfolio in Sweden. The Kefren portfolio comprises approximately 150 properties totalling more than 827,000sqm of lettable area. The portfolio consists of predominantly office assets, but also includes warehouse and retail space.

Since year end VPG has contributed \$5.600m to the Noosa joint venture, in accordance with commitments set out in note 35 in the full financial report. VPG has exercised its contractual right to acquire the interest of its joint venture partner, Ashington Capital Pty Limited in the Sheraton Noosa.

Note 10 Contingent liabilities

The Group had contingent liabilities at 30 June 2010 in respect of bank guarantees totalling \$0.385m (2009: \$3.069m).

The Group had no put options at 30 June 2010 in respect of additional purchases of investments (2009: \$5.549m).

Valad Europe

As part of the restructure of the European business in 2009, to create the DUKE joint venture with Lloyds, VPG entered into an agreement with DUKE whereby should VPG choose to sell Valad Europe prior to 30 June 2012, the DUKE joint venture has the right to the net proceeds which must be used to reduce bank debt in DUKE. Thereafter, if the DUKE joint venture is extended and VPG chooses to sell Valad Europe, the DUKE joint venture may have the right to some or all of the net proceeds, depending on the then loan to value ratio of the DUKE joint venture. The DUKE joint venture currently has a net liability position.

Refer to note 23 of the full financial report for the carrying value of the goodwill of Valad Europe.

→ DIRECTORS' DECLARATION

The directors declare that in their opinion, the concise financial report of the Group and Consolidated entity for the year ended 30 June 2010 as set out on pages 43 to 64 complies with Accounting Standard AASB 1039: *Concise Financial Reports*.

The concise financial report is an extract from the full financial report for the year ended 30 June 2010. The financial statements and specific disclosures included in this concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financial and investing activities of the Group and Consolidated entity as the full financial report, which is available on request.

This declaration is made in accordance with a resolution of the directors of Valad Funds Management Limited and Valad Commercial Management Limited, as responsible entity for Valad Property Trust.



Trevor Gerber

Chairman, Valad Funds Management Limited and Valad Commercial Management Limited
(as responsible entity for Valad Property Trust)

Sydney
26 August 2010

→ INDEPENDENT AUDITOR'S REPORT TO THE SECURITY HOLDERS OF VALAD PROPERTY GROUP

Report on the concise financial report

The accompanying concise financial report of Valad Property Group comprises the consolidated balance sheet as at 30 June 2010, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and related notes, derived from the audited financial report of Valad Property Group for the year ended 30 June 2010. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' responsibility for the concise financial report

The directors of Valad Funds Management Limited and Valad Commercial Management Limited, as Responsible Entity for Valad Property Trust are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation of the concise financial report; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Valad Property Group for the year ended 30 June 2010. Our audit report on the financial report for the year was signed on 26 August 2010 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the concise financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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*, provided to the directors of Valad Funds Management Limited and Valad Commercial Management Limited, as Responsible Entity for Valad Property Trust on 26 August 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion, the concise financial report of Valad Property Group for the year ended 30 June 2010 complies with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

Report on the remuneration report

The following paragraphs are copied from our report on the remuneration report for the year ended 30 June 2010.

We have audited the remuneration report included in pages 30 to 38 of the directors' report for the year ended 30 June 2010. The directors of Valad Funds Management Limited and Valad Commercial Management Limited, as Responsible Entity for Valad Property Trust, are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Valad Property Group for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

JA Dunning
Partner

Sydney
26 August 2010

→ INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF VALAD PROPERTY TRUST

Report on the concise financial report

The accompanying concise financial report of Valad Property Trust comprises the consolidated balance sheet as at 30 June 2010, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and related notes, derived from the audited financial report of Valad Property Trust for the year ended 30 June 2010. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' responsibility for the concise financial report

The directors of Valad Commercial Management Limited, as Responsible Entity for Valad Property Trust, are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation of the concise financial report; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Valad Property Trust for the year ended 30 June 2010. Our audit report on the financial report for the year was signed on 26 August 2010 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the concise financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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*, provided to the directors of Valad Commercial Management Limited, as Responsible entity for Valad Property Trust on 26 August 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion, the concise financial report of Valad Property Trust for the year ended 30 June 2010 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

PricewaterhouseCoopers

JA Dunning
Partner

Sydney
26 August 2010

GENERAL

No information contained in this annual report should be construed as advice, a recommendation, an offer for the sale of or a solicitation to hold, acquire, apply for, purchase or sell shares, financial products or other instruments in the Valad Property Group (Valad) or any other entity. None of the information contained in this annual report should be relied on or construed as financial product advice.

This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness, having regard to your objectives, financial situation and needs and seek appropriate independent advice.

Valad and its related entities do not make any representations or give any warranties that the information set out in this annual report is or will remain accurate or complete at all times and they disclaim all liability for harm, loss, costs, or damage which arises in connection with any use or reliance on the information. Past performance is not a reliable indicator of future performance.

IMPORTANT NOTICE TO STAPLED SECURITY HOLDERS THAT ARE IN THE UNITED STATES FOR US PERSONS

Stapled security holders should note that Valad has not been, and will not be, registered under the US Investment Company Act of 1940, as amended (the Investment Company Act), in reliance on the exception from the definition of "investment company" provided by Section 3(c)(7) thereof. Accordingly, if you are a stapled security holder and are resident in the United States or a "US Person" (as defined in Regulation S under the US Securities Act of 1933, as amended) (a US Person), then, subject to certain limited exceptions, you must be a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act (a Qualified Purchaser), and if you are acting for the account or benefit of a US Person, that US Person must be a Qualified Purchaser. Stapled security holders should also note that, to the maximum extent permitted under its constituent documents, the ASX listing rules and by law, Valad reserves the right to refuse to record any sale or transfer of stapled securities to a person in the United States or a US Person that is not a Qualified Purchaser, or that is otherwise sold or transferred in a manner that would not allow Valad to maintain the exception from registration under Section 3(c)(7) of the Investment Company Act. If Valad receives notice that any stapled securities are owned or held beneficially by any person (including a person in the United States or other US Person that is not a Qualified Purchaser) to whom a transfer of stapled securities or whose ownership or holding of any stapled securities might, in the opinion of Valad, require Valad to become registered under the Investment Company Act, such stapled securities may be compulsorily transferred.

This annual report is not an offer or invitation for subscription or purchase of or a recommendation of securities. It contains general information only and does not take into account the investment objectives, financial situation and particular needs of individual investors. Investors should obtain their own independent advice from a qualified financial advisor having regard to their objectives, financial situation and needs. This annual report does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to any "US person". No representation or warranty, express or implied, is made in relation to the accuracy or completeness of the information and opinions expressed in the course of this annual report. To the maximum extent permitted by law, Valad, all of its related bodies corporate and their representatives, officers, employees, agents and advisors do not accept any responsibility or liability for any of the information or for any action taken by you on the basis of the information or opinions expressed in the course of this annual report, including without limitation any liability arising from negligence on the part of any person. No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any forecasts, prospects, returns or statements in relation to future matters contained in the information provided in this annual report. Such forecasts, prospects, returns and statements are by their nature subject to significant uncertainties and contingencies, many of which are outside the control of Valad. You must make your own independent assessment of the information and in respect of any action taken on the basis of the information.

→ SECURITY HOLDER INFORMATION

Substantial Security Holders

Name	Date of last notice received	No. Stapled Securities Held	% of Issued Capital
Orbis Group	20 July 2010	433,041,829	18.93

Top 20 Investors as at 26 August 2010

Rank	Investor	No. Stapled Securities Held	% Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	404,026,188	17.66
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	401,589,409	17.55
3	NATIONAL NOMINEES LIMITED	275,636,589	12.05
4	CITICORP NOMINEES PTY LIMITED	140,890,880	6.16
5	KEVIN MCCABE	59,452,335	2.60
6	COGENT NOMINEES PTY LIMITED	53,453,370	2.34
7	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	32,804,494	1.43
8	CITICORP NOMINEES PTY LIMITED	30,401,187	1.33
9	UBERIOR INVESTMENTS PLC	18,530,598	0.81
10	EQUITY TRUSTEES LIMITED	17,870,988	0.78
11	ANZ NOMINEES LIMITED	17,544,979	0.77
12	EQUITY TRUSTEES LIMITED	16,347,122	0.71
13	CITICORP NOMINEES PTY LIMITED	14,743,397	0.64
14	CINU INVESTMENTS PTY LIMITED	14,500,000	0.63
15	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	12,328,243	0.54
16	SAREN INVESTMENTS PTY LTD	11,099,208	0.49
17	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	10,589,282	0.46
18	CITICORP NOMINEES PTY LIMITED	10,527,242	0.46
19	MR SHAY SHIMON HAZAN	10,000,000	0.44
20	CUSTODIAL SERVICES LIMITED	8,171,461	0.36
Total in Top 20		1,560,506,972	68.21
Total Other Investors		727,175,954	31.79
Total Stapled Securities on Issue		2,287,682,926	100.00

VPG Stapled Security Holder Spread as at 26 August 2010

Range	Stapled Security Holders	No. Stapled Securities Held	% in Range
1 to 1,000	448	136,047	0.01
1,001 to 5,000	1,400	4,279,886	0.19
5,001 to 10,000	1,140	9,242,201	0.40
10,001 to 50,000	3,410	89,556,227	3.91
50,001 to 100,000	1,085	82,479,047	3.61
100,001 and Over	1,418	2,101,989,518	91.88
Total	8,901	2,287,682,926	100.00

Valad Commercial Management Limited

ABN 76 101 802 046

ACN 101 802 046

(holds Australian Financial Services Licence Number 223339
as Responsible entity of Valad Property Trust)

Valad Property Trust

ABN 91 308 938 488

ARSN 102 618 824

Valad Funds Management Limited

ABN 89 102 249 294

ACN 102 249 294

Registered Office

Level 9, 1 Chifley Square

Sydney NSW 2000

Telephone: 1800 825 231

Email: info@valad.com.au

Board of Directors

Trevor Gerber – Independent Non-Executive Chairman

Peter Hurley – Managing Director

Andrew Martin – Independent Non-Executive Director

David Robinson – Independent Non-Executive Director

Robert Seidler – Independent Non-Executive Director

Company Secretary

Katherine Grace

Registry

Link Market Services Limited

Level 12, 680 George Street

Sydney NSW 2000

Locked Bag A14

Sydney South NSW 1235

Telephone: 1300 650 320 (local call cost, within Australia)

Telephone: +61 2 8280 7104 (outside Australia)

General Facsimile: +61 2 9287 0303

Email: registrars@linkmarketservices.com.au

Website: www.linkmarketservices.com.au

Securities Exchange

The Valad Property Group is listed on
the Australian Securities Exchange (ASX Code VPG)

Auditor

PricewaterhouseCoopers

201 Sussex Street

Sydney NSW 2000

www.valad.com.au**Cover Image**

Artists Impression, One Alfred
Street, Sydney, NSW, Australia

VALAD