

# Charter Hall Group Preliminary Financial Report For the year ended 30 June 2014

Comprising the stapling of ordinary shares in Charter Hall Limited (ACN 113 531 150)  
and units in Charter Hall Property Trust (ARSN 113 339 147)



## Important notice

This preliminary financial report has been prepared and issued by Charter Hall Limited (ACN 113 531 150) and Charter Hall Funds Management Limited (ACN 082 991 786, AFSL 262861) (CHFML) as Responsible Entity of the Charter Hall Property Trust (ARSN 113 339 147) (together, the Charter Hall Group or Group). The information contained in this report has been compiled to comply with legal and regulatory requirements and to assist the recipient in assessing the performance of the Group independently and does not relate to, and is not relevant for, any other purpose.

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Historical performance is not a reliable indicator of future performance. Due care and attention have been exercised in the preparation of forecast information; however, forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of the Group. Actual results may vary from any forecasts, and any variation may be materially positive or negative.

CHFML does not receive fees in respect of the general financial product advice it may provide; however, entities within the Charter Hall Group receive fees for operating the Charter Hall Property Trust in accordance with its constitution. Entities within the Group may also receive fees for managing the assets of, and providing resources to, the Charter Hall Property Trust. For more detail on fees, see this preliminary financial report.

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# Contents

Consolidated Statements of Comprehensive Income .....	4
Consolidated Balance Sheets .....	6
Consolidated Statement of Changes in Equity – Charter Hall Group .....	7
Consolidated Statement of Changes in Equity – Charter Hall Property Trust Group .....	8
Consolidated Cash Flow Statements .....	9
Notes to the consolidated preliminary financial statements	
1 Summary of significant accounting policies .....	10
2 Critical accounting estimates and judgements .....	23
3 Segment information .....	24
4 Revenue .....	27
5 Expenses .....	27
6 Fair value adjustments .....	28
7 Income tax expense .....	28
8 Distributions paid and payable .....	29
9 Earnings per security .....	30
10 Cash and cash equivalents .....	31
11 Trade and other receivables .....	31
12 Assets classified as held for sale .....	32
13 Investments in associates at fair value through profit or loss .....	33
14 Inventories .....	33
15 Investments accounted for using the equity method .....	33
16 Investment properties .....	34
17 Intangible assets .....	34
18 Property, plant and equipment .....	36
19 Deferred tax assets .....	36
20 Trade and other payables .....	37
21 Provisions .....	37
22 Interest-bearing liabilities .....	38
23 Contributed equity .....	39
24 Reserves .....	40
25 Accumulated losses .....	41
26 Non-controlling interest .....	41
27 Remuneration of auditors .....	42
28 Reconciliation of profit after tax to net cash inflow from operating activities .....	42
29 Capital and financial risk management .....	43
30 Fair value measurement .....	48
31 Related parties .....	50
32 Controlled entities .....	52
33 Investments in associates .....	54
34 Investments in joint ventures .....	60
35 Interests in unconsolidated structured entities .....	61
36 Commitments .....	62
37 Contingent liabilities .....	62
38 Security-based benefits expense .....	62
39 Parent entity financial information .....	65
40 Deed of cross guarantee .....	66
41 Events occurring after the reporting date .....	67

## Consolidated Statements of Comprehensive Income

for the year ended 30 June 2014

	Note	Charter Hall Group		Charter Hall Property Trust Group	
		2014 \$'000	Restated 2013 \$'000	2014 \$'000	Restated 2013 \$'000
<b>Income</b>					
Revenue	4	122,652	114,841	26,394	36,773
Share of net profit of investments accounted for using the equity method	33,34	60,843	42,541	51,351	37,633
Net fair value adjustment on investment properties	6	183	-	183	-
Fair value adjustment on contingent consideration	6	-	1,123	-	-
Net unrealised gain from derivative financial instruments	6	-	121	-	121
Foreign exchange gains		-	112	-	-
<b>Total income</b>		<b>183,678</b>	<b>158,738</b>	<b>77,928</b>	<b>74,527</b>
<b>Expenses</b>					
Investment property expenses		(161)	(2,304)	(161)	(2,304)
Depreciation	5	(1,375)	(1,186)	-	-
Finance costs	5	(1,303)	(3,323)	(1,793)	(4,125)
Net loss on sale of investment properties, derivatives and other investments		(3,424)	(2,285)	(2,682)	(2,299)
Net fair value adjustments on investment properties	6	-	(8,419)	-	(8,419)
Net loss on investment in associates at fair value	6	(1,778)	(1,596)	(1,773)	(1,691)
Net loss on remeasurement of equity interests		-	(368)	-	(368)
Foreign exchange losses		(14)	-	-	(1)
Amortisation of management rights	5,17	(8,489)	(7,838)	-	-
Asset management fees		-	-	(854)	(1,836)
Employee costs	5	(72,466)	(62,731)	-	-
Administration and other expenses	5	(13,559)	(12,559)	(144)	(407)
<b>Total expenses</b>		<b>(102,569)</b>	<b>(102,609)</b>	<b>(7,407)</b>	<b>(21,450)</b>
<b>Profit before tax</b>		<b>81,109</b>	<b>56,129</b>	<b>70,521</b>	<b>53,077</b>
Income tax benefit/(expense)	7	1,007	(1,738)	-	-
<b>Profit for the year</b>		<b>82,116</b>	<b>54,391</b>	<b>70,521</b>	<b>53,077</b>
<b>Profit for the year as attributable to:</b>					
Equity holders of Charter Hall Limited		11,553	488	-	-
Equity holders of Charter Hall Property Trust (non-controlling interest)		70,563	54,354	70,563	54,354
<b>Profit attributable to stapled securityholders of Charter Hall Group</b>		<b>82,116</b>	<b>54,842</b>	<b>70,563</b>	<b>54,354</b>
Net loss attributable to other non-controlling interests		-	(451)	(42)	(1,277)
<b>Profit for the year</b>		<b>82,116</b>	<b>54,391</b>	<b>70,521</b>	<b>53,077</b>
<b>Other comprehensive income</b>					
<i>Items that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations		80	1,141	19	986
Transfer of cumulative foreign exchange losses	24	488	209	488	209
Other comprehensive income for the year, net of tax		568	1,350	507	1,195
<b>Total comprehensive income for the year</b>		<b>82,684</b>	<b>55,741</b>	<b>71,028</b>	<b>54,272</b>

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

## Consolidated Statements of Comprehensive Income (continued)

for the year ended 30 June 2014

	Note	Charter Hall Group		Charter Hall Property Trust Group	
		Restated		Restated	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
<b>Total comprehensive income for the year is attributable to:</b>					
Equity holders of Charter Hall Limited		11,614	643	-	-
Equity holders of Charter Hall Property Trust (non-controlling interest)		71,070	55,549	71,070	55,549
<b>Total comprehensive income attributable to stapled securityholders of Charter Hall Group</b>		<b>82,684</b>	<b>56,192</b>	<b>71,070</b>	<b>55,549</b>
Total comprehensive income attributable to other non-controlling interests		-	(451)	(42)	(1,277)
<b>Total comprehensive income for the year</b>		<b>82,684</b>	<b>55,741</b>	<b>71,028</b>	<b>54,272</b>
<b>Basic and diluted earnings per stapled security</b>					
Basic earnings per stapled security (cents) attributable to securityholders	9(a)	25.61	18.29	22.01	18.13
Diluted earnings per stapled security (cents) attributable to securityholders	9(b)	24.92	17.67	21.41	17.52

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



## Consolidated Balance Sheets

for the year ended 30 June 2014

		Charter Hall Group		Charter Hall Property Trust Group	
			Restated		Restated
	Note	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
<b>Assets</b>					
<i>Current assets</i>					
Cash and cash equivalents	10	50,184	12,236	577	2,229
Trade and other receivables	11	66,983	63,550	52,474	32,432
Assets classified as held for sale	12	11,592	55,225	-	55,225
<b>Total current assets</b>		<b>128,759</b>	<b>131,011</b>	<b>53,051</b>	<b>89,886</b>
<i>Non-current assets</i>					
Trade and other receivables	11	6,500	2,400	181,292	197,240
Investment in associates at fair value through profit or loss	13	14,234	49,229	14,234	49,229
Inventories	14	-	10,848	-	-
Investments accounted for using the equity method	15	682,901	520,147	591,869	435,084
Investment properties	16	48,386	-	48,386	-
Intangible assets	17	87,577	96,066	-	-
Property, plant and equipment	18	9,374	2,743	-	-
Deferred tax assets	19	8,002	6,389	-	-
Other assets	22	319	-	319	-
<b>Total non-current assets</b>		<b>857,293</b>	<b>687,822</b>	<b>836,100</b>	<b>681,553</b>
<b>Total assets</b>		<b>986,052</b>	<b>818,833</b>	<b>889,151</b>	<b>771,439</b>
<b>Liabilities</b>					
<i>Current liabilities</i>					
Trade and other payables	20	60,661	48,821	41,450	32,740
Provisions	21	1,579	1,101	-	-
Interest-bearing liabilities	22	-	27,455	-	27,455
<b>Total current liabilities</b>		<b>62,240</b>	<b>77,377</b>	<b>41,450</b>	<b>60,195</b>
<i>Non-current liabilities</i>					
Trade and other payables	20	5,670	-	-	-
Provisions	21	1,054	1,162	-	-
<b>Total non-current liabilities</b>		<b>6,724</b>	<b>1,162</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>68,964</b>	<b>78,539</b>	<b>41,450</b>	<b>60,195</b>
<b>Net assets</b>		<b>917,088</b>	<b>740,294</b>	<b>847,701</b>	<b>711,244</b>
<b>Equity</b>					
<i>Equity holders of Charter Hall Limited</i>					
Contributed equity	23(a)	232,101	211,335	-	-
Reserves	24	(44,386)	(54,147)	-	-
Accumulated losses	25	(118,328)	(121,066)	-	-
Parent entity interest		69,387	36,122	-	-
<i>Equity Holders of Charter Hall Property Trust</i>					
Contributed equity	23(a)	945,333	799,548	945,333	799,548
Reserves	24	296	(1,410)	296	(1,410)
Accumulated losses	25	(97,928)	(93,966)	(97,928)	(93,966)
Equity Holders of Charter Hall Property Trust (non-controlling interest)		847,701	704,172	847,701	704,172
<b>Interest attributable to stapled securityholders of Charter Hall Group</b>		<b>917,088</b>	<b>740,294</b>	<b>847,701</b>	<b>704,172</b>
Non-controlling interest in DRF	26	-	-	-	7,072
<b>Total equity</b>		<b>917,088</b>	<b>740,294</b>	<b>847,701</b>	<b>711,244</b>

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

## Consolidated Statement of Changes in Equity – Charter Hall Group

for the year ended 30 June 2014

Attributable to the owners of the Charter Hall Group							
	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
Restated balance at 1 July 2012		994,663	(50,470)	(215,285)	728,908	27,448	756,356
Profit/(loss) for the year		-	-	54,842	54,842	(451)	54,391
Other comprehensive income		-	1,350	-	1,350	-	1,350
<b>Total comprehensive income/(loss)</b>		-	1,350	54,842	56,192	(451)	55,741
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of issue costs	23	10,568	-	-	10,568	-	10,568
Performance rights and options exercised		5,652	(2,038)	-	3,614	-	3,614
Distribution provided for or paid	8	-	-	(60,711)	(60,711)	(10,870)	(71,581)
Non-cash security based benefit expense		-	3,035	-	3,035	-	3,035
Transactions with non-controlling interest		-	(1,312)	-	(1,312)	(16,127)	(17,439)
Transfer to accumulated losses		-	(6,122)	6,122	-	-	-
		16,220	(6,437)	(54,589)	(44,806)	(26,997)	(71,803)
<b>Restated balance at 1 July 2013</b>		<b>1,010,883</b>	<b>(55,557)</b>	<b>(215,032)</b>	<b>740,294</b>	<b>-</b>	<b>740,294</b>
Profit for the year		-	-	82,116	82,116	-	82,116
Other comprehensive income		-	568	-	568	-	568
<b>Total comprehensive income</b>		-	568	82,116	82,684	-	82,684
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of issue costs	23	158,198	-	-	158,198	-	158,198
Performance rights and options exercised		8,353	(3,400)	-	4,953	-	4,953
Transfer due to deferred compensation payable in performance rights		-	1,196	-	1,196	-	1,196
Distribution provided for or paid	8	-	-	(73,326)	(73,326)	-	(73,326)
Non-cash security based benefit expense		-	3,089	-	3,089	-	3,089
Transfer to accumulated losses		-	10,014	(10,014)	-	-	-
		166,551	10,899	(83,340)	94,110	-	94,110
<b>Balance at 30 June 2014</b>		<b>1,177,434</b>	<b>(44,090)</b>	<b>(216,256)</b>	<b>917,088</b>	<b>-</b>	<b>917,088</b>

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

## Consolidated Statement of Changes in Equity – Charter Hall Property Trust Group

for the year ended 30 June 2014

Attributable to the owners of the Charter Hall Property Trust Group							
	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
Restated balance at 1 July 2012		785,113	(1,415)	(87,609)	696,089	40,558	736,647
Restated profit/(loss) for the year		-	-	54,354	54,354	(1,277)	53,077
Other comprehensive income		-	1,195	-	1,195	-	1,195
<b>Restated total comprehensive income/(loss)</b>		-	1,195	54,354	55,549	(1,277)	54,272
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of issue costs	23	9,395	-	-	9,395	-	9,395
Performance rights and options exercised		5,040	-	-	5,040	-	5,040
Distribution provided for or paid	8	-	-	(60,711)	(60,711)	(16,060)	(76,771)
Transactions with non-controlling interest		-	(1,190)	-	(1,190)	(16,149)	(17,339)
		14,435	(1,190)	(60,711)	(47,466)	(32,209)	(79,675)
<b>Restated balance at 1 July 2013</b>		<b>799,548</b>	<b>(1,410)</b>	<b>(93,966)</b>	<b>704,172</b>	<b>7,072</b>	<b>711,244</b>
Profit/(loss) for the year		-	-	70,563	70,563	(42)	70,521
Other comprehensive income		-	507	-	507	-	507
<b>Total comprehensive income/(loss)</b>		-	507	70,563	71,070	(42)	71,028
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of issue costs	23	138,424	-	-	138,424	-	138,424
Performance rights and options exercised		7,361	-	-	7,361	-	7,361
Distribution provided for or paid	8	-	-	(73,326)	(73,326)	(7,030)	(80,356)
Transfer to accumulated losses		-	1,199	(1,199)	-	-	-
		145,785	1,199	(74,525)	72,459	(7,030)	65,429
<b>Balance at 30 June 2014</b>		<b>945,333</b>	<b>296</b>	<b>(97,928)</b>	<b>847,701</b>	<b>-</b>	<b>847,701</b>

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



## Consolidated Cash Flow Statements

for the year ended 30 June 2014

		Charter Hall Group		Charter Hall Property Trust Group	
	Note	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers (inclusive of GST)		127,846	117,672	1,658	12,999
Clawback of performance fees (inclusive of GST)		-	(15,663)	-	-
Payments to suppliers and employees (inclusive of GST)		(88,592)	(84,715)	(1,183)	(12,509)
		39,254	17,294	475	490
Interest received		4,576	1,967	1,565	540
Interest paid		(1,058)	(2,708)	(1,548)	(3,681)
Distributions and dividends from investments		44,561	36,417	37,535	19,191
<b>Net cash inflow from operating activities</b>	28	<b>87,333</b>	<b>52,970</b>	<b>38,027</b>	<b>16,540</b>
<b>Cash flows from investing activities</b>					
Payments for PP&E (net of lease incentive received)		(2,343)	(1,233)	-	-
Proceeds on disposal of investment property		53,656	72,668	53,656	72,668
Payments for inventory		(742)	(1,329)	-	-
Payments for investment properties		(49,800)	(5,580)	(49,800)	(5,580)
Investments in associates and joint ventures		(154,397)	(52,853)	(154,397)	(52,853)
Proceeds on disposal and return of capital from investments in associates		30,141	35,546	32,236	34,993
Payments for other intangibles		(1,857)	(12,902)	-	-
Loans to associates, joint ventures and related parties		(1,500)	(22,280)	(70,937)	(60,051)
Repayments from associates, joint ventures and related parties		5,500	1,650	104,267	73,575
Repayments from key management personnel		2,200	800	-	-
Transactions with non-controlling interests		-	(16,566)	-	(16,566)
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(119,142)</b>	<b>(2,079)</b>	<b>(84,975)</b>	<b>46,186</b>
<b>Cash flow from financing activities</b>					
Proceeds from issues of securities and other equity securities		163,153	3,585	145,785	5,013
Payment on settlement of derivative financial instruments		-	(547)	-	(547)
Proceeds from borrowings		47,000	40,950	47,000	40,950
Repayment of borrowings		(75,024)	(64,950)	(75,023)	(64,950)
Distributions paid to security holders		(65,437)	(57,143)	(72,466)	(62,637)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>69,692</b>	<b>(78,105)</b>	<b>45,296</b>	<b>(82,171)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>37,883</b>	<b>(27,214)</b>	<b>(1,652)</b>	<b>(19,445)</b>
Cash and cash equivalents at the beginning of the year		12,236	39,315	2,229	21,674
Effects of exchange rate changes on cash and cash equivalents		65	135	-	-
<b>Cash and cash equivalents at the end of the year</b>	10	<b>50,184</b>	<b>12,236</b>	<b>577</b>	<b>2,229</b>

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

## Notes to the consolidated preliminary financial statements

for the year ended 30 June 2014

### 1 Summary of significant accounting policies

The significant policies which have been adopted in the preparation of these financial statements for the year ended 30 June 2014 are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

#### (a) Basis of preparation

The Charter Hall Group (Group, CHC or Charter Hall) is a 'stapled' entity comprising Charter Hall Limited (Company or CHL) and its controlled entities, and Charter Hall Property Trust (Trust or CHPT) and its controlled entities (Charter Hall Property Trust Group). The shares in the Company are stapled to the units in the Trust. The stapled securities cannot be traded or dealt with separately. The stapled securities of the Group are listed on the Australian Securities Exchange. CHL has been identified as the parent entity in relation to the stapling.

The two Charter Hall entities comprising the stapled group remain separate legal entities in accordance with the *Corporations Act 2001*, and are each required to comply with the reporting and disclosure requirements of Accounting Standards and the *Corporations Act 2001*.

As permitted by Class Order 05/642, issued by the Australian Securities and Investments Commission, this financial report is a combined financial report that presents the financial statements and accompanying notes of both the Charter Hall Group and the Charter Hall Property Trust Group.

The financial report of the Charter Hall Group comprises CHL and its controlled entities including Charter Hall Funds Management Limited (Responsible Entity) as responsible entity for CHPT. The results and equity, not directly owned by CHL, of CHPT have been treated and disclosed as a non-controlling interest. Whilst the results and equity of CHPT are disclosed as a non-controlling interest, the stapled securityholders of CHL are the same as the stapled securityholders of CHPT.

The financial report of the Charter Hall Property Trust Group comprises the Trust and its controlled entities.

The results and equity of the Charter Hall Direct Retail Fund (DRF) not directly owned by the Group and/or the Trust have been treated and disclosed as non-controlling interests. Effective 20 April 2013, the Charter Hall Group owns 100% of DRF and the non-controlling interest disclosed by Charter Hall Property Trust Group solely represents the 16% interest held by Charter Hall Holdings Pty Ltd (CHH), a subsidiary of CHL. Refer to Note 26 for further details regarding non-controlling interests.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Charter Hall Group and the Charter Property Trust Group are for-profit entities for the purpose of preparing the financial statements.

On 6 June 2005, CHL acquired CHH. Under the terms of AASB 3 *Business Combinations*, CHH was deemed to be the accounting acquirer in this business combination. This transaction has therefore been accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the consolidated financial statements of CHH. CHH, as the deemed acquirer, has acquisition accounted for CHL as at 6 June 2005.

#### Restatement of 2013 comparative financial information

The Charter Hall Property Trust Group comparative financial statements have been restated to include a previously unrecognised inter-staple loan and related interest receivable from Charter Hall Limited which related to the Group's previous employee loan share plan. The financial effect of the restatement is to increase the loan receivable from Charter Hall Limited at 30 June 2013 by \$51.3 million, increase contributed equity by \$45.9 million and increase interest revenue for the year ended 30 June 2013 by \$5.4 million (representing an increase of 1.81 and 1.75 cents in basic and diluted earnings per security respectively). The impact on the opening comparative balance sheet of the Charter Hall Property Trust Group at 30 June 2012 was to increase both the loan receivable from Charter Hall Limited and contributed equity by \$45.9 million.

Consequently the 30 June 2013 Charter Hall Group financial statements have been restated to reflect an increase in accumulated losses attributable to the parent entity of \$51.3 million offset by an increase in equity attributable to the equity holders of Charter Hall Property Trust (comprising an increase in contributed equity of \$45.9 million and a decrease in accumulated losses of \$5.4 million). An amount of \$5.4 million has also been re-allocated from profit attributable to equity holders of Charter Hall Limited to profit attributable to equity holders of Charter Hall Property Trust in the Charter Hall Group Consolidated Statement of Comprehensive Income for the year ended 30 June 2013. Corresponding adjustments have been made to the 2013 comparative parent entity financial information disclosed in Note 39.

The adjustments have no impact on Charter Hall Group net assets, total equity, statutory profit or operating earnings per segment note.

#### Compliance with IFRS

The financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- investment properties – measured at fair value;
- financial assets and liabilities held at fair value through profit or loss (including derivative instruments); and
- assets held for sale – measured at the lower of carrying amount and fair value less cost of disposal.

#### New and amended standards adopted

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 127 *Separate Financial Statements*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*;
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*; and
- AASB 119R *Employee Benefits* and AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*.

The Group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under AASB 127. No material differences were found and therefore no adjustments to any carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

Under AASB 11 *Joint Arrangements*, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group's accounting for its interests in joint ventures was not affected by the adoption of the new standard since the Group had already applied the equity method in accounting for these interests.

AASB 12 requires entities to disclose significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities. Entities are also required to provide more disclosures around certain 'structured entities'. Adoption of the standard has impacted Group's level of disclosure in certain in the above noted areas, but has not impacted the Group's financial position or results of operations.

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant.

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this reduces the disclosures that are currently required in the notes to the financial statements, it does not affect any of the amounts recognised in the financial statements. The amendments applied from 1 July 2013.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### (b) Principles of consolidation

##### (i) Controlled entities

The consolidated financial statements of the Charter Hall Group and the Charter Hall Property Trust Group incorporate the assets and liabilities of all controlled entities as at 30 June 2014 and their results for the year then ended.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Controlled entities are fully consolidated from date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income, consolidated balance sheets and consolidated statement of changes in equity respectively.

##### (ii) Investments in associates

Associates are entities over which the Group has significant influence but not control. Investments in associates are accounted for in the Consolidated Balance Sheet at either fair value through profit or loss or by using the equity method. Within CHPT, the classification of investments at fair value through profit or loss occurs when investments are acquired having an interest of less than 5%. However two investments in sell-down are accounted for at fair value through profit or loss. Investments greater than 5% are classified as equity accounted investments. Investments held by CHL or its subsidiaries will be equity accounted regardless of the percentage interest acquired.

Under the equity accounted method, the Group's share of the associates' post acquisition net profits after income tax expense is recognised in the Consolidated Statement of Comprehensive Income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions and dividends received from associates are recognised in the consolidated financial report as a reduction of the carrying amount of the investment.

##### (iii) Joint arrangements

Under AASB 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has both joint operations and joint ventures.

###### *Joint operations*

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These are incorporated in the financial statements under the appropriate headings.

###### *Joint ventures*

Interests in joint ventures are accounted for using the equity method, with investments initially recognised at cost and adjusted thereafter to recognise the Group's share of post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its joint venture entities are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (iv) Changes of ownership interests

When the Group ceases to have control or joint control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

If the ownership interest in a joint venture entity is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

#### (c) Segment reporting

Segment information is reported in a manner that is consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

#### (d) Foreign currency translation

##### (i) Functional and presentation currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

##### (iii) Foreign operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

##### (iv) Foreign currency translation

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. On disposal of interest in foreign controlled entities, the cumulative foreign exchange gains/losses relating to these investments are transferred to the consolidated statement of comprehensive income in accordance with the requirements of AASB 121 *The Effect of Changes in Foreign Exchange Rates*.

At the balance date, the spot and average rates used were:

	30 Jun 2014	30 Jun 2013
<b>Spot rate</b>		
US Dollar	0.9395	0.9138
NZ Dollar	1.0749	1.1811
Euro	0.6883	0.7025
British Pound	0.5515	0.6007
<b>Average rate</b>		
US Dollar	0.9267	1.0214
NZ Dollar	1.1280	1.2456
Euro	0.6954	0.7889
British Pound	0.5761	0.6541

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

##### (i) Rental income

Rental income from operating leases represents income earned from the rental of properties (inclusive of outgoings recovered from tenants) and is recognised on a straight-line basis over the lease term. Rental income relating to straight-lining is included as a component of the net gain from fair value adjustments on investment properties. The portion of operating lease income in a reporting period relating to fixed increases in operating lease rentals in future years is recognised as a separate component of investment properties.

##### (ii) Management fees

Management fees are brought to account on an accruals basis and, if not received at the reporting date, are reflected in the balance sheet as a receivable.

Where management fees are derived in respect of an acquisition or disposal of property, the fees are recognised where services have been performed and the fee can be reliably estimated.

##### (iii) Performance and transaction fees

Performance fees are only recognised when the outcome can be reliably estimated. Transaction fees are recognised where services have been performed and the fee can be reliably estimated. Detailed calculations are completed and the risks associated with the fee are assessed when deciding when it is appropriate to recognise revenue. Further information is provided in the critical accounting estimates in Note 2.

##### (iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

##### (v) Dividends/distributions

Dividends/distributions are recognised as revenue when the right to receive payment is established.

#### (f) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by Charter Hall. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, Charter Hall recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of Charter Hall's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.



## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### (g) Income tax

The year's income tax expense or benefit is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (h) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffered impairment in prior years are reviewed for possible reversal of the impairment at each reporting date.

#### (i) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

#### (j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the year in which they are identified. A provision for doubtful debts is raised where there is objective evidence that the Group will not collect all amounts due. The amount of the provision is the difference between the carrying amount and estimated future cash flows. Cash flows relating to current receivables are not discounted.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### (k) Investments and other financial assets

##### Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

##### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for long-term investment. Their treatment is discussed at Note 1(ab).

##### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date.

##### (iii) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

##### (iv) Available for sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

##### Recognition and derecognition

Regular purchases and sales of investments are recognised at trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### Subsequent measurement

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss, excluding interest and dividend income, are presented in the statement of comprehensive income in the year in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs. Further details on how the fair value of financial instruments is determined are disclosed in Note 1(l) and Note 30.

##### Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available for sale are not reversed through the statement of comprehensive income.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### (l) Derivative financial instruments

Derivative financial instruments held as financial assets or financial liabilities designated at fair value through profit or loss are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. From time to time, the Group may designate certain derivatives as either hedges of net investments in foreign operations (net investment hedges) or hedges of exposures to variability in cash flows associated with future interest payments on variable rate debt (cash flow hedges).

To qualify as effective hedging, the Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

None of the financial derivative contracts held by the Group qualify for hedge accounting, and accordingly, changes in the fair value of these contracts are recorded in the statement of comprehensive income.

The Group does not hold any financial derivative contracts as at 30 June 2014.

#### (m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (n) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Furniture, fittings and equipment      3 to 10 years
- Fixtures    5 to 10 years
- Software    3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

#### (o) Lease incentives

Prospective lessees may be offered incentives as an inducement to enter into non-cancellable operating leases. These incentives may take various forms including rent-free periods, upfront cash payments, or a contribution to certain lessee costs such as a fitout contribution. Incentives are capitalised in the consolidated balance sheet as a component of investment properties and amortised over the term of the lease as an adjustment to net rental income.

The benefits of incentives received as lessee are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### (p) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 36). Payments made under operating leases are charged to the statements of comprehensive income on a straight-line basis. Lease income from operating leases is recognised in income on a straight-line basis over the lease time.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### (q) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of producing rental income, including properties that are under construction for future use as investment properties.

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are then stated at fair value. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is neither a forced seller nor one prepared to sell at a price not considered reasonable in the current market. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Gains and losses arising from changes in the fair values of investment properties are included in the consolidated statement of comprehensive income in the year in which they arise.

At each balance date, the fair values of the investment properties are assessed by the Directors with reference to independent valuation reports or through appropriate valuation techniques adopted by the Directors. Fair value is determined using a long term investment period. Specific circumstances of the owner are not taken into account.

The fair value measurement of investment property takes into account the Group's ability to generate economic benefits by using the asset in its highest and best use.

The use of independent external valuers is on a progressive basis over a three year period, or earlier, where the Directors deems it appropriate or believes there may be a material change in the carrying value of the property.

Where an independent valuation is not obtained, the factors taken into account, where appropriate, by the Directors in determining fair value may include:

- Assume a willing buyer and willing seller, without duress and an appropriate time to market the property to maximise price;
- Information obtained from valuers, sales and leasing agents, market research reports, vendors and potential purchasers;
- Capitalisation rates used to value the asset, market rental levels and lease expiries;
- Changes in interest rates;
- Asset replacement values;
- Discounted cash flow models;
- Available sales evidence;
- Comparisons to valuation professionals performing valuation assignments across the market: and
- Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The carrying amount of investment properties recorded in the balance sheet takes into consideration components relating to lease incentives, leasing costs and assets relating to fixed increases in operating lease rentals in future years.

Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

Investment property under construction is measured at fair value if the fair value is considered reliably determinable.

Investment property under construction for which the fair value cannot be determined reliably, but for which the Group expects that the fair value of the investment property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed – whichever is earlier.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers, among others, the stage of completion, the level of reliability of cash inflows after completion, the development risk specific to property and the past experience with similar constructions.

#### (r) Non-current assets classified as held for sale and discontinued operations

Non-current assets are classified as held for sale and carried as current assets if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets and investment property that are carried at fair value.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### (s) Intangibles

##### (i) Management rights – indefinite life assets

Management rights in relation to entities with no fixed life are not amortised as they have an indefinite life. Management rights with an indefinite life are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses. Management rights are allocated to cash-generating units for the purpose of impairment testing.

##### (ii) Management rights – finite life assets

Management rights in relation to entities with a fixed life are amortised using the straight-line method over their useful life. Management rights of Charter Hall Office Trust (CHOT) are amortised over six years.

#### (t) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using effective interest method.

#### (u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### (v) Borrowing costs

Borrowing costs associated with the acquisition or construction of a qualifying asset, including interest expense, are capitalised as part of the cost of that asset during the period that is required to complete and prepare the asset for its intended use. Borrowing costs not associated with qualifying assets are expensed.

#### (w) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

#### (x) Goods and Services Tax (GST)

Revenues, expenses and assets (with the exception of receivables) are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### (y) Employee benefits

##### (i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

##### (ii) Long service leave

Liabilities for other employee entitlements which are not expected to be paid or settled within 12 months of reporting date are accrued in respect of all employees at present values of future amounts expected to be paid, based on a projected weighted average increase in wage and salary rates. Expected future payments are discounted using interest rates on national government securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

##### (iii) Retirement benefit obligations

Contributions to employee defined contribution superannuation funds are recognised as an expense as they become payable.

##### (iv) Security-based benefits

Security based compensation benefits are provided to employees via the Charter Hall Performance Rights and Options Plan (PROP) and the General Employee Security Plan (GESP). Information relating to these schemes is set out in Note 38. For PROP, the fair value at grant date is independently valued using a Monte Carlo simulation pricing model that takes into account the exercise price, the term of the option, impact of dilution, security price at grant date, expected price volatility of the underlying security, expected dividend yield and the risk-free interest rate for the term of the option and market vesting conditions but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of securities that are expected to vest. At each reporting date, the entity revises its estimate of the number of securities that are expected to vest. The employee benefits expense recognised each year takes into account the most recent estimate.

Upon the vesting of stapled securities, the balance of the stapled security-based benefits reserve relating to those stapled securities is transferred to equity, net of any directly attributable transaction costs.

For GESP, eligible employees are entitled to receive up to \$1,000 in stapled securities based on the stapled security price on the grant date. The cost of the stapled securities bought on market to settle the award liability is included in employee benefits expense. The stapled securities are held in trust on behalf of eligible employees until the earlier of the completion of three years' service or termination.

##### (v) Bonus plans

Charter Hall recognises a liability and an expense for amounts payable to employees. Charter Hall recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

##### (vi) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates:

- (a) when the group can no longer withdraw the offer of those benefits; and
- (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

#### (z) Contributed equity

Ordinary stapled securities are classified as equity. Incremental costs directly attributable to the issue of new stapled securities or options are shown in equity as a deduction, net of tax, from the proceeds.

##### (aa) Distributions paid and payable

A liability is recognised for the amount of any distribution declared by the Group on or before the end of the reporting period but not distributed at balance date. A liability has been recognised in the financial statements at 30 June 2014 as the final distribution had been declared at the balance date.



## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

#### (ab) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

A fair value measurement of a non-financial asset takes into account the Group's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value of financial instruments traded in active markets is determined using quoted market prices at the balance date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of forward foreign exchange contracts is determined using forward foreign exchange market rates at the balance date.

Unlisted property securities have been designated on initial recognition to be treated at fair value through profit or loss. Movements in fair value during the period have been recognised in the statement of comprehensive income. These assets have been acquired with the intention of being long term investments. Where the assets in this category expected to be sold within 12 months, they are classified as current assets; otherwise they are classified as non-current.

The nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

#### (ac) Earnings per unit

Basic earnings per stapled security from continuing operations is determined by dividing profit from continuing operations attributable to the stapled securityholders by the weighted average number of ordinary stapled securities on issue during the year.

Basic earnings per stapled security from discontinued operations is determined by dividing profit/(loss) from discontinued operations attributable to the stapled securityholders by the weighted average number of ordinary stapled securities on issue during the year.

Basic earnings per stapled security is determined by dividing the profit by the weighted average number of ordinary stapled securities on issue during the year.

Diluted earnings per stapled security from continuing operations is determined by dividing profit from continuing operations attributable to the stapled securityholders by the weighted average number of ordinary stapled securities and dilutive potential ordinary stapled securities on issue during the year.

Diluted earnings per stapled security from discontinued operations is determined by dividing profit/(loss) from discontinued operations attributable to the stapled securityholders by the weighted average number of ordinary stapled securities and dilutive potential ordinary stapled securities on issue during the year.

Diluted earnings per stapled security is determined by dividing the profit by the weighted average number of ordinary stapled securities and dilutive potential ordinary stapled securities on issue during the year.

#### (ad) Parent entity financial information

The financial information for the parent entity, of the Charter Hall Group, Charter Hall Limited, and for the parent entity of the Charter Hall Property Trust Group, Charter Hall Property Trust, disclosed in Note 39, has been prepared on the same basis as the Group's financial statements except as set out below:

##### (i) Investments in controlled entities

Investments in controlled entities, associates and joint ventures are accounted for at cost in the financial statements of the parent entity. Such investments include both investments in equity securities issued by the controlled entity and other parent entity interests that in substance form part of the parent entity's investment in the controlled entity. These include investments in the form of interest-free loans which have no fixed contractual term and which have been provided to the controlled entity as an additional source of long term capital.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 1 Summary of significant accounting policies (continued)

Dividends and distributions received from controlled entities, associates and joint ventures are recognised in the parent entity's statement of comprehensive income, rather than deducted from the carrying amount of these investments.

#### (ii) Receivables and payables

Trade amounts receivable from controlled entities in the normal course of business and other amounts advanced on commercial terms and conditions are included in receivables. Similarly, amounts payable to controlled entities are included in payables.

#### (iii) Recoverable amount of assets

The carrying amounts of investments in controlled entities, associates and joint ventures valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying value exceeds their recoverable amount, the assets are written down to the lower value. The write-down is expensed in the year in which it occurs.

#### (iv) Tax consolidation legislation

The head entity, Charter Hall Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Charter Hall Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in Note 7.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

#### (ae) Impact of new standards and interpretations issued but not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2014 reporting period. The impact of these new standards (to the extent relevant to the Group) and interpretations is set out below:

#### (i) AASB 9 Financial Instruments

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, would therefore have to be recognised directly in the statement of comprehensive income. The Group has not yet decided when to adopt AASB 9 and management is currently assessing the impact of the new standard.

#### (ii) AASB 2013-3 Amendments to Australian Accounting Standard 136 – Recoverable Amount Disclosures for Non-Financial Assets

The AASB has made amendments to the disclosures required by AASB 136 *Impairment of Assets* which remove the requirement to disclose the recoverable amount of all cash generating units (CGU) that contain goodwill or identifiable assets with indefinite lives if there has been no impairment; this disclosure was introduced with AASB 13 and became applicable from 1 January 2013. It also requires disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed and detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed. The amendments apply from 1 January 2014 and management is currently assessing the impact of the new standard.

#### (iii) AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting

The AASB has made a limited scope amendment to AASB 139 *Financial Instruments: Recognition and measurement*. AASB 139 requires an entity to stop hedge accounting when a novation (replacement of one party of the derivative contract with a new party) occurs, because the original hedging instrument envisaged in the hedge documentation has changed. The amendment allows the continuation of hedge accounting provided specific conditions are met. Given the Group does not apply hedge accounting, this is not expected to have a significant impact to the Group.

#### (af) Rounding of amounts

The Group is a registered scheme of a kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 2 Critical accounting estimates and judgements

The Charter Hall Group and Charter Hall Property Trust Group make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (i) **Classification and carrying value of investments**

AASB 10 was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation – Special Purpose Entities*. Under the new principles, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No material differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

Critical judgements are made in assessing whether an investee entity is controlled or subject to significant influence or joint control. These judgements include an assessment of the nature, extent and financial effects of the Group's interest in joint arrangements and associates, including the nature and effects of its contractual relationship with the entity or with other investors.

Generally, investments in unlisted retail funds (typically representing less than 5% interests with the exception of two legacy funds, Charter Hall Umbrella Fund and Charter Hall Diversified Property Fund) are designated at fair value through profit or loss on acquisition and investments in listed and wholesale funds/partnerships where Charter Hall has significant influence (typically representing between 5% and 49% interests with the exception of one legacy fund, Charter Hall Opportunity Fund No. 4) are accounted for using the equity method.

Management regularly review equity accounted investments for impairment and re-measure investments carried at fair value through profit or loss by reference to changes in circumstances or contractual arrangements, external independent property valuations and market conditions, using generally accepted market practices.

The reported fair values of assets classified as held for sale reflect market conditions at the end of the reporting period. While this represents best estimates as at the reporting date, actual sales prices may be higher or lower than the most recent valuations. This is particularly relevant in periods of market illiquidity or uncertainty.

#### (ii) **Estimated performance fees**

Critical judgements are made by the Charter Hall Group in respect of recognising performance fee revenue. Performance fees are only recognised when services have been performed and they can be reliably estimated. Detailed calculations are completed and the risks associated with the fee are assessed when deciding when it is appropriate to recognise revenue.

#### (iii) **Tax losses**

The Charter Hall Group has recognised a deferred tax asset relating to tax losses as it is considered probable that future taxable income will be available to utilise the losses in the short to medium term. Refer to Note 7(d) Income tax expense for further details.

#### (iv) **Impairment testing of management rights**

Critical judgements are made by the Charter Hall Group in assessing the recoverable amount of management rights acquired, where the funds to which those management rights relate have an indefinite life. Management rights are considered to having an indefinite useful life if there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. Refer to Note 17 for further details.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 3 Segment information

#### (a) Description of segments

##### Charter Hall Group

Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic decisions. The Board is responsible for allocating resources and assessing performance of the operating segments.

The Board has identified the following two reportable segments, the performance of which it monitors separately.

##### Property investments

This segment comprises investments in property funds.

##### Property funds management

This segment comprises funds management services, property management services and other property services.

##### Change in composition of reportable segments

Strategic initiatives implemented in the period, including a restructure of the responsibilities within the executive committee, has resulted in a change to reporting of operating segments to the Board. Two of the segments that were previously reported to the board, Property Funds Investments and Property Direct Investments, are now reported together as the Property Investments segment. The current and prior year segment disclosures below reflect this restructure.

##### Change in composition of segment income

Effective 1 July 2013 operating earnings is inclusive of non-cash security based benefit expense to reflect its nature of employee compensation. Non-cash security based benefit expense is not allocated to the reportable segments.

##### Charter Hall Property Trust Group

The Board allocates resources and assesses the performance of operating segments for the entire Charter Hall Group. Results are not separately identified and reported according to the legal structure of the Charter Hall Group.

##### Charter Hall Group

The operating segments provided to the Board for the reportable segments for the year ended 30 June 2014 are as follows:

	Property Investments	Property Funds Management	Combined Group
	\$'000	\$'000	\$'000
<b>30 June 2014</b>			
Net property income	1,018	-	1,018
Co-investment Income	47,684	-	47,684
<b>Total rental and property income</b>	<b>48,702</b>	<b>-</b>	<b>48,702</b>
Total property funds management income	-	99,145	99,145
<b>Total income</b>	<b>48,702</b>	<b>99,145</b>	<b>147,847</b>
Operating expenses	(206)	(82,729)	(82,935)
Less: recovery of expenses	-	19,523	19,523
Net operating expenses	(206)	(63,206)	(63,412)
<b>Operating earnings before interest, tax, depreciation and amortisation</b>	<b>48,496</b>	<b>35,939</b>	<b>84,435</b>
Non-cash security-based benefits expense	-	-	(3,089)
Depreciation	-	(1,375)	(1,375)
<b>Operating earnings before interest and tax</b>	<b>48,496</b>	<b>34,564</b>	<b>79,971</b>
Interest income	2,495	-	2,495
Interest expense	(1,303)	-	(1,303)
<b>Operating earnings attributable to stapled securityholders</b>	<b>49,688</b>	<b>34,564</b>	<b>81,163</b>
Weighted average number of securities ('000)			320,615
<b>Operating earnings per security (OEPS)</b>			<b>25.31 cps</b>
Number of securities for distribution per security			347,989
<b>DPS</b>			<b>22.30 cps</b>

Geographical segments are immaterial as the vast majority of the Group's income is from Australian sources.

Assets and liabilities have not been reported on a segmented basis as the Board is provided with consolidated information.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 3 Segment information (continued)

The reportable segments for the year ended 30 June 2013 are as follows:

	Property Investments \$'000	Property Funds Management \$'000	Combined Group \$'000
<b>30 June 2013</b>			
Net property income	9,101	-	9,101
Co-investment Income	38,468	-	38,468
<b>Total rental and property income</b>	<b>47,569</b>	<b>-</b>	<b>47,569</b>
Total property funds management income	-	83,505	83,505
<b>Total income</b>	<b>47,569</b>	<b>83,505</b>	<b>131,074</b>
Operating expenses	(675)	(71,585)	(72,260)
Less: recovery of expenses	-	16,573	16,573
Net operating expenses	(675)	(55,012)	(55,687)
<b>Operating earnings before interest, tax, depreciation and amortisation</b>	<b>46,894</b>	<b>28,493</b>	<b>75,387</b>
Non-cash security-based benefits expense	-	-	(3,035)
Depreciation	-	(1,186)	(1,186)
<b>Operating earnings before interest and tax</b>	<b>46,894</b>	<b>27,307</b>	<b>71,166</b>
Interest income	2,348	-	2,348
Interest expense	(3,152)	-	(3,152)
<b>Operating earnings (including non-controlling interests)</b>	<b>46,090</b>	<b>27,307</b>	<b>70,362</b>
Non-controlling interest	(1,612)	-	(1,612)
<b>Operating earnings attributable to stapled securityholders</b>	<b>44,478</b>	<b>27,307</b>	<b>68,750</b>
Weighted average number of securities ('000)			299,805
<b>Operating earnings per security (OEPS)</b>			<b>22.93 cps</b>
Number of securities for distribution per security			302,262
<b>DPS</b>			<b>20.20 cps</b>

The reconciliation of total segment income stated above to the statement of comprehensive income is as follows:

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Total income per segment note	<b>147,847</b>	131,074
Add: recovery of expenses	<b>19,523</b>	16,573
	<b>167,370</b>	147,647
Add: investment property expenses	<b>161</b>	2,304
Add: interest income	<b>4,407</b>	2,348
Add: straight-lining of income	<b>21</b>	-
Less: coupon income	<b>(135)</b>	-
Less: amortisation of lease incentives	<b>-</b>	(453)
Less: equity accounted profit in Property Investments segment	<b>(45,422)</b>	(35,221)
Less: equity accounted profit in Property Funds Management segment	<b>(3,750)</b>	(1,784)
Revenue per statement of comprehensive income	<b>122,652</b>	114,841

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 3 Segment information (continued)

The reconciliation of net interest expense per the segment notes for 2014 and 2013 to the statement of comprehensive income is below:

	2014	2013
	\$'000	\$'000
Net operating interest per segment note	1,192	(804)
Less: unwind of discount on contingent consideration	-	(171)
Add: interest reclassified to investment income	1,912	113
Net interest expense	3,104	(862)
Interest income	4,407	2,461
Finance costs	(1,303)	(3,323)
Net interest expense	3,104	(862)

Operating earnings is a financial measure which represents statutory profit/(loss) adjusted for proportionally consolidated fair value adjustments, gains or losses on sale of investments and non-cash items such as amortisation. The inclusion of operating earnings as a measure of the Group's profitability provides investors with the same basis that is used internally for evaluating operating segment performance. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare.

The calculation of operating earnings to statutory profit after tax attributable to stapled security holders is shown below:

	2014	2013
	\$'000	\$'000
<b>Operating earnings</b>	<b>81,163</b>	68,750
Fair value adjustments on derivatives <sup>1</sup>	(909)	1,472
Fair value adjustments on investment and property <sup>1</sup>	14,404	(3,615)
Amortisation of management rights	(8,489)	(7,838)
Transfer from reserves of cumulative FX losses on disposal of foreign investments <sup>1</sup>	(488)	(484)
Loss on disposal of investments, property and derivatives <sup>1</sup>	(3,363)	(953)
Income taxes	1,007	(1,738)
Other <sup>1</sup>	(1,209)	(752)
Statutory profit after tax attributable to stapled securityholders of Charter Hall Group	82,116	54,842

<sup>1</sup> Includes the Group's proportionate share of non-operating items of equity accounted investments on a look through basis.

	2014	2013
Basic weighted average number of securities per Note 9	320,614,668	299,804,805
Operating earnings per stapled security (OEPS) (excluding non-controlling interest)	25.31 cents	22.93 cents

Refer to Note 9 for statutory earnings per stapled security figures.



## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 4 Revenue

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	Restated 2013
	\$'000	\$'000	\$'000	\$'000
<i>Sales revenue</i>				
Gross rental income	1,066	10,443	1,066	10,443
Management, transaction and performance fees	114,918	98,295	207	-
	115,984	108,738	1,273	10,443
<i>Other revenue</i>				
Interest	4,407	2,461	22,859	22,688
Distributions/dividends <sup>1</sup>	2,261	3,642	2,262	3,642
	6,668	6,103	25,121	26,330
<b>Total Revenue</b>	<b>122,652</b>	<b>114,841</b>	<b>26,394</b>	<b>36,773</b>

<sup>1</sup> Represents the distribution of income from investments in associates accounted for at fair value by the Group and Trust Group. Revenue excludes share of net profits of equity accounted associates and joint ventures. Refer to Notes 33 and 34 for further details.

### 5 Expenses

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Profit before income tax include the following specific expenses:</b>				
<i>Depreciation</i>				
Plant and equipment	1,375	1,186	-	-
<i>Amortisation</i>				
Leasing and other incentives	-	453	-	453
Management rights	8,489	7,838	-	-
	8,489	8,291	-	453
<i>Finance costs</i>				
Interest and finance charges paid/payable	1,303	3,152	1,793	4,125
Finance costs due to unwinding of discount on contingent consideration	-	171	-	-
	1,303	3,323	1,793	4,125
<i>Employee costs</i>				
Employee benefits expense	64,645	55,757	-	-
Restructuring costs	1,336	1,192	-	-
Non-cash security-based benefits expense	3,089	3,035	-	-
Payroll tax	3,396	2,747	-	-
	72,466	62,731	-	-
<i>Administration and other expenses</i>				
Legal and consulting costs	1,112	1,613	42	88
Rent expense – minimum lease payments on operating leases	2,031	1,623	-	-
Other occupancy costs	828	729	-	-
Communication and IT expenses	3,606	2,513	-	-
Other expenses	5,982	6,081	102	319
	13,559	12,559	144	407

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 6 Fair value adjustments

	Note	Charter Hall Group		Charter Hall Property Trust Group	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Included in total income:					
Investment properties	16	183	-	183	-
Contingent consideration payable		-	1,123	-	-
Derivative financial instruments		-	121	-	121
		183	1,244	183	121
Included in total expenses:					
Investment properties		-	(8,419)	-	(8,419)
Investments in associates at fair value through profit or loss	13,33	(1,778)	(1,596)	(1,773)	(1,691)
		(1,778)	(10,015)	(1,773)	(10,110)

### 7 Income tax expense

	Charter Hall Group		Charter Hall Property Trust Group	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
		Restated		Restated
(a) Income tax (benefit)/expense				
Current tax expense	606	-	-	-
Deferred income tax (benefit)/expense	(1,613)	1,933	-	-
Over provided in prior years	-	(195)	-	-
	(1,007)	1,738	-	-
Deferred income tax expense				
(Increase)/decrease in deferred tax assets	(2,830)	1,935	-	-
Increase/(decrease) in deferred tax liabilities	1,217	(2)	-	-
	(1,613)	1,933	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	81,109	56,129	70,521	53,077
Prima facie tax expense at the Australian tax rate of 30%	24,333	16,839	21,156	15,923
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Charter Hall Property Trust income	(21,437)	(15,997)	(21,437)	(15,997)
Non-allowable expenses	2,459	2,231	-	-
Share-based payments expense	(1,633)	(33)	-	-
Utilisation of losses not previously recognised	(2,531)	(1,233)	-	-
Sundry items	186	-	281	74
Tax expenses on foreign subsidiaries	606	-	-	-
Derecognition of deferred tax asset on unrealised capital losses	4,308	-	-	-
Recognition of deferred tax asset on prior year income tax losses	(5,892)	-	-	-
Non-taxable dividends, net of equity accounted profit	(1,138)	(535)	-	-
Adjustments in respect of prior years	(262)	480	-	-
Difference in overseas tax rates	(6)	(14)	-	-
	(1,007)	1,738	-	-

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 7 Income tax expense (continued)

#### (c) Tax consolidation legislation

Charter Hall Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation with effect from 1 July 2003. The accounting policy in relation to this legislation is set out in Note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Charter Hall Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Charter Hall Limited for any current tax payable assumed and are compensated by Charter Hall Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Charter Hall Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

#### (d) Tax losses - Charter Hall Group

As it is considered probable that there will be future taxable profits, a deferred tax asset for unutilised tax losses carried forward has been recognised in the current year.

	2014	2013
	\$'000	\$'000
Unused tax losses for which a deferred tax asset has been recognised	19,640	-
Unused tax losses for which no deferred tax asset has been recognised	-	7,726
Tax benefit @ 30%	5,892	2,318

Based upon the completion of the June 2013 income tax return, the actual carried forward tax losses (unbooked) was calculated to be \$17,666,000. This was an increase of \$9,940,000 on the previously estimated carried forward losses (unbooked) in the prior year financial statements of \$7,726,000.

### 8 Distributions paid and payable

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>(a) Ordinary securities</b>				
Final ordinary distribution for the six months ended 30 June 2014 of 11.3 cents per security payable on 29 August 2014	39,323	-	39,323	-
Interim ordinary distribution for the six months ended 31 December 2013 of 11.0 cents per security paid on 25 February 2014	34,003	-	34,003	-
Final ordinary distribution for the six months ended 30 June 2013 of 10.4 cents per security paid on 28 August 2013	-	31,435	-	31,435
Interim ordinary distribution for the six months ended 31 December 2012 of 9.80 cents per security paid on 28 February 2013	-	29,276	-	29,276
Total distributions paid and payable	73,326	60,711	73,326	60,711
Paid or payable in cash	60,761	35,924	60,761	35,924
Satisfied by issue of securities <sup>1</sup>	12,565	24,787	12,565	24,787

<sup>1</sup> Inclusive of securities expected to be issued on 29 August 2014 under the distribution re-investment plan.

Franking credits available in the parent entity (Charter Hall Limited) for subsequent financial years based on a tax rate of 30% (2013: 30%) are \$3,336,951 (2013: \$3,336,951).

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 9 Earnings per security

	Charter Hall Group		Charter Hall Property Trust Group	
	2014 Cents	2013 Cents	2014 Cents	Restated 2013 Cents
(a) Basic earnings per security				
Basic earnings attributable to the stapled securityholders	25.61	18.29	22.01	18.13
(b) Diluted earnings per security				
Diluted earnings attributable to the stapled securityholders	24.92	17.67	21.41	17.52
	2014 \$'000	2013 \$'000	2014 \$'000	Restated 2013 \$'000
(c) Reconciliations of earnings used in calculating earnings per security				
Profit attributable to the ordinary equity holders of the Group used in calculating diluted earnings per security	82,116	54,842	70,563	54,354
	2014 Number	2013 Number	2014 Number	2013 Number
(d) Weighted average number of securities used as the denominator				
Weighted average number of ordinary securities used as the denominator in calculating basic earnings per security	320,614,668	299,804,805	320,614,668	299,804,805
Adjustments for calculation of diluted earnings per security:				
Performance rights	6,098,199	5,614,052	6,098,199	5,614,052
Service rights	263,193	460,846	263,193	460,846
Options	2,532,125	4,364,646	2,532,125	4,364,646
Securities issued under the Charter Hall Limited Executive Loan Security Plan	-	63,161	-	63,161
Weighted average number of ordinary securities and potential ordinary securities used as the denominator in calculating diluted earnings per security	329,508,185	310,307,510	329,508,185	310,307,510

#### (e) Information concerning the classification of securities

##### (i) Performance rights, service rights and options issued under the Charter Hall Performance Rights and Options Plan

The performance rights and options are unquoted securities. Conversion to stapled securities and vesting to executives is subject to service and performance conditions.

##### (ii) Securities issued under the General Employee Share Plan (GESP)

Securities issued under the GESP are purchased on market on behalf of eligible employees but held in trust until the earlier of the completion of three years' service or termination. No adjustment to diluted earnings per security is required in relation to these securities.

##### (iii) Securities issued under the Charter Hall Limited Executive Loan Security Plan (ELSP)

Securities issued under the ELSP were issued in trust and corresponding loans were granted to employees. Under AASB 2 *Share-based Payment*, the loan, interest received on the loan, securities and the distribution paid and payable were not recognised in the preparation of the financial statements but included in the calculation of diluted earnings per security. All securities issued under this plan were cancelled prior to 30 June 2013. Refer to Note 38 (a) for further details.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 10 Cash and cash equivalents

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	50,184	12,236	577	2,229

These amounts earn floating interest rates of between nil and 3.0% (2013: nil and 3.1%).

### 11 Trade and other receivables

		Charter Hall Group		Charter Hall Property Trust Group	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
	Note				Restated
<b>Current</b>					
Trade receivables		11,694	15,423	139	283
Loans to key management personnel		1,200	1,122	-	-
Loans to joint ventures	31(e)	21,250	26,250	21,250	21,250
Loans to associates	31(e)	-	6,044	-	-
Distributions receivable		14,399	12,558	13,605	10,557
Capital distributions receivable		11,910	-	11,910	-
Other receivables		6,207	1,595	5,570	117
Prepayments		323	558	-	225
		66,983	63,550	52,474	32,432
<b>Non-current</b>					
Loans to key management personnel		-	2,400	-	-
Loans to joint ventures	31(e)	6,500	-	-	-
Loan receivable from Charter Hall Limited		-	-	181,292	197,240
		6,500	2,400	181,292	197,240

#### (a) Bad and doubtful trade receivables

During the year, the Charter Hall Group and Charter Hall Property Trust Group incurred \$nil expense (2013: \$nil) in respect of provisioning for bad and doubtful trade receivables.

#### (b) Fair values

Receivables are carried at amounts that approximate their fair value.

#### (c) Credit risk

There is a limited concentration of credit risk as the majority of current and non-current receivables are due from related parties of Charter Hall Group and Charter Hall Property Trust Group. Refer to Note 29 for more information on the risk management policy of the Charter Hall Group and Charter Hall Property Trust Group.

The ageing of trade receivables at the reporting date was as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Current	11,032	14,120	139	283
1 to 3 months	662	258	-	-
3 to 6 months	-	84	-	-
More than 6 months	-	961	-	-
	11,694	15,423	139	283

As at 30 June 2014, Charter Hall Group had trade receivables of \$662,000 (2013: \$1,303,000) past due but not impaired. Charter Hall Property Trust had nil receivables past due (2013: nil).

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 12 Assets classified as held for sale

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
685 La Trobe St	11,592	-	-	-
Menai Central, Menai	-	31,500	-	31,500
Home HQ, Nunawading	-	23,725	-	23,725
	11,592	55,225	-	55,225

685 La Trobe St was reclassified as held for sale from non-current inventories during the year. A conditional contract of sale in excess of the carrying value was exchanged in July 2014. All assets classified as held for sale as at 30 June 2013 were investment properties. These assets were sold during the year.

A reconciliation of the movements in assets held for sale during the year is set out below:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Opening balance	55,225	136,390	55,225	136,390
Assets reclassified to held for sale	11,592	-	-	-
Additions	-	768	-	768
Amortisation of lease incentives	7	(319)	7	(319)
Fair value adjustments	-	(8,419)	-	(8,419)
Disposals	(55,232)	(73,195)	(55,232)	(73,195)
<b>Closing balance</b>	<b>11,592</b>	<b>55,225</b>	<b>-</b>	<b>55,225</b>

#### (a) Amounts recognised in the statement of comprehensive income for investment properties

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Property income	922	10,443	922	10,443
Direct operating expenses from property that generated rental income	(156)	(2,304)	(156)	(2,304)
	766	8,139	766	8,139

This table includes the total income of all investment properties disposed or classified as held for sale. The income is up to the earlier of date of sale or 30 June of the relevant year.

#### (b) Valuation basis

Assets held for sale are carried at the lower of book value and fair value less costs to sell, representing the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.



## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 13 Investments in associates at fair value through profit or loss

		Charter Hall Group		Charter Hall Property Trust Group	
		2014	2013	2014	2013
	Note	\$'000	\$'000	\$'000	\$'000
Investments in associates	33	14,234	49,229	14,234	49,229

Changes in fair values of investments in associates at fair value through profit or loss are recorded in fair value adjustments in the statement of comprehensive income.

These investments comprise units in certain unlisted Charter Hall managed funds which have been designated at fair value through profit or loss.

Information about the Charter Hall Group and Charter Hall Property Trust Group's material exposure to share and unit price risk is provided in Note 29.

### 14 Inventories

		Charter Hall Group		Charter Hall Property Trust Group	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
<b>Non-current assets</b>					
685 La Trobe St		-	10,848	-	-
		-	10,848	-	-

685 La Trobe St was reclassified to assets classified as held for sale during the year. Refer to Note 12.

### 15 Investments accounted for using the equity method

		Charter Hall Group		Charter Hall Property Trust Group	
		2014	2013	2014	2013
	Note	\$'000	\$'000	\$'000	\$'000
Investments in associates	33	583,414	459,908	520,627	401,966
Investments in joint venture entities	34	99,487	60,239	71,242	33,118
		682,901	520,147	591,869	435,084

Investments in associates represent units in listed and unlisted Charter Hall managed funds which are accounted for using the equity method. Refer to Note 33 (a) for carrying value assessments of investments in associates. Investments in joint venture entities represent joint venture interests in Australian and overseas joint ventures which are accounted for using the equity method. Refer to Note 34 (a) for carrying value assessments of investments in joint venture entities.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 16 Investment properties

During the year the Group established a new controlled entity investment fund, BP Fund 2, to facilitate the purchase of a portfolio of investment properties. A reconciliation of the carrying amount of investment properties at the beginning and end of the year is set out below:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Opening balance	-	-	-	-
Additions	46,215	-	46,215	-
Acquisition costs incurred	1,966	-	1,966	-
Revaluation increment	183	-	183	-
Straightlining of rental income	22	-	22	-
Closing balance	48,386	-	48,386	-

The Group introduced an equity partner into BP Fund 2 on 18 August 2014, reducing the Group's equity interest in the fund to \$30 million (50.1%).

Key valuation assumptions used in the determination of the investment properties' fair value and the Group's valuation policy are disclosed in Note 30.

#### Leasing arrangements

The investment properties, excluding development properties, are leased to tenants under long term operating leases with rentals payable monthly. Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Due within one year	1,643	-	1,643	-
Due between one and five years	7,080	-	7,080	-
Over five years	14,595	-	14,595	-
	23,318	-	23,318	-

### 17 Intangible assets

In March 2010, the Charter Hall Group completed a transaction to acquire the majority of Macquarie Group's core real estate management platform. This transaction was structured to secure the management rights (i.e. future management fee revenue) of Macquarie Office Trust (renamed Charter Hall Office REIT), Macquarie CountryWide Trust (renamed Charter Hall Retail REIT) and Macquarie Direct Property Fund (renamed Charter Hall Direct Property Fund). The excess of consideration paid over net tangible assets acquired represents the value of these management rights.

With the exception of management rights held over the Charter Hall Office Trust (CHOT), management considers that the management rights have an indefinite life as there are no finite terms in the underlying agreements and the Charter Hall Group has no intention to cease managing these Funds and the Funds do not have a finite life. The carrying value of management rights with an indefinite life (i.e. excluding CHOT) is \$54.9 million.

On 1 May 2012, Charter Hall Office REIT (CQO) was privatised and renamed CHOT. With implementation of the privatisation, CQO changed from a listed REIT to a wholesale unit trust with liquidity reviews every five years. It is expected that the net fee revenue that the Group will earn from managing CHOT will be generally consistent with the net revenue earned previously from managing the Australian assets of CQO. The Group is amortising the management rights over a six year period from 1 May 2012 (includes an additional year to source liquidity were the trust to be wound up in five years as a result of the liquidity review). Only the management rights held over the Charter Hall Office Trust are finite life.

On 15 August 2012 a subsidiary of the Group paid \$5.2 million to the previous manager of PFA Diversified Property Trust (PFA) to facilitate the appointment of a Group subsidiary as the responsible entity of PFA. As PFA is an open ended fund with no termination date or review event contemplated in its constitution, these facilitation payments have been treated as management rights and are considered to have an indefinite useful life. There is currently no headroom in the valuation of the PFA management rights at balance date. Any adverse change to the assumptions used in the valuation will result in an impairment.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 17 Intangibles assets (continued)

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Indefinite life management rights</b>				
<i>Charter Hall Retail REIT</i>				
Opening and closing balance	42,288	42,288	-	-
<i>Charter Hall Direct Property Fund</i>				
Opening balance	10,672	10,672	-	-
Transfers to finite life management rights <sup>1</sup>	(3,249)	-	-	-
Closing balance	7,423	10,672	-	-
<i>PFA Diversified Property Trust</i>				
Opening balance	5,217	-	-	-
Additions	-	5,217	-	-
Closing balance	5,217	5,217	-	-
Total indefinite life management rights	54,928	58,177	-	-
<b>Finite life management rights</b>				
<i>Charter Hall Office Trust</i>				
Opening balance	37,889	45,727	-	-
Transfers from indefinite life management rights <sup>1</sup>	3,249	-	-	-
Amortisation charge	(8,489)	(7,838)	-	-
Total finite life management rights	32,649	37,889	-	-
<b>Total intangible assets</b>	<b>87,577</b>	<b>96,066</b>	<b>-</b>	<b>-</b>

<sup>1</sup> During the year CHOT purchased the remaining 50% of No. 1 Martin Place Trust. As a result the management rights associated with this trust form part of the CHOT CGU and have been reclassified to finite life intangibles.

All management rights recognised on the balance sheet (excluding PFA) were independently valued as at 30 April 2012 by KPMG Corporate Finance. The valuation supports the carrying values and the methodology applied was an assessment of fair value (less costs to sell) based on discounted cash flows. Management's internal valuations for indefinite-life management rights as at 30 June 2014 have been prepared on a consistent basis in the current year.

Key assumptions used for the indefinite life intangibles valuation calculations are as follows:

- Cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates appropriate for the business;
- Discount rate range of 14% - 17% (2013: 14% - 17%) which is in excess of the Charter Hall Group's weighted average cost of capital as a result of the management platform carrying more risk than the return on property investment cash flows;
- Growth over the next five years of 3% (2013: 3%) per annum; and
- Terminal value multiple of 4.9 to 7.0 times earnings (2013: 4.9 to 7.0 times).

Impairment is tested at the cash-generating unit (CGU) level for each CGU. Each individual CGU is considered to be a fund which generates management fee income.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 18 Property, plant and equipment

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Opening net book amount	2,743	3,026	-	-
Additions <sup>1</sup>	9,153	1,233	-	-
Disposals	(1,147)	(330)	-	-
Depreciation charge	(1,375)	(1,186)	-	-
Closing net book amount	9,374	2,743	-	-
<b>At balance date</b>				
Cost	12,725	4,777	-	-
Accumulated depreciation	(3,351)	(2,034)	-	-
Net book amount	9,374	2,743	-	-

<sup>1</sup> Additions of \$9.2 million include \$6.6 million in relation to the fitout of Charter Hall's new office in No. 1 Martin Place. A lease incentive of \$6.6 million was received to offset the cost of the fitout. A liability for the value of the incentive is being amortised over the life of the lease. Refer to Note 20.

### 19 Deferred tax assets

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Deferred tax assets comprises temporary differences attributable to:</b>				
Tax losses carried forward	5,892	-	-	-
Employee benefits	5,130	4,217	-	-
Investments in associates	-	4,308	-	-
Other	380	47	-	-
	11,402	8,572	-	-
<b>Deferred tax liabilities comprises temporary differences attributable to:</b>				
Investment in associates	(3,218)	(2,042)	-	-
Other	(182)	(141)	-	-
	(3,400)	(2,183)	-	-
Net deferred tax assets	8,002	6,389	-	-

Deferred tax liabilities have been set-off against deferred tax assets pursuant to set-off provisions.

A reconciliation of the carrying amount of deferred tax assets at the beginning and end of the current and previous years is set out below:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
Note	\$'000	\$'000	\$'000	\$'000
Opening balance	6,389	8,322	-	-
Charged to income statement	1,613	(1,933)	-	-
Closing balance	8,002	6,389	-	-
Net deferred tax assets expected to reverse within 12 months	9,935	3,538	-	-
Net deferred tax (liabilities)/assets expected to reverse after more than 12 months	(1,933)	2,851	-	-
	8,002	6,389	-	-

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 20 Trade and other payables

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
Trade payables	17	5	-	2
Accruals	3,550	2,933	1,996	1,193
Distribution payable	39,323	31,435	39,323	31,435
GST payable	1,683	-	(20)	-
Annual leave payable	2,770	2,129	-	-
Contingent consideration payable	-	1,856	-	-
Employee benefits payable	11,762	9,693	-	-
Other payables	1,057	770	151	110
Lease incentive liability	499	-	-	-
	60,661	48,821	41,450	32,740
<b>Non-current</b>				
Lease incentive liability	5,670	-	-	-

All current liabilities are expected to be settled within 12 months.

### 21 Provisions

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
Employee benefits - long service leave	1,579	1,101	-	-
<b>Non-current</b>				
Employee benefits - long service leave	1,054	1,162	-	-

Movement in employee benefits provisions are set out below:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Long service leave</b>				
Opening balance	2,263	2,084	-	-
Amount utilised	(273)	-	-	-
Additional provisions recognised	643	179	-	-
Closing balance	2,633	2,263	-	-
Current	1,579	1,101	-	-
Non-current	1,054	1,162	-	-
<b>Total</b>	2,633	2,263	-	-

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 22 Interest-bearing liabilities

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Secured</b>				
Bank loans drawn:				
Charter Hall Property Trust loan	-	14,000	-	14,000
DRF loan	-	13,750	-	13,750
Unamortised borrowing costs	-	(295)	-	(295)
<b>Total interest-bearing liabilities</b>	-	27,455	-	27,455

#### Charter Hall Property Trust loan

In August 2013 the expiry date of the loan facility was extended to 24 August 2015. In June 2014 the facility limit was increased from \$75.0 million to \$100.0 million.

At 30 June 2014, no cash (2013: \$14.0 million) and bank guarantees of \$9.3 million (2013: \$8.1 million) had been drawn under this facility.

Amounts drawn under this facility are potentially repayable if the Trust defaults on payments of interest or principal or allows:

- The ratio of debt to total tangible assets to exceed 35%;
- The ratio of debt to EBITDA to exceed 2.0 times (2013: 4.0 times); or
- The ratio of 'net cash inflow' to gross interest to fall below a minimum of 4.25 times; or
- The drawn debt (including bank guarantees) to exceed the market value of CHC's investment in CQR.

#### Security

The Charter Hall Property Trust loan is secured over the Trust's investment in listed and unlisted funds.

#### Borrowing costs

\$274,000 additional borrowing costs were incurred during 2014 in relation to the extension to the term and facility limit of the CHPT loan. As no debt was drawn on the CHPT facility as at 30 June 2014, the unamortised borrowing costs of \$319,470 are disclosed on the balance sheet as Other Assets.

The carrying amounts of assets pledged as security for borrowings are:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
<i>First mortgage</i>				
Investment property classified as held for sale	-	23,725	-	23,725
<b>Total current assets pledged as security</b>	-	23,725	-	23,725
<b>Non-Current</b>				
<i>First mortgage</i>				
Investment in associates	606,103	484,313	606,103	484,313
<b>Total non-current assets pledged as security</b>	606,103	484,313	606,103	484,313
<b>Total assets pledged as security</b>	606,103	508,038	606,103	508,038

#### (a) Financial arrangements

The Charter Hall Group and Charter Hall Property Trust Group had unrestricted access at reporting date to the following lines of credit:



## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 22 Interest-bearing liabilities (continued)

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Total facilities	100,000	88,750	100,000	88,750
Used at reporting date	(9,330)	(35,850)	(9,330)	(35,850)
<b>Unused at reporting date</b>	<b>90,670</b>	<b>52,900</b>	<b>90,670</b>	<b>52,900</b>

The facility utilised includes bank guarantees of \$9.3 million (2013: \$8.1 million), which under the terms of the agreement reduce the available facility. No liability is recognised for bank guarantees.

#### (b) Capital risk management

Gearing is a measure used to monitor levels of debt capital used by the business to fund its operations. This ratio is calculated as interest-bearing debt divided by tangibles assets with both net of cash and cash equivalents.

The gearing ratio of the Charter Hall Group at 30 June 2014 was nil % (2013: 1.88%), and of the Charter Hall Property Trust Group nil % (2013: 3.51%). Debt covenants are monitored regularly to ensure compliance and reported to the debt provider on a six monthly basis. The Group Treasurer is responsible for negotiating new debt facilities and monitoring compliance with covenants.

### 23 Contributed equity

#### (a) Security capital

	2014	2013	2014	Restated 2013
	Securities	Securities	\$'000	\$'000
Charter Hall Limited			232,101	211,335
Charter Hall Property Trust			945,333	799,548
<b>Ordinary securities - stapled units, fully paid</b>	<b>347,989,262</b>	<b>302,262,312</b>	<b>1,177,434</b>	<b>1,010,883</b>

#### (b) Movements in ordinary security capital

Details	Number of securities <sup>1</sup>	Issue price	Charter Hall Limited \$'000	Charter Hall Property Trust \$'000	Total \$'000
Restated opening balance	296,168,170		209,550	785,113	994,663
Performance rights and options exercised <sup>2</sup>	2,835,759	\$ 1.94	612	5,040	5,652
Issuance under DRP <sup>3</sup>	3,258,383	\$ 3.25	1,175	9,411	10,586
Restated balance at 30 June 2013	302,262,312		211,337	799,564	1,010,901
Less: Transaction costs on security issues			(2)	(16)	(18)
Restated balance per accounts at 30 June 2013	<b>302,262,312</b>		<b>211,335</b>	<b>799,548</b>	<b>1,010,883</b>
Performance rights and options exercised <sup>4</sup>	3,467,703	\$ 2.55	992	7,361	8,353
Issuance under DRP <sup>5</sup>	5,417,141	\$ 3.79	2,422	18,104	20,526
Issued under institutional placement	36,842,106	\$ 3.80	17,640	122,360	140,000
Balance at 30 June 2014	<b>347,989,262</b>		<b>232,389</b>	<b>947,373</b>	<b>1,179,762</b>
Less: Transaction costs on security issues			(288)	(2,040)	(2,328)
Balance per accounts at 30 June 2014	<b>347,989,262</b>		<b>232,101</b>	<b>945,333</b>	<b>1,177,434</b>

<sup>1</sup> This includes shares of Charter Hall Limited and units in Charter Hall Property Trust, which are stapled. Refer to Note 1 for details of the accounting for this stapling arrangement.

<sup>2</sup> Includes 1,772,116 options with a strike price of \$1.94 and 72,117 with a strike price of \$2.44.

<sup>3</sup> The DRP was only in place for the second distribution paid in the year. The issue price reported above is for securities issued in February 2013.

<sup>4</sup> Includes 602,636 options with a strike price of \$2.80, 27,243 with a strike price of \$2.35 and 1,312,080 with a strike price of \$2.44.

<sup>5</sup> Includes 3,691,877 issued in August 2013 with an issue price of \$3.85 and 1,725,254 issued in February 2014 with an issue price of \$3.67.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 23 Contributed equity (continued)

#### (c) Ordinary securities

Ordinary securities entitle the holder to participate in distributions/dividends and the proceeds on winding up of the Trust/Company in proportion to the number of and amounts paid on the securities held.

On a show of hands, every holder of ordinary securities present at a meeting in person or by proxy is entitled to one vote, and upon a poll each security is entitled to one vote.

#### (d) Distribution Re-investment Plan

The Group has established a Distribution Re-investment Plan (DRP) under which holders of ordinary securities may elect to have all or part of their distribution satisfied by the issue of new ordinary securities rather than by being paid in cash.

Securities are issued under the plan at a discount to the market price. The DRP was in effect for the entire year.

### 24 Reserves

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Business combination reserve	(52,000)	(52,000)	-	-
Security-based benefits reserve	8,365	7,480	-	-
Transactions with non-controlling interests	-	(10,014)	-	(1,199)
Foreign currency reserve	(455)	(1,023)	296	(211)
	(44,090)	(55,557)	296	(1,410)
Charter Hall Limited	(44,386)	(54,147)	-	-
Charter Hall Property Trust	296	(1,410)	296	(1,410)
	(44,090)	(55,557)	296	(1,410)

#### Movements:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<i>Business combination reserve</i>				
Opening and closing balance	(52,000)	(52,000)	-	-
<i>Security-based benefits reserve</i>				
Opening balance	7,480	12,605	-	-
Non-cash security based benefits expense	3,089	3,035	-	-
Transfer due to deferred compensation payable in performance rights	1,196	-	-	-
Transferred to equity on options and performance rights exercised	(3,400)	(2,038)	-	-
Transferred to accumulated losses for ELSP lapse	-	(6,122)	-	-
<b>Closing balance</b>	<b>8,365</b>	<b>7,480</b>	<b>-</b>	<b>-</b>
<i>Transactions with non-controlling interests</i>				
Opening balance	(10,014)	(8,702)	(1,199)	(9)
DRF acquisition premium	-	(1,312)	-	(1,190)
Transfer to accumulated losses	10,014	-	1,199	-
<b>Closing balance</b>	<b>-</b>	<b>(10,014)</b>	<b>-</b>	<b>(1,199)</b>
<i>Foreign currency reserve</i>				
Opening balance	(1,023)	(2,373)	(211)	(1,406)
Exchange differences on translation of foreign operations	80	1,141	19	986
Transfer of cumulative FX losses to profit or loss	488	209	488	209
<b>Closing balance</b>	<b>(455)</b>	<b>(1,023)</b>	<b>296</b>	<b>(211)</b>

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 24 Reserves (continued)

#### (i) Business combination reserve

This reserve relates to the reverse acquisition at the initial public offering (IPO) in 2005. This is the amount that relates to the investment in CHH that is not eliminated by paid in capital. No goodwill is recognised as this transaction is the result of a reverse acquisition.

#### (ii) Security-based benefits reserve

The security-based benefits reserve is used to recognise the fair value of rights and options issued under the PROP.

#### (iii) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are treated as transactions with equity owners of the Charter Hall Group and Charter Hall Property Trust Group.

A change in ownership interest results in an adjustment between the carrying amounts of controlling and non-controlling interests to reflect their relative interests in the controlled entity. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within this reserve.

Charter Hall Direct Retail Fund has now liquidated all its assets and distributed total net proceeds to its unit-holders. As a result there are no longer any non-controlling interests so the balance of the reserve created on transactions with non-controlling interests has been transferred to accumulated losses.

#### (iv) Foreign currency reserve

Exchange differences arising on translation of foreign controlled entities and the Charter Hall Group's and Charter Hall Property Trust Group's share of foreign exchange differences arising from the equity accounted investments are recognised in other comprehensive income as described in Note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

### 25 Accumulated losses

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	Restated 2013	2014	Restated 2013
	\$'000	\$'000	\$'000	\$'000
Opening balance	(215,032)	(215,285)	(93,966)	(87,609)
Profit for the year	82,116	54,842	70,563	54,354
Distributions	(73,326)	(60,711)	(73,326)	(60,711)
Transfer from security-based benefits reserve	-	6,122	-	-
Transfer from non-controlling interest reserve	(10,014)	-	(1,199)	-
Closing balance	(216,256)	(215,032)	(97,928)	(93,966)
Charter Hall Limited	(118,328)	(121,066)	-	-
Charter Hall Property Trust	(97,928)	(93,966)	(97,928)	(93,966)
Closing balance	(216,256)	(215,032)	(97,928)	(93,966)

### 26 Non-controlling interest

The Charter Hall Group owns 100% of DRF and the non-controlling interest (NCI) disclosed by Charter Hall Property Trust Group solely represents the 16% interest held by Charter Hall Holdings Pty Ltd, a subsidiary of Charter Hall Limited. DRF has disposed of its investments and distributed its residual balances, reducing its net assets to nil.

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
	0%	0%	16%	16%
	NCI	NCI	NCI	NCI
Interest in:				
Contributed equity	-	-	32,145	32,145
Accumulated losses	-	-	(32,145)	(25,073)
Other non-controlling interest in DRF	-	-	-	7,072

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 27 Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditors of the Charter Hall Group and Charter Hall Property Trust Group, their related practices and non-related audit firms:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$	\$	\$	\$
<b>(a) Audit services</b>				
PricewaterhouseCoopers - Australian Firm				
Audit and review of financial reports	367,048	383,279	5,000	33,150
<b>Total remuneration of audit services</b>	<b>367,048</b>	<b>383,279</b>	<b>5,000</b>	<b>33,150</b>
<b>(b) Taxation services</b>				
PricewaterhouseCoopers - Australian Firm				
Tax compliance services, including review of the company income tax returns	48,817	50,341	-	-
<b>Total remuneration for taxation services</b>	<b>48,817</b>	<b>50,341</b>	<b>-</b>	<b>-</b>

Total fees paid to PricewaterhouseCoopers by the Charter Hall Group, together with funds managed by the Group, for audit and audit-related services amounted to \$1,496,385 (2013: \$1,699,691).

The Charter Hall Group and Charter Hall Property Trust Group's policy is to employ PricewaterhouseCoopers (PwC) on assignments additional to statutory audit duties where PwC's expertise and experience with the Charter Hall Group and Charter Hall Property Trust Group are important. These assignments are principally tax and accounting advice or where PwC is awarded assignments on a competitive basis. It is the Charter Hall Group and Charter Hall Property Trust Group's policy to seek competitive tenders for all major consulting projects.

### 28 Reconciliation of profit after tax to net cash inflow from operating activities

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Profit after tax for the year	82,116	54,391	70,521	53,077
Non-cash items				
Amortisation of management rights	8,489	7,838	-	-
Depreciation and amortisation	1,631	2,845	256	1,020
Non-cash employee benefits expense - security-based benefits	3,089	3,035	-	-
Net loss/(gain) on sale of investments, property and derivatives	2,528	(376)	1,787	(249)
Net loss on remeasurement of equity interests	-	368	-	368
Fair value adjustments	1,596	8,495	1,590	10,110
Change in assets and liabilities, net of effects from purchase of controlled entity				
(Increase)/decrease in trade debtors and other receivables	3,447	(7,836)	(20,380)	(23,592)
Increase/(decrease) in trade creditors and accruals	4,590	4,019	332	(2,110)
Net income receivable from investment in associates and joint venture entities	(18,544)	(7,503)	(16,079)	(22,084)
Decrease in provisions	-	(14,239)	-	-
(Increase)/decrease for net deferred income tax	(1,609)	1,933	-	-
<b>Net cash inflow from operating activities</b>	<b>87,333</b>	<b>52,970</b>	<b>38,027</b>	<b>16,540</b>

Dividend and interest income received on investments has been classified as cash flow from operating activities.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 29 Capital and financial risk management

#### (a) Capital risk management

The key capital risk management objective of the Charter Hall Group and Charter Hall Property Trust Group is to optimise returns through the mix of available capital sources whilst complying with statutory and constitutional capital requirements, and complying with the covenant requirements of the finance facility. The capital management approach is regularly reviewed by management and the board as part of the overall strategy. The capital mix can be altered by issuing new units, electing to have the DRP underwritten, adjusting the amount of distributions paid, activating a unit buyback program or selling assets.

#### (b) Financial risk management

Both the Charter Hall Group and Charter Hall Property Trust Group activities expose it to a variety of financial risks: market risk (price risk, interest rate risk, and foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. From time to time, the Group uses derivative financial instruments such as interest rate swaps and option contracts to hedge certain risk exposures.

Risk management is carried out by the Group Treasurer, the Chief Financial Officer and the Joint Managing Directors in consultation with senior management, the Audit, Risk and Compliance Committee and the Board of Directors. The Group Treasurer identifies, evaluates and hedges financial risks in close cooperation with the Chief Financial Officer. The Board provides guidance for overall risk management, as well as covering specific areas, such as mitigating price, interest rate and credit risks, the use of derivative financial instruments and investing excess liquidity.

#### (i) Market risk

##### *Unlisted unit price risk*

The Group is exposed to unlisted unit price risk. This arises from investments in unlisted property funds managed by the Group. These funds invest in direct property. Charter Hall manages all the funds that the Group invests in and its staff have a sound understanding of the underlying property values and trends that give rise to price risk. The carrying value of investments in associates at fair value through profit or loss is measured with reference to the funds' unit prices which are determined in accordance with the funds' respective constitutions. The key determinant of the unit price is the underlying property values which are approved by the Board and the Valuation sub-Committee of the Board.

The table below illustrates the potential impact a change in unlisted unit prices by +/-10% would have on the Charter Hall Group and Charter Hall Property Trust Group's profit and equity. The movement in the price variable has been determined based on management's best estimate, having regard to a number of factors, including historical levels of price movement, historical correlation of either Group's investments with the relevant benchmark and market volatility. However, actual movements in the price may be greater or less than anticipated due to a number of factors. As a result, historic price variations are not a definitive indicator of future price variations.

	Carrying amount \$'000	-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>2014</b>					
<b>Assets - Charter Hall Group</b>					
Investments in associates at fair value through profit or loss	14,234	(1,423)	(1,423)	1,423	1,423
<b>Assets - Charter Hall Property Trust Group</b>					
Investments in associates at fair value through profit or loss	14,234	(1,423)	(1,423)	1,423	1,423

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 29 Capital and financial risk management (continued)

		-10%		+10%	
	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>2013</b>					
<i>Assets - Charter Hall Group</i>					
Investments in associates at fair value through profit or loss	49,229	(4,923)	(4,923)	4,923	4,923
<i>Assets - Charter Hall Property Trust Group</i>					
Investments in associates at fair value through profit or loss	49,229	(4,923)	(4,923)	4,923	4,923

#### Cash flow and fair value interest rate risk

As both the Charter Hall Group and Charter Hall Property Trust Group have no long-term interest bearing assets, both Groups' income and operating cash receipts are not materially exposed to changes in market interest rates.

The Charter Hall Group's and Charter Hall Property Trust Group's interest rate risk arises from the \$100 million loan facility. At 30 June 2014 no borrowings were drawn on this facility (2013: \$27,750,000). Borrowings drawn at variable rates expose both Groups to cash flow interest rate risk. Borrowings drawn at fixed rates expose both Groups to fair value interest rate risk. The Charter Hall Group and Charter Hall Property Trust Group's policy is to fix rates between 50-100% of core borrowings for the anticipated debt term. Core borrowings are defined as being the level of borrowings that are expected to be held for a period of more than two years. The Group did not hold any derivatives as at 30 June 2014.

The Charter Hall Group and Charter Hall Property Trust Group both manage their cash flow interest rate risk by using floating-to-fixed interest rate swaps and option contracts that provide a similar hedge under certain interest rate outcomes. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

#### (ii) Interest rate risk exposure

As the Group has no drawn debt, interest rate risk exposure is minimal. The following tables set out the exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity period for financial liabilities.

Exposures arise predominantly from liabilities bearing variable interest rates as the Charter Hall Group and Charter Hall Property Trust Group intend to hold fixed rate liabilities to maturity.

	Fixed interest maturing in:					
	Floating interest rate	1 year or less	Over 1 to 2 years	Over 5 years	Non- interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Charter Hall Group</b>						
<b>2014</b>						
Trade and other payables	-	-	-	-	60,661	60,661
Weighted average interest rate	0.0%					

	Fixed interest maturing in:					
	Floating interest rate	1 year or less	Over 1 to 2 years	Over 5 years	Non- interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Charter Hall Group</b>						
<b>2013</b>						
Trade and other payables	-	-	-	-	46,965	46,965
Contingent consideration payable	-	-	-	-	1,856	1,856
Interest-bearing liabilities	27,750	-	-	-	-	27,750
	27,750	-	-	-	48,821	76,571
Weighted average interest rate	5.7%					



## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 29 Capital and financial risk management (continued)

	Fixed interest maturing in:					Non-interest bearing	Total
	Floating interest rate	1 year or less	Over 1 to 2 years	Over 5 years			
Charter Hall Property Trust Group 2014	\$'000	\$'000	\$'000	\$'000	\$'000		\$'000
<b>Trade and other payables</b>	-	-	-	-	<b>41,450</b>		<b>41,450</b>
<b>Weighted average interest rate</b>	<b>0.0%</b>						

	Fixed interest maturing in:					Non-interest bearing	Total
	Floating interest rate	1 year or less	Over 1 to 2 years	Over 5 years			
Charter Hall Property Trust Group 2013	\$'000	\$'000	\$'000	\$'000	\$'000		\$'000
Trade and other payables	-	-	-	-	32,740		32,740
Interest-bearing liabilities	27,750	-	-	-	-		27,750
	27,750	-	-	-	32,740		60,490
<b>Weighted average interest rate</b>	<b>5.7%</b>						

#### Interest rate sensitivity analysis

The following tables illustrate the potential impact a change in interest rates of +/-1% would have on the Charter Hall Group and Charter Hall Property Trust Group's profit after tax and equity.

	-1%				+1%	
	Fair value	Carrying amount	Profit	Equity	Profit	Equity
Charter Hall Group 2014	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Cash and cash equivalents	50,184	50,184	(502)	(502)	502	502
<b>Total increase/(decrease)</b>			<b>(502)</b>	<b>(502)</b>	<b>502</b>	<b>502</b>

	-1%				+1%	
	Fair value	Carrying amount	Profit	Equity	Profit	Equity
Charter Hall Group 2013	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Cash and cash equivalents	12,236	12,236	(122)	(122)	122	122
<b>Financial liabilities</b>						
Interest-bearing liabilities	27,750	27,455	278	278	(278)	(278)
<b>Total increase/(decrease)</b>			<b>156</b>	<b>156</b>	<b>(156)</b>	<b>(156)</b>

	-1%				+1%	
	Fair value	Carrying amount	Profit	Equity	Profit	Equity
Charter Hall Property Trust Group 2014	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Cash and cash equivalents	577	577	(6)	(6)	6	6
Loan receivable from Charter Hall Ltd	181,292	181,292	(1,813)	(1,813)	1,813	1,813
<b>Total increase/(decrease)</b>			<b>(1,819)</b>	<b>(1,819)</b>	<b>1,819</b>	<b>1,819</b>

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 29 Capital and financial risk management (continued)

			-1%		+1%	
Charter Hall Property Trust Group	Fair value	Carrying amount	Profit	Equity	Profit	Equity
2013	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
Cash and cash equivalents	2,229	2,229	(22)	(22)	22	22
Restated loan receivable from Charter Hall Ltd	197,240	197,240	(1,972)	(1,972)	1,972	1,972
<b>Financial liabilities</b>						
Interest-bearing liabilities	27,750	27,455	278	278	(278)	(278)
<b>Restated total increase/(decrease)</b>			(1,694)	(1,694)	1,694	1,694

The fair value of interest-bearing liabilities is inclusive of costs which would be incurred on settlement of a liability, and is based upon market prices, where a market exists, or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

#### (iii) Foreign exchange risk

The Charter Hall Group's principal exposure to foreign exchange risk arises from its investments in foreign subsidiaries. The major asset held by foreign subsidiaries is cash in foreign denominated bank accounts. The Charter Hall Property Trust Group does not have any exposure of this type. Additionally, both Groups were exposed to foreign exchange risk arising from their equity accounted investment in the Charter Hall Retail REIT (CQR). Following CQR's disposal program of its offshore assets, the impact of foreign exchange risk on net assets is immaterial and no longer considered a significant risk at 30 June 2014.

The tables below illustrate the potential impact a change in foreign exchange rates of +/-10% would have on the Charter Hall Group's and Charter Hall Property Trust Group's profit and equity:

	2014		2013	
	Profit	Equity	Profit	Equity
	\$'000	\$'000	\$'000	\$'000
<b>Charter Hall Group</b>				
US dollars + 10.0%	(78)	(5)	(72)	105
US dollars - 10.0%	95	7	81	(127)
Euros + 10.0%	(13)	(87)	270	(526)
Euros - 10.0%	16	107	(335)	647
NZ dollars + 10.0%	(2)	(83)	6	(115)
NZ dollars - 10.0%	3	84	(7)	146

	2014		2013	
	Profit	Equity	Profit	Equity
	\$'000	\$'000	\$'000	\$'000
<b>Charter Hall Property Trust Group</b>				
US dollars + 10.0%	-	-	9	(120)
US dollars - 10.0%	-	-	(18)	147
Euros + 10.0%	-	-	267	(432)
Euros - 10.0%	-	-	(331)	534
NZ dollars + 10.0%	-	(82)	-	(55)
NZ dollars - 10.0%	-	82	-	74

#### (c) Credit risk

The Charter Hall Group and Charter Hall Property Trust Group have policies in place to ensure that sales of services are made to customers with appropriate credit histories.

Over half of the Charter Hall Group's and Charter Hall Property Trust Group's income is derived from management fees, transaction and other fees from related parties. Approximately 1% (2013: 7%) of the Charter Hall Group's income is derived directly from rental properties, whilst approximately 2% (2013: 15%) of the Charter Hall Property Trust Group's income is derived directly from rental properties; all tenants are assessed for creditworthiness, taking into account their financial position, past experience and other factors. Refer to Note 11 (c) for more information on credit risk.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Charter Hall Group and Charter Hall Property Trust Group have policies that limit the amount of credit exposure to any one financial institution.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 29 Capital and financial risk management (continued)

#### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Charter Hall Group and Charter Hall Property Trust Group aim at maintaining flexibility in funding by keeping committed credit lines available.

#### *Maturities of financial liabilities*

The following table provides the contractual maturity of Charter Hall Group's and Charter Hall Property Trust Group's financial liabilities and derivatives. The amounts presented represent the future contractual undiscounted principal and interest cash flows and therefore do not equate to the value shown in the balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

Charter Hall Group 2014	Carrying amount \$'000	Less than 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total cash flows \$'000
<b>Trade and other payables</b>	<b>60,661</b>	<b>60,661</b>	-	-	<b>60,661</b>
	<b>60,661</b>	<b>60,661</b>	-	-	<b>60,661</b>

Charter Hall Group 2013	Carrying amount \$'000	Less than 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total cash flows \$'000
Trade and other payables	46,965	46,965	-	-	46,965
Contingent consideration payable	1,856	1,856	-	-	1,856
Interest-bearing liabilities	27,455	27,815	-	-	27,815
	76,276	76,636	-	-	76,636

Charter Hall Property Trust Group 2014	Carrying amount \$'000	Less than 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total cash flows \$'000
<b>Trade and other payables</b>	<b>41,450</b>	<b>41,450</b>	-	-	<b>41,450</b>
	<b>41,450</b>	<b>41,450</b>	-	-	<b>41,450</b>

Charter Hall Property Trust Group 2013	Carrying amount \$'000	Less than 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total cash flows \$'000
Trade and other payables	32,740	32,740	-	-	32,740
Interest-bearing liabilities	27,455	27,815	-	-	27,815
	60,195	60,555	-	-	60,555

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 30 Fair value measurement

#### (a) Recognised fair value measurement

The Charter Hall Group and the Charter Hall Property Trust Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Investments in associates at fair value through profit and loss (Refer to Note 33)
- Investment properties (Refer to Note 16)
- Contingent consideration payable (nil balance at 30 June 2014) (Refer to Note 20)

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Charter Hall Group and Charter Hall Property Trust Group's assets and liabilities measured and recognised at fair value:

Charter Hall Group 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Investments in associates at fair value through profit and loss</b>	-	-	<b>14,234</b>	<b>14,234</b>
<b>Investment properties</b>	-	-	<b>48,386</b>	<b>48,386</b>
<b>Total assets</b>	-	-	<b>62,620</b>	<b>62,620</b>

Charter Hall Group 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Investments in associates at fair value through profit and loss	-	-	49,229	49,229
Total assets	-	-	49,229	49,229
Contingent consideration payable	-	-	1,856	1,856
Total liabilities	-	-	1,856	1,856

Charter Hall Property Trust Group 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Investments in associates at fair value through profit and loss</b>	-	-	<b>14,234</b>	<b>14,234</b>
<b>Investment properties</b>	-	-	<b>48,386</b>	<b>48,386</b>
<b>Total assets</b>	-	-	<b>62,620</b>	<b>62,620</b>

Charter Hall Property Trust Group 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Investments in associates at fair value through profit and loss	-	-	49,229	49,229
Total assets	-	-	49,229	49,229

#### (b) Disclosed fair values

The carrying amounts of current trade receivables and payables approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Charter Hall Group and Charter Hall Property Trust Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant. There were no financial liabilities at 30 June 2014. Refer to Note 22.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 30 Fair Value Measurement (continued)

#### (c) Valuation techniques used to derive level 3 fair values

The fair value of associates held at fair value through profit and loss, which are investments in unlisted securities, approximates book value and is determined giving consideration to the unit prices and net assets of the underlying funds. The unit prices and net asset values are largely driven by the fair values of investment properties and derivatives held by the funds. Recent arm's length transactions, if any, are also taken into consideration.

In determining fair value of investment properties, management has considered the nature, characteristics and risks of the investment properties:

Fair value as at 30 June 2014 ('000)	Valuation technique	Significant unobservable inputs used to measure fair value	Range of unobservable inputs
48,569	DCF and capitalisation method	Gross market rent ( per annum per square metre)	\$156 - \$202
		Adopted capitalisation rate	7.0% - 7.5%
		Adopted terminal yield	7.25% - 7.75%
		Adopted discount rate	9.0% - 9.25%

Term	Definition
Discounted cash flow method (DCF)	A method in which a discount rate is applied to future expected income streams to estimate the present value.
Income capitalisation method	A valuation approach that provides an indication of value by converting future cash flows to a single current capital value.
Gross market rent	The estimated amount for which an interest in a real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate terms in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
Capitalisation rate	The return represented by the income produced by an investment, expressed as a percentage.
Terminal yield	A percentage return applied to the expected net income following a hypothetical sale at the end of the cash flow period.
Discount rate	A rate of return used to convert a future monetary sum or cash flow into present value.

#### (d) Valuation process

The Board conducts investment property valuation process on a half yearly basis. All valuations are performed either by independent professionally qualified external valuers or by Charter Hall's internal valuation team and then be reviewed and approved by the Valuations Sub-Committee, for recommendation to the ARCC and subsequent approval by the Board.

All investment properties held must be independently valued on an 'as is' basis at least once every 12 months. Where an internal valuation differs from the most recent independent valuation by +/- 5%, a new independent valuation is obtained.

In determining the valuation of all investment properties measured at recurring fair value consideration has been given to the highest and best use of those properties.

#### Development properties

The total cost of a development property is generally capitalised to its carrying value until the development is complete. At the commencement of a development project an estimated valuation on an 'as if complete' basis is obtained and the capitalised costs during the project are monitored against this initial valuation.

At each reporting date, the carrying value of development properties are reviewed to determine whether they are in excess of their fair value. Where appropriate, a write down is made to reflect fair value. On completion the property is externally valued.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 30 Fair Value Measurement (continued)

#### (e) Sensitivity analysis

Asset class	Significant input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Investments in associates at fair value through profit and loss	Price per security	Increase	Decrease
Investment properties	Gross market rent ( per annum per square metre)	Increase	Decrease
	Adopted capitalisation rate	Decrease	Increase
	Adopted terminal yield	Increase	Decrease
	Adopted discount rate	Decrease	Increase

### 31 Related parties

#### (a) Parent entity

The parent entity of the Charter Hall Group is Charter Hall Limited. The Parent entity of the Charter Hall Property Trust Group is the Charter Hall Property Trust.

#### (b) Controlled entities

Interest in controlled entities are set out in Note 32.

#### (c) Key management personnel

The following persons were considered key management personnel during the year:

##### Executive directors

D Harrison

D Southon

##### Other key management personnel

P Altschwager

S Dundas

R Stacker

A Taylor

##### Former key management personnel

N Devlin <sup>1</sup>

T Jordan <sup>1</sup>

N Kelly <sup>1</sup>

A Glass <sup>2</sup>

<sup>1</sup> As a result of an internal restructure these employees ceased to qualify as a key management personnel on 10 February 2014.

<sup>2</sup> Separated from Charter Hall and ceased to qualify as a key management personnel on 13 February 2014.

Below are the aggregate amounts paid to key management personnel:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$	\$	\$	\$
Salary and fees	5,697,567	5,569,272	-	-
Short-term incentives	3,125,310	354,300	-	-
Superannuation	173,306	159,267	-	-
Value of securities vested	4,808,714	1,864,174	-	-
Non-monetary benefits	68,188	68,188	-	-
	13,873,085	8,015,201	-	-

#### (d) Transactions with related parties

The following income was earned from related parties during the year:



## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 31 Related parties (continued)

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$	\$	\$	\$
Accounting cost recoveries	7,160,374	6,392,807	-	-
Marketing cost recoveries	1,291,013	1,632,511	-	-
Management and performance fees	46,537,099	39,651,732	-	-
Transaction and development fees	19,622,404	15,675,243	-	-
Commitment fees	67,500	135,000	-	-
Property management fees and cost recoveries	37,712,834	32,953,495	-	-

The following balances arising through the normal course of business were due from/to related parties at balance date:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$	\$	\$	\$
Management fee receivables	6,908,532	5,690,632	-	-
Other receivables	4,785,346	9,203,342	-	-

Transactions with associates and joint ventures are disclosed in Notes 33 and 34 and respectively.

#### (e) Loans to/from related parties

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	Restated 2013
	\$	\$	\$	\$
<i>Loans to joint ventures and associates</i>				-
Opening balances	32,293,898	11,120,000	21,250,000	1,650,000
Loans advanced	1,500,000	22,280,000	-	21,250,000
Loan repayments received	(5,500,000)	(1,650,000)	-	(1,650,000)
Interest charged	2,942,972	1,184,114	1,911,723	-
Interest received/receivable	(3,486,870)	(640,216)	(1,911,723)	-
<b>Closing balance</b>	<b>27,750,000</b>	<b>32,293,898</b>	<b>21,250,000</b>	<b>21,250,000</b>
<i>Loans to Charter Hall Limited</i>				
Opening balances	-	-	197,240,144	209,479,256
Loans advanced	-	-	215,691,599	36,358,156
Loan repayments received	-	-	(252,477,771)	(70,750,253)
Interest charged	-	-	20,838,097	22,152,985
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>181,292,069</b>	<b>197,240,144</b>

No provisions for doubtful debts have been raised in relation to any outstanding balances.

The loan to CHL comprises an unsecured stapled loan maturing on 30 June 2021. Interest is charged on an arm's length basis which, at 30 June 2014, amounted to a weighted average rate of 10.66% (June 2013: 11.26%).

CHPT issued \$21,250,000 in convertible preference notes to Keperra Square Fund on 28 June 2013. The notes incur interest based on a yield formula and will mature on 31 December 2014. On conversion, CHPT is entitled to receive units in a related fund where the number of units is equal to the principal value of the notes divided by the fund's net tangible assets on the date of conversion.

#### (f) Fees paid to the Responsible Entity or its associates

Fees paid to the Responsible Entity of the Charter Hall Property Trust, and its associates, by the Charter Hall Property Trust Group amounted to \$853,636 (2013: \$1,835,855). At 30 June 2014, related fees payable amounted to \$207,876 (2013: \$237,656).

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 32 Controlled entities

The consolidated financial statements of the Charter Hall Group incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 1(b):

#### (a) Details of controlled entities of the Charter Hall Group

Name of entity	Country of incorporation	Principal Activity	Class of securities	2014 %	2013 %
<b>Controlled entities of Charter Hall Limited</b>					
Charter Hall Holdings Pty Limited	Australia	Property management	Ordinary	100	100
CHTOM Pty Limited <sup>1</sup>	Australia	Holding company	Ordinary	-	100
Charter Hall Mordialloc Pty Limited <sup>1</sup>	Australia	Holding company	Ordinary	-	100
Charter Hall La Trobe Pty Limited <sup>1</sup>	Australia	Holding company	Ordinary	-	100
CH La Trobe Trust	Australia	Property investment	Ordinary	100	100
<b>Controlled entities of Charter Hall Holdings Pty Ltd</b>					
Bieson Pty Limited	Australia	Trustee company	Ordinary	100	100
Bowvilla Pty Limited	Australia	Trustee company	Ordinary	100	100
CH Nominees Pty Limited	Australia	Trustee company	Ordinary	100	100
Charter Hall Asset Services Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Asset Services Europe Sp z.o.o	Poland	Property management	Ordinary	100	100
Charter Hall Direct Property Management Limited	Australia	Responsible entity	Ordinary	100	100
Charter Hall Escrow Agent Pty Limited	Australia	Holding company	Ordinary	100	100
Charter Hall Funds Management Limited	Australia	Responsible entity	Ordinary	100	100
Charter Hall Holdings Investment Trust	Australia	Holding company	Ordinary	100	100
Charter Hall Holdings Real Estate Pty Limited	Australia	Holding company	Ordinary	100	100
Charter Hall International Office Pty Limited	Australia	Holding company	Ordinary	100	100
Charter Hall Investment Management Limited	Australia	Responsible entity	Ordinary	100	-
Charter Hall (NZ) Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Office Collins Street Pty Limited	Australia	Holding company	Ordinary	100	100
Charter Hall Office Investments Pty Limited	Australia	Holding company	Ordinary	100	100
Charter Hall Office Management Limited	Australia	Responsible entity	Ordinary	100	100
Charter Hall Real Estate Inc	USA	Property management	Ordinary	100	100
CHREI US Office LLC	USA	Property management	Ordinary	100	100
CHREI US Retail LLC	USA	Property management	Ordinary	100	100
Charter Hall Real Estate Europe Limited	UK	Property management	Ordinary	100	100
Charter Hall Real Estate Management Services Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Real Estate Management Services (ACT) Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Real Estate Management Services (NSW) Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Real Estate Management Services (QLD) Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Real Estate Management Services (SA) Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Real Estate Management Services (TAS) Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Real Estate Management Services (VIC) Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Real Estate Management Services (WA) Pty Limited	Australia	Property management	Ordinary	100	100
Charter Hall Retail Management Pty Limited	Australia	Responsible entity	Ordinary	100	100
Frolish Pty Limited	Australia	Trustee company	Ordinary	100	100
Real Estate Capital Investments Limited	Australia	Holding company	Ordinary	100	100
Stelridge Pty Limited	Australia	Trustee company	Ordinary	100	100
Visokoi Pty Limited	Australia	Trustee company	Ordinary	100	100
Charter Hall Development Services Pty Ltd	Australia	Property management	Ordinary	100	100

<sup>1</sup> Terminated during the year.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 32 Controlled entities (continued)

Name of entity	Country of incorporation	Principal Activity	Class of securities	2014 %	2013 %
<b>Controlled entities of Charter Hall Property Trust</b>					
BP Fund 2 <sup>1</sup>	Australia	Property investment	Ordinary	100	-
Charter Hall Direct Retail Fund	Australia	Property investment	Ordinary	100	100
Charter Hall Co-Investment Trust <sup>2</sup>	Australia	Property investment	Ordinary	100	100
Charter Hall Special Situations Office Fund <sup>3</sup>	Australia	Property investment	Ordinary	-	100
CHC CDC Holding Trust <sup>1</sup>	Australia	Property investment	Ordinary	100	-
CHC CDC Trust <sup>1</sup>	Australia	Property investment	Ordinary	100	-
CHPT RP2 Trust	Australia	Property investment	Ordinary	100	100

<sup>1</sup> Trusts established during the year. CHC CDC Holding Trust and CHC CDC Trust were established to purchase the Group's 24% interest in Charter Hall Direct CDC Trust. BP Fund 2 was established to hold the Group's investment in the portfolio of investment properties disclosed in Note 16. On 18 August 2014, the Group sold down its interest in BP Fund 2 to 50.1%. Refer Note 41.

<sup>2</sup> Charter Hall Co-Investment Trust is an entity which was set up by Charter Hall Property Trust to hold its investments in Charter Hall Retail REIT (CQR), Charter Hall Office Trust (CHOT), BP Fund (BP), BP Fund 2, Core Logistics Partnership (CLP), Keperra Square Fund (Keperra Square), Charter Hall Direct Property Fund (CHDPF) and Charter Hall Direct CDC Trust (CDC).

<sup>3</sup> Terminated during the year.

Name of entity	Country of incorporation	Principal Activity	Class of securities	2014 %	2013 %
<b>Controlled entities of Charter Hall Direct Retail Fund</b>					
Core Plus Retail Fund New Zealand	Australia	Property investment	Ordinary	100	100
Stafford Retail Warehouse Trust <sup>1</sup>	Australia	Property investment	Ordinary	-	100
Stafford Wiley Trust <sup>1</sup>	Australia	Property investment	Ordinary	-	100
Ipswich Retail Property Trust <sup>1</sup>	Australia	Property investment	Ordinary	-	100
Mentone Property Trust	Australia	Property investment	Ordinary	100	100
Charter Hall MMN Property Trust	Australia	Property investment	Ordinary	100	100
CPRF Gepps X Trust	Australia	Property investment	Ordinary	100	100
CPRF Gepps 109 Trust	Australia	Property investment	Ordinary	100	100
CPRF MSN Property Trust	Australia	Property investment	Ordinary	100	100

<sup>1</sup> Trusts terminated during the year as part of the wind up of DRF.

#### (b) Details of controlled entities of the Charter Hall Property Trust Group

Name of entity	Country of incorporation	Principal Activity	Class of securities	2014 %	2013 %
<b>Controlled entities of Charter Hall Property Trust</b>					
BP Fund 2 <sup>1</sup>	Australia	Property investment	Ordinary	100	-
Charter Hall Direct Retail Fund <sup>2</sup>	Australia	Property investment	Ordinary	84	84
Charter Hall Co-Investment Trust <sup>3</sup>	Australia	Property investment	Ordinary	100	100
Charter Hall Special Situations Office Fund <sup>4</sup>	Australia	Property investment	Ordinary	-	100
CHC CDC Holding Trust <sup>1</sup>	Australia	Property investment	Ordinary	100	-
CHC CDC Trust <sup>1</sup>	Australia	Property investment	Ordinary	100	-
CHPT RP2 Trust	Australia	Property investment	Ordinary	100	100

<sup>1</sup> Trusts established during the year. CHC CDC Holding Trust and CHC CDC Trust were established to purchase the Group's 24% interest in Charter Hall Direct CDC Trust. BP Fund 2 was established to hold the Group's investment in the portfolio of investment properties disclosed in Note 16. On 18 August 2014, the Group sold down its interest in BP Fund 2 to 50.1%. Refer Note 41.

<sup>2</sup> Refer to Note 32 (a) for the controlled entities of Charter Hall Direct Retail Fund.

<sup>3</sup> Charter Hall Co-Investment Trust is an entity which was set up by Charter Hall Property Trust to hold its investments in Charter Hall Retail REIT (CQR), Charter Hall Office Trust (CHOT), BP Fund (BP), BP Fund 2, Core Logistics Partnership (CLP), Keperra Square Fund (Keperra Square), Charter Hall Direct Property Fund (CHDPF) and Charter Hall Direct CDC Trust (CDC).

<sup>4</sup> Terminated during the year.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 33 Investments in associates

#### (a) Carrying amounts

Information relating to associates is set out below. All associates are incorporated and operate in Australia.

		OWNERSHIP INTEREST			
Charter Hall Group		2014	2013	2014	2013
Name of entity	Principal Activity	%	%	\$'000	\$'000
<b>Accounted for at fair value through profit or loss:</b>					
<i>Unlisted</i>					
Charter Hall Direct Property Fund	Property investment	4.2	4.0	11,026	10,665
Charter Hall Diversified Property Fund	Property investment	19.6	19.6	1,763	8,085
Charter Hall Umbrella Fund	Property investment	24.2	24.2	699	30,080
Charter Hall Direct Industrial Fund 2	Property investment	0.3	-	339	-
Charter Hall Direct Industrial Fund	Property investment	0.2	0.2	248	234
PFA Diversified Property Trust	Property investment	0.1	0.1	159	165
				<b>14,234</b>	<b>49,229</b>
<b>Equity accounted</b>					
<i>Unlisted</i>					
Charter Hall Office Trust <sup>1</sup>	Property investment	14.3	14.5	172,938	158,971
Charter Hall Core Plus Office Fund	Property investment	9.9	12.3	116,871	114,722
Core Logistics Partnership	Property investment	19.1	5.3	84,777	10,808
Charter Hall Core Plus Industrial Fund	Property investment	11.7	13.2	72,241	56,661
Charter Hall Opportunity Fund 5	Property development	15.0	15.0	7,326	14,891
Charter Hall Opportunity Fund 4	Property development	3.0	3.0	35	800
<i>Listed</i>					
Charter Hall Retail REIT <sup>2</sup>	Property investment	10.2	9.2	129,226	103,055
				<b>583,414</b>	<b>459,908</b>
<b>Total investments in associates</b>				<b>597,648</b>	<b>509,137</b>

<sup>1</sup> The entity has a 31 December balance date.

<sup>2</sup> Fair value at the ASX quoted price as at 30 June 2014 was \$146,309,000 (2013: \$118,241,000)

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 33 Investments in associates (continued)

		OWNERSHIP INTEREST			
Charter Hall Property Trust Group		2014	2013	2014	2013
Name of entity	Principal Activity	%	%	\$'000	\$'000
<b>Accounted for at fair value through profit or loss:</b>					
<i>Unlisted</i>					
Charter Hall Direct Property Fund	Property investment	4.2	4.0	11,026	10,665
Charter Hall Diversified Property Fund	Property investment	19.6	19.6	1,763	8,085
Charter Hall Umbrella Fund	Property investment	24.2	24.2	699	30,080
Charter Hall Direct Industrial Fund 2	Property investment	0.3	-	339	-
Charter Hall Direct Industrial Fund	Property investment	0.2	0.2	248	234
PFA Diversified Property Trust	Property investment	0.1	0.1	159	165
				<b>14,234</b>	<b>49,229</b>
<b>Equity accounted</b>					
<i>Unlisted</i>					
Charter Hall Office Trust <sup>1</sup>	Property investment	14.3	14.5	172,938	158,971
Charter Hall Core Plus Office Fund	Property investment	9.0	11.2	106,239	104,287
Core Logistics Partnership	Property investment	19.1	5.3	84,777	10,808
Charter Hall Core Plus Industrial Fund	Property investment	4.4	5.7	27,447	24,845
<i>Listed</i>					
Charter Hall Retail REIT <sup>2</sup>	Property investment	10.2	9.2	129,226	103,055
				<b>520,627</b>	<b>401,966</b>
<b>Total investments in associates</b>				<b>534,861</b>	<b>451,195</b>

<sup>1</sup> The entity has a 31 December balance date.

<sup>2</sup> Fair value at the ASX quoted price as at 30 June 2014 was \$146,309,000 (2013: \$118,241,000)

All investments accounted for at fair value through profit or loss (Note 13) are held by Charter Hall Property Trust (CHPT).

#### (b) Summarised movements in carrying amounts of equity accounted associates

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Opening balance	459,908	444,515	401,966	373,578
Investment	121,940	22,201	121,941	22,201
Share of profit after income tax	47,849	40,374	42,107	37,295
Distributions received/receivable	(38,361)	(48,182)	(35,169)	(32,087)
Share of movement in reserves	489	1,217	507	1,196
Returns of capital	(8,411)	-	-	-
Disposal of units	-	-	(10,725)	-
Gain/(loss) on equity remeasurement	-	(217)	-	(217)
Closing balance	583,414	459,908	520,627	401,966

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 33 Investments in associates (continued)

#### (c) Summarised financial information for material associates

The tables below provide summarised financial information for the associates that are material to CHC and CHPT. Materiality is assessed on the investments' contribution to Group income and net assets. The information presented reflects the amounts in the financial statements of the associates, not the Group's proportionate share.

	Charter Hall Office Trust \$'000	Charter Hall Retail REIT \$'000	Charter Hall Core Plus Office Fund \$'000	Core Logistics Partnership \$'000	Charter Hall Core Plus Industrial Fund \$'000
<b>2014</b>					
<b>Summarised balance sheet:</b>					
Current assets	219,958	160,422	20,533	17,152	10,706
Non-current assets	2,126,986	1,904,635	1,812,692	547,182	792,030
Current liabilities	46,704	192,117	35,708	12,705	16,417
Non-current liabilities	1,093,011	617,839	609,941	114,523	163,216
Net assets	1,207,229	1,255,101	1,187,576	437,106	623,103
<b>Summarised statement of comprehensive income:</b>					
Revenue	169,159	184,516	152,062	27,374	58,920
Profit for the year from continuing operations	77,567	133,381	88,962	34,942	76,204
Loss from discontinued operations <sup>1</sup>	-	(48,194)	-	-	-
Other comprehensive income	300	32,200	-	-	-
<b>Total comprehensive income</b>	<b>77,867</b>	<b>117,387</b>	<b>88,962</b>	<b>34,942</b>	<b>76,204</b>
	Charter Hall Office Trust \$'000	Charter Hall Retail REIT \$'000	Charter Hall Core Plus Office Fund \$'000	Core Logistics Partnership \$'000	Charter Hall Core Plus Industrial Fund \$'000
<b>2013</b>					
<b>Summarised balance sheet:</b>					
Current assets	42,145	347,780	14,657	12,176	40,006
Non-current assets	2,058,483	1,709,331	1,643,160	200,626	515,344
Current liabilities	32,517	305,589	32,007	9,535	79,896
Non-current liabilities	975,455	630,407	691,283	-	41,861
Net assets	1,092,656	1,121,115	934,527	203,267	433,593
<b>Summarised statement of comprehensive income:</b>					
Revenue	260,357	162,631	148,924	4,603	61,808
Profit for the year from continuing operations	147,535	70,625	65,845	(1,971)	32,957
Loss from discontinued operations	-	(18,037)	-	-	-
Other comprehensive income	84	15,344	-	-	-
<b>Total comprehensive income</b>	<b>147,619</b>	<b>67,932</b>	<b>65,845</b>	<b>(1,971)</b>	<b>32,957</b>

<sup>1</sup> CQR has discontinued its foreign operations. The loss is comprised of revaluation decrements on foreign investment properties held for sale and transfers of cumulative foreign currency translation reserve to profit and loss on disposal of foreign investment properties.



## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 33 Investments in associates (continued)

(d) Reconciliation of net assets of associates to carrying amounts of equity accounted investments

	Charter Hall Office Trust	Charter Hall Retail REIT	Charter Hall Core Plus Office Fund	Core Logistics Partnership	Charter Hall Core Plus Industrial Fund
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Charter Hall Group</b>					
<b>2014</b>					
Net assets of associate	1,207,229	1,255,101	1,187,576	437,106	623,103
Group's share in %	14.3	10.2	9.9	19.1	11.7
Group's share in \$	172,634	128,020	117,570	83,487	72,903
Other movements not accounted for under the equity method <sup>1</sup>	304	1,206	(699)	1,290	(662)
<b>Carrying amount</b>	<b>172,938</b>	<b>129,226</b>	<b>116,871</b>	<b>84,777</b>	<b>72,241</b>
<b>Movements in carrying amounts:</b>					
Opening balance	158,971	103,055	114,722	10,808	56,661
Investment	14,712	24,317	-	71,813	11,100
Share of profit after tax	11,143	11,187	10,043	6,307	9,038
Other comprehensive income	20	488	-	-	-
Distributions received/receivable	(11,908)	(9,821)	(7,894)	(4,151)	(4,558)
<b>Closing balance</b>	<b>172,938</b>	<b>129,226</b>	<b>116,871</b>	<b>84,777</b>	<b>72,241</b>

  

	Charter Hall Office Trust	Charter Hall Retail REIT	Charter Hall Core Plus Office Fund	Core Logistics Partnership	Charter Hall Core Plus Industrial Fund
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Charter Hall Group</b>					
<b>2013</b>					
Net assets of associate	1,092,656	1,121,115	934,527	203,267	433,593
Group's share in %	14.5	9.2	12.3	5.3	13.2
Group's share in \$	158,435	103,143	114,947	10,773	57,234
Other movements not accounted for under the equity method <sup>1</sup>	536	(88)	(225)	35	(573)
<b>Carrying amount</b>	<b>158,971</b>	<b>103,055</b>	<b>114,722</b>	<b>10,808</b>	<b>56,661</b>
<b>Movements in carrying amounts:</b>					
Opening balance	145,720	101,338	112,951	-	54,885
Investment	7,114	3,985	-	11,102	-
Share of profit/(loss) after tax	22,140	5,245	9,021	(609)	5,329
Other comprehensive income	122	1,074	-	-	-
Distributions received/receivable	(14,852)	(8,175)	(7,708)	(363)	(3,885)
Remeasurement of equity interest	(1,273)	(412)	458	678	332
<b>Closing balance</b>	<b>158,971</b>	<b>103,055</b>	<b>114,722</b>	<b>10,808</b>	<b>56,661</b>

<sup>1</sup> Other movements are primarily due to the funds issuing new units to external investors at a price above or below the underlying net assets of the fund.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 33 Investments in associates (continued)

Charter Hall Property Trust Group	Charter Hall Office Trust \$'000	Charter Hall Retail REIT \$'000	Charter Hall Core Plus Office Fund \$'000	Core Logistics Partnership \$'000	Charter Hall Core Plus Industrial Fund \$'000
<b>2014</b>					
Net assets of associate	1,207,229	1,255,101	1,187,576	437,106	623,103
Group's share in %	14.3	10.2	9.0	19.1	4.4
Group's share in \$	172,634	128,020	106,882	83,487	27,417
Other movements not accounted for under the equity method <sup>1</sup>	304	1,246	(643)	1,290	30
<b>Carrying amount</b>	<b>172,938</b>	<b>129,266</b>	<b>106,239</b>	<b>84,777</b>	<b>27,447</b>
<b>Movements in carrying amounts:</b>					
Opening balance	158,971	103,055	104,287	10,808	24,845
Investment	14,712	24,317	-	71,813	11,100
Share of profit after tax	11,143	11,187	9,125	6,307	4,336
Other comprehensive income	20	488	-	-	-
Distributions received/receivable	(11,908)	(9,821)	(7,173)	(4,151)	(2,117)
Disposal	-	-	-	-	(10,717)
<b>Closing balance</b>	<b>172,938</b>	<b>129,226</b>	<b>106,239</b>	<b>84,777</b>	<b>27,447</b>

  

Charter Hall Property Trust Group	Charter Hall Office Trust \$'000	Charter Hall Retail REIT \$'000	Charter Hall Core Plus Office Fund \$'000	Core Logistics Partnership \$'000	Charter Hall Core Plus Industrial Fund \$'000
<b>2013</b>					
Net assets of associate	1,092,656	1,121,115	934,527	203,267	433,593
Group's share in %	14.5	9.2	11.2	5.3	5.7
Group's share in \$	158,435	103,143	104,667	10,773	24,715
Other movements not accounted for under the equity method <sup>1</sup>	536	(88)	(380)	35	130
<b>Carrying amount</b>	<b>158,971</b>	<b>103,055</b>	<b>104,287</b>	<b>10,808</b>	<b>24,845</b>
<b>Movements in carrying amounts</b>					
Opening balance	145,720	101,338	102,635	-	23,885
Investment	7,114	3,985	-	11,102	-
Share of profit after tax	22,140	5,245	8,197	(609)	2,322
Other comprehensive income	122	1,074	-	-	-
Distributions received/receivable	(14,852)	(8,175)	(7,003)	(363)	(1,694)
Remeasurement of equity interest	(1,273)	(412)	458	678	332
<b>Closing balance</b>	<b>158,971</b>	<b>103,055</b>	<b>104,287</b>	<b>10,808</b>	<b>24,845</b>

<sup>1</sup> Other movements are primarily due to the funds issuing new units to external investors at a price above or below the underlying net assets of the fund.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 33 Investments in associates (continued)

#### (e) Summarised financial information and movement in carrying amounts of other equity accounted associates

The following table shows the Group's share of the summarised profit and loss of equity accounted associates that are not material to the Group, and a reconciliation of the movement in the aggregated carrying amount of these investments.

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<b>Aggregate amount of the Group's share of:</b>				
Profit/(loss) from continuing operations	131	(752)	-	-
Other comprehensive income	(20)	21	-	-
<b>Total comprehensive income</b>	<b>111</b>	<b>(731)</b>	<b>-</b>	<b>-</b>
<b>Movements in aggregate carrying amount</b>				
Opening balance	15,691	29,621	-	-
Share of profit after income tax	131	(752)	-	-
Distributions received/receivable	(30)	(13,199)	-	-
Return of capital	(8,411)	-	-	-
Share of movement in reserves	(20)	21	-	-
<b>Closing balance</b>	<b>7,361</b>	<b>15,691</b>	<b>-</b>	<b>-</b>

#### (f) Commitments and contingent liabilities of associates

Charter Hall Retail REIT (CQR) has entered into contracts for the construction and development of properties in Australia. The commitments of CQR total \$29.2 million (2013: \$48.2 million). In addition, as at 30 June 2014, CQR was a party to a Put and Call Option deed to acquire Coomera City Centre in Queensland for \$59.2 million. These commitments have not been reflected in the consolidated financial statements of CQR.

CQR has issued a guarantee to MCW Alt-Chemnitz Grundbesitz GmbH & Co KG, a German subsidiary of CQR, to ensure that there is sufficient cash to fund planned development expenditure at its Alt Chemnitz property. This guarantee was initially capped at €4.0 million (\$6.2 million) and was reducing progressively as the German structure retained sufficient cash to fund the redevelopment. At 30 June 2014 the guarantee has reduced to €nil (\$nil million) (2013: €1.0 million, \$1.4 million) and was terminated by the lender.

Charter Hall Core Plus Office Fund's significant capital expenditure contracted for at the reporting date but not recognised as liabilities was \$157.5 million relating to investment properties. These commitments include capital expenditure commitments of \$68.8 million relating to the development of the 333 George Street, Sydney property and \$72.9 million relating to the development of the 570 Bourke Street, Melbourne property. In addition, the Charter Hall Core Plus Office Fund's share of significant capital expenditure contracted for at the reporting date but not recognised as liabilities through joint venture entities was \$2.1 million relating to investment properties for the development of the 100 Skyring Terrace, Newstead property.

Charter Hall Office Trust's significant capital expenditure contracted for at the reporting date but not recognised as liabilities was \$34.3 million relating to investment properties for certain expenditure and fitout contributions. In addition, the Charter Hall Office Trust's share of significant capital expenditure contracted for at the reporting date but not recognised as liabilities through joint venture entities was \$11.3 million relating to investment properties for certain expenditure and fitout contributions.

Charter Hall Direct Industrial Fund 2 had capital expenditure contracted for at the reporting date but not recognised as liabilities of \$2.8 million in relation to the Rockhampton property.

Charter Hall Core Logistics Partnership has capital expenditure contracted for at the reporting date but not recognised as liabilities of \$68.4 million in relation to developments and capital expenditure on investment properties.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 34 Investments in joint ventures

#### (a) Carrying amounts

Information relating to joint ventures is set out below. All joint ventures are incorporated and operate in Australia.

		OWNERSHIP INTEREST			
Charter Hall Group		2014	2013	2014	2013
Name of entity	Principal Activity	%	%	\$'000	\$'000
<i>Unlisted</i>					
Commercial and Industrial Property Pty Ltd	Property development	50.0	50.0	28,245	27,121
Charter Hall Direct CDC Trust	Property investment	24.0	-	21,025	-
Retail Partnership No. 2 Trust <sup>1</sup>	Property investment	20.0	20.0	20,749	17,688
BP Fund	Property investment	16.8	13.0	17,190	14,319
Retail Partnership No. 4 Trust	Property investment	50.0	-	11,372	-
Keperra Square Fund	Property investment	10.0	10.0	906	1,111
				<b>99,487</b>	<b>60,239</b>

<sup>1</sup> The entity has a 31 December balance date.

		OWNERSHIP INTEREST			
Charter Hall Property Trust Group		2014	2013	2014	2013
Name of entity	Principal Activity	%	%	\$'000	\$'000
<i>Unlisted</i>					
Charter Hall Direct CDC Trust	Property investment	24.0	-	21,025	-
Retail Partnership No. 2 Trust <sup>1</sup>	Property investment	20.0	20.0	20,749	17,688
BP Fund	Property investment	16.8	13.0	17,190	14,319
Retail Partnership No. 4 Trust	Property investment	50.0	-	11,372	-
Keperra Square Fund	Property investment	10.0	10.0	906	1,111
				<b>71,242</b>	<b>33,118</b>

<sup>1</sup> The entity has a 31 December balance date.

#### (b) Summarised financial information and movements in carrying amounts

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<i>Aggregate amount of the Group's share of:</i>				
Profit/(loss) from continuing operations	12,995	1,811	9,245	(240)
Other comprehensive income	-	-	-	-
Total comprehensive income	12,995	1,811	9,245	(240)
<i>Movements in aggregate carrying amount:</i>				
Opening balance	60,239	27,644	33,118	-
Investment	32,032	35,341	32,032	35,341
Share of profit after income tax	12,995	1,589	9,245	(240)
Distributions received/receivable	(5,779)	(4,170)	(3,153)	(1,837)
Disposal of units	-	(14)	-	-
Loss on equity remeasurement	-	(151)	-	(146)
Closing balance	99,487	60,239	71,242	33,118

#### (c) Commitments and contingent liabilities of joint ventures

The Group has no exposure to any commitments or contingent liabilities in relation to its investment in joint ventures.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 35 Interests in unconsolidated structured entities

The Charter Hall Group consider their investments in associates and joint ventures to be unconsolidated structured entities. An unconsolidated structured entity is an entity where the Group's voting rights are not the sole factor in determining whether control over an entity exists. Where the Group determines that control over an entity does not exist, the entity is recognised as an associate or joint venture of the Group for reporting purposes.

The activity and objective of the unconsolidated structured entities of the Group, include property investment for annuity income and medium to long term capital growth and/or development profit.

The aggregate of all the Group's interests and maximum exposure to loss in unconsolidated structured entities, being the Group's interests in associates and joint ventures, are included in the table below:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
<i>Current assets</i>				
Trade receivables	-	311	-	-
Distributions receivable	25,515	10,557	25,515	10,557
Loans to joint ventures	21,250	26,250	21,250	21,250
Loans to associates	-	5,000	-	-
<b>Total current assets</b>	<b>46,765</b>	<b>42,118</b>	<b>46,765</b>	<b>31,807</b>
<i>Non-current assets</i>				
Investments in associates at fair value through profit or loss	14,234	49,229	14,234	49,229
Investments accounted for using the equity method	591,869	520,147	591,869	435,084
<b>Total non-current assets</b>	<b>606,103</b>	<b>569,376</b>	<b>606,103</b>	<b>484,313</b>
<b>Total carrying amount of interests in unconsolidated structured entities</b>	<b>652,868</b>	<b>611,494</b>	<b>652,868</b>	<b>516,120</b>
<b>Total funds under management in unconsolidated structured entities</b>	<b>9,754,731</b>	<b>8,888,328</b>	<b>9,662,731</b>	<b>8,540,583</b>

There are no additional arrangements that would expose the Charter Hall Group or Charter Hall Property Trust Group to losses beyond the carrying amounts.

During the year the Charter Hall Group earned fees from structured entities in its capacity as investment manager. Refer to Note 31 for further information.

No financial support has been provided to the funds beyond the loans disclosed in the above table.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 36 Commitments

#### (a) Lease commitments: Group as lessee

Commitments payable in relation to leases contracted for at the reporting date but not recognised as liabilities:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Due within one year	3,061	2,071	-	-
Due between one and five years	10,713	5,715	-	-
Over five years	11,615	-	-	-
	25,389	7,786	-	-

#### (b) Capital commitments

##### Charter Hall Group

The Group had no contracted capital commitments as at 30 June 2014 (2013: \$nil).

##### Charter Hall Property Trust Group

The Group has no capital commitments as at 30 June 2014 (2013: \$nil).

### 37 Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2014.

### 38 Security-based benefits expense

#### (a) Charter Hall - Executive Loan Security Plan (ELSP) (legacy plan)

The ELSP was suspended on 1 July 2009 and was wound up in late July 2012.

Set out below are summaries of securities cancelled:

	2014	2013
	Number	Number
<b>Charter Hall Group and Charter Hall Property Trust Group</b>		
Opening balance	-	678,076
Cancellation of forfeited LTI securities off market	-	(678,076)
	-	-

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 38 Security-based benefits expense (continued)

#### (b) Charter Hall - Performance Rights and Options Plan (PROP)

The performance rights and options are unquoted securities and conversion to stapled securities, and vesting to executives, is subject to service and performance conditions which are discussed in the Remuneration Report.

Charter Hall Group and Charter Hall Property Trust Group	2010 Number	2011 Number	2012 Number	2013 Number	2014 Number	Total Number
<b>Performance rights</b>						
Rights issued on 13/11/09	1,562,250	-	-	-	-	1,562,250
Rights issued on 18/6/10	644,625	-	-	-	-	644,625
Rights issued on 6/9/10	-	863,345	-	-	-	863,345
Rights issued on 11/11/10	-	465,388	-	-	-	465,388
Rights issued on 17/1/12	-	-	3,905,231	-	-	3,905,231
Rights issued on 23/11/12	-	-	-	1,796,076	-	1,796,076
Rights issued on 22/11/13	-	-	-	-	1,422,660	1,422,660
<b>Performance rights issued</b>	<b>2,206,875</b>	<b>1,328,733</b>	<b>3,905,231</b>	<b>1,796,076</b>	<b>1,422,660</b>	<b>10,659,575</b>
Number rights forfeited/lapsed in prior years	(660,611)	(346,168)	(662,597)	-	-	(1,669,376)
Number rights forfeited/lapsed in current year	-	-	-	(106,757)	(60,214)	(166,971)
Number rights vested in prior years	(1,287,252)	(28,848)	-	-	-	(1,316,100)
Number rights vested in current year	(259,012)	(953,717)	-	-	-	(1,212,729)
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>3,242,634</b>	<b>1,689,319</b>	<b>1,362,446</b>	<b>6,294,399</b>
<b>Service rights</b>						
Rights issued on 6/9/10	-	316,377	-	-	-	316,377
Rights issued on 22/5/12	-	-	431,516	-	-	431,516
Rights issued on 23/11/12	-	-	-	270,000	-	270,000
Rights issued on 22/11/13	-	-	-	-	403,582	403,582
<b>Service rights issued</b>	<b>-</b>	<b>316,377</b>	<b>431,516</b>	<b>270,000</b>	<b>403,582</b>	<b>1,421,475</b>
Number rights forfeited/lapsed in prior years	-	(164,540)	-	-	-	(164,540)
Number rights forfeited/lapsed in current year	-	-	-	-	-	-
Number rights vested in prior year	-	(78,849)	(301,489)	-	-	(380,338)
Number rights vested in current year	-	(72,988)	(130,027)	(90,000)	(20,000)	(313,015)
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>180,000</b>	<b>383,582</b>	<b>563,582</b>
<b>Options</b>						
Options issued on 4/11/09 at \$1.94	4,088,078	-	-	-	-	4,088,078
Options issued on 13/11/09 at \$1.94	1,497,036	-	-	-	-	1,497,036
Options issued on 18/6/10 at \$2.80	1,611,656	-	-	-	-	1,611,656
Options issued on 6/9/10 at \$2.44	-	2,035,649	-	-	-	2,035,649
Options issued on 11/11/10 at \$2.44	-	1,163,464	-	-	-	1,163,464
Options issued on 19/1/11 at \$2.35	-	123,397	-	-	-	123,397
<b>Options issued</b>	<b>7,196,770</b>	<b>3,322,510</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,519,280</b>
Number options forfeited/lapsed in prior years	(2,009,985)	(865,394)	-	-	-	(2,875,379)
Number options forfeited/lapsed in current year	-	-	-	-	-	-
Number options vested and exercised in prior year	(3,479,459)	(72,117)	-	-	-	(3,551,576)
Number options vested and exercised in current year	(602,636)	(1,339,323)	-	-	-	(1,941,959)
<b>Closing balance</b>	<b>1,104,690</b>	<b>1,045,676</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,150,366</b>



## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 38 Security-based benefits expense (continued)

#### (c) PROP

Total expenses related to the PROP recognised during the year as part of employee benefit expense were as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Performance rights and option plan	3,089	3,035	-	-

#### (d) Option inputs

The Black-Scholes or Monte Carlo method, as applicable, is utilised for valuation and accounting purposes. The model inputs for the PROP performance rights and options plan issued during FY10 through FY14 and outstanding as at 30 June 2014 to assess the fair value are as follows:

##### Performance rights

Grant date	17/01/2012	23/11/2012	20/11/2013	20/11/2013
Security price at grant date	\$ 2.10	\$ 3.11	\$ 3.68	\$ 3.68
Fair value of right	\$ 0.94	\$ 1.91	\$ 1.42	\$ 1.11
Expected price volatility	39.0%	26.0%	30.4%	30.4%
Risk-free interest rate	3.9%	3.0%	2.9%	3.0%

##### Options

Grant date	13/11/2009	18/06/2010	6/09/2010	11/11/2010
Security price at grant date <sup>1</sup>	\$ 2.40	\$ 2.80	\$ 2.44	\$ 2.44
Fair value of option <sup>1</sup>	\$ 0.39	\$ 0.56	\$ 0.51	\$ 0.51
Exercise price per security <sup>1</sup>	\$ 1.94	\$ 2.80	\$ 2.44	\$ 2.44
Expiry of loan	04/11/14	18/06/15	06/09/15	06/09/15
Expected price volatility	40.0%	40.0%	40.0%	40.0%
Risk-free interest rate	5.5%	5.5%	5.5%	5.5%

##### Service rights

Grant date	23/11/2012	20/11/2013	20/11/2013
Security price at grant date	\$ 3.11	\$ 3.68	\$ 3.68
Fair value of right	\$ 2.73	\$ 3.45	\$ 3.42
Expected price volatility	25.0%	27.4%	27.4%
Risk-free interest rate	2.9%	2.6%	2.6%

<sup>1</sup> Security prices for prior years have been restated for the unit consolidation during FY11.

#### (e) Charter Hall General Employee Security Plan (GESP)

During the year eligible employees received up to \$1,000 (2013: \$1,000) in securities which vested immediately on issue but are held in trust until the earlier of the completion of three years' service or termination. An expense of \$256,383 (2013: \$211,878) was recognised in relation to this plan during the year.

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 39 Parent entity financial information

#### (a) Summary financial information

The individual financial statements for the parent entity of the Charter Hall Group, being Charter Hall Limited, and the Charter Hall Property Trust Group, being the Charter Hall Property Trust, show the following aggregate amounts:

	Charter Hall Limited		Charter Hall Property Trust	
	2014	Restated 2013	2014	Restated 2013
	\$'000	\$'000	\$'000	\$'000
<b>Balance Sheet</b>				
Current assets	14,073	25,786	16,176	4,077
Total assets	270,919	272,283	869,413	759,045
Current liabilities	9,284	17	41,245	46,032
Total liabilities	183,652	197,256	41,245	46,032
<i>Shareholders' equity</i>				
Issued capital	232,101	211,335	945,333	799,548
Accumulated losses	(144,835)	(136,308)	(117,165)	(86,535)
<b>Net equity</b>	<b>87,267</b>	<b>75,027</b>	<b>828,168</b>	<b>713,013</b>
<b>Profit/(loss) for the year</b>	<b>(8,527)</b>	<b>(44,075)</b>	<b>42,695</b>	<b>33,724</b>
<b>Total comprehensive profit/(loss) for the year</b>	<b>(8,527)</b>	<b>(44,075)</b>	<b>42,695</b>	<b>33,724</b>

#### (b) Contingent liabilities of the parent entity

Charter Hall Limited and Charter Hall Property Trust had no contingent liabilities (2013: \$nil).

#### (c) Contractual commitments

As at 30 June 2014, Charter Hall Limited and Charter Hall Property Trust had no contractual commitments (2013: \$nil).

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 40 Deed of cross guarantee

#### Charter Hall Group

Charter Hall Limited and its wholly owned subsidiary, Charter Hall Holdings Pty Ltd (CHH), are parties to a deed of cross guarantee under which each company guarantees the debts of the other. By entering into the deed, CHH has been relieved from the requirement to prepare financial statements and a directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

#### (a) Consolidated statement of comprehensive income and summary of movements in consolidated accumulated losses

The above companies represent a 'closed group' for the purposes of the Class Order and, as there are no other parties to the deed of cross guarantee that are controlled by Charter Hall Limited, they also represent the 'extended closed group'.

Set out below is a consolidated statement of comprehensive income and a summary of movements in consolidated accumulated losses for the year of the closed group consisting of Charter Hall Limited and Charter Hall Holdings Limited.

	2014	Restated 2013
	\$'000	\$'000
<b>Statement of comprehensive income</b>		
Revenue	122,190	93,940
Fair value adjustment on contingent consideration	-	1,123
Depreciation	(1,375)	(1,207)
Finance costs	(20,857)	(22,327)
Foreign exchange (loss)/gain	(79)	349
Share of net loss of associates accounted for using the equity method	3,882	1,032
Loss on sale of investments, property and other assets	(967)	-
Fair value adjustments	(205)	(1,165)
Amortisation of management rights	(8,489)	(7,838)
Other expenses	(85,090)	(72,984)
<b>Profit/(loss) before income tax</b>	<b>9,010</b>	<b>(9,077)</b>
Income tax benefit	6,081	3,096
<b>Profit/(loss) for the year</b>	<b>15,091</b>	<b>(5,981)</b>
<b>Other comprehensive income for the year:</b>		
Exchange differences on translation of foreign operations	(20)	20
<b>Total comprehensive profit/(loss) for the year</b>	<b>15,071</b>	<b>(5,961)</b>
<b>Summary of movements in consolidated accumulated losses</b>		
Accumulated losses at the beginning of the financial year	(139,347)	(139,488)
Transferred to accumulated losses for ELSP lapse	-	6,122
Profit/(loss) for the year	15,091	(5,981)
<b>Accumulated losses at the end of the financial year</b>	<b>(124,256)</b>	<b>(139,347)</b>

## Notes to the consolidated preliminary financial statements (continued)

for the year ended 30 June 2014

### 40 Deed of cross guarantee (continued)

#### (b) Balance sheet

Set out below is a consolidated balance sheet of the closed group consisting of Charter Hall Limited and Charter Hall Holdings Pty Limited.

	2014 \$'000	Restated 2013 \$'000
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	40,291	2,180
Trade and other receivables	23,248	40,286
<b>Total current assets</b>	<b>63,539</b>	<b>42,466</b>
<i>Non-current assets</i>		
Trade and other receivables	9,639	5,077
Investments accounted for using the equity method	35,605	42,811
Investment in associates at fair value through profit or loss	7,750	7,233
Investments in controlled entities	44,462	85,284
Property, plant and equipment	9,374	2,744
Intangible assets	87,577	96,066
Deferred tax assets	11,379	8,572
<b>Total non-current assets</b>	<b>205,786</b>	<b>247,787</b>
<b>Total assets</b>	<b>269,325</b>	<b>290,253</b>
<b>Liabilities</b>		
<i>Current liabilities</i>		
Trade and other payables	15,519	63,262
Provisions	1,579	1,101
<b>Total current liabilities</b>	<b>17,098</b>	<b>64,363</b>
<i>Non-current liabilities</i>		
Trade and other payables	5,670	-
Loans from Charter Hall Property Trust	181,292	197,240
Provisions	1,054	1,162
<b>Total non-current liabilities</b>	<b>188,016</b>	<b>198,402</b>
<b>Total Liabilities</b>	<b>205,114</b>	<b>262,765</b>
<b>Net Assets</b>	<b>64,211</b>	<b>27,488</b>
<b>Equity</b>		
Contributed equity	232,101	211,335
Reserves	(43,634)	(44,500)
Accumulated losses	(124,256)	(139,347)
<b>Total equity</b>	<b>64,211</b>	<b>27,488</b>

### 41 Events occurring after the reporting date

The following events have occurred subsequent to 30 June 2014:

- The Group exchanged a conditional contract of sale for 685 La Trobe St.
- The Group introduced an equity partner into the BP Fund 2 on 18 August 2014. This reduced the Group's equity interest in this fund to \$30 million (50.1%) and resulted in a loss of control of the fund. No material gain or loss occurred as a result of this transaction.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

- The Group's operations in future financial years; or
- The results of those operations in future financial years; or
- The Group's state of affairs in future financial years.